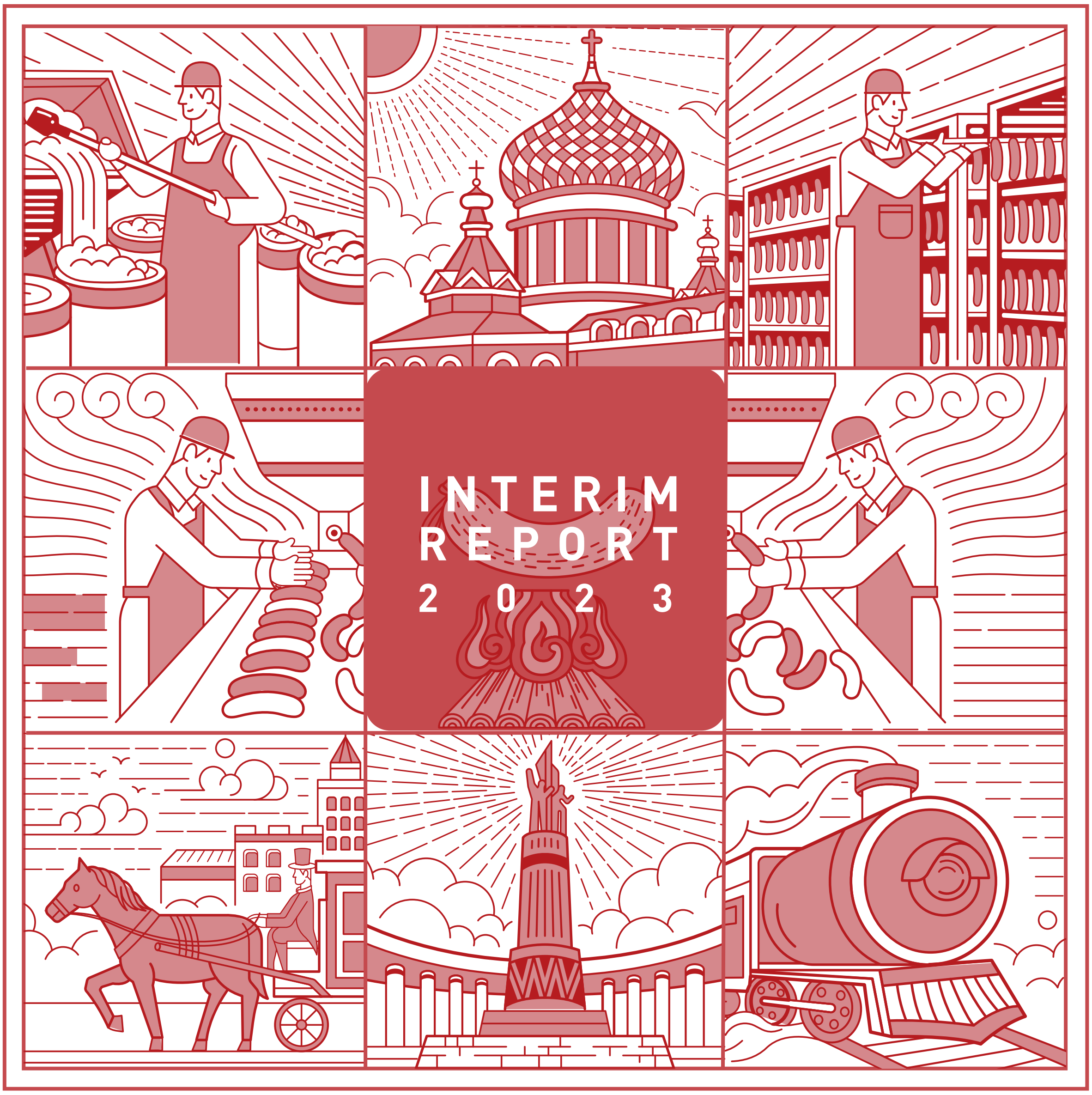
China Yurun Food Group Limited
中國雨潤食品集團有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 1068



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Zhu Yuan *(Chairman and Chief Executive Officer)*
Yang Linwei

Independent Non-executive Directors

Gao Hui
Chen Jianguo
Xu Xinglian *(appointed on 18 April 2023)*
Miao Yelian *(resigned on 18 April 2023)*

AUDIT COMMITTEE

Gao Hui *(Chairman)*
Chen Jianguo
Xu Xinglian *(appointed on 18 April 2023)*
Miao Yelian *(resigned on 18 April 2023)*

REMUNERATION COMMITTEE

Gao Hui *(Chairman)*
Chen Jianguo
Zhu Yuan

NOMINATION COMMITTEE

Chen Jianguo *(Chairman)*
Gao Hui
Zhu Yuan

COMPANY SECRETARY

Lee Wing Sze, Rosa *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Zhu Yuan
Lee Wing Sze, Rosa

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Bank of China Limited
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited
Bank of Ningbo Co., Ltd.

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Bermuda

HEAD OFFICE

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Nanjing
The People's Republic of China

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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4th Floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law

Sidley Austin
Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to Bermuda Law

Conyers Dill & Pearman

STOCK CODE

1068

WEBSITE

www.yurun.com.hk

INDUSTRY OVERVIEW

In the first half of 2023, the Chinese society gradually fully resumed normal operations. The implementation of macroeconomic policies exhibited tangible results, leading to upward trend in the national economy and steady progress in high-quality development. Nevertheless, despite the comprehensive removal of domestic COVID-19 pandemic related control measures and the gradual normalization of economic activities, challenges remained for enterprises due to factors such as high inflation, rising interest rates, geopolitical tensions and declining exports, coupled with a slower-than-expected recovery in customers' demand.

In the first half of 2023, the hog production capacity remained solid, resulting in an overall uptrend in hog production volume and a consistent augmentation of market supply. According to the latest data released by the National Bureau of Statistics, China witnessed a year-on-year increase in the number of live hogs slaughtered, reaching 375.48 million heads, a growth of 2.6%. Concurrently, pork output was 30.32 million tons, a year-on-year increase of 3.2%. Hog production capability continued to improve, leading to steady growth in the hog inventory and slaughtering volume. In the long run, with the continuous development of the economy and the improvement of people's living standards, the meat market is expected to further expand in size, accompanied by a broadening consumer base. This dynamic presents strategic opportunities for the pork industry as well as the entire pork processing industry. The Group aims to optimally leverage its core competitiveness in resources, strategies and branding to seize the opportunities amid the challenges and continue to promote stable business development.

During the six months ended 30 June 2023 (the "Review Period"), despite China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as "the Group") had been facing various uncertain factors, the management adopted a more proactive and prudent strategy and persistently adhered to its belief in providing consumers with high-quality meat products in the intricate and ever-changing market landscape.

BUSINESS REVIEW

The Group experienced a 5.1% increase in the average purchase price of hogs. However, a notable decline was observed when compared to the second half of last year. During the Review Period, the Group, recognized as a leading company in the industry, prioritized the development of its "Haroulian" ("HRL") series brand. The Group dedicated efforts to diligently enhance its product categories and improve product quality, aiming to provide secure and reliable products to consumers.

Product Quality and Research & Development

The Group has consistently placed a strong emphasis on product quality and has adopted a strict internal quality control system across the entire spectrum of process encompassing raw materials procurement, production, sales and logistics. This comprehensive quality management system ensures that our products meet the high quality standard. Through years of dedicated effort, the Group has successfully established a positive corporate image based on food safety and excellent quality, earning the trust and satisfaction of consumers.

Since its establishment, the Group has maintained close collaboration with the national and local quality supervision agencies at all levels. This proactive approach aligns with regulatory requirements and guidance, solidifying the Group's position as an industry leader in terms of product safety and quality control. We will continue to invest in rigorous quality inspections and testing to ensure that our products consistently meet the relevant standards and specifications. Our unwavering commitment is to provide consumers not only with safe and reliable meat products but also synonymous with exceptional taste and good health.

Sales and Distribution

Chilled pork and low-temperature meat products ("LTMP"), being the Group's products with high added values, remained to be the key business drivers of the Group during the Review Period. In the first half of 2023, sales of chilled pork of the Group was HK$443 million (first half of 2022: HK$644 million), decreased by 31.3% from the same period last year, accounting for approximately 57% (first half of 2022: 66%) of the total revenue of the Group before inter-segment eliminations and approximately 81% (first half of 2022: 89%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK$140 million (first half of 2022: HK$145 million), decreased by 3.1% from the same period last year, accounting for approximately 18% (first half of 2022: 15%) of the total revenue of the Group before inter-segment eliminations and approximately 61% (first half of 2022: 56%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

As of 30 June 2023, the annual production capacity of the Group's upstream slaughtering segment and downstream processed meat segment was approximately 3.35 million heads and 56,000 tons, respectively, which was in line with the annual production capacity as of 31 December 2022.

Financial Review and Key Performance Indicators

The Group recorded revenue of HK$770 million for the first half of 2023 (first half of 2022: HK$979 million). The loss attributable to equity holders during the Review Period was approximately HK$20 million (first half of 2022: HK$11 million). Diluted loss per share was HK$0.011 (first half of 2022: HK$0.006).

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

REVENUE

Chilled and Frozen Pork

During the Review Period, the slaughtering volume experienced a decline of around 16.9% to approximately 0.3 million heads, as compared to the same period last year. This decrease was primarily attributed to a sluggish sales market and an upsurge in the positive COVID-19 cases following the removal of control measures associated with the pandemic, which in turn had a direct impact on overall production. As a result, the overall sales revenue of the upstream business before inter-segment eliminations decreased by 23.9% over the same period last year to HK$549 million (first half of 2022: HK$722 million). Specifically, the revenue from chilled pork was HK$443 million (first half of 2022: HK$644 billion), and accounted for approximately 57% (first half of 2022: 66%) of the Group's total revenue before inter-segment eliminations and approximately 81% (first half of 2022: 89%) of the upstream business total revenue. Frozen pork accounted for approximately 19% (first half of 2022: 11%) of the total revenue of the upstream business, with sales of HK$106 million (first half of 2022: HK$77 million), representing an increase of 37.8% over the same period last year.

Processed Meat Products

During the Review Period, sales of processed meat products of the Group before inter-segment eliminations was HK$232 million (first half of 2022: HK$258 million), representing a decrease of approximately 10.2% over the same period last year. In order to optimize profitability, the Group strategically adjusted its product portfolio, focused on higher margin products while making necessary compromises on the growth of sales volume. As a result, the overall sales revenue of the processed meat products business experienced a downward adjustment. The Group remains committed to balancing profitability with market demand and will continue to adapt its strategies accordingly.

Specifically, the revenue of LTMP was HK$140 million (first half of 2022: HK$145 million), representing a decrease of approximately 3.1% compared with the same period last year, accounting for approximately 18% of the total revenue of the Group before inter-segment eliminations (first half of 2022: 15%). LTMP remained to be the key revenue drivers of the processed meat business, accounting for approximately 61% of the total revenue of the processed meat segment (first half of 2022: 56%). Revenue from high-temperature meat products ("HTMP") was HK$92 million (first half of 2022: HK$113 million), accounting for approximately 12% of the Group's total revenue before inter-segment eliminations (first half of 2022: 11%) and approximately 39% of the total revenue of the processed meat segment (first half of 2022: 44%), respectively.

Gross Profit and Gross Profit Margin

During the Review Period, the Group focused on the business of the "HRL" series brand which had a higher gross profit margins, leading to an increase in the gross profit margin of LTMP. In addition, LTMP accounted for an increase in the Group's revenue before inter-segment eliminations, resulting in an increase in the overall gross profit of the Group by 4.2% from HK$66 million in the first half of 2022 to HK$69 million during the Review Period; the overall gross profit margin increased by 2.2 percentage points from 6.8% in the same period last year to 9.0%.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.0% and 1.1% respectively (first half of 2022: 1.8% and -3.7% respectively). During the Review Period, the management has vigorously increased the unit price of frozen meat sales, resulting in a substantial increase in its gross profit margin. The overall gross profit margin of the upstream segment was 1.1%, representing a decrease of 0.1 percentage point from 1.2% in the same period last year.

In respect of the downstream business of processed meat products, the Group focused on promoting higher-priced gift box products, coupled with the decline in the prices of major raw materials, the gross profit margin of LTMP increased by 14.4 percentage points from 17.6% in the same period last year to 32.0%. The gross profit margin of HTMP decreased by 4.2 percentage points to 16.3% from 20.5% in the same period last year. The overall gross profit margin of the downstream business was 25.8%, an increase of 6.9 percentage points from 18.9% in the same period last year.

Other Net Income

During the Review Period, the Group recorded other net income of approximately HK$2 million (first half of 2022: HK$5 million). It was mainly attributable to government subsidies.

Impairment Losses on Non-Current Assets

As of 30 June 2023, the Board evaluated the non-current assets of the Group in accordance with the requirements of the "International Accounting Standard 36 – Impairment of Assets" (the "IAS 36"). During the assessment, it was observed that the sales channels in the relevant region did not expand as quickly as anticipated, leading to a decline in slaughtering volume, which negatively affected the performance of the relevant subsidiary of the Group engaging in the chilled and frozen pork segment and result in the operation of that subsidiary under the upstream slaughtering business during the Review Period was behind our expectation. It was anticipated that these factors would persist going forward. Due to these external factors, the Board adjusted the assumptions used in the cash flow forecast for the upstream slaughtering business when evaluating the recoverable amount of each cash-generating unit. Accordingly, the Group made a provision for impairment losses for property, plant and equipment and lease prepayments of approximately HK$36 million (first half of 2022: HK$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.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$99 million (first half of 2022: HK$62 million), which included an impairment loss on non-current assets of approximately HK$36 million (first half of 2022: HK$Nil). The increase was mainly due to the provision of an impairment loss on non-current assets of approximately HK$36 million during the Review Period (first half of 2022: HK$Nil). Operating expenses after deduction of impairment loss amounted to HK$63 million, similar to the same period last year, accounting for 8.2% of the Group's revenue (first half of 2022: 6.4%).

Results of Operating Activities

During the Review Period, the Group's operating loss was approximately HK$28 million (first half of 2022: profit of approximately HK$9 million). The increase in loss was mainly attributed to the provision of an impairment loss on non-current assets of approximately HK$36 million (first half of 2022: HK$Nil) during the Review Period.

Net Finance Costs

During the Review Period, the net finance costs of the Group were HK$18 million, compared with HK$20 million in the same period last year. The main reason for the decrease in net finance costs as compared to the same period last year was due to consensus in respect of one of the Group's bank borrowings was reached at the end of 2022. The new interest rate on that bank borrowing under the new agreement was lower and the related overdue interest and penalties are not required to be accrued.

Income Tax

During the Review Period, the income tax credit was approximately HK$7 million (first half of 2022: expenses of HK$5 million).

Loss Attributable to the Equity Holders of the Company

Taking into account the above, the loss attributable to the equity holders of the Company during the Review Period was approximately HK$20 million (first half of 2022: HK$11 million).

FINANCIAL RESOURCES

As of 30 June 2023, the sum of the Group's cash and cash equivalents was approximately HK$26 million, representing a decrease of HK$7 million as compared to HK$33 million as at 31 December 2022. Approximately 91% (31 December 2022: 79%) of the above-mentioned financial resources was denominated in Renminbi ("RMB"), and approximately 3% (31 December 2022: 15%) was denominated in US Dollars ("USD"), while the remaining was denominated in other currencies.

As at 30 June 2023, the Group had outstanding bank borrowings of HK$469 million representing a decrease of HK$15 million as compared to HK$484 million as at 31 December 2022, of which HK$439 million of bank borrowings are due within one year. Please refer to the paragraph headed "Breach of Borrowings Agreements" below for the details of the breach of borrowings agreements of bank borrowings of the Group.

All borrowings were denominated in RMB, which was the same as the borrowings as of 31 December 2022. As at 30 June 2023, the Group's fixed-rate debt ratio was 73.6% (31 December 2022: 73.6%).

During the Review Period, the net cash outflow of the Group was mainly the cash used in operating activities.

During the Review Period, the capital expenditure was approximately HK$6 million (first half of 2022: HK$8 million).

BREACH OF BORROWINGS AGREEMENTS

As at 30 June 2023, the Group could not fulfill certain covenants imposed by the bank on certain bank borrowings of HK$430 million (31 December 2022: HK$443 million). All of these bank borrowings and the related accrued interests of HK$241 million (31 December 2022: HK$232 million) were overdue.

The above bank borrowings with the corporate guarantee provided by certain companies within the restructuring companies have been incorporated as part of the consolidated restructuring as described in the 2021 and 2022 financial reports of the Company. As disclosed in the announcement of the Company dated 30 January 2022, the restructuring plan was approved and adjudicated effective by the Court in the PRC (the "Court") on 28 January 2022, together with the Court's ruling that the banks can realize their rights as creditors to convert the debts owed to them to equity interests in the new platform. If the rights have been confirmed by the Court, but the banks do not realize their rights as creditors to receive the debts repayments and/or to convert the debts owed to them to equity interests in the new platform pursuant to the restructuring plan, the administrator shall deposit the debts repayments allocated to those creditors to the administrator's bank account or its designated bank account, or shall hold such equity interests allocated to those creditors in the new platform on their behalf by a designated company. Within three years commencing from the date of completion of the restructuring plan, the creditors may still receive the debts repayments and/or the equity interests in the new platform allocated to them upon realizing their rights. If the creditors fail to realize their rights as creditors to receive the debts repayments and/or convert the debts owed to them to equity interests in the new platform within the prescribed time frame due to their own inaction, their rights under the restructuring plan are deemed to have been forgone. If the banks do not realize their rights as creditors by converting the debts owed to them to equity interests in the new platform, the bank borrowings would not be extinguished automatically and the relevant legal proceedings would not be discharged automatically. The banks may continue to seek recourse against the borrowers (being members of the Group) in accordance with the terms of the respective loan agreements.

Subsequent to 30 June 2023 and up to the date of this report, the aforesaid bank borrowings were not yet renewed.

The Group has been in close communication with the banks (which comprise two state-owned and national commercial banks in China) regarding the above matters to extend, renew and/or amend the term of the outstanding bank borrowings. In the course of communication, the Group understood that the banks will not take any drastic actions against the Group. All parties involved have express the hope that the Group can continue its normal operations. As such, the Board believes that the likelihood of the banks demanding immediate repayment is not high and the aforementioned matters are not expected to have a material adverse impact on the Group's operations.

ASSETS AND LIABILITIES

As at 30 June 2023, the total assets of the Group were HK$1.139 billion (31 December 2022: HK$1.177 billion), representing a decrease of HK$38 million as compared with that as at 31 December 2022. Its total liabilities as at 30 June 2023 were HK$1.640 billion, representing a decrease of HK$32 million as compared to HK$1.672 billion as at 31 December 2022.

As at 30 June 2023, the property, plant, and equipment of the Group amounted to HK$395 million (31 December 2022: HK$449 million), representing a decrease of HK$54 million as compared to 31 December 2022. The decrease was mainly due to the provision of an impairment loss of approximately HK$32 million during the Review Period.

As at 30 June 2023, the lease prepayments of the Group amounted to HK$85 million (31 December 2022: HK$91 million). This represented the purchase cost of land use rights of the Group which was amortized on a straight-line basis over the respective period of the rights.

Non-current prepayments and other receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment, and the non-current portion of value-added tax recoverable. As at 30 June 2023, they amounted to HK$2 million (31 December 2022: HK$2 million) and HK$90 million (31 December 2022: HK$93 million), respectively. Prepayments for acquisitions of land use rights and property, plant, and equipment have not started to depreciate nor amortize yet.

Despite the net liabilities position as at 30 June 2023, the Group had non-current assets of approximately HK$572 million to support its daily production and operations. This net liabilities position has not materially impaired the Group's ability to continue its daily business operation. With the improvement of the economic environment and the management's proactive efforts to keep improving its operating profit and reducing pressure from borrowings, the Directors believe that the Group can resume to its net assets position from net liabilities.

As at 30 June 2023, the net current liabilities of the Group were HK$982 million (31 December 2022: HK$1.038 billion). Its bank borrowings amounted to HK$469 million (31 December 2022: HK$484 million), while the cash and cash equivalents amounted to approximately HK$26 million (31 December 2022: HK$33 million).

As mentioned above, although the Group failed to fulfill certain contractual terms of bank borrowings and some subsidiaries of the Group are facing various litigations, the Group has been in active negotiations with banks. These negotiations focus on seeking renewal and waivers for the repayable on demand clause, breach of undertaking and restrictive covenant requirements, and encouraging the banks to assert their rights as creditors within the specified time frame outlined in the consolidated restructuring plan. The overall progress of these negotiations is considered relatively positive. In addition, the Group will be implementing operational plans aimed at enhancing profitability and cost control to generate sufficient operating cash flows. Taking all these factors into account, the Directors believe that the Group has sufficient financial resources to support its operations and meet its financial obligations as and when they fall due within the next twelve months from the end of the Review Period.

As the equity attributable to equity holders of the Company was a loss of approximately HK$541 million, it is not appropriate to calculate the gearing level as at 30 June 2023.

CHARGES ON ASSETS

As at 30 June 2023, certain trade receivables of the Group with a carrying amount of approximately HK$8 million (31 December 2022: HK$12 million) were pledged against certain bank borrowings with a total amount of approximately HK$39 million (31 December 2022: HK$41 million).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES, AND FUTURE PLANS FOR MATERIAL INVESTMENT IN OR ACQUISITION OF CAPITAL ASSETS

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

CONTINGENT LIABILITIES

As at 30 June 2023, there were outstanding litigations initiated by banks in the PRC against a subsidiary of the Group demanding them secure the immediate repayment of the outstanding bank borrowings of approximately HK$430 million (31 December 2022: HK$443 million). The Group is negotiating with the relevant banks to settle these litigations. Save as disclosed above, the Group has not been involved in any other material litigation or proceedings and has no other material contingent liabilities.

In respect of the progress of the above, the Group 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. In order to manage its foreign exchange exposure, the Group will carefully monitor various factors, including, but not limited to, exchange rate movement of relevant foreign currencies and 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 2023, the Group had approximately 1,100 (31 December 2022: approximately 1,400) employees in the PRC and Hong Kong in total. During the Review Period, the total staff cost was HK$51 million, accounting for 6.6% of the revenue of the Group (first half of 2022: HK$55 million, accounting for 5.6% of revenue).

The Group values its employees and strives to provide competitive remuneration and a range of employee benefits, including contributions to social security schemes, such as the retirement benefits scheme. To align with industry and market practices, the Group also implements a performance-linked bonus system and a share option scheme to incentivize and reward employees for their contribution in terms of innovation and improvement. In addition, the Group dedicates resources to provide continuing education and training opportunities for both management and employees, aiming to enhance their skills and knowledge.

ENVIRONMENTAL POLICIES AND PERFORMANCE

With the increasingly prominent contradiction between economic development and resources and environment, the significance of environmental protection has reached unprecedented levels of strategic importance. As a responsible corporation, the Group is committed to environmental preservation, actively implementing environmental protection measures, and fulfilling its environmental obligations. The Group strives to minimize the impact of production and business activities on the environment. During the Review Period, the Group adhered to the green production methods to improve ecology, continuously increased investment in environmental protection and research and development, promoted corporate transformation and upgrading, and implemented measures to reduce waste emissions in the production process to achieve sustainable development that is both environmentally friendly and beneficial to the well-being of our community.

In the future, the Group is dedicated to upholding stringent environmental standards in our production operations. We are firmly committed to pursuing a path of green, low-carbon, and sustainable development. We proactively respond to national policies and collaborate closely with environmental protection departments at all levels, intensifying our efforts. We conscientiously shoulder the social responsibility of environmental preservation, striving to become an outstanding enterprise that achieves a harmonious coexistence of economic growth and environmental well-being.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Review Period (first half of 2022: HK$Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, none of the Directors and/or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code").

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, so far as is known to the Directors and the chief executive of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name	Nature	Number of shares(Note)	Approximate percentage of the issued shares
Willie Holdings Limited	Long position	470,699,900	25.82%
Zhu Yicai	Long position	470,699,900	25.82%
Wu Xueqin	Long position	470,699,900	25.82%

Note:

These shares represent the shares of the Company held by Willie Holdings Limited ("Willie Holdings") as beneficial owner. Willie Holdings is owned as to 93.41% by Zhu Yicai ("Mr. Zhu"), a former executive Director and Chairman of the Company, and as to 6.59% by Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Mr. Zhu is deemed to be interested in the shares of the Company held by Willie Holdings as well as the entire issued share capital of Willie Holdings by virtue of Part XV of the SFO. Ms. Wu, being the spouse of Mr. Zhu, is also deemed to be interested in these shares by virtue of Part XV of the SFO.

Save as disclosed above, as at 30 June 2023, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

SHARE OPTION SCHEMES

The Company unconditionally adopted a share option scheme (the "Old Scheme") on 3 October 2005. The Old Scheme was in force for ten years and expired on 2 October 2015. In order to enable the continuity of the Old Scheme, the Company unconditionally adopted a new share option scheme (the "New Share Option Scheme") on 7 August 2015 and concurrently, early terminated the Old Scheme pursuant to the ordinary resolution passed at the annual general meeting of the Company held on 24 June 2015. The share options granted under the Old Scheme prior to its termination, if not yet exercised, would continue to be valid and exercisable in accordance with the rules of the Old Scheme.

The detailed terms of the New Share Option Scheme were disclosed in the 2021 and 2022 annual reports of the Company. The Company had not granted any share option under the New Share Option Scheme since its adoption.

Details of the outstanding share options under the Old Scheme during the Review Period are shown below:

Name or category of participant	Number of shares which may be issued pursuant to the share options							
	As at 1 January 2023	Granted during the Review Period	Exercised during the Review Period	Lapsed during the Review Period	As at 30 June 2023	Exercise price per share[3] HK$	Date of grant (DD.MM.YYYY)	Option period[1] (DD.MM.YYYY)
Director								
Yang Linwei	2,000,000	–	–	(2,000,000)	–	5.142	25.03.2013	25.03.2013 – 24.03.2023
Subtotal	2,000,000[2]	–	–	(2,000,000)	–			
Other employees (including ex-employees)								
In aggregate	5,300,000	–	–	(5,300,000)	–	5.142	25.03.2013	25.03.2013 – 24.03.2023
In aggregate	7,050,000	–	–	(7,050,000)	–	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	12,350,000	–	–	(12,350,000)	–			
Total	14,350,000	–	–	(14,350,000)	–			

Notes:

(1) Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantees, if any, as set out in the respective offer letters, the share options granted on 25 March 2013 (the "2013 March Options") and 14 June 2013 (the "2013 June Options") would be vested in the grantees in four equal tranches, i.e., 25% of the share options would be vested after the publication of the results of the financial years ended 2013, 2014, 2015 and 2016 respectively. The first tranche (25%) and second tranche (25%) of the share options had lapsed due to the performance targets of the Group and the individual grantees not having been achieved. For the third tranche (25%) and fourth tranche (25%) of the share options, the Board had approved to waive the performance-based condition set by the Company in order to provide incentives for the qualified employees.

(2) The share options represent personal interests held by the relevant Director as beneficial owner.

(3) The closing prices of the shares of the Company immediately before the dates of grants (i.e. 22 March 2013 and 13 June 2013 respectively) were HK$5.17 and HK$4.83 respectively.

(4) No share options were cancelled under the Old Scheme during the Review Period.

(5) Fair value of share options and assumptions

The fair values of services received in return for the 2013 March Options and the 2013 June Options granted were measured by reference to the fair values of share options granted based on a binomial model.

Fair values of the 2013 March Options and the 2013 June Options and assumptions:

	2013 March Options granted on 25 March 2013	2013 June Options granted on 14 June 2013
Share price at grant date	HK$5.03	HK$4.86
Exercise price	HK$5.142	HK$5.002
Expected volatility (expressed as weighted average volatility used in modelling under binomial model)	55.3%	55.4%
Option life (expressed as weighted average life used in the modelling under binomial model)	10 years	10 years
Expected dividends	1.0%	1.0%
Risk-free interest rate (based on Exchange Fund Notes)	1.212%	1.605%

The expected volatilities are based on the historic volatility (calculated based on the weighted average remaining life of the 2013 March Options and the 2013 June Options respectively), adjusted for any expected changes to future volatilities based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Based on the fair values derived from the above pricing model, the fair value of the 2013 March Options and the 2013 June Options was HK$142,708,000 (HK$2.3944 each) and HK$248,106,000 (HK$2.3517 each), respectively.

Information on the accounting policy for share options granted set out in note 2 to the unaudited interim financial report.

Save as disclosed above, at no time during the Review Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

OTHER INFORMATION

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 whether the performances of the management 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 of the Company is responsible for reviewing the effectiveness of the Group's risk management and internal control systems with the assistance of the Group's Internal Audit Department.

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Review Period except for the matter disclosed below:

In compliance with code provision C.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing. Nonetheless, the Company appointed Ms. Zhu Yuan as both its Chairman and Chief Executive Officer on 28 March 2019. The Board believes that vesting the roles of the Chairman and the Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing business strategies and executing business plans, and is beneficial to the business prospects and management of the Group. The Board believes that the balance of power can be ensured by the composition of the Board which 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 will 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 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 2023 and up to the date of this interim report.

By Order of the Board
Zhu Yuan
Chairman and Chief Executive Officer

Hong Kong, 18 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2023	2022
	Notes	**$'000**	$'000
Revenue	4	**769,700**	979,466
Cost of sales		**(700,679)**	(913,212)
Gross profit		**69,021**	66,254
Other net income	6	**1,842**	4,692
Distribution expenses		**(27,664)**	(23,523)
Administrative and other operating expenses		**(71,141)**	(38,817)
Results from operating activities		**(27,942)**	8,606
Finance income		**354**	300
Finance costs		**(18,280)**	(20,448)
Net finance costs	7(a)	**(17,926)**	(20,148)
Loss before income tax	7	**(45,868)**	(11,542)
Income tax credit/(expenses)	8	**6,719**	(4,593)
Loss for the period		**(39,149)**	(16,135)
Attributable to:			
Equity holders of the Company		**(20,197)**	(10,648)
Non-controlling interests		**(18,952)**	(5,487)
Loss for the period		**(39,149)**	(16,135)
Loss per share			
Basic	10(a)	**HK$(0.011)**	HK$(0.006)
Diluted	10(b)	**HK$(0.011)**	HK$(0.006)

The notes on pages 22 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2023	2022
	Note	**$'000**	$'000
Loss for the period		**(39,149)**	(16,135)
Other comprehensive income for the period (after tax and reclassification adjustments)	9		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**32,808**	(6,178)
Total comprehensive income for the period		**(6,341)**	(22,313)
Attributable to:			
Equity holders of the Company		**2,531**	(8,711)
Non-controlling interests		**(8,872)**	(13,602)
Total comprehensive income for the period		**(6,341)**	(22,313)

The notes on pages 22 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

	Notes	30 June 2023 $'000	31 December 2022 $'000
Non-current assets			
Property, plant and equipment	11	**394,583**	449,037
Lease prepayments		**85,235**	90,699
Intangible assets		**186**	659
Non-current prepayments and other receivables		**92,293**	95,343
		572,297	635,738
Current assets			
Inventories	12	**163,730**	117,265
Trade and other receivables	13	**376,619**	390,635
Income tax recoverable		**65**	67
Cash and cash equivalents	14	**26,319**	33,210
		566,733	541,177
Current liabilities			
Bank borrowings		**439,282**	453,396
Lease liabilities		**1,487**	693
Trade and other payables	15	**1,108,289**	1,122,566
Income tax payable		**34**	2,134
		1,549,092	1,578,789
Net current liabilities		**(982,359)**	(1,037,612)
Total assets less current liabilities		**(410,062)**	(401,874)

30 June 2023 – unaudited
(Expressed in Hong Kong dollars)

	30 June 2023 $'000	31 December 2022 $'000
Non-current liabilities		
Bank borrowings	**29,549**	30,498
Lease liabilities	**61,323**	62,221
	90,872	92,719
NET LIABILITIES	**(500,934)**	(494,593)
EQUITY		
Share capital	**182,276**	182,276
Reserves	**(723,096)**	(725,627)
Total equity attributable to equity holders of the Company	**(540,820)**	(543,351)
Non-controlling interests	**39,886**	48,758
TOTAL EQUITY	**(500,934)**	(494,593)

Approved and authorised for issue by the board of directors on 18 August 2023.

Zhu Yuan
Director

Yang Linwei
Director

The notes on pages 22 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company									
	Share capital $'000	Share premium $'000	Capital surplus $'000	Merger reserve $'000	PRC statutory reserves $'000	Exchange reserve $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2022	182,276	7,400,418	3,290	(70,363)	91,397	85,185	(8,223,544)	(531,341)	61,722	(469,619)
Loss for the period	–	–	–	–	–	–	(10,648)	(10,648)	(5,487)	(16,135)
Total other comprehensive income for the period	–	–	–	–	–	1,937	–	1,937	(8,115)	(6,178)
Total comprehensive income for the period	–	–	–	–	–	1,937	(10,648)	(8,711)	(13,602)	(22,313)
At 30 June 2022	182,276	7,400,418	3,290	(70,363)	91,397	87,122	(8,234,192)	(540,052)	48,120	(491,932)
At 1 January 2023	**182,276**	**7,400,418**	**3,290**	**(70,363)**	**91,397**	**88,212**	**(8,238,581)**	**(543,351)**	**48,758**	**(494,593)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(20,197)**	**(20,197)**	**(18,952)**	**(39,149)**
Total other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**22,728**	**–**	**22,728**	**10,080**	**32,808**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**22,728**	**(20,197)**	**2,531**	**(8,872)**	**(6,341)**
At 30 June 2023	**182,276**	**7,400,418**	**3,290**	**(70,363)**	**91,397**	**110,940**	**(8,258,778)**	**(540,820)**	**39,886**	**(500,934)**

The notes on pages 22 to 34 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2023	2022
		$'000	$'000
Cash (used in)/generated from operations		**(11,082)**	13,997
Finance costs paid		**(33)**	(53)
Tax refunded/(paid)		**3,729**	(1,954)
Net cash (used in)/generated from operating activities		**(7,386)**	11,990
Investing activities			
Acquisition of property, plant and equipment		**(5,824)**	(7,881)
Proceeds from disposal of lease prepayments and property, plant and equipment		**511**	2,531
Other cash flow arising from investing activities		**278**	265
Net cash used in investing activities		**(5,035)**	(5,085)
Financing activities			
Repayment of bank borrowings		**–**	(12,034)
Other cash flow arising from financing activities		**(2,323)**	(1,759)
Net cash used in financing activities		**(2,323)**	(13,793)
Net decrease in cash and cash equivalents		**(14,744)**	(6,888)
Cash and cash equivalents at 1 January		**33,210**	79,751
Effect of exchange rate fluctuations on cash held		**7,853**	(12,950)
Cash and cash equivalents at 30 June	14	**26,319**	59,913

The notes on pages 22 to 34 form part of this interim financial report.

1. REPORTING ENTITY

China Yurun Food Group Limited (the "Company") was incorporated in Bermuda on 21 March 2005 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The interim financial report of the Company as at and for the six months ended 30 June 2023 comprises the financial information of the Company and its subsidiaries (collectively referred to as the "Group").

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2022 (the "2022 annual financial statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). Except as described in note 3, the interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2022 are available from the Company's principal place of business in Hong Kong. The auditor has disclaimed an opinion on those financial statements in its report dated 29 March 2023.

2. BASIS OF PREPARATION (CONTINUED)

The Group incurred a net loss of $39,149,000 for the six months ended 30 June 2023 and as at 30 June 2023, the Group had net current liabilities and net liabilities of $982,359,000 and $500,934,000 respectively. At 30 June 2023, the Group's bank borrowings amounted to $468,831,000, while its cash and cash equivalents amounted to $26,319,000 only.

As at 30 June 2023, certain bank borrowings amounted to $429,579,000 together with the related accrued interest of $240,764,000 (included in trade and other payables (note 15)) were overdue. In addition, the Group could not fulfil certain bank covenants relating to the abovementioned bank borrowings of $429,579,000 and the banks have commenced litigations against the Group to settle the outstanding balances.

These events or conditions may cast significant doubt about the Group's ability to continue as a going concern and it may not have sufficient financial resources to finance the Group's operations to meet its financial obligations as and when they fall due.

The management have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

(i) Actively negotiating with banks for the renewal of terms of the banking facilities, the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank borrowings;

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

(iii) The potential outcome on conclusive settlement of the bank borrowings as part of consolidated restructuring; and

(iv) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations.

By 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 interim financial report has been prepared on a going concern basis notwithstanding that the above events or conditions indicate the existence of material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern. The audit committee of the Company has no disagreement with the Directors on the above position and the going concern basis.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned above, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in this interim financial report.

3. CHANGES IN ACCOUNTING POLICIES

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

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

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

4. 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 2023 and 2022 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**	
	2023	2022	**2023**	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**537,989**	721,459	**231,711**	258,007	**769,700**	979,466
Inter-segment revenue	**11,218**	164	**–**	–	**11,218**	164
Reportable segment revenue	**549,207**	721,623	**231,711**	258,007	**780,918**	979,630
Reportable segment results	**(57,959)**	(14,338)	**33,767**	30,729	**(24,192)**	16,391
Depreciation and amortisation	**(11,264)**	(19,501)	**(6,357)**	(1,223)	**(17,621)**	(20,724)
Impairment losses on trade receivables	**–**	(377)	**(4,435)**	(611)	**(4,435)**	(988)
Impairment losses on property, plant and equipment and lease prepayments	**(35,582)**	–	**–**	–	**(35,582)**	–
Government subsidies	**534**	1,954	**774**	–	**1,308**	1,954
Income tax credit/(expenses)	**–**	–	**6,719**	(4,593)	**6,719**	(4,593)

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.

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Reconciliations of reportable segment revenue and loss

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Revenue		
Total revenue from reportable segments	**780,918**	979,630
Elimination of inter-segment revenue	**(11,218)**	(164)
Consolidated revenue	**769,700**	979,466
Loss		
Total reportable segment results before income tax	**(24,192)**	16,391
Elimination of inter-segment profit	**2,835**	–
	(21,357)	16,391
Net finance costs	**(17,926)**	(20,148)
Income tax credit/(expenses)	**6,719**	(4,593)
Unallocated head office and corporate expenses	**(6,585)**	(7,785)
Consolidated loss for the period	**(39,149)**	(16,135)

5. SEASONALITY OF OPERATIONS

The Group's operations are subject to seasonal fluctuations. Demand for processed meat products in general peaks during the period immediately before the Chinese New Year in January or February each year and returns to a normal level thereafter.

6. OTHER NET INCOME

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Government subsidies	**1,308**	1,954
Provision for losses on litigations (note)	**(229)**	–
Gain on disposal of property, plant and equipment and lease prepayments	**511**	1,924
Rental income	**38**	53
Sales of scrap	**262**	250
Sundry (expense)/income	**(48)**	511
	1,842	4,692

Note:

During the six months ended 30 June 2023, except for the litigations commenced by certain banks against a subsidiary of the Group as disclosed in note 7(a), included in provision for losses on litigations was litigation initiated by a commercial competitor in the People's Republic of China ("PRC") claiming against a subsidiary of the Group in view of the economic losses due to patent of approximately $229,000 (six months ended 30 June 2022: $Nil).

7. LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Interest on bank borrowings	**17,178**	19,257
Interest on lease liabilities	**1,069**	1,138
	18,247	20,395
Bank charges	**33**	53
Net foreign exchange gain	**(76)**	(35)
Interest income from bank deposits	**(278)**	(265)
	17,926	20,148

As at 30 June 2023, the Group could not fulfil certain covenants imposed by the bank on certain bank borrowings of $429,579,000 (31 December 2022: $443,381,000). All of these bank borrowings and the related accrued interest of $240,764,000 (31 December 2022: $232,225,000) were overdue. As at 30 June 2023, certain bank borrowings were secured by trade receivables of $8,336,000 (31 December 2022: $12,234,000) and guaranteed by certain companies within the restructuring companies.

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

7. LOSS BEFORE INCOME TAX (CONTINUED)

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

(a) Net finance costs (continued)

At 30 June 2023, there were outstanding litigations commenced by the banks in the PRC against a subsidiary of the Group requesting such subsidiary to repay the outstanding bank borrowings of $429,579,000 (31 December 2022: $443,381,000) or to secure the repayment with assets of equivalent amounts immediately. The Group is negotiating with the banks to settle these litigations.

(b) Personnel expenses

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Salaries, wages and other benefits	**47,297**	50,981
Contributions to defined contribution pension schemes	**3,319**	4,017
	50,616	54,998

(c) Other items

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Cost of inventories#	**700,679**	913,212
Reversal of write-down of inventories	**(947)**	(592)
Impairment losses on trade receivables	**4,435**	988
Impairment losses on property, plant and equipment and lease prepayments	**35,582**	–
Amortisation of lease prepayments	**780**	82
Amortisation of intangible assets	**469**	499
Depreciation of property, plant and equipment	**16,372**	20,143

\# Cost of inventories includes approximately $30,990,000 (six months ended 30 June 2022: $35,720,000) relating to personnel expenses, which the amount is also included in the above note 7(b).

8. INCOME TAX (CREDIT)/EXPENSES

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Current tax (credit)/expenses		
Current year	**–**	4,593
Over-provision in respect of prior year	**(6,719)**	–
Total income tax (credit)/expenses	**(6,719)**	4,593

(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 2023 and 2022.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the six months ended 30 June 2023 and 2022, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the six months ended 30 June 2023 and 2022.

(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.

9. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any tax effect for the six months ended 30 June 2023 and 2022.

10. 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 $20,197,000 (six months ended 30 June 2022: $10,648,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2022: 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 2023 and 2022 because all potential ordinary shares outstanding were anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

The additions and disposals of items of property, plant and equipment during the six months ended 30 June 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	$'000	$'000
Additions	**6,009**	5,399
Carrying value of items disposed of	**–**	250

As at 30 June 2023, the Group assessed the recoverable amounts of certain non-current 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 1% (31 December 2022: 2%), the other key assumptions remain unchanged. Cash flows beyond the five-year period are extrapolated using growth rate of 3% (31 December 2022: 3%), which does not exceed the long-term average growth rate for the business in which the CGU operates.

At 30 June 2023, the recoverable amounts of the non-current assets of a CGU under the 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 $32,422,000 (six months ended 30 June 2022: $Nil) and $3,160,000 (six months ended 30 June 2022: $Nil) respectively recognised in "administrative and other operating expenses" for the six months ended 30 June 2023. 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.

12. INVENTORIES

	30 June 2023 $'000	31 December 2022 $'000
Raw materials	**79,463**	32,478
Work in progress	**4,642**	4,949
Finished goods	**79,625**	79,838
	163,730	117,265

Reversal of write-down of inventories to their net realisable value amounting to $947,000 (31 December 2022: write-down of inventories amounting to $1,815,000) was recognised under "cost of sales" in the consolidated statement of profit or loss for the six months ended 30 June 2023.

13. TRADE AND OTHER RECEIVABLES

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

	30 June 2023 $'000	31 December 2022 $'000
Trade receivables		
– Within 30 days	**85,699**	66,761
– 31 days to 90 days	**2,667**	319
– 91 days to 180 days	**8,142**	11,737
– Over 180 days	**10,917**	2,898
	107,425	81,715
Less: Expected credit losses	**(15,210)**	(11,122)
Total trade receivables, net	**92,215**	70,593
Bills receivable	**127**	–
Value-added tax ("VAT") recoverable	**82,345**	116,556
Deposits and prepayments	**155,856**	169,127
Other receivables	**46,076**	34,359
	376,619	390,635

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

14. CASH AND CASH EQUIVALENTS

	30 June 2023 $'000	31 December 2022 $'000
Renminbi ("RMB")	**23,900**	26,300
United States dollars ("USD")	**890**	5,124
Euro dollars ("EUR")	**209**	209
Other currencies	**1,320**	1,577
	26,319	33,210

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately $23,900,000 (31 December 2022: approximately $26,300,000). RMB is not freely convertible into other currencies, however, under Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC. Exchange RMB for other currencies is permitted through banks that are authorized to conduct foreign exchange business.

15. 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 2023 $'000	31 December 2022 $'000
Trade payables		
– Within 30 days	**191,585**	107,805
– 31 days to 90 days	**36,167**	74,830
– 91 days to 180 days	**3,522**	1,509
– Over 180 days	**13,588**	7,489
Total trade payables	**244,862**	191,633
Deposits from customers	**8,125**	5,458
Contract liabilities	**23,910**	24,583
Salary and welfare payables	**7,973**	13,433
VAT payable	**67,804**	63,547
Payables for acquisitions of property, plant and equipment	**43,794**	35,221
Provision for losses on litigations	**40,235**	104,840
Interest payables	**241,554**	232,225
Other payables and accruals	**430,032**	451,626
	1,108,289	1,122,566

16. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends payable to equity holders attributable to the interim period

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 and 2022.

(b) Equity settled share-based transactions

On 25 March 2013 and 14 June 2013, 59,600,000 share options ("2013 March Options") and 105,500,000 share options ("2013 June Options") were granted for $1 to qualified employees of the Group under the Company's employee share option scheme (no share options were granted during the six months ended 30 June 2023 and 2022). Each option gives the holder the right to subscribe for one ordinary share of the Company. The options granted are subject to a vesting scale in tranches of 25% each annum starting from 2014 after announcement of results for the previous year and achievement of performance-based vesting condition. The option shall lapse when the performance-based condition is not satisfied.

During the six months ended 30 June 2023, no share options were exercised (six months ended 30 June 2022: Nil) and 14,350,000 share options were lapsed (six months ended 30 June 2022: 1,925,000). As at 30 June 2023, there were no outstanding share options under 2013 March Options and 2013 June Options.

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2023 and 31 December 2022.

18. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	30 June 2023 $'000	31 December 2022 $'000
Contracted for	**454,728**	432,198

19. CONTINGENT LIABILITIES

As at the end of the reporting period, except as disclosed in note 7(a), 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 2023, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business of the Group. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained with reasonable certainty at present, but the management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position or results of the Group.

20. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2023 and 2022, in addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group had the following material related party transactions and balances:

(a) Significant related party transactions

(i) Sales and purchases of raw materials and finished goods:

	Six months ended 30 June	
	2023 $'000	2022 $'000
Sales of raw materials to related companies (note 20(a)(iv))	**1,157**	1,202
Sales of finished goods to related companies (note 20(a)(iv))	**116,717**	147,149
Purchases of raw materials from related companies (note 20(a)(iv))	**2,493**	7,131
Purchases of finished goods from related parties (note 20(a)(iv))	**–**	83

(ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties (note 20(a)(iv)). The rental paid or payable to the related parties for the six months ended 30 June 2023 amounted to $361,000 (six months ended 30 June 2022: $583,000).

(iii) Certain related parties (note 20(a)(iv)) made available their properties and land use rights with a total carrying value of $39,975,000 (31 December 2022: $41,660,000) as at 30 June 2023 to the Group. No rental is paid or payable by any of the group companies.

(iv) Mr. Zhu Yicai ("Mr. Zhu") is the beneficial shareholder of the Company and also has beneficial interest in the related companies. Mr. Zhu is the honorary chairman and the senior advisor of the board of the Company.

20. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Amounts due from related parties

	30 June 2023 $'000	31 December 2022 $'000
Trade receivables due from related parties (note 20(a)(iv))	**75,630**	43,898
Other receivables due from related parties (note 20(a)(iv))	**52,232**	26,569

Amounts due from related parties are unsecured, interest-free and are expected to be recovered within one year.

(c) Amounts due to related parties

	30 June 2023 $'000	31 December 2022 $'000
Trade payables due to related parties (note 20(a)(iv))	**19,034**	14,376
Other payables due to related parties (notes 20(a)(iv) and 20(c)(i))	**288,748**	313,750

(i) Certain related companies settled certain payables on behalf of the Group for the six months ended 30 June 2023.

Amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

(d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2023 $'000	2022 $'000
Salaries and other emoluments	**1,349**	1,623
Contributions to retirement benefit schemes	**24**	26
	1,373	1,649