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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

The board of directors (the “Board” or the “Directors”) of China Yurun Food Group Limited (the “Company” or “Yurun Food”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 (the “Review Period”). The interim financial report for the Review Period is unaudited, but has been reviewed by the Company’s Audit Committee.

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
		2018	2017
	Note	HK\$'000	HK\$'000
Revenue	3	6,115,061	5,802,445
Cost of sales		<u>(5,694,506)</u>	<u>(5,438,410)</u>
Gross profit		420,555	364,035
Other net loss	4	(88,700)	(166,519)
Distribution expenses		(292,493)	(249,013)
Administrative and other operating expenses		<u>(362,675)</u>	<u>(369,759)</u>
Results from operating activities		<u>(323,313)</u>	<u>(421,256)</u>
Finance income		705	642
Finance costs		<u>(212,843)</u>	<u>(126,364)</u>
Net finance costs	5(a)	<u>(212,138)</u>	<u>(125,722)</u>
Loss before income tax	5	(535,451)	(546,978)
Income tax expense	6	<u>(5,929)</u>	<u>(4,611)</u>
Loss for the period		<u>(541,380)</u>	<u>(551,589)</u>
Attributable to:			
Equity holders of the Company		(541,743)	(551,753)
Non-controlling interests		<u>363</u>	<u>164</u>
Loss for the period		<u>(541,380)</u>	<u>(551,589)</u>
Loss per share			
Basic	7(a)	<u>HK\$(0.297)</u>	<u>HK\$(0.303)</u>
Diluted	7(b)	<u>HK\$(0.297)</u>	<u>HK\$(0.303)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Loss for the period	(541,380)	(551,589)
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(35,552)	213,106
Foreign currency translation differences reclassified to profit or loss upon disposal/deconsolidation of a subsidiary	9,351	(13,980)
	(26,201)	199,126
Total comprehensive income for the period	(567,581)	(352,463)
Attributable to:		
Equity holders of the Company	(567,498)	(354,095)
Non-controlling interests	(83)	1,632
Total comprehensive income for the period	(567,581)	(352,463)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

		30 June 2018	31 December 2017
	<i>Note</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		11,957,806	12,394,914
Investment property		226,177	211,395
Lease prepayments		2,360,223	2,441,581
Intangible assets		13,595	18,283
Non-current prepayments and receivables		1,280,728	1,114,729
		15,838,529	16,180,902
Current assets			
Inventories		713,322	663,733
Current portion of lease prepayments		70,006	74,467
Trade and other receivables	8	1,702,398	1,980,304
Income tax recoverable		2,061	2,749
Restricted bank deposits		50,428	53,207
Pledged deposits		26	25
Cash and cash equivalents		147,007	218,212
		2,685,248	2,992,697
Current liabilities			
Bank and other loans		7,154,033	7,214,335
Finance lease liabilities		498	492
Trade and other payables	9	3,706,025	3,682,396
Income tax payable		5,138	7,438
		10,865,694	10,904,661
Net current liabilities		(8,180,446)	(7,911,964)
Total assets less current liabilities		7,658,083	8,268,938
Non-current liabilities			
Bank loans		174,357	217,538
Finance lease liabilities		130,490	131,870
Deferred tax liabilities		8,269	6,982
		313,116	356,390
NET ASSETS		7,344,967	7,912,548
EQUITY			
Share capital		182,276	182,276
Reserves		7,111,926	7,679,424
Total equity attributable to equity holders of the Company		7,294,202	7,861,700
Non-controlling interests		50,765	50,848
TOTAL EQUITY		7,344,967	7,912,548

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2018 – unaudited

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Cash used in operations	(69,969)	(278,919)
Tax paid	<u>(6,514)</u>	<u>(3,054)</u>
Net cash used in operating activities	(76,483)	(281,973)
Net cash generated from/(used in) investing activities	46,618	(31,044)
Net cash (used in)/generated from financing activities	<u>(41,547)</u>	<u>185,580</u>
Net decrease in cash and cash equivalents	(71,412)	(127,437)
Cash and cash equivalents at 1 January	218,212	291,868
Effect of exchange rate fluctuations on cash held	<u>207</u>	<u>5,070</u>
Cash and cash equivalents at 30 June	<u><u>147,007</u></u>	<u><u>169,501</u></u>

NOTES:

1 BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 29 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in note 2.

During the six months ended 30 June 2018, the Group recorded a net loss of HK\$541,380,000 (six months ended 30 June 2017: HK\$551,589,000) and operating cash outflow of HK\$76,483,000 (six months ended 30 June 2017: HK\$281,973,000). As at 30 June 2018, the Group had net current liabilities of HK\$8,180,446,000 (31 December 2017: HK\$7,911,964,000). Its total bank and other loans and finance lease liabilities amounted to HK\$7,459,378,000 (31 December 2017: HK\$7,564,235,000), out of which HK\$7,154,531,000 (31 December 2017: HK\$7,214,827,000) is due within 12 months of that date. As further detailed in note 5(a), as at 30 June 2018, the Group could not fulfil covenants imposed by banks of certain bank loans of an aggregate amount of HK\$5,695,765,000 (31 December 2017: HK\$5,915,854,000). In addition, certain subsidiaries of the Group are also parties to various litigations as mentioned in note 11. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern.

The directors of the Company (the “Directors”) have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

- (i) Actively negotiating with banks to renew bank loans that have fallen due;
- (ii) Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure;
- (iii) Taking active measures to expedite collections of outstanding receivables;
- (iv) Seeking potential strategic investors; and
- (v) Looking for buyers for certain non-core assets.

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 success of the above measures, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis. The audit committee of the Company has no disagreement with the Directors on the above position and the going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new or revised International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group. Of these, the followings are relevant to the Group.

- | | |
|-------------------------|--|
| • IFRS 9 | Financial instruments |
| • IFRS 15 | Revenue from Contracts with Customers |
| • IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| • Amendments to IFRS 15 | Clarification to IFRS 15 Revenue Contracts with Customers |
| • Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| • Amendments to IAS 40 | Transfers of Investment Property |
| • Amendments to IFRSs | Annual improvements to IFRS Standards 2014-2016 Cycle |

None of these amendments have had a material effect on the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Details of the changes in accounting policies applicable to the Group in relation to IFRS 9 and IFRS 15 are summarised below:

IFRS 9 Financial instruments

IFRS 9 replaced IAS 39, Financial instruments: recognition and measurement. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of investment in debt instruments under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The carrying amounts for all financial assets and financial liabilities of the Group as at 1 January 2018 have not been impacted significantly by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) *Credit losses*

IFRS 9 replaced the “incurred loss” model in IAS 39 with the “expected credit loss” (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises impairment loss earlier than under the incurred loss accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For the Group’s trade receivables, the Group has applied the simplified approach to recognise and measure lifetime ECLs. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows of each group receivables are estimated on the basis of historical credit loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets.

Impact of the ECL model

The adoption of the ECL model under IFRS 9 does not have material impact on the carrying amounts of the Group's financial assets as at 1 January 2018.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaced IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time.

The Group's contracts with customers of the sale of chilled and frozen meat and processed meat products generally include one performance obligation. The Group has concluded that revenue from sale of chilled and frozen meat and processed meat products should be recognised at the point in time when control of the assets is transferred to the customer, generally on delivery of the chilled and frozen meat and processed meat products. Therefore, the adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

3 REVENUE AND SEGMENT INFORMATION

(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 six months ended 30 June 2018 and 2017 is set out below.

	Chilled and frozen meat		Processed meat products		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External revenue	4,926,900	4,752,944	1,188,161	1,049,501	6,115,061	5,802,445
Inter-segment revenue	129,746	65,505	5,825	25,839	135,571	91,344
Reportable segment revenue	<u>5,056,646</u>	<u>4,818,449</u>	<u>1,193,986</u>	<u>1,075,340</u>	<u>6,250,632</u>	<u>5,893,789</u>
Reportable segment loss	(275,026)	(375,002)	(30,131)	(30,822)	(305,157)	(405,824)
Depreciation and amortisation	(168,645)	(165,088)	(48,360)	(51,512)	(217,005)	(216,600)
(Provision)/reversal of provision for expected credit losses on trade and other receivables	(2,601)	(4,034)	10,058	2,862	7,457	(1,172)
Write off of lease prepayments and property, plant and equipment	-	(49,964)	-	(4,642)	-	(54,606)
Government subsidies	5,295	2,855	10,077	8,030	15,372	10,885
Income tax expense	<u>(3,302)</u>	<u>(642)</u>	<u>(2,469)</u>	<u>(3,718)</u>	<u>(5,771)</u>	<u>(4,360)</u>

Segment assets and liabilities of the Group are not reported to the Group's most senior executive management regularly. As a result, reportable segment assets and liabilities have not been presented in the interim financial report.

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Revenue		
Total revenue from reportable segments	6,250,632	5,893,789
Elimination of inter-segment revenue	(135,571)	(91,344)
Consolidated revenue	6,115,061	5,802,445
Loss		
Reportable segment loss	(305,157)	(405,824)
Elimination of inter-segment loss	(5,368)	(2,270)
Reportable segment loss derived from Group's external customers	(310,525)	(408,094)
Loss on disposal/deconsolidation of a subsidiary	(4,224)	(1,437)
Net finance costs	(212,138)	(125,722)
Unallocated head office and corporate expenses	(8,564)	(11,725)
Consolidated loss before income tax for the period	(535,451)	(546,978)

4 OTHER NET LOSS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Government subsidies	15,372	10,885
Provision for losses on litigations (<i>note 11(b)</i>)	(141,131)	(105,090)
Loss on disposal/deconsolidation of a subsidiary (<i>notes</i>)	(4,224)	(1,437)
Loss on disposal of lease prepayments and property, plant and equipment	(1,288)	(51,465)
Write off of lease prepayments and property, plant and equipment	–	(54,606)
Rental income	31,205	21,951
Sales of scrap	3,002	2,030
Sundry income	8,364	11,213
	(88,700)	(166,519)

Notes: In January 2018, the Group disposed of its entire equity interest in its wholly-owned subsidiary in chilled and frozen meat segment to a third party. A loss on disposal of a subsidiary amounting to HK\$4,224,000 was recognised in the consolidated statement of profit or loss during the six months ended 30 June 2018.

In February 2017, the Group terminated the sub-contracting arrangement of a deemed subsidiary in chilled and frozen meat segment which result in loss in control of this subsidiary. A loss on deconsolidation of a subsidiary amounting to HK\$1,437,000 was recognised in the consolidated statement of profit or loss during the six months ended 30 June 2017.

5 LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Interest on bank and other loans	199,093	170,009
Interest on lease obligations	2,288	2,156
Less: Interest expense capitalised into property, plant and equipment under development	(821)	(9,056)
	200,560	163,109
Bank charges	388	455
Net foreign exchange loss/(gain)	11,895	(37,200)
Interest income from bank deposits	(705)	(642)
	212,138	125,722

Certain of the Group's bank loan facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 30 June 2018, the Group could not fulfil covenants imposed by banks on certain loans with an aggregate amount of HK\$5,695,765,000 (31 December 2017: HK\$5,915,854,000). Included in this amount, loans of an aggregate amount of HK\$59,305,000 (31 December 2017: HK\$119,632,000) which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position as at 30 June 2018. The Group is in negotiating with banks to renew bank loans at the end of the reporting period. As at the date of this announcement, the aforesaid bank loans were not yet renewed and bank loans of HK\$6,093,000 (31 December 2017: HK\$46,032,000) were repaid.

At 30 June 2018, there were outstanding litigations commenced by banks in the People's Republic of China (the "PRC") against certain subsidiaries of the Group requesting such subsidiaries to repay the outstanding bank loans of HK\$2,345,696,000 (31 December 2017: HK\$1,481,340,000) or to secure the repayment with assets of equivalent amount immediately. Certain lease prepayments, property, plant and equipment of the Group with carrying value of HK\$680,546,000 (31 December 2017: HK\$172,825,000) have been frozen by the court in the PRC as of 30 June 2018, in addition to the freezing of restricted bank deposits of HK\$50,428,000 (31 December 2017: HK\$46,618,000) in relation to these litigations. The Group is negotiating with the banks to settle these litigations. Subsequent to 30 June 2018 and up to the date of this announcement, included in the subsequent repayment of bank loans of HK\$4,196,000 (31 December 2017: HK\$10,045,000) were repayment of bank loans under litigations.

(b) Other items

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Provision for expected credit losses on trade and other receivables	6,565	7,299
Reversal of expected credit losses on trade and other receivables	(14,022)	(6,127)
Amortisation of lease prepayments	32,049	31,261
Amortisation of intangible assets	4,690	4,332
Depreciation of property, plant and equipment	184,965	185,346
	<u>184,965</u>	<u>185,346</u>

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current tax expense	4,832	1,193
Deferred tax expense	1,097	3,418
	<u>5,929</u>	<u>4,611</u>

- (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 for the six months ended 30 June 2018 and 2017.

- (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 six months ended 30 June 2018 and 2017, 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 six months ended 30 June 2018 and 2017.
- (d) 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 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.
- (e) The Group's consolidated effective tax rate for the six months ended 30 June 2018 was -1.1% (six months ended 30 June 2017: -0.8%).

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK\$541,743,000 (six months ended 30 June 2017: HK\$551,753,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2017: 1,822,756,000).

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the six months ended 30 June 2018 and 2017 because all potential ordinary shares outstanding were anti-dilutive.

8 TRADE AND OTHER RECEIVABLES

An ageing analysis of trade receivables (net of provision for expected credit losses) of the Group based on invoice date and a breakdown of trade and other receivables as at the end of the reporting period are analysed as follows:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Trade receivables		
– Within 30 days	200,191	174,607
– 31 days to 90 days	113,230	161,920
– 91 days to 180 days	49,837	57,794
– Over 180 days	54,163	65,690
	417,421	460,011
Less: Provision for expected credit losses of trade receivables	(28,834)	(36,351)
Total trade receivables, net of provision for expected credit losses	388,587	423,660
Bills receivables	3,921	1,029
Value-added tax (“VAT”) recoverable	1,117,305	1,297,411
Deposits and prepayments	129,124	136,534
Others	63,461	121,670
	1,702,398	1,980,304

All of the trade and other receivables are expected to be recovered within one year.

9 TRADE AND OTHER PAYABLES

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables (including amounts due to related parties) as at the end of the reporting period are analysed as follows:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Trade payables		
– Within 30 days	472,896	502,871
– 31 days to 90 days	135,280	122,676
– 91 days to 180 days	41,141	59,236
– Over 180 days	52,527	57,054
Total trade payables	701,844	741,837
Receipts in advance (<i>note</i>)	179,053	210,402
Deposits from customers	127,346	129,507
Salary and welfare payables	94,880	87,618
VAT payable	8,293	7,726
Payables for acquisitions of property, plant and equipment	679,296	699,637
Interest payables	687,028	542,785
Provision for losses on litigations	319,107	297,819
Other payables and accruals	909,178	965,065
	3,706,025	3,682,396

Note: The amounts represent advance payments received from customers in relation to their purchase orders of chilled and frozen meat and processed meat products placed with the Group. At 30 June 2018, the receipts in advance from customers are contract liabilities and the Group does not expect to refund any of the advance payments. The Group applied the limited retrospective method of transition to IFRS 15 with comparative figure not restated and hence the receipts in advance from customers as at 31 December 2017, which was of the same nature, are not restated but are presented in the same line item.

10 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$Nil).

11 CONTINGENT LIABILITIES

- (a) In addition to the litigations commenced by banks against subsidiaries of the Group as disclosed in note 5(a), there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fees, together with the late penalties, totaling approximately HK\$282,408,000 (31 December 2017: HK\$248,531,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group will likely be liable to pay a total of approximately HK\$174,700,000 (31 December 2017: HK\$167,543,000) ("Provision Amount") for the aforesaid construction fees and corresponding late penalties, which had been provided and included in "trade and other payables" as at 30 June 2018. During the six months ended 30 June 2018, pursuant to the judgements made by the courts in the PRC in relation to certain of these litigations, the Group was ordered to make immediate repayment of construction fees payables of approximately HK\$89,919,000 and corresponding late penalties of approximately HK\$37,137,000. These amounts were included in the Provision Amount already and the settlement had not yet been made at the end of the reporting period. Up to the date of this announcement, the remaining litigation claims with an aggregate amount of approximately HK\$155,352,000 (31 December 2017: HK\$159,005,000) are still in process, of which an aggregate amount of HK\$47,644,000 (31 December 2017: HK\$78,017,000) had been included in the Provision Amount as at 30 June 2018. In the opinion of the Directors, no further provision for litigation was required to be made for the six months ended 30 June 2018.
- (b) During the six months ended 30 June 2018, there were litigations initiated by municipal people's governments in the PRC claiming against certain subsidiaries and a related company of the Group in view of the suspension of the development in certain areas, for immediate cash repayment of approximately HK\$138,236,000 (31 December 2017: HK\$173,823,000). The Group recognised losses of HK\$141,131,000 (six months ended 30 June 2017: HK\$105,090,000) as "provision for losses on litigations" in "other net loss" in the consolidated statement of profit or loss for the six months ended 30 June 2018.

Other than the disclosure of above, as at the end of the reporting period, the Group was not involved in any other material litigation or arbitration. As far as the management of the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2018, 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.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Review Period (first half of 2017: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview (and Outlook)

During the six months ended 30 June 2018 (the “Review Period”), the national macro-economy grew stably. According to the data published by the National Bureau of Statistics of the People’s Republic of China (the “PRC”), the gross domestic product for the first half of the year amounted to Renminbi (“RMB”) 41,896.1 billion, an increase of 6.8% year on year. Looking forward, despite the ongoing trade tension between China and the United States, it is expected that the national macro-economic condition will generally remain stable in the second half of 2018.

According to the latest information of the National Bureau of Statistics, the national disposable income per capita for the first half of 2018 was RMB14,063, an increase of 8.7% over the corresponding period last year. In addition, the total consumption of consumer goods amounted to RMB18,001.8 billion, an increase of 9.4% year on year. Above all, revenue from the food and beverage sector saw a growth of approximately 9.9% year on year. The growth, which remarkably symbolized people’s improved living standard, also drove the development of other related industries. The total meat production in the PRC also returned to growth again. Hog supply in the market was sufficient in the first half of 2018. The total production of hogs in China was 334 million heads, represents an increase of 1.2% over the corresponding period last year. The total pork production in China was 26.14 million tons, a rise of 1.4% over the same period last year. Generally, pork consumption grows significantly in the second half of a year. Besides, there has been hog disease in several districts in the PRC recently. It is therefore expected that the pork price will grow in the second half of 2018, with a more prominent surge towards the end of the year.

Business Review

During the Review Period, given the oversupply of pork and continued decline of price, farmers adopted appropriate measures, such as lowering average weight of hogs, phasing out outdated production capacity and selling piglets, to deal with the price drop. In June, the hog price increased slightly, but lacked support for the growing trend. Due to the uncertainty and volatility of the hog market and numerous unstable factors affecting the market, the management has to closely monitor the changes in the market trend of raw materials and sales demand in various aspects, and adjust the business strategy in a timely manner to safeguard the profitability of the Group. In the face of these severe challenges, the Group proactively adopted a number of feasible measures in a prudent manner to adjust the product structure, optimise sales channels and strengthen the brand image and market positioning to maintain business stability.

Product Quality and Research and Development

During the Review Period, under the leadership of the Group's management, Yurun Food has adhered to its operation philosophy of "you trust because we care", led the industry development by technical research and development, and ensured product quality through advanced production processes and technology. In the Press Conference of Product Sales Statistics of the Chinese Market (中國市場商品銷售統計結果新聞發佈會) held in March 2018, Yurun Food successively topped the chilled pork market and low temperature meat products ("LTMP") market in China in terms of market share for twenty years and seven years in a row respectively. The Group will continue to ensure high product quality, and focuses on research and development of products which are well received by the market, so as to maintain its competitiveness and leading position in the industry.

Sales and Distribution

Chilled pork and LTMP are the products with higher added value. During the Review Period, they remained the key drivers to the overall business development of the Group. During the Review Period, the Group's sales of chilled pork was HK\$4.526 billion (first half of 2017: HK\$4.442 billion), representing an increase of 1.9% over the same period last year, accounting for approximately 72% (first half of 2017: 75%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (first half of 2017: 92%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK\$1.071 billion (first half of 2017: HK\$938 million), representing an increase of 14.2% over the same period last year, accounting for approximately 17% (first half of 2017: 16%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (first half of 2017: 87%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

Adhering to the strict cost control on investment, the Group adjusted its expansion pace according to market changes and business conditions of the Group.

Due to the sale of an upstream slaughtering subsidiary during the Review Period, the Group's upstream annual slaughtering capacity decreased to 52.25 million heads as at 30 June 2018, which was 2.9 million heads less than that as at 31 December 2017.

As at 30 June 2018, the annual production capacity of the Group's downstream processed meat segment maintained at approximately 312,000 tons, in line with that as at 31 December 2017.

Financial Review and Key Performance Indicators

During the Review Period, the Group recorded revenue of HK\$6.115 billion, representing an increase of 5.4% from HK\$5.802 billion of the same period last year. Loss attributable to the equity holders of the Company during the Review Period was HK\$542 million (first half of 2017: HK\$552 million, representing a reduction in loss of approximately 1.8% over the same period last year). Diluted loss per share was HK\$0.297 (first half of 2017: HK\$0.303).

The board of directors (the“Board”) and the management assessed the development, performance or position of the business of the Group according to the following key performance indicators.

Revenue

Chilled and Frozen Pork

The pork price in China has been declining since the first half of 2017. Despite occasional adjustments, the price generally remains in a downward trend. During the Review Period, the average purchase price of hogs of the Group decreased by 24.4% over the first half of 2017. In response to the falling pork price, the management refined the strategies to increase the slaughtering volume which amounted to approximately 3.24 million heads during the Review Period, representing an increase of approximately 27.0% over the same period last year. The increase in slaughtering volume softened the impact of declining pork price, resulting in a rise in the total revenue from the upstream business prior to inter-segment eliminations by 4.9% to HK\$5.057 billion (first half of 2017: HK\$4.818 billion). Among which, the sales of chilled pork increased by 1.9% to HK\$4.526 billion (first half of 2017: HK\$4.442 billion), accounting for approximately 72% (first half of 2017: 75%) of the Group’s total revenue prior to inter-segment eliminations and approximately 90% (first half of 2017: 92%) of the total revenue of the upstream business. Sales of frozen pork increased by 41.1% to HK\$531 million (first half of 2017: HK\$376 million), accounting for approximately 10% (first half of 2017: 8%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Period, sales of processed meat products of the Group prior to inter-segment eliminations was HK\$1.194 billion (first half of 2017: HK\$1.075 billion), representing an increase of 11.0% over the same period last year.

Specifically, revenue of LTMP was HK\$1.071 billion, representing an increase of 14.2% from HK\$938 million of the same period last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 90% (first half of 2017: 87%) of the total revenue of the processed meat segment. Revenue of high temperature meat products (“HTMP”) was HK\$123 million (first half of 2017: HK\$137 million), accounting for approximately 10% (first half of 2017: 13%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 15.5% from HK\$364 million in the first half of 2017 to HK\$421 million during the Review Period. Overall gross profit margin increased by 0.6 percentage point to 6.9% from 6.3% of the same period last year. During the Review Period, the Group adjusted its sales channels, where appropriate, to reduce sales through those with lower gross profit margins, following its profit enhancement strategy.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 4.1% and -0.9% respectively (first half of 2017: 3.5% and -2.3% respectively). Decline in hog prices had a positive impact on the gross profit margin of frozen pork. The overall gross profit margin of the upstream segment was 3.5%, representing an increase of 0.4 percentage point from 3.1% of last year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 19.1%, comparable to 19.2% of the same period last year. Gross profit margin of HTMP was 30.1%, representing an increase of 4.3 percentage points from 25.8% over the same period last year. The overall gross profit margin of the downstream segment was 20.2%, representing an increase of 0.2 percentage point from 20.0% of the same period last year.

Other Net Loss

During the Review Period, other net loss of the Group was HK\$88.70 million (first half of 2017: HK\$167 million). Other net loss during the Review Period was mainly attributable to non-recurring losses, including provision for losses on litigations (please refer to the section headed “Contingent Liabilities” for details), loss on disposal of a subsidiary, lease prepayments and property, plant and equipment.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK\$655 million, representing an increase of 5.9% from HK\$619 million of the same period last year. Such increase was mainly due to the increase in transportation expenses resulting from the rising sales. Operating expenses represented 10.7% (first half of 2017: 10.7%) of the Group’s revenue, comparable to that of the same period last year.

Results of Operating Activities

During the Review Period, operating loss of the Group was HK\$323 million (first half of 2017: HK\$421 million), representing a significant reduction in loss of 23.3% over the same period last year

Finance Costs

During the Review Period, net finance costs of the Group were HK\$212 million, compared to HK\$126 million for the same period last year. Net finance costs increased from that of the same period of last year mainly because of the significant drop in capitalised interest expenses provided for the projects under construction which had slow progress and the exchange loss arising from the depreciation of RMB during the Review Period.

Income Tax

Income tax expense for the Review Period was approximately HK\$5.93 million (first half of 2017: HK\$4.61 million).

Loss Attributable to the Equity Holders of the Company

Taking into account of all the above factors, loss attributable to the equity holders of the Company was HK\$542 million during the Review Period (first half of 2017: HK\$552 million), representing a reduction in loss of approximately 1.8% over the same period last year.

Financial Resources

As at 30 June 2018, the Group's cash balances together with pledged deposits and restricted bank deposits were HK\$197 million, representing a decrease of approximately HK\$74 million from HK\$271 million as at 31 December 2017.

Approximately 80% (31 December 2017: 83%) of the above-mentioned financial resources was denominated in Hong Kong dollars or RMB, and approximately 19% (31 December 2017: 16%) was denominated in United States dollars, while the remaining amount was denominated in other currencies.

As at 30 June 2018, the Group had outstanding bank loans and other loans of HK\$7.328 billion, representing a decrease of HK\$103 million from HK\$7.432 billion as at 31 December 2017, of which HK\$7.154 billion (31 December 2017: HK\$7.214 billion) was repayable within one year. All borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2017. As at 30 June 2018, the Group's fixed-rate debt ratio was 69.9% (31 December 2017: 69.9%).

Net cash outflow of the Group during the Review Period was mainly used for daily operations, payment for construction payables for those projects already started and repayments of borrowings. The bank loans are expected to be renewed upon maturity for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group was approximately HK\$66 million during the Review Period (first half of 2017: HK\$55 million).

Breach of Loan Agreements

Certain bank loan facilities of the Group are subject to certain covenants on financial gearing and capital requirements, as commonly required under lending arrangements with financial institutions. As at 30 June 2018, the Group was unable to fulfil the covenants in respect of bank loans with an aggregate amount of HK\$5.696 billion (31 December 2017: HK\$5.916 billion), of which a total of approximately HK\$59 million (31 December 2017: HK\$120 million) was long-term bank loans re-classified as current liabilities in the consolidated statement of financial position. As at the date of this announcement, the above bank loans have not been renewed (31 December 2017: HK\$Nil) and bank loans of HK\$6.10 million (31 December 2017: HK\$46 million) have been repaid. The Group has kept close communication with the banks regarding the above matters and the renewal of those matured bank loans. In the course of communication, the Group understood that the banks will not take any radical actions against the Group and all parties hoped that the Group can maintain normal operations. As such, the Board believes that the likelihood of demands from bank for immediate repayment is not high and the above matters do not have significant impact on the operations of the Group.

Assets and Liabilities

As at 30 June 2018, the total assets and total liabilities of the Group were HK\$18.524 billion (31 December 2017: HK\$19.174 billion) and HK\$11.179 billion (31 December 2017: HK\$11.261 billion) respectively, representing a decrease of HK\$650 million and HK\$82 million as compared with the total assets and liabilities as at 31 December 2017 respectively.

As at 30 June 2018, the property, plant and equipment of the Group amounted to HK\$11.958 billion (31 December 2017: HK\$12.395 billion), representing a decrease of 3.5% as compared with that as at 31 December 2017.

Lease prepayments of the Group as at 30 June 2018 amounted to HK\$2.430 billion (31 December 2017: HK\$2.516 billion). This represented the purchase cost of land use rights of the Group which was amortised on a straight-line basis over the respective periods of the rights.

Non-current prepayments and 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 30 June 2018, they amounted to HK\$234 million (31 December 2017: HK\$242 million) and HK\$1.046 billion (31 December 2017: HK\$873 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to amortise nor depreciate yet.

During the Review Period, the Group recorded a net loss of HK\$542 million (first half of 2017: HK\$552 million) and net cash used in operating activities of HK\$76 million (first half of 2017: HK\$282 million). As at 30 June 2018, the net current liabilities of the Group were HK\$8.180 billion (31 December 2017: HK\$7.912 billion). The other loans and finance lease liabilities amounted to HK\$7.459 billion (31 December 2017: HK\$7.564 billion), of which HK\$7.155 billion (31 December 2017: HK\$7.215 billion) is due within 12 months from that date. As mentioned above, the Group failed to fulfil the terms of certain bank loans and some subsidiaries of the Group are facing various litigations. These conditions indicate the existence of material uncertainties about the Group's ability to continue as a going concern. To improve the above situations, the Group will actively negotiate with the banks to renew bank loans, implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the recovery of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cash flows. In view of these, the Directors believe 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 the end of the Review Period.

As at 30 June 2018, equity attributable to equity holders of the Company was HK\$7.294 billion in total, representing a decrease of HK\$567 million as compared with HK\$7.862 billion as at 31 December 2017.

As at 30 June 2018, the gearing ratio (total debt represented by the sum of bank and other loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 50.6%, representing an increase of 1.6 percentage points as compared with 49.0% as at 31 December 2017. As at 30 June 2018, after excluding cash in bank, restricted bank deposits and pledged deposits, the net gearing ratio was 49.2% (31 December 2017: 47.3%).

Charges on Assets

As at 30 June 2018, certain property, plant and equipment and construction in progress of the Group with a carrying amount of approximately HK\$3.769 billion (31 December 2017: HK\$3.482 billion), certain investment properties of the Group with a carrying amount of approximately HK\$163 million (31 December 2017: HK\$147 million), certain lease prepayments of the Group with a carrying amount of approximately HK\$1.442 billion (31 December 2017: HK\$1.521 billion), and certain trade receivables of the Group with a carry amount of approximately HK\$36 million (31 December 2017: HK\$36 million) were pledged to secure certain bank loans with a total amount of HK\$4.279 billion (31 December 2017: HK\$4.379 billion).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, Future Plans for Material Investment or Acquisition of Capital Assets

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

Contingent Liabilities

As at 30 June 2018, litigations had been commenced by several banks in the PRC against certain subsidiaries of the Group, requesting such subsidiaries to secure an immediate repayment of outstanding bank loans of approximately HK\$2.346 billion (31 December 2017: HK\$1.481 billion) or otherwise assets of equivalent amount. As at 30 June 2018, certain assets of the Group with a carrying amount of approximately HK\$681 million (31 December 2017: HK\$173 million) have been frozen by the courts in the PRC and the restricted bank deposits of approximately HK\$50 million (31 December 2017: HK\$47 million) has also been frozen. The Group is negotiating with the banks to settle such litigations. Subsequent to 30 June 2018 and up to date of this announcement, the Group has repaid the bank loans under litigations of approximately HK\$4.2 million.

Litigations had been commenced by several constructors against certain subsidiaries of the Group claiming an aggregate construction fee together with the late penalties of approximately HK\$282 million (31 December 2017: HK\$249 million). However, based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group may be liable to pay approximately HK\$175 million (31 December 2017: HK\$168 million) for the settlement of the aforesaid construction fee and penalties. Provision for such amounts has been made accordingly. During the Review Period, pursuant to the judgments, the Group was ordered to make an immediate repayment of payable construction fee of approximately HK\$89.92 million and corresponding late penalties of approximately HK\$37.14 million. As of the date of this announcement, litigations regarding the remaining claims with an aggregate amount of approximately HK\$155 million (31 December 2017: HK\$159 million) are still in progress.

During the Review Period, litigations had been initiated by certain local governments in the PRC against certain subsidiaries and a related company of the Group for an immediate cash repayment of approximately HK\$138 million (31 December 2017: HK\$174 million). The Group has made full provisions for the aforesaid claims.

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") with regard to the above progresses, as and when necessary.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. RMB is the functional currency of 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 30 June 2018, the Group had approximately 10,000 (31 December 2017: approximately 11,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK\$322 million, accounting for 5.3% of the revenue (first half of 2017: HK\$280 million, accounting for 4.8% of the revenue) of the Group.

The Group offered its employees competitive remuneration and other employee benefits, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance based bonuses and a share option scheme to encourage employees to innovate and improve. In addition, the Group allocated resources to provide continuing education and training to management and other 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 makes best effort to minimize the environmental impact of its production and business activities. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to reduce waste and participating in conservation and sustainability initiatives as part of its long term environmental protection policy.

Responses from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2017

Disagreement between the Directors and the independent auditor

Moore Stephens CPA Limited (the "Auditor"), the independent auditor of the Company, stated in the Independent Auditor's Report (the "Independent Auditor's Report") in the 2017 Annual Report that they are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. In addition, in auditor's opinion, the impairment assessment for the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments as at 31 December 2017 ("Non-current Assets") was not in accordance with the International Accounting Standard ("IAS") 36 and the use of the discount rate had resulted in the recoverable amounts of these Non-current Assets being materially overstated.

As disclosed in Note 2(b) of the consolidated financial statements of the Group for the year ended 31 December 2017, 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 2017 prepared by the management, and assuming the success of the measures mentioned in below sub-section, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors consider the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. However, as stated in the Independent Auditor's Report, the Auditor was unable to obtain sufficient supporting bases to assess the appropriateness and reasonableness of the use of the going concern assumption and thus unable to form an opinion of the basis. Although the Directors explained the situation to the Auditor, it is difficult for the Directors to provide such supporting evidences that the Auditor considers sufficient at this stage, in view of the differences in the weight of the Chinese political, legal and economic considerations.

In addition, the calculation of discount rate involved certain subjective factors. In order to assess the impairment of the Non-current Assets of the Group more prudently in accordance with the requirements of IAS 36, the Directors increased the discount rate from 15% used in 2016 to 17% to better reflect the Group's exposure to risks and therefore further recognized an impairment losses of HK\$674 million in 2017. As the assumption used for the calculation of discount rate involved professional knowledge on valuation, the management placed high importance and engaged an independent third party which possesses professional valuation qualification in the PRC (the "Valuer") to calculate the discount rate for the Group based on their professional knowledge. The Valuer adopted industry comparable to the Group (which involved professional market data and analysis including the consideration of the risks of the market and the entity) to calculate the weighted average cost of capital of the Group (which already reflected the Group's risks of breach of covenants of certain loans and litigations). The Valuer considered the calculation is compliant with the requirements of IAS 36. However, the Auditor considered that the data and assumptions used by the Valuer did not fully take into account of the Group's challenges in operating and financing activities. Accordingly, the Auditor could not reach a consensus with the Board of Directors on the discount rate. The Directors considered that if the political and economic environment of the location in which the Group operates were not fully considered, this would have resulted in a discount rate which is far more prudent than the one the actual situation requires. This would have led to material understatement of the carrying amount of Non-current Assets of the Group and is not consistent with the actual situation. Therefore, disagreement on this issue remains between both parties.

The Company has been actively tackling the challenges from all aspects

The Directors considered that although the Group is facing various challenges, including loss on operation, breach of covenants of certain bank loans, increasing litigations, etc, the Directors and the management have been actively tackling these problems, including but not limited to:

- Actively negotiating with banks to renew bank loans that have fallen due: As disclosed in the announcements and the financial statements published by the Company, the Group has been actively negotiating with banks to renew bank loans that have fallen due. During the course of communication with the banks, the Group understands that all parties hope that the Group can maintain normal operation, and the banks have also expressed that they will not take any radical actions against the Group. Despite the overdue loans, the Directors and the management believe that the likelihood of demands from banks for immediate repayment is not high. Therefore, the operation of the Group would not be significantly affected. In fact, the Group has a record of renewing bank loans successfully. Thus, the Directors and the management believe that the Group is able to repay, renew or extend the bank loans and other liabilities when they fall due.
- Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure: The Directors and the management actively cut costs and capital expenditure in 2017 to reduce the burden of the Group and such policies are effective. The Directors and the management of the Company continue to adopt the relevant policies in 2018 to reduce the cash outflows.
- Taking measures to accelerate the collections of outstanding receivables: The Directors and the management continue to make efforts and take various feasible measures to accelerate the collections of outstanding receivables.
- Seeking potential strategic investors: The Group have been actively looking for potential strategic investors since mid-2015. Since then, several investors have made proposals of strategic investment to our operations. Currently, several potential strategic investors are in preliminary discussion with the Company but no conclusion has been made at the moment. The Directors believe that if and when the Company is in an extreme situation (where the Company can no longer operate as a going concern), the Company is able to identify strategic investors which will benefit the Group and the shareholders and address the concerns of the Group by speeding up the relevant discussion.

- Looking for buyers for certain non-core assets: In addition to seeking potential strategic investors as mentioned above, the management also sold certain non-core assets of the Group to increase cash flow, after considering the internal operation position of the Group and other objective factors such as the national economy and local development. In 2018, the Group continues to seek for suitable opportunities to dispose assets to increase the cash flows of the Group. In fact, the Group successfully sold a subsidiary in January 2018. As the relevant proposals have overlap in the initiatives to seek potential strategic investors mentioned above, the Board of Directors will strike a balance from a macro perspective to come up with a solution that benefits the Group and the shareholders the most.

Taking into account of the above situation and the net assets of the Group of HK\$7.913 billion as at 31 December 2017, 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 2017.

The views of the Audit Committee and the Directors

With respect to the consolidated financial statements of the Group for the year ended 31 December 2017, the Audit Committee of the Company reviewed the relevant documents strictly and discussed the disagreement between the Directors and the Auditor on the position and view on going concern basis and assets impairment at the meetings of the Audit Committee. The Audit Committee and the Directors hold consistent position and view on the going concern basis and assets impairment.

To solve the disagreements with the Auditor on the going concern basis and assets impairment

As mentioned above and disclosed in note 2(b) in the consolidated financial statements of the Group for the year 2017, the Directors and the management of the Company continue to adopt all feasible measures and make best endeavor in 2018 to improve the cash flows and business operation, in order to resolve the disagreements with the Auditor.

- **Improvements in net losses**

The Directors believe that when the Company is able to turn its operation from loss to profit and maintain healthy cash flows to repay bank loans, the uncertainty of the Auditor on the going concern of the Company could be eliminated by then. In fact, the operation of the Group has been improving in recent years. Improvement is seen in 2017 where the net loss was HK\$1.915 billion, representing a significant reduction in loss of 18.2% from 2016. The ability of the management to improve the operation is proven.

- **Annual update and review the assumptions of assets impairment**

In addition, regarding the issue of assets impairment, the Group will perform impairment assessment on the relevant assets to determine if there is any indication of impairment according to the requirement of IAS 36, and review the assumptions and make appropriate judgement on each financial reporting date, taking into account the prevailing macro-economic environment and the actual operation of the Group. The Directors forecast that the operation of the Group will improve gradually in the following years based on the current situation of the Company. The Directors believe that if the operation of the Group improves in future resulting from the effective implementation of the above measures and the risk from breach of covenants of certain bank loans therefore decrease, the gap with the Auditor on the calculation of discount rate will be narrowed.

CORPORATE GOVERNANCE

The Company adheres to corporate governance principles of integrity, transparency, openness and efficiency. It has strived to strictly observe and follow stringent corporate governance practice at all times through a comprehensive corporate governance structure and measures, so as to achieve a high standard of corporate governance and enhance shareholders' value.

The Board currently comprises eight Directors. To facilitate effective management, the Board has delegated certain functions to various Board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Company has formulated specific terms of reference of each committee, covering its authority, responsibilities and functions. The major responsibilities of the Board and its committees include supervising the implementation of corporate governance, monitoring and advising the management in respect of financial and business strategy and targets, monitoring public disclosures, as well as assessing the performance of the management whether they are in line with the Company's operating objectives.

The Company has also established risk management and internal control systems to ensure that the Company's assets are under protection, operating and governance measures are in place, business risks are properly managed and accounting records and financial statements are properly kept and maintained. The Audit Committee is responsible for reviewing the effectiveness of the Group's risk management and internal control systems with the assistance of the Group's Internal Audit Department.

The Company maintains a highly transparent governance mechanism by publishing information to shareholders and investors in a timely manner. We use several communication channels to ensure that the Company's shareholders are provided with ready, equal and timely access to information about the Company.

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") as set out in Appendix 14 to the Listing Rules during the Review Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiries with all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the Review Period.

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 Period.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed, with the management, the accounting principles and practices adopted by the Group and discussed internal controls, risk management and financial reporting matters, including the review of the unaudited interim results of the Group for the Review Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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 2018 interim report of the Company containing all the information required by Appendix 16 to the Listing Rules, as applicable, 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
Yu Zhangli
Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the executive directors of the Company are Yu Zhangli, Li Shibao, Sun Tiexin, Yang Linwei and Yao Guozhong; and the independent non-executive directors are Gao Hui, Chen Jianguo and Miao Yelian.