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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 2019**

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 2019 (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 2019 – unaudited

		Six months ended 30 June	
		2019	2018
	Notes	HK\$'000	HK\$'000
Revenue	3	7,392,433	6,115,061
Cost of sales		<u>(6,875,798)</u>	<u>(5,694,506)</u>
Gross profit		516,635	420,555
Other net loss	4	(53,960)	(88,700)
Distribution expenses		(260,854)	(292,493)
Administrative and other operating expenses		<u>(323,947)</u>	<u>(362,675)</u>
Results from operating activities		<u>(122,126)</u>	<u>(323,313)</u>
Finance income		4,180	705
Finance costs		<u>(325,609)</u>	<u>(212,843)</u>
Net finance costs	5(a)	<u>(321,429)</u>	<u>(212,138)</u>
Loss before income tax	5	(443,555)	(535,451)
Income tax expense	6	<u>(2,690)</u>	<u>(5,929)</u>
Loss for the period		<u>(446,245)</u>	<u>(541,380)</u>
Attributable to:			
Equity holders of the Company		(448,104)	(541,743)
Non-controlling interests		<u>1,859</u>	<u>363</u>
Loss for the period		<u>(446,245)</u>	<u>(541,380)</u>
Loss per share			
Basic	7(a)	<u>HK\$(0.246)</u>	<u>HK\$(0.297)</u>
Diluted	7(b)	<u>HK\$(0.246)</u>	<u>HK\$(0.297)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period	(446,245)	(541,380)
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	(85,439)	(35,552)
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary	–	9,351
	(85,439)	(26,201)
Total comprehensive income for the period	(531,684)	(567,581)
Attributable to:		
Equity holders of the Company	(532,949)	(567,498)
Non-controlling interests	1,265	(83)
Total comprehensive income for the period	(531,684)	(567,581)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited

		30 June 2019	31 December 2018
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		7,419,375	7,700,791
Investment property		208,301	213,562
Lease prepayments		1,776,409	1,787,051
Intangible assets		5,743	8,783
Non-current prepayments and receivables		909,970	1,168,525
Deferred tax assets		7,788	7,994
		10,327,586	10,886,706
Current assets			
Inventories		757,488	705,379
Current portion of lease prepayments		22,257	64,883
Trade and other receivables	8	1,787,615	1,753,123
Income tax recoverable		1,936	1,755
Restricted bank deposits		45,337	45,496
Cash and cash equivalents		201,885	218,687
		2,816,518	2,789,323
Current liabilities			
Bank and other loans		6,368,337	6,355,546
Lease liabilities		381	410
Trade and other payables	9	3,809,869	3,693,322
Income tax payable		3,924	4,380
		10,182,511	10,053,658
Net current liabilities		(7,365,993)	(7,264,335)
Total assets less current liabilities		2,961,593	3,622,371
Non-current liabilities			
Bank loans		572,752	703,678
Lease liabilities		92,563	93,664
Deferred tax liabilities		3,139	206
		668,454	797,548
NET ASSETS		2,293,139	2,824,823
EQUITY			
Share capital		182,276	182,276
Reserves		2,058,870	2,591,819
Total equity attributable to equity holders of the Company		2,241,146	2,774,095
Non-controlling interests		51,993	50,728
TOTAL EQUITY		2,293,139	2,824,823

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2019 – unaudited

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Cash generated from operations	6,360	129,422
Finance costs paid	(6,728)	(199,391)
Tax paid	<u>(4,815)</u>	<u>(6,514)</u>
Net cash used in operating activities	(5,183)	(76,483)
Net cash generated from investing activities	21,434	46,618
Net cash used in financing activities	<u>(31,153)</u>	<u>(41,547)</u>
Net decrease in cash and cash equivalents	(14,902)	(71,412)
Cash and cash equivalents at 1 January	218,687	218,212
Effect of exchange rate fluctuations on cash held	<u>(1,900)</u>	<u>207</u>
Cash and cash equivalents at 30 June	<u><u>201,885</u></u>	<u><u>147,007</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 27 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The Group incurred a net loss of HK\$446,245,000 (six months ended 30 June 2018: HK\$541,380,000) for the six months ended 30 June 2019 and as at 30 June 2019, the Group had net current liabilities of HK\$7,365,993,000 (31 December 2018: HK\$7,264,335,000). Its current and non-current bank and other loans amounted to HK\$6,368,337,000 (31 December 2018: HK\$6,355,546,000) and HK\$572,752,000 (31 December 2018: HK\$703,678,000) as at 30 June 2019 respectively, while the Group maintained its cash and cash equivalents of HK\$201,885,000 (31 December 2018: HK\$218,687,000) only. The Group could not fulfil certain bank covenants relating to certain bank loans amounted to HK\$5,004,099,000 (31 December 2018: HK\$5,001,676,000) as at 30 June 2019. These bank loans balance was presented as the Group’s current bank loans in the consolidated statement of financial position. Included in these bank loans were HK\$2,133,475,000 (31 December 2018: HK\$2,187,878,000) of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 30 June 2019 and up to date of this report, the courts in the PRC have ordered to freeze the Group’s bank deposits of HK\$37,215,000 (31 December 2018: HK\$22,043,000) and certain property, plant and equipment with carrying amount of HK\$452,280,000 (31 December 2018: HK\$520,393,000). 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 for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans;
- (ii) Actively negotiating with banks to obtain additional new financing and other source of funding as and when required;
- (iii) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operation; and
- (iv) Taking active measures to expedite collections of outstanding receivables.

Taking into account the Group's cash flow projections covering a period of twelve months from the end of the reporting period prepared by management, and assuming the successful implementation of the above measures, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis. The audit committee of the Company has no disagreement with the Directors on the above position and the going concern basis.

Should the Group 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 non-current liabilities as current assets and current liabilities respectively. 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 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
Annual Improvements to IFRSs	Amendments to IFRS 3, Business Combinations
2015-2017 Cycle Annual Improvements to IFRSs	Amendments to IFRS 11, Joint Arrangements
2015-2017 Cycle Annual Improvements to IFRSs	Amendments to IAS 12, Income Taxes
2015-2017 Cycle Annual Improvements to IFRSs	Amendments to IAS 23, Borrowing Costs

Except for the new and amendments to IFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 Leases

(i) *Impact of the adoption of IFRS 16*

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("IAS 17"), IFRIC-4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases-Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following tables summarised the impact of transition to IFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019:

	Increase/(decrease) 1 January 2019 HK\$'000
Assets	
Property, plant and equipment	1,087
Intangible assets	–
Lease prepayments	–
Trade and other receivables	–
Total Assets	1,087
Liabilities	
Trade and other payables	–
Leases liabilities	1,087
Total Liabilities	1,087
Total adjustment on equity:	
Retained earnings	–
Non-controlling interests	–
	–

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 5%.

1 January 2019
HK\$'000

Operating lease commitment at 31 December 2018 as disclosed in Group's consolidated financial statement	4,152
Discounted using the incremental borrowing rate at 1 January 2019	1,029
Finance lease liabilities recognised as at 1 January 2019	94,074
Recognition exemption for leases of low-value assets	–
Recognition exemption for leases with less than 12 months of lease term at transition	–
Extension options reasonably certain to be exercised	–
Lease liabilities recognised at 1 January 2019	95,103

(ii) *The new definition of a lease*

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) *Accounting as a lessee*

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease

liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under IAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under IAS 16 and would be carried at fair value. The adoption of IFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) *Accounting as a lessor*

The Group has leased out its investment property to a number of tenants. As the accounting under IFRS 16 for a lessor is substantially unchanged from the requirements under IAS 17, the adoption of IFRS 16 does not have significant impact on these condensed consolidated interim financial statements.

(v) *Transition*

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under IAS 17 as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int4.

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 2019 and 2018 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	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External revenue	6,305,298	4,926,900	1,087,135	1,188,161	7,392,433	6,115,061
Inter-segment revenue	126,811	129,746	2,364	5,825	129,175	135,571
Reportable segment revenue	<u>6,432,109</u>	<u>5,056,646</u>	<u>1,089,499</u>	<u>1,193,986</u>	<u>7,521,608</u>	<u>6,250,632</u>
Reportable segment loss	(126,980)	(275,026)	15,757	(30,131)	(111,223)	(305,157)
Depreciation and amortisation	(132,708)	(168,645)	(24,304)	(48,360)	(157,012)	(217,005)
(Provision for)/reversal of impairment losses on trade and other receivables	(2,997)	(2,601)	(708)	10,058	(3,705)	7,457
Government subsidies	2,050	5,295	5,488	10,077	7,538	15,372
Income tax expense	<u>(979)</u>	<u>(3,302)</u>	<u>(1,711)</u>	<u>(2,469)</u>	<u>(2,690)</u>	<u>(5,771)</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	
	2019	2018
	HK\$'000	HK\$'000
Revenue		
Total revenue from reportable segments	7,521,608	6,250,632
Elimination of inter-segment revenue	(129,175)	(135,571)
	<u>7,392,433</u>	<u>6,115,061</u>
Loss		
Total reportable segment loss before income tax	(111,223)	(305,157)
Elimination of inter-segment loss	(3,315)	(5,368)
	<u>(114,538)</u>	<u>(310,525)</u>
Loss on disposal of a subsidiary	–	(4,224)
Net finance costs	(321,429)	(212,138)
Income tax expense	(2,690)	(5,929)
Unallocated head office and corporate expenses	(7,588)	(8,564)
	<u>(446,245)</u>	<u>(541,380)</u>

4 OTHER NET LOSS

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Government subsidies	23,156	15,372
Provision for losses on litigations (<i>note 11(b)</i>)	(91,488)	(141,131)
Loss on disposal of a subsidiary (<i>note</i>)	–	(4,224)
Loss on disposal of lease prepayments and property, plant and equipment	(27,251)	(1,288)
Rental income	26,553	31,205
Sales of scrap	980	3,002
Sundry income	14,090	8,364
	<u>(53,960)</u>	<u>(88,700)</u>

Note: 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.

5 LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Interest on bank and other loans	314,998	199,093
Interest on lease obligations	669	2,288
Less: Interest expense capitalised into property, plant and equipment under development	(3,068)	(821)
	312,599	200,560
Bank charges	265	388
Net foreign exchange loss	12,745	11,895
Interest income from bank deposits	(4,180)	(705)
	321,429	212,138

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 2019, the Group could not fulfil covenants imposed by banks on certain loans with an aggregate amount of HK\$5,004,099,000 (31 December 2018: HK\$5,001,676,000). Included in this amount, loans of an aggregate amount of HK\$Nil (31 December 2018: HK\$114,943,000) which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position as at 30 June 2019. The Group is negotiating with banks to renew bank loans at the end of the reporting period. Subsequent to 30 June 2019 and up to the date of this interim financial report, the aforesaid bank loans were not yet renewed nor repaid (31 December 2018: HK\$3,009,000 were repaid).

At 30 June 2019, 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\$2,133,475,000 (31 December 2018: HK\$2,187,878,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment of the Group with carrying value of HK\$452,280,000 (31 December 2018: HK\$520,393,000) have been frozen by the court in the PRC as of 30 June 2019, in addition to the freezing of restricted bank deposits of HK\$37,215,000 (31 December 2018: HK\$22,043,000) in relation to these litigations. The Group is negotiating with the banks to settle these litigations. Subsequent to 30 June 2019 and up to the date of this interim financial report, included in the subsequent repayment of bank loans of HK\$Nil (31 December 2018: HK\$684,000) were repayment of bank loans under litigations.

(b) **Other items**

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Impairment losses on trade receivables	4,863	6,565
Reversal of impairment losses on trade receivables	(1,158)	(14,022)
Amortisation of lease prepayments	22,672	32,049
Amortisation of intangible assets	1,811	4,690
Depreciation of property, plant and equipment	132,529	184,965
	<u>132,529</u>	<u>184,965</u>

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current tax expense	1,711	4,832
Deferred tax expense	979	1,097
	<u>2,690</u>	<u>5,929</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 2019 and 2018.
- (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 2019 and 2018, 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 2019 and 2018.
- (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 2019 was -0.6% (six months ended 30 June 2018: -1.1%).

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\$448,104,000 (six months ended 30 June 2018: HK\$541,743,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2018: 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 2019 and 2018 because all potential ordinary shares outstanding were anti-dilutive.

8 TRADE AND OTHER RECEIVABLES

An ageing analysis of trade receivables (net of provision for bad and doubtful debts) 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 2019 HK\$'000	31 December 2018 HK\$'000
Trade receivables		
– Within 30 days	181,549	235,300
– 31 days to 90 days	51,033	98,486
– 91 days to 180 days	107,260	49,958
– Over 180 days	29,105	25,350
	<u>368,947</u>	<u>409,094</u>
Less: Provision for bad and doubtful debts	(29,105)	(25,350)
Total trade receivables, net of provision for bad and doubtful debt losses	339,842	383,744
Bills receivables	2,387	1,437
Value-added tax (“VAT”) recoverable	1,180,538	1,124,086
Deposits and prepayments	192,061	194,002
Others	72,787	49,854
	<u>1,787,615</u>	<u>1,753,123</u>

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 2019 HK\$'000	31 December 2018 HK\$'000
Trade payables		
– Within 30 days	247,996	429,363
– 31 days to 90 days	65,173	69,108
– 91 days to 180 days	33,410	27,599
– Over 180 days	64,730	72,393
Total trade payables	411,309	598,463
Deposits from customers	145,310	126,799
Contract liabilities	196,635	246,029
Salary and welfare payables	80,599	78,398
VAT payable	785	1,530
Payables for acquisitions of property, plant and equipment	607,942	614,335
Provision for losses on litigations	135,454	136,964
Interest payables	1,085,209	820,985
Other payables and accruals	1,146,626	1,069,819
	3,809,869	3,693,322

10 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$Nil).

11 CONTINGENT LIABILITIES

- (a) In addition to the litigations commenced by banks against subsidiaries of the Group as disclosed in note 5, 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\$322,126,000 (31 December 2018: HK\$326,501,000). 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\$187,805,000 (31 December 2018: HK\$190,682,000) ("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 2019. During the six months ended 30 June 2019, 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\$94,394,000 (31 December 2018: HK\$95,447,000) and corresponding late penalties of approximately HK\$39,310,000 (31 December 2018: HK\$40,532,000). 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 interim financial report, the remaining litigation claims with an aggregate amount of approximately HK\$188,420,000 (31 December 2018: HK\$190,521,000) are still in process, of which an aggregate amount of HK\$54,101,000 (31 December 2018: HK\$54,703,000) had been included in the Provision Amount as at 30 June 2019. In the opinion of the Directors, no further provision for litigation was required to be made for the six months ended 30 June 2019.
- (b) During the six months ended 30 June 2019, 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\$91,488,000 (31 December 2018: HK\$130,578,000). The Group recognised losses of HK\$91,488,000 (six months ended 30 June 2018: HK\$141,131,000) 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 2019.

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 2019, 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 2018: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview (and Prospects)

During the six months ended 30 June 2019 (the “Review Period”), China’s economic development has shown progress and stability has been ensured. 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 RMB 45,093.3 billion, an increase of 6.3% year on year calculated on the basis of comparable prices. The economy operated in a reasonable manner, sustaining a stable and positive development. Also, the economic structure was further optimized and upgraded with strengthening endogenous drivers. Looking forward, despite a number of uncertainties such as the trade war between the PRC and the United States, our experiences have proved that the national macro-economic condition will not be seriously affected and will continue to maintain stable and quality growth in the second half of 2019.

According to the information of the National Bureau of Statistics, the national disposable income per capita for the first half of 2019 was RMB15,294, representing an actual increase of 6.5% over the corresponding period last year and 0.2 percentage point higher than the growth rate of the gross domestic product. In addition, the total consumption of consumer goods amounted to RMB19.5 trillion, an increase of 8.4% year on year. The fundamental role of consumption in economic growth was further consolidated. The final consumption expenditures contributed 60.1% to the economic growth in the first half of the year. However, jointly affected by the African Swine Flu outbreak and the cyclical factors, the total production of hogs and breeding hogs in the PRC continued to drop, leading to a reduction in the supply of hogs in respective regions and the market supply and demand were tightened. During the first half of 2019, the total production of hogs in China was 313 million heads, representing a decrease of 6.2% or 20.75 million heads in the corresponding period last year.

During the first half of the year, food price in the PRC increased by 4.7%, representing a larger rise compared to the same period last year. In particular, pork price had risen for four consecutive months by 7.7%. It is expected that there will be an imbalance between the supply and demand in the pork market in the second half of the year due to the outbreak of African Swine Flu. In addition, the arrival of the peak season of pork consumption and the growing consumption power of residents will drive the continuous growth of pork price which tends to remain at a high level during the second half of 2019.

Business Review

During the Review Period, under the continuous influence of the African Swine Flu outbreak, the pork market recently started to exhibit the effect of tightened supply and demand, giving rise to supply-demand imbalance. The total production of pork in the PRC for the first half of 2019 decreased by 5.5% over the same period last year. During the Review Period, the Group's average purchase price of hogs increased by 13.4% from the same period last year. The hog price had increased since March and was relatively stable in May and reached its highest level of the first half of the year in June.

During the Review Period, the impact of the rise of the hog price on the Group started to become prominent. In the face of market uncertainties, the Group has strived to adjust the product structure and optimise sales channels to embrace market changes. The Group also strictly monitored the quality of raw materials in order to provide high-quality meat products to consumers.

Product Quality and Research and Development

During the Review Period, the Group has accorded priority to its operation philosophy of "You trust because we care". In view of the severe challenge brought by the African Swine Flu outbreak, the Company strictly monitored the slaughtering and production processes to ensure product quality.

Yurun Food has leading production equipment, skills and technology, with a consistent focus on the research and development of mid- to high-end products. Owning a research and development team comprising more than 300 professionals, it continues to develop new products with competitiveness. The Company currently provides over 200 types of chilled and frozen pork products and nearly 1,000 types of processed meat products under four major brands, namely "Yurun (雨潤)", "Wangrun (旺潤)", "Furun (福潤)" and "Popular Meat Packing (大眾肉聯)". All of the products are well-received by the market. In the future, while emphasizing product quality, the Company will seize the macro opportunities incurred by the consumption structural upgrade of the PRC to develop popular and reliable new products for consumers, so as to further increase the brand value, expand the business advantages and maintain its leading position in the industry.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP"), being the Group's products with higher added value, remained as the key drivers for the Group's overall business development during the Review Period. During the Review Period, sales of chilled pork of the Group were HK\$5.450 billion (first half of 2018: HK\$4.526 billion), representing an increase of 20.4% over the same period last year, accounting for approximately 72% (first half of 2018: 72%) of the total revenue of the Group prior to inter-segment eliminations and approximately 85% (first half of 2018: 90%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK\$968 million (first half of 2018: HK\$1.071 billion), representing a decrease of 9.6% over the same period last year, accounting for approximately 13% (first half of 2018: 17%) of the total revenue of the Group prior to inter-segment eliminations and approximately 89% (first half of 2018: 90%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

The Group strictly adjusted its expansion pace according to market changes and its business conditions in strict compliance with its principle of investment cost control.

As at 30 June 2019, the annual production capacity of the upstream slaughtering and the downstream processed meat segment of the Group was maintained at approximately 52.65 million heads and 312,000 tons respectively, same of the Group as that as at 31 December 2018.

FINANCIAL REVIEW

The Group reported revenue of HK\$7.392 billion during the Review Period, representing an increase of 20.9% from HK\$6.115 billion of the same period last year. Loss attributable to the equity holders of the Company during the Review Period was HK\$448 million (first half of 2018: HK\$542 million), representing a reduction in loss of approximately 17.3% over the same period last year. During the Review Period, loss arising from principal business, being loss attributable to equity holders excluding government subsidies, losses on disposal of non-current assets, net foreign exchange loss and provision for losses on litigations, was HK\$340 million (first half of 2018: HK\$399 million), representing a reduction in loss of approximately 14.8% from the previous year. Diluted loss per share was HK\$0.246 (first half of 2018: HK\$0.297).

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

Revenue

Chilled and Frozen Pork

During the Review Period, pork price continued to increase. The Group's average purchase price of hogs for the Review Period increased by 13.4% over the first half of 2018. The slaughtering volume was approximately 3.78 million heads, an increase of approximately 16.9% over the same period last year. Total revenue from the upstream business prior to inter-segment eliminations increased by 27.2% to HK\$6.432 billion (first half of 2018: HK\$5.057 billion). In particular, total sales of chilled pork increased by 20.4% to HK\$5.450 billion (first half of 2018: HK\$4.526 billion), accounting for approximately 72% (first half of 2018: 72%) of the Group's total revenue prior to inter-segment eliminations and approximately 85% (first half of 2018: 90%) of the total revenue of the upstream business. Sales of frozen pork increased by 85.1% from the same period last year to HK\$982 million (first half of 2018: HK\$531 million), accounting for approximately 15% (first half of 2018: 10%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Period, the sales of processed meat products of the Group prior to inter-segment eliminations were HK\$1.089 billion (first half of 2018: HK\$1.194 billion), representing a decrease of 8.8% over the same period last year.

Specifically, the revenue of LTMP was HK\$968 million, representing a decrease of 9.6% from HK\$1.071 billion of the same period last year. LTMP remained as a key revenue driver of the processed meat business, accounting for approximately 89% (first half of 2018: 90%) of the total revenue of the processed meat segment. The revenue of high temperature meat products (“HTMP”) was HK\$121 million (first half of 2018: HK\$123 million), accounting for approximately 11% (first half of 2018: 10%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 22.8% from HK\$421 million in the first half of 2018 to HK\$517 million during the Review Period. Overall gross profit margin increased by 0.1 percentage point to 7.0% from 6.9% of the same period last year. During the Review Period, the hog price increased significantly compared to the corresponding period of last year, exerting greater pressure on sales. The Group adjusted its sales channels, where appropriate, to boost profits and reduce sales of those channels with lower gross profit margins.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 4.9% and 4.9% respectively (first half of 2018: 4.1% and -0.9% respectively). Increase in the hog price posed positive impacts to gross profit margins of frozen pork. The overall gross profit margin of the upstream segment was 4.9%, representing an increase of 1.4 percentage points from 3.5% of the previous year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 18.1%, representing a decrease of 1.0 percentage point from 19.1% of the same period last year. Gross profit margin of HTMP was 22.6%, representing a decrease of 7.5 percentage points from 30.1% over corresponding period of the previous year. Due to the increase in the cost of raw material meat products and the change of consumption structure affected by the African Swine Flu, overall gross profit margin of the downstream segment decreased by 1.6 percentage points from 20.2% of the same period last year to 18.6%.

Other Net Loss

During the Review Period, other net loss of the Group was HK\$54.00 million (first half of 2018: HK\$88.70 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 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\$585 million, representing a decrease of 10.7% from HK\$655 million of the corresponding period of previous year. Such decrease was mainly due to the decrease in promotional expenses and depreciation expense. Operating expenses accounted for 7.9% (first half of 2018: 10.7%) of the Group's revenue, a decrease of 2.8 percentage points compared to the same period last year.

Results of Operating Activities

During the Review Period, operating loss of the Group was HK\$122 million (first half of 2018: HK\$323 million), representing a substantial reduction in loss of 62.2% from the corresponding period of previous year.

Finance Costs

During the Review Period, net finance costs of the Group were HK\$321 million, compared to HK\$212 million of the same period last year. The increase in net finance costs was mainly due to the increase in bank interest expenses during the Review Period.

Income Tax

Income tax expense for the Review Period was approximately HK\$2.69 million, compared to HK\$5.93 million of the same period last year.

Loss Attributable to the Equity Holders of the Company

Taking into account of the above factors, loss attributable to the equity holders of the Company during the Review Period was HK\$448 million (first half of 2018: loss attributable to the equity holders of the Company was HK\$542 million), representing a reduction in loss of 17.3% over the same period last year. During the Review Period, loss arising from the principal business, being loss attributable to equity holders excluding government subsidies, losses on disposal of non-current assets, net foreign exchange loss and provision for losses on litigations, was HK\$340 million (first half of 2018: HK\$399 million), representing a reduction in loss of approximately 14.8% from the previous year.

FINANCIAL RESOURCES

As at 30 June 2019, the Group's cash balance together with restricted bank deposits were HK\$247 million, representing a decrease of HK\$17 million from HK\$264 million as at 31 December 2018.

Approximately 92% (31 December 2018: 91%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or RMB, and approximately 7.4% (31 December 2018: 8.5%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 30 June 2019, the Group had outstanding bank and other loans of HK\$6.941 billion, representing a decrease of HK\$118 million from HK\$7.059 billion as at 31 December 2018, of which loans of HK\$6.368 billion (31 December 2018: HK\$6.356 billion) were repayable within one year and were expected by the management to be renewed upon maturity. Please refer to below paragraphs under “Breach of Loan Agreements” for the details of breach of loan agreements of certain bank loans of the Group. All borrowings were denominated in RMB, which were consistent with the borrowings as at 31 December 2018. As at 30 June 2019, the Group’s fixed-rate debt ratio was 81% (31 December 2018: 81%).

Net cash outflow of the Group during the Review Period was mainly used for daily operations, payment for construction payables of projects already commenced and repayments of borrowings. The Group expects that the bank loans can 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 decreased by 54.5% to approximately HK\$30 million during the Review Period from HK\$66 million of the same period last year.

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 2019, the Group could not fulfil the covenants in respect of certain loans with an aggregate amount of HK\$5.004 billion (31 December 2018: HK\$5.002 billion), of which a total of HK\$Nil (31 December 2018: HK\$115 million), being an aggregate amount of certain long-term bank loans, was re-classified as current liabilities in the consolidated statement of financial position. Subsequent to 30 June 2019 and up to the date of this announcement, the aforesaid bank loans were not renewed nor repaid (31 December 2018: HK\$3 million were repaid).

The Group has maintained 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 operation of the Group’s business.

ASSETS AND LIABILITIES

As at 30 June 2019, the total assets of the Group was HK\$13.144 billion (31 December 2018: HK\$13.676 billion), representing a decrease of HK\$532 million as compared with that as at 31 December 2018. Total liabilities of the Group as at 30 June 2019 was HK\$10.851 billion, representing a decrease of approximately HK\$2 million as compared with that as at 31 December 2018.

As at 30 June 2019, the property, plant and equipment of the Group amounted to HK\$7.419 billion (31 December 2018: HK\$7.701 billion), representing a slight decrease of 3.7% as compared with that as at 31 December 2018.

Lease prepayments of the Group as at 30 June 2019 amounted to HK\$1.799 billion (31 December 2018: HK\$1.852 billion). This represented the purchase cost of land use rights of the Group which was amortised on a straight-line basis over the respective period of the rights. Lease prepayments slightly decreased by 2.9% as compared with that as at 31 December 2018.

Non-current prepayments and other receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment and the non-current portion of value-added tax recoverable. As at 30 June 2019, they amounted to HK\$199 million (31 December 2018: HK\$219 million) and HK\$711 million (31 December 2018: HK\$949 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortise yet.

During the Review Period, the Group recorded a net loss of HK\$448 million (first half of 2018: HK\$542 million) and net cash used in operating activities of approximately HK\$5 million (first half of 2018: HK\$76 million). As at 30 June 2019, net current liabilities of the Group were HK\$7.366 billion (31 December 2018: HK\$7.264 billion). Although the Group failed to fulfil the contractual terms of certain loans as mentioned above and some subsidiaries of the Group are facing various litigations, the Group has been in active discussion with the banks on the renewal issue and is optimistic during the course of discussion. The Directors believe that the bank loans due within a year can be renewed or extended upon maturity. In addition, the Group will implement its operation plans to enhance profitability and control costs, to generate adequate operating cash flows, and to improve cash flow by proactively taking measures to accelerate the recovery of outstanding receivables. 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 2019, equity attributable to equity holders of the Company was HK\$2.241 billion in total, representing a decrease of HK\$533 million as compared with HK\$2.774 billion as at 31 December 2018.

As at 30 June 2019, the gearing ratio (total debt represented by the sum of bank and other loans and lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 75.8%, representing an increase of 3.7 percentage points as compared with 72.1% as at 31 December 2018. As at 30 June 2019, after excluding cash in bank and restricted bank deposits, the net gearing ratio was 73.2% (31 December 2018: 69.4%).

CHARGES ON ASSETS

As at 30 June 2019, certain property, plant and equipment and construction in progress of the Group with a carrying amount of approximately HK\$2.817 billion (31 December 2018: HK\$2.615 billion), certain investment properties of the Group with a carrying amount of approximately HK\$99 million (31 December 2018: HK\$104 million), certain lease prepayments of the Group with a carrying amount of approximately HK\$957 million (31 December 2018: HK\$984 million), and certain trade receivables of the Group with a carry amount of approximately HK\$17 million (31 December 2018: HK\$28 million) were pledged against certain bank loans with a total amount of HK\$3.901 billion (31 December 2018: HK\$3.949 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 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 2019, there were outstanding litigations initiated by certain banks in the PRC against certain subsidiaries of the Group, demanding them to secure an immediate repayment of the outstanding bank loans of HK\$2.133 billion (31 December 2018: HK\$2.188 billion) or otherwise assets of equivalent amount. As at 30 June 2019, certain assets of the Group with a carrying amount of HK\$452 million (31 December 2018: HK\$520 million) were frozen by the courts in the PRC, including the restricted bank deposits of HK\$37 million (31 December 2018: HK\$22 million). The Group is negotiating with the banks to resolve such litigations. Subsequent to 30 June 2019 and up to date of this announcement, the Group has not repaid the bank loans under litigations.

There were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming construction fees and the late penalties in an aggregate of approximately HK\$322 million (31 December 2018: HK\$327 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 HK\$188 million (31 December 2018: HK\$191 million) for the settlement of the aforesaid construction fee. Provision for such amounts was made accordingly.

There were outstanding litigations initiated by certain local governments in the PRC against certain subsidiaries and a related company of the Group demanding an immediate cash payment of approximately HK\$91 million (31 December 2018: HK\$131 million). The Group has made full provisions for the aforesaid claims.

In respect of the progress of the above litigations, the Company will make further announcements in due course in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as and when required.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Other than purchases of certain equipment and materials and payment of certain professional fees in US Dollars, 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 30 June 2019, the Group had approximately 9,300 (31 December 2018: approximately 10,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK\$308 million, accounting for 4.2% of the revenue (first half of 2018: HK\$322 million, accounting for 5.3% of the revenue) of the Group.

The Group offered its employees with remuneration and other employee benefits comparable to the market, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance linked bonuses and a share option scheme to encourage and reward employees to contribute through innovation and improvement. In addition, the Group allocated resources to provide continuing education and training to the management and employees so as to improve their skills and knowledge.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Group is committed to promoting environmental protection and making the best effort to minimise 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 minimise waste and participating in conservation and sustainability initiatives as part of its long term environmental protection policy.

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 six 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 ("CG Code") as set out in Appendix 14 to the Listing Rules during the Review Period except for the matter disclosed below:

In compliance with Code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Nonetheless, the Company has appointed Ms. Zhu Yuan as both its chairman and chief executive officer since 28 March 2019. The Board believes that vesting the roles of the chairman and the chief executive officer in the same person would allow the Company to be more effective and efficient in developing business strategies and executing business plans. The Board believes that the balance of power can be ensured by the Board members who are experienced and technical individuals, and in particular, half of the Board composition are independent non-executive directors.

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.

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REVIEW PERIOD

There was no other important event affecting the Group which has taken place since 30 June 2019 and up to the date of this announcement.

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 2019 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
Zhu Yuan
Chairman & CEO

Hong Kong, 27 August 2019

As at the date of this announcement, the executive Directors are Zhu Yuan (Chairman & CEO), Yang Linwei and Yao Guozhong; and the independent non-executive Directors are Gao Hui, Chen Jianguo and Miao Yelian.