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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 2020**

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 2020 (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 2020 – unaudited

		Six months ended 30 June	
		2020	2019
	Notes	HK\$'000	HK\$'000
Revenue	3	7,536,316	7,392,433
Cost of sales		<u>(7,092,161)</u>	<u>(6,875,798)</u>
Gross profit		444,155	516,635
Other net income/(losses)	4	11,369	(53,960)
Distribution expenses		(280,100)	(260,854)
Administrative and other operating expenses		<u>(314,835)</u>	<u>(323,947)</u>
Results from operating activities		----- (139,411)	----- (122,126)
Finance income		1,082	4,180
Finance costs		<u>(252,288)</u>	<u>(325,609)</u>
Net finance costs	5(a)	----- (251,206)	----- (321,429)
Loss before income tax	5	(390,617)	(443,555)
Income tax expenses	6	<u>(14,118)</u>	<u>(2,690)</u>
Loss for the period		<u><u>(404,735)</u></u>	<u><u>(446,245)</u></u>
Attributable to:			
Equity holders of the Company		(407,917)	(448,104)
Non-controlling interests		<u>3,182</u>	<u>1,859</u>
Loss for the period		<u><u>(404,735)</u></u>	<u><u>(446,245)</u></u>
Loss per share			
Basic	7(a)	<u><u>HK\$(0.224)</u></u>	<u><u>HK\$(0.246)</u></u>
Diluted	7(b)	<u><u>HK\$(0.224)</u></u>	<u><u>HK\$(0.246)</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period	(404,735)	(446,245)
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	(139,655)	(85,439)
Total comprehensive income for the period	(544,390)	(531,684)
Attributable to:		
Equity holders of the Company	(546,508)	(532,949)
Non-controlling interests	2,118	1,265
Total comprehensive income for the period	(544,390)	(531,684)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited

		30 June 2020	31 December 2019
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	8	3,909,058	4,134,195
Investment properties		196,627	202,468
Lease prepayments		1,275,021	1,353,200
Non-current prepayments and other receivables		698,567	837,888
Deferred tax assets		–	7,877
		6,079,273	6,535,628
Current assets			
Inventories		759,951	1,037,256
Trade and other receivables	9	2,024,028	1,849,079
Income tax recoverable		2,191	2,507
Restricted bank deposits		12,935	39,308
Cash and cash equivalents		392,887	217,403
		3,191,992	3,145,553
Current liabilities			
Bank and other borrowings		6,475,577	5,899,841
Lease liabilities		2,914	2,890
Trade and other payables	10	4,503,510	4,315,974
Income tax payable		6,212	5,334
		10,988,213	10,224,039
Net current liabilities		(7,796,221)	(7,078,486)
Total assets less current liabilities		(1,716,948)	(542,858)
Non-current liabilities			
Bank borrowings		51,785	682,548
Lease liabilities		87,190	90,965
Other long term liabilities		4,927	–
Deferred tax liabilities		–	89
		143,902	773,602
NET LIABILITIES		(1,860,850)	(1,316,460)
EQUITY			
Share capital		182,276	182,276
Reserves		(2,099,247)	(1,552,739)
Total equity attributable to equity holders of the Company		(1,916,971)	(1,370,463)
Non-controlling interests		56,121	54,003
TOTAL EQUITY		(1,860,850)	(1,316,460)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2020 – unaudited

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cash generated from operations	172,650	6,360
Finance costs paid	(4,029)	(6,728)
Tax paid	<u>(5,136)</u>	<u>(4,815)</u>
Net cash generated from/(used in) operating activities	163,485	(5,183)
Net cash (used in)/generated from investing activities	(118,569)	21,434
Net cash generated from/(used in) financing activities	<u>99,176</u>	<u>(31,153)</u>
Net increase/(decrease) in cash and cash equivalents	144,092	(14,902)
Cash and cash equivalents at 1 January	217,403	218,687
Effect of exchange rate fluctuations on cash held	<u>31,392</u>	<u>(1,900)</u>
Cash and cash equivalents at 30 June	<u><u>392,887</u></u>	<u><u>201,885</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 34 (“IAS 34”), *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 18 August 2020.

The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2019 (the “2019 annual financial statement”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Except as described in note 2, the interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements.

The Group incurred a net loss of HK\$404,735,000 (six months ended 30 June 2019: HK\$446,245,000) for the six months ended 30 June 2020 and as at 30 June 2020, the Group had net current liabilities of HK\$7,796,221,000 (31 December 2019: HK\$7,078,486,000). Its current and non-current bank and other borrowings amounted to HK\$6,475,577,000 (31 December 2019: HK\$5,899,841,000) and HK\$51,785,000 (31 December 2019: HK\$682,548,000) as at 30 June 2020 respectively, while the Group maintained its cash and cash equivalents of HK\$392,887,000 (31 December 2019: HK\$217,403,000) only. The Group could not fulfil certain bank covenants relating to certain bank borrowings amounted to HK\$4,996,982,000 (31 December 2019: HK\$4,937,349,000) as at 30 June 2020. These bank borrowings were presented as current liabilities in the consolidated statement of financial position. Included in these bank borrowings were HK\$2,127,801,000 (31 December 2019: HK\$2,120,682,000) of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 30 June 2020 and up to date of this report, the courts in the People’s Republic of China (the “PRC”) have ordered to freeze the Group’s bank deposits of HK\$12,935,000 (31 December 2019: HK\$21,951,000) and certain property, plant and equipment with carrying amount of HK\$313,443,000 (31 December 2019: HK\$348,384,000). 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; and
- (iii) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operation.

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 condensed 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 condensed 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.

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 16	Covid-19-Related Rent Concessions
Conceptual Framework for Financial Reporting (Revised)	

The application of the new or amended IFRSs did not have any significant impact on the Group's accounting policies.

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 2020 and 2019 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	
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External revenue	6,386,622	6,305,298	1,149,694	1,087,135	7,536,316	7,392,433
Inter-segment revenue	39,577	126,811	1,928	2,364	41,505	129,175
Reportable segment revenue	<u>6,426,199</u>	<u>6,432,109</u>	<u>1,151,622</u>	<u>1,089,499</u>	<u>7,577,821</u>	<u>7,521,608</u>
Reportable segment results	(237,146)	(126,980)	106,889	15,757	(130,257)	(111,223)
Depreciation and amortisation	(101,828)	(132,708)	(10,450)	(24,304)	(112,278)	(157,012)
Impairment losses on trade receivables	(1,047)	(2,997)	(10,175)	(708)	(11,222)	(3,705)
Impairment losses on property, plant and equipment and lease prepayments	(37,112)	-	-	-	(37,112)	-
Government subsidies	1,268	2,050	1,976	5,488	3,244	7,538
Income tax expenses	<u>(9,902)</u>	<u>(979)</u>	<u>(4,216)</u>	<u>(1,711)</u>	<u>(14,118)</u>	<u>(2,690)</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	
	2020	2019
	HK\$'000	HK\$'000
Revenue		
Total revenue from reportable segments	7,577,821	7,521,608
Elimination of inter-segment revenue	(41,505)	(129,175)
Consolidated revenue	7,536,316	7,392,433
Loss		
Total reportable segment results before income tax	(130,257)	(111,223)
Elimination of inter-segment loss	(175)	(3,315)
	(130,432)	(114,538)
Net finance costs	(251,206)	(321,429)
Income tax expenses	(14,118)	(2,690)
Unallocated head office and corporate expenses	(8,979)	(7,588)
Consolidated loss for the period	(404,735)	(446,245)

4 OTHER NET INCOME/(LOSSES)

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Government subsidies	3,244	23,156
Provision for losses on litigations (<i>note 12(b)</i>)	(34,914)	(91,488)
Loss on disposal of property, plant and equipment and lease prepayments	(1,927)	(27,251)
Rental income	30,028	26,553
Sales of scrap	623	980
Sundry income	14,315	14,090
	11,369	(53,960)

5 LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Interest on bank and other borrowings	235,762	314,998
Interest on lease liabilities	3,712	669
Less: Interest expense capitalised into construction in progress	(2,596)	(3,068)
	236,878	312,599
Bank charges	260	265
Net foreign exchange loss	15,150	12,745
Interest income from bank deposits	(1,082)	(4,180)
	<u>251,206</u>	<u>321,429</u>

Certain of the Group's bank borrowing facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 30 June 2020, the Group could not fulfil covenants imposed by banks on certain borrowings with an aggregate amount of HK\$4,996,982,000 (31 December 2019: HK\$4,937,349,000). These bank borrowings were classified as current liabilities in the consolidated statement of financial position at the end of the reporting period. The Group is negotiating with banks to renew the bank borrowing facilities at the end of the reporting period. Subsequent to 30 June 2020 and up to the date of this interim financial report, the aforesaid bank borrowing facilities were not yet renewed.

At 30 June 2020, there were outstanding litigations commenced by banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to repay the outstanding bank borrowings of HK\$2,127,801,000 (31 December 2019: HK\$2,120,682,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment and bank deposits of the Group with carrying value of HK\$313,443,000 (31 December 2019: HK\$348,384,000) and HK\$12,935,000 (31 December 2019: HK\$21,951,000) respectively have been frozen by the courts in the PRC as of 30 June 2020. The Group is negotiating with the banks to settle these litigations.

(b) Personnel expenses

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Salaries, wages and other benefits	301,260	284,570
Contributions to defined contribution pension schemes	3,852	23,779
	<u>305,112</u>	<u>308,349</u>

(c) **Other items**

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories [#]	7,092,161	6,875,798
Impairment losses on trade receivables	11,222	4,863
Reversal of impairment losses on trade receivables	–	(1,158)
Impairment losses on property, plant and equipment and lease prepayments	37,112	–
Amortisation of lease prepayments	16,534	22,672
Amortisation of intangible assets	–	1,811
Depreciation of property, plant and equipment	95,744	132,529

[#] Cost of inventories includes approximately HK\$104,954,000 (six months ended 30 June 2019: HK\$148,608,000) relating to personnel expenses, which the amount is also included in the above note 5(b).

6 INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current tax expense		
Current year	4,620	1,711
Under-provision in respect of prior year	1,710	–
	6,330	1,711
Deferred tax expense	7,788	979
Total income tax expenses	14,118	2,690

- (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 2020 and 2019.
- (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 2020 and 2019, 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 2020 and 2019.
- (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.

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\$407,917,000 (six months ended 30 June 2019: HK\$448,104,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2019: 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 2020 and 2019 because all potential ordinary shares outstanding were anti-dilutive.

8 PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2020, the Group assessed the recoverable amounts of certain assets which management considers are likely to be recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit (“CGU”) to which these assets belong based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period.

Management determined the budgeted gross profit margin and growth rate based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Except for the change in budgeted gross profit margin of chilled and frozen meat segment for the next six months to 2% (31 December 2019: 4%), the other key assumptions remain unchanged. Cash flows beyond the five-year period are extrapolated using growth rate of 0% (31 December 2019: 0%), which does not exceed the long-term average growth rate for the business in which the CGU operates.

At 30 June 2020, the recoverable amounts of chilled and frozen meat segment based on the estimated value-in-use calculation were lower than their carrying amounts. The property, plant and equipment and lease prepayments relating to this CGU were written down to their recoverable amounts, with impairment losses of HK\$27,630,000 (six months ended 30 June 2019: HK\$Nil) and HK\$9,482,000 (six months ended 30 June 2019: HK\$Nil) respectively recognised in “administrative and other operating expenses” for the six months ended 30 June 2020. The audit committee of the Company has no disagreement with the management on the above position and the basis of the review on the impairment assessment.

9 TRADE AND OTHER RECEIVABLES

An ageing analysis of trade receivables (net of impairment 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 2020 HK\$'000	31 December 2019 HK\$'000
Trade receivables		
– Within 30 days	211,891	233,846
– 31 days to 90 days	126,646	109,248
– 91 days to 180 days	39,920	26,193
– Over 180 days	78,334	44,318
	456,791	413,605
Less: Impairment losses	(40,832)	(30,202)
Total trade receivables, net of impairment losses	415,959	383,403
Bills receivables	3,941	614
Value-added tax (“VAT”) recoverable	1,238,674	1,163,589
Deposits and prepayments	286,814	234,273
Other receivables	78,640	67,200
	2,024,028	1,849,079

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

10 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 2020 HK\$'000	31 December 2019 HK\$'000
Trade payables		
– Within 30 days	227,416	422,429
– 31 days to 90 days	48,553	150,790
– 91 days to 180 days	115,674	14,466
– Over 180 days	130,464	25,776
Total trade payables	522,107	613,461
Deposits from customers	84,092	90,692
Contract liabilities	219,556	327,142
Salary and welfare payables	90,097	80,867
VAT payable	5,818	3,313
Payables for acquisitions of property, plant and equipment	551,174	548,490
Provision for losses on litigations	165,306	132,954
Interest payables	1,479,332	1,265,499
Other payables and accruals	1,386,028	1,253,556
	4,503,510	4,315,974

11 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$Nil).

12 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\$329,435,000 (31 December 2019: HK\$328,458,000). 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\$206,513,000 (31 December 2019: HK\$196,551,000) ("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 2020. During the six months ended 30 June 2020, pursuant to the judgements made by the courts in the PRC in relation to certain of these litigations, the Group was ordered to make immediate repayment of construction fees payables of approximately HK\$140,371,000 (31 December 2019: HK\$92,698,000) and corresponding late penalties of approximately HK\$49,667,000 (31 December 2019: HK\$50,725,000). 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\$139,397,000 (31 December 2019: HK\$185,034,000) are still in process, of which an aggregate amount of HK\$16,475,000 (31 December 2019: HK\$53,128,000) had been included in the Provision Amount as at 30 June 2020. In the opinion of the Directors, no further provision for litigation was required to be made for the six months ended 30 June 2020.
- (b) During the six months ended 30 June 2020, there were litigations initiated by municipal people's governments in the PRC claiming against certain subsidiaries of the Group in view of the suspension of the development in certain areas. The Group recognised losses of HK\$34,914,000 (six months ended 30 June 2019: HK\$91,488,000) as "provision for losses on litigations" in "other net income/losses" in the consolidated statement of profit or loss for the six months ended 30 June 2020.

Other than the disclosure of above, as at the end of the reporting period, the Group did not involve 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 2020, 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 2019: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The global economy was under severe pressure in the first half of 2020, due to the complex and changeable environment, whether domestic or overseas, coupled with the COVID-19 ordeal. In the first half of 2020, China's economy first declined and bounced back. According to the data published by the National Bureau of Statistics of China (NBS), China's gross domestic product ("GDP") contracted by 1.6% year on year in the first half of 2020 when calculated at comparable prices. The consumer price index ("CPI") was up 3.8% year on year, while the core CPI was up 1.2%, which basically remained stable.

The food and beverage sector bore the brunt of COVID-19. According to the latest data published by the NBS, the revenue of the sector across China was RMB1.4609 trillion in the first half of 2020, decreasing by 32.8% year on year. Since late February, the capacity utilization rate of the food and beverage sector has been increasing steadily. As of mid-June, the capacity utilization rates of fast food and takeaway sectors were higher than that of the overall food and beverage sector by approximately 10 percentage points and demonstrated the revenue of the food and beverage sector continued to improve.

During the Review Period, the hog industry was hit by the combined impact of the African swine fever epidemic and the COVID-19 outbreak. In the first half of 2020, the number of hogs slaughtered nationwide was 251 million, representing a significant year on year decrease of 19.9%. Pork production in China was 19.98 million tonnes, down 19.1%. The average pork price in China soared by 104.3% or up 96.6 percentage points over the same period last year.

During the Review Period, China continued to promote the transformation and upgrade of the slaughter industry through various proactive measures, including strict approval process of new hog slaughter companies, priority support to the construction of new large slaughterhouses, and thorough rectification and clearance of small slaughterhouses, so as to ensure decrease in the number of small slaughterhouses. In addition, China provided substantial policy support for the resumption of hog production. Notably, the "No. 1 central document" released in 2020 and the relevant government report both stressed the resumption of hog production to ensure that the hog production capability would be generally recovered close to a normal annual level by the end of 2020. In the long run, it is expected that industry regulation and epidemic impact will accelerate the concentration of industrial capacity within sizable enterprises. The Group will continue to capitalize its core competitiveness in resources, strategy and brand, seize the opportunities arising from challenges, and vigorously promote smooth business development.

Despite all various uncertainties during the Review Period, the management of China Yurun Food Group Limited (“Yurun Food” or “the Company”) and its subsidiaries (collectively referred to as “the Group”) adopted a more prudent strategy and remained persistent to our belief to provide consumers with high-quality meat products in such turbulent market environment.

Business Review

Since the Chinese New Year, pork price in wholesale market continued to fall until May, impacted by the continuous increase in production capacity of hog and slow recovery of consumption caused by the epidemic. From June, pork price began to rebound as a result of significant increase in pork consumption driven by the recovery of a series of consumer activities, such as business resumption of the food and beverage sector, production resumption of plants and school resumption. Some domestic sectors, such as food and beverage, resident consumption, and feed and breeding, were hit by the outbreak and resurgence of COVID-19. Consumers were more cautious about the safety of pork products. As a leader in the sector, the Group strengthened its epidemic prevention during the period so as to ensure product safety and deliver safe and reliable products to consumers.

Product Quality and Research and Development

As one of the leaders in the industry, Yurun Food products are well received by the market. Apart from the three well-known trademarks, namely “Yurun (雨潤)”, “Wangrun (旺潤)” and “Haroulia (哈肉聯)”, the Group also owns a China Time-honored Brand, “Popular Meat Packing (大眾肉聯)”.

On the “2020 (28th) China Market Sales Statistical Results Press Conference” 《「2020 (第二十八屆) 中國市場商品銷售統計結果新聞發佈會」》 held in April 2020, Yurun Food was ranked first again in the market sales of low temperature meat products (“LTMP”) and Chilled Pork as a result of their excellent performance. In respect of LTMP, Yurun Food has been ranked first for more than twenty consecutive years. As for Chilled Pork, it has also been ranked first for consecutive years. These honors not only reflect the high quality and reliability of Yurun Food, but also prove the high customer trust and market recognition of Yurun brand.

While continuing to ensure high product quality, the Group will have its eye on the R&D of new products preferred by the market to further enhance competitiveness and maintain its leadership in the sector.

Sales and Distribution

Chilled pork and LTMP, being the Group's products with higher added value, remained 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\$5.642 billion (first half of 2019: HK\$5.450 billion), representing an increase of 3.5% over the same period last year, accounted for approximately 75% (first half of 2019: 72%) of the total revenue of the Group prior to inter-segment eliminations and approximately 88% (first half of 2019: 85%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK\$943 million (first half of 2019: HK\$968 million), representing a decrease of 2.6% over the same period last year, accounted for approximately 12% (first half of 2019: 13%) of the total revenue of the Group prior to inter-segment eliminations and approximately 82% (first half of 2019: 89%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

As at 30 June 2020, the annual production capacity of the Group's upstream slaughtering and downstream processed meat product segment was approximately 52.65 million heads and 312,000 tons respectively, comparable to the production capacity as at 31 December 2019.

Financial Review

The Group reported revenue of HK\$7.536 billion during the Review Period, representing an increase of 1.9% from HK\$7.392 billion of the same period last year. Loss attributable to the equity holders of the Company during the Review Period was HK\$408 million (first half of 2019: HK\$448 million), representing a reduction in loss of approximately 9.0% over the same period last year. Loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations, was HK\$322 million (first half of 2019: HK\$340 million), representing a reduction in loss of approximately 5.2% from same period last year. Diluted loss per share was HK\$0.224 (first half of 2019: HK\$0.246).

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

Impairment losses on non-current assets

As at 30 June 2020, the Board evaluated the non-current assets of the Group in accordance with the requirements of the "International Accounting Standard 36 – Impairment of Assets" (the "IAS 36"). In the evaluation, the Board took into account the continued decline of China's and global economy since 2019, the impact of African swine fever and COVID-19 on the overall industry and our operation of upstream slaughtering business during the Review Period was behind our expectation. These factors were expected to have ongoing unpredictable impact on the business of the

Group in the second half of 2020. Due to these external factors, the Board adjusted the assumptions used in the cash flow forecast for the upstream slaughtering business for the second half of 2020 when assessing the recoverable amount of each cash-generating unit. Accordingly, the Group made a provision for impairment losses of approximately HK\$37 million (first half of 2019: HK\$Nil) during the Review Period. The impairment losses of non-current assets is an accounting losses and a non-cash item and does not affect the cash flow of the Group's operating activities.

Revenue

Chilled and Frozen Pork

During the Review period, the Group's average purchase price of hogs was higher than that of the first half of 2019 by approximately 144%. Affected by COVID-19, certain production bases were forced to suspend production in the first quarter. In addition, high pork prices hindered pork consumption, and the decline in hog inventory made purchase of hogs difficult. As a result, the slaughtering volume decreased by approximately 61.8% to approximately 1.45 million heads from the same period last year.

Since the significant increase in pork prices offset the impact of decline in the slaughtering volume, the overall sales revenue of the upstream prior to inter-segment eliminations only slightly decreased by 0.1% from the same period of last year to HK\$6.426 billion (first half of 2019: HK\$6.432 billion). Specifically, the revenue from chilled pork accounted for approximately 75% of the Group's total revenue prior to inter-segment eliminations (first half of 2019: 72%) and approximately 88% of the upstream business total revenue (first half of 2019: 85%). It reached HK\$5.642 billion (first half of 2019: HK\$5.450 billion), representing an increase of 3.5% from the same period last year. The revenue from frozen pork represented approximately 12% of the total revenue of the upstream business (first half of 2019: 15%), and reached a sales amount of HK\$784 million (first half of 2019: HK\$982 million), down 20.1% compared with the same period in 2019.

Processed Meat Products

During the Review Period, the sales amount of the Group's processing meat products prior to inter-segment eliminations was HK\$1.152 billion (first half of 2019: HK\$1.089 billion), up 5.7% from the same period last year.

Specifically, the revenue from LTMP was HK\$943 million, representing a decrease of 2.6% from HK\$968 million of last year. It accounted for approximately 82% of the revenue of the processed meat segment (first half of 2019: 89%), remaining the principal source of income for the processed meat segment. The revenue from high temperature meat products ("HTMP") was HK\$209 million (first half of 2019: HK\$121 million), representing an increase of 72.1% from the same period of last year and accounting for approximately 18% of the revenue of the processed meat segment (first half of 2019: 11%).

Gross Profit and Gross Profit Margin

Affected by the African swine fever epidemic and COVID-19, coupled with the surge in pork price, profits from slaughtering were contracted because consumers reduced their demand for pork and the market was compressed. The Group's gross profit decreased by 14.0% from HK\$517 million in the first half of 2019 to HK\$444 million in the Review Period. The overall gross profit margin decreased by 1.1 percentage points to 5.9% from 7.0% of the same period last year.

In respect of the upstream business, the gross profit margins of chilled pork and frozen pork were 2.2% and -4.5% respectively (first half of 2019: 4.9% and 4.9%, respectively). The overall gross profit margin of the upstream business was 1.4%, representing a decrease of 3.5 percentage points from 4.9% of the same period last year.

In respect of the downstream business of processed meat products, its demands increased due to COVID-19, resulting in an increase in unit selling price and good performance in gross profit. Gross profit margin of LTMP was 29.7%, representing an increase of 11.6 percentage points from 18.1% of the same period last year. The gross profit margin of HTMP rose significantly by 13.3 percentage points to 35.9% from 22.6% of the same period last year. The overall gross profit margin of the downstream business was 30.9%, up 12.3 percentage points from 18.6% of the same period last year.

Other Net Income/(Losses)

During the Review Period, the Group recorded other net income of HK\$11 million (first half of 2019: other net losses of HK\$54 million). Other net income during the Review Period was mainly the net amount of rental income after deduction of non-recurring losses, such as provision for losses on litigations (please refer to the section headed "Contingent Liabilities" for details), loss on disposal of property, plant and equipment and lease prepayments. The position changed from other net losses of HK\$54 million in same period last year to other net income of HK\$11 million mainly due to the significant decrease in provision for losses on litigations during the Review Period.

Operating Expenses

Operating expenses include distribution expenses and administrative and other operating expenses. The Group's operating expenses during the Review Period were HK\$595 million, increased by 1.7% from HK\$585 million of the same period last year and including the provision of approximately HK\$37 million (first half of 2019: HK\$Nil) for impairment losses of non-current assets. Operating expenses excluding impairment losses was HK\$558 million, representing a decrease of 4.6% from the same period last year and accounting for 7.4% (first half of 2019: 7.9%) of the Group's revenue. The main reason for the increase was attributable to the provision of approximately HK\$37 million during the Review Period (first half of 2019: HK\$Nil) for impairment losses on non-current assets but its impact was offset by the decrease in the transportation cost due to decline in sales.

Results of Operating Activities

During the Review Period, operating loss of the Group was HK\$139 million (first half of 2019: HK\$122 million), representing an increase of 14.2% from last year.

Net Finance Costs

During the Review Period, net finance costs of the Group were HK\$251 million, representing a significant decrease of 21.8% from approximately HK\$321 million of the same period last year. The decrease in net finance costs was mainly because certain bank borrowings breached the covenants during the same period last year and an one-off provision of default interests for previous years were accordingly made at that time.

Income Tax

During the Review Period, the income tax expense was approximately HK\$14 million, representing an increase of HK\$11 million from approximately HK\$3 million of the same period last year.

Loss Attributable to the Equity Holders of the Company

Given all the above factors, loss attributable to the equity holders of the Company during the Review Period was HK\$408 million (first half of 2019: HK\$448 million), representing a reduction in loss of 9.0% from the same period last year. Loss from the principal business (loss attributable to equity holders excluding government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations, and other one-off losses) was HK\$322 million (first half of 2019: HK\$340 million), representing a reduction in loss of approximately 5.2% from the same period last year.

Financial Resources

As at 30 June 2020, the Group's cash balance together with restricted bank deposits were HK\$406 million, representing an increase of approximately HK\$149 million from HK\$257 million as at 31 December 2019. Approximately 96% (31 December 2019: 96%) of the above-mentioned financial resources was denominated in Renminbi ("RMB"), and approximately 4% (31 December 2019: 4%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 30 June 2020, the outstanding bank and other borrowings of the Group amounted to HK\$6.527 billion, representing a decrease of HK\$55 million from HK\$6.582 billion as of 31 December 2019. Bank and other borrowings of HK\$6.476 billion (31 December 2019: HK\$5.9 billion) are due within one year.

All borrowings were denominated in RMB, which were the same with the borrowings as at 31 December 2019. As at 30 June 2020, the Group's fixed-rate debt ratio was 80.5% (31 December 2019: 80.3%).

The net cash inflow of the Group during the Review Period was mainly net cash generated from operating activities and the net amounts of borrowings from a related company.

During the Review Period, the capital expenditure was HK\$120 million (first half of 2019: HK\$30 million) for the payment for construction in progress of those projects already commenced.

Breach of Loan Agreements

Certain of the Group's bank borrowing facilities were subject to the fulfillment of covenants as commonly seen in lending arrangements with financial institutions. As at 30 June 2020, the Group could not fulfil covenants imposed by banks on certain bank borrowings with an aggregate amount of HK\$4.997 billion (31 December 2019: HK\$4.937 billion) and these bank borrowings were classified as current liabilities in the consolidated statement of financial position. From 30 June 2020 to the date of this announcement, the above-mentioned bank loans were not yet renewed.

The Group has kept close communication with the banks regarding the above matters and the renewal of those matured bank borrowings. In the course of communication, the Group understood that the banks will not take any radical actions against the Group and all parties hoped that the Group can maintain normal operations. As such, the Board believes that the likelihood of demands from bank for immediate repayment is not high and the above matters do not have significant impact on the operations of the Group.

Assets and Liabilities

The total assets of the Group as at 30 June 2020 were HK\$9.271 billion (31 December 2019: HK\$9.681 billion), representing a decrease of HK\$410 million from that of 31 December 2019. The total liabilities of the Group as at 30 June 2020 were HK\$11.132 billion, representing an increase of approximately HK\$134 million from that as at 31 December 2019.

As at 30 June 2020, the property, plant and equipment of the Group amounted to HK\$3.909 billion (31 December 2019: HK\$4.134 billion), representing a decrease of 5.4% from that as at 31 December 2019.

The lease prepayments of the Group as at 30 June 2020 were HK\$1.275 billion (31 December 2019: HK\$1.353 billion). This represents the cost of land use right of the Group which was amortized on a straight-line basis over the relevant useful life.

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 2020, they amounted to HK\$92 million (31 December 2019: HK\$108 million) and HK\$607 million (31 December 2019: HK\$730 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize yet.

Despite the net liabilities position as at 30 June 2020, the Group had non-current assets of approximately HK\$6.079 billion to support the daily production and operations of the Group. Such position has not materially impaired the Group's ability to continue its daily business operation. The Directors believe that the leveraging the improvement in the economic environment and the management's proactive efforts to keep improving its operating profit and reducing pressure from borrowings, we are confident that the Group will return back to the net assets position.

During the Review Period, the Group recorded a net loss of HK\$405 million (first half of 2019: HK\$446 million). As at 30 June 2020, the net current liabilities of the Group were HK\$7.796 billion (31 December 2019: HK\$7.078 billion). Bank and other borrowings were HK\$6.527 billion (31 December 2019: HK\$6.582 billion), of which HK\$6.476 billion will expire within twelve months from the date (31 December 2019: HK\$5.90 billion). As mentioned above, although the Group could not fulfil certain bank covenants relating to certain bank borrowings and some subsidiaries of the Group are facing various litigations, the Group has been in active negotiations with banks on renewal and waiver of the repayable on demand clause and breach of the undertakings and restrictive covenants of certain bank loans. The negotiations have been relatively optimistic. In addition, the Group will implement operating plans to increase profitability and control costs to generate sufficient operating cash flows. In view of these, the Directors believe that the Group has sufficient financial resources to finance operations and to meet financial obligations as and when they fall due within the next twelve months from the end of the Review Period.

As at 30 June 2020, the total debt/gearing ratio (total debt represented by the sum of bank and other borrowings divided by the sum of total debt and equity attributable to shareholders) of the Group was 141.6% (31 December 2019: 126.3%). As at 30 June 2020, after excluding cash in bank and restricted bank deposits, the net debt/gearing ratio was 132.8% (31 December 2019: 121.4%).

Charges on Assets

As at 30 June 2020, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK\$1.491 billion (31 December 2019: HK\$1.568 billion), certain investment properties of the Group with a carrying amount of HK\$37 million (31 December 2019: HK\$42 million), certain lease prepayments of the Group with a carrying amount of approximately HK\$574 million (31 December 2019: HK\$685 million), and certain trade receivables of the Group with a carrying amount of approximately HK\$3 million (31 December 2019: HK\$6 million) were pledged against certain bank borrowings with a total amount of approximately HK\$3.889 billion (31 December 2019: HK\$3.862 billion).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, and 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 2020, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group demanding them to secure an immediate repayment of the outstanding bank borrowings of approximately HK\$2.128 billion (31 December 2019: HK\$2.121 billion) or otherwise assets of equivalent amount. As at 30 June 2020, certain assets of the Group with a carrying amount of approximately HK\$313 million (31 December 2019: HK\$348 million) were frozen by the courts of the PRC, including the restricted bank deposits of HK\$13 million (31 December 2019: HK\$22 million). The Group is negotiating with the banks to resolve such litigations.

There were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming an aggregate construction fee together with the late penalties of approximately HK\$329 million (31 December 2019: HK\$328 million) in aggregate. 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\$207 million (31 December 2019: HK\$197 million) for the aforesaid construction fee and penalties. Provision for such amounts has been made accordingly. Pursuant to the judgments, the Group was ordered to make an immediate payment of payable construction fee of approximately HK\$140 million (31 December 2019: HK\$93 million) and the corresponding late penalties of approximately HK\$50 million (31 December 2019: HK\$51 million) during the Review Period. As of the date of this announcement, litigations regarding the remaining claims of approximately HK\$139 million (31 December 2019: HK\$185 million) are still in progress.

There were outstanding litigations initiated by certain local governments in the PRC against certain subsidiaries of the Group demanding an immediate cash repayment of approximately HK\$35 million (31 December 2019: HK\$139 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 USD, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. RMB is the functional currency of the operating subsidiaries of the Group in the PRC, and is not freely convertible into foreign currencies. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 30 June 2020, the Group had approximately 10,400 (31 December 2019: approximately 9,400) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK\$305 million, accounting for 4.0% of the revenue (first half of 2019: HK\$308 million, accounting for 4.2% of the revenue) of the Group.

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

Environmental Protection and Performance

As a responsible corporation, the Group is committed to promoting environmental protection and minimizing the impact of production and business activities on the environment. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In the future, the Group aims at improving relevant measures to minimize waste generation and participating in environmental protection and sustainability plans, which are part of the Group's long-term environmental protection policy.

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 five 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 appointed Ms. Zhu Yuan as both its chairman and chief executive officer on 28 March 2019. The Board believes that vesting the roles of the chairman and the chief executive officer in the same person would allow the Company to be more effective and efficient in developing business strategies and executing business plans, and is beneficial to the business prospects and management of the Group. The Board believes that the balance of power can be ensured by the composition of the Board which includes members who are experienced and technical individuals and of which more than half are independent non-executive Directors. In the long run, the Company would seek and appoint a suitable individual to take up the role of chief executive officer.

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 has 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 since 30 June 2020 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 2020 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, 18 August 2020

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