

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2021

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 2021 (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 2021 – unaudited

| | <i>Notes</i> | Six months ended 30 June | |
|---|--------------|---------------------------------|--------------------|
| | | 2021 | 2020 |
| | | HK\$'000 | HK\$'000 |
| Revenue | 3 | 7,178,632 | 7,536,316 |
| Cost of sales | | <u>(6,791,541)</u> | <u>(7,092,161)</u> |
| Gross profit | | 387,091 | 444,155 |
| Other net income | 4 | 67,260 | 11,369 |
| Distribution expenses | | (328,602) | (280,100) |
| Administrative and other operating expenses | | (308,901) | (314,835) |
| Gain on deconsolidation of subsidiaries | 12 | <u>3,491,306</u> | <u>–</u> |
| Results from operating activities | | <u>3,308,154</u> | <u>(139,411)</u> |
| Finance income | | 7,778 | 1,082 |
| Finance costs | | <u>(21,693)</u> | <u>(252,288)</u> |
| Net finance costs | 5(a) | <u>(13,915)</u> | <u>(251,206)</u> |
| Profit/(loss) before income tax | 5 | 3,294,239 | (390,617) |
| Income tax expenses | 6 | <u>(7,559)</u> | <u>(14,118)</u> |
| Profit/(loss) for the period | | <u>3,286,680</u> | <u>(404,735)</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 3,288,097 | (407,917) |
| Non-controlling interests | | <u>(1,417)</u> | <u>3,182</u> |
| Profit/(loss) for the period | | <u>3,286,680</u> | <u>(404,735)</u> |
| Profit/(loss) per share | | | |
| Basic | 7(a) | <u>HK\$1.804</u> | <u>HK\$(0.224)</u> |
| Diluted | 7(b) | <u>HK\$1.804</u> | <u>HK\$(0.224)</u> |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2021 – unaudited

| | Six months ended 30 June | |
|--|---------------------------------|------------------|
| <i>Notes</i> | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Profit/(loss) for the period | 3,286,680 | (404,735) |
| 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 | 1,948 | (139,655) |
| Foreign currency translation reclassified to profit or loss upon deconsolidation of subsidiaries | <i>12</i> (320,886) | – |
| | (318,938) | (139,655) |
| Total comprehensive income for the period | 2,967,742 | (544,390) |
| Attributable to: | | |
| Equity holders of the Company | 2,971,278 | (546,508) |
| Non-controlling interests | (3,536) | 2,118 |
| Total comprehensive income for the period | 2,967,742 | (544,390) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 – unaudited

| | | 30 June 2021 | 31 December 2020 |
|---|--------------|-----------------|---------------------|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 529,815 | 3,788,273 |
| Investment properties | | – | 207,600 |
| Lease prepayments | | 140,663 | 1,025,661 |
| Intangible assets | | 2,450 | 59 |
| Non-current prepayments and other receivables | | 168,292 | 776,483 |
| | | 841,220 | 5,798,076 |
| Current assets | | | |
| Inventories | | 121,959 | 610,585 |
| Trade and other receivables | 9 | 283,505 | 2,424,614 |
| Income tax recoverable | | 718 | 2,341 |
| Restricted bank deposits | | – | 13,316 |
| Cash and cash equivalents | | 95,179 | 307,550 |
| | | 501,361 | 3,358,406 |
| Current liabilities | | | |
| Bank and other borrowings | | 535,032 | 6,997,149 |
| Lease liabilities | | 2,130 | 2,059 |
| Trade and other payables | 10 | 967,929 | 5,291,928 |
| Income tax payable | | 2,594 | 12,403 |
| | | 1,507,685 | 12,303,539 |
| Net current liabilities | | (1,006,324) | (8,945,133) |
| Total assets less current liabilities | | (165,104) | (3,147,057) |
| Non-current liability | | | |
| Lease liabilities | | 73,025 | 97,500 |
| NET LIABILITIES | | (238,129) | (3,244,557) |
| EQUITY | | | |
| Share capital | | 182,276 | 182,276 |
| Reserves | | (512,959) | (3,484,237) |
| Total equity attributable to equity holders of the Company | | (330,683) | (3,301,961) |
| Non-controlling interests | | 92,554 | 57,404 |
| TOTAL EQUITY | | (238,129) | (3,244,557) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2021 – unaudited

| | Six months ended 30 June | |
|--|--------------------------|-----------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Cash (used in)/generated from operations | (957) | 172,650 |
| Finance costs paid | (206) | (4,029) |
| Tax paid | <u>(11,843)</u> | <u>(5,136)</u> |
| Net cash (used in)/generated from operating activities | (13,006) | 163,485 |
| Net cash used in investing activities | (223,663) | (118,569) |
| Net cash generated from financing activities | <u>12,944</u> | <u>99,176</u> |
| Net (decrease)/increase in cash and cash equivalents | (223,725) | 144,092 |
| Cash and cash equivalents at 1 January | 307,550 | 217,403 |
| Effect of exchange rate fluctuations on cash held | <u>11,354</u> | <u>31,392</u> |
| Cash and cash equivalents at 30 June | <u><u>95,179</u></u> | <u><u>392,887</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 31 August 2021.

The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2020 (the “2020 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 2020 annual financial statements.

With effect from 30 April 2021 as a result of the civil ruling of the court in the People’s Republic of China (“PRC”), 44 subsidiaries (the “Relevant Subsidiaries”) of the Group had been included in the consolidated restructuring, thereafter, the administrator appointed by the court (the “Administrator”) commenced the taking over of the Relevant Subsidiaries on 25 May 2021, which entitled the Administrator to legal and actual control over the internal and external affairs of the Relevant Subsidiaries. As a result, the Company had lost the legal and actual management rights over the Relevant Subsidiaries since then.

There are in total 68 subsidiaries (direct or indirect) of the Relevant Subsidiaries, all of which are not taken over by the Administrator (the “Non-Taken-over Subsidiaries”). In view of this, the accounts of the Relevant Subsidiaries and the Non-Taken-over Subsidiaries (the “Restructuring Companies”) ceased to be consolidated to the consolidated financial statements of the Group for the six months ended 30 June 2021 with effect from 30 April 2021. Details of the financial impact on the deconsolidation are disclosed in note 12.

In addition, there are in total 39 subsidiaries (direct or indirect) of the Company that are not subject to the consolidated restructuring. The operation and management of these subsidiaries are conducted as usual without any restrictions.

The Group had net cash used in operating activities of HK\$13,006,000 for the six months ended 30 June 2021 and as at 30 June 2021, the Group had net current liabilities and net liabilities of HK\$1,006,324,000 and HK\$238,129,000 respectively. The current bank borrowings amounted to HK\$535,032,000 as at 30 June 2021, while the Group maintained its cash and cash equivalents of HK\$95,179,000 only. The Group could not fulfil certain bank covenants relating to certain bank borrowings amounted to HK\$535,032,000 as at 30 June 2021. These bank borrowings were presented as current liabilities in the consolidated statement of financial position. Included in these bank borrowings were HK\$440,960,000 of which the banks have commenced litigations against the Group to repay the outstanding balances. 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 borrowings; and
- (ii) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operation.

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 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 4, IFRS 7, IFRS 9,
IFRS 16 and IAS 39

Amendments to IFRS 16

Interest Rate Benchmark Reform – Phase 2

Covid-19-Related Rent Concessions beyond
30 June 2021

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 2021 and 2020 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 | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| External revenue | 5,765,205 | 6,386,622 | 1,413,427 | 1,149,694 | 7,178,632 | 7,536,316 |
| Inter-segment revenue | 91,200 | 39,577 | 27,615 | 1,928 | 118,815 | 41,505 |
| Reportable segment revenue | <u>5,856,405</u> | <u>6,426,199</u> | <u>1,441,042</u> | <u>1,151,622</u> | <u>7,297,447</u> | <u>7,577,821</u> |
| Reportable segment results | (132,510) | (237,146) | (34,215) | 106,889 | (166,725) | (130,257) |
| Depreciation and amortisation | (45,030) | (101,828) | (21,020) | (10,450) | (66,050) | (112,278) |
| Impairment losses on trade receivables | (5,878) | (1,047) | (22,903) | (10,175) | (28,781) | (11,222) |
| Impairment losses on property, plant and equipment and lease prepayments | - | (37,112) | - | - | - | (37,112) |
| Government subsidies | 1,641 | 1,268 | 279 | 1,976 | 1,920 | 3,244 |
| Income tax expenses | <u>(897)</u> | <u>(9,902)</u> | <u>(6,662)</u> | <u>(4,216)</u> | <u>(7,559)</u> | <u>(14,118)</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 profit/(loss)**

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Revenue | | |
| Total revenue from reportable segments | 7,297,447 | 7,577,821 |
| Elimination of inter-segment revenue | (118,815) | (41,505) |
| Consolidated revenue | <u>7,178,632</u> | <u>7,536,316</u> |
| Profit/(loss) | | |
| Total reportable segment results before income tax | (166,725) | (130,257) |
| Elimination of inter-segment loss | (5,324) | (175) |
| | (172,049) | (130,432) |
| Gain on deconsolidation of subsidiaries | 3,491,306 | – |
| Net finance costs | (13,915) | (251,206) |
| Income tax expenses | (7,559) | (14,118) |
| Unallocated head office and corporate expenses | (11,103) | (8,979) |
| Consolidated profit/(loss) for the period | <u>3,286,680</u> | <u>(404,735)</u> |

4 OTHER NET INCOME

| | Six months ended 30 June | |
|--|---------------------------------|----------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Government subsidies | 1,920 | 3,244 |
| Provision for losses on litigations (<i>Notes</i>) | (3,000) | (34,914) |
| Gain/(loss) on disposal of property, plant and equipment and lease prepayments | 7,625 | (1,927) |
| Rental income | 30,364 | 30,028 |
| Sales of scrap | 1,883 | 623 |
| Sundry income | 28,468 | 14,315 |
| | <u>67,260</u> | <u>11,369</u> |

Notes:

During the six months ended 30 June 2021, in addition to the litigations commenced by the banks against the subsidiaries of the Group as disclosed in note 5(a), there was litigation initiated by a commercial competitor in the PRC claiming against a subsidiary of the Group in view of the economic losses due to trademark infringement. The Group recognised losses of HK\$3,000,000 (six months ended 30 June 2020: \$Nil).

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.

5 PROFIT/(LOSS) BEFORE INCOME TAX

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

(a) Net finance costs

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 |
| Interest on bank and other borrowings | 21,438 | 235,762 |
| Interest on lease liabilities | 49 | 3,712 |
| Less: Interest expense capitalised into construction in progress | – | (2,596) |
| | <u>21,487</u> | <u>236,878</u> |
| Bank charges | 206 | 260 |
| Net foreign exchange (gain)/loss | (6,145) | 15,150 |
| Interest income from bank deposits | (1,633) | (1,082) |
| | <u>13,915</u> | <u>251,206</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 2021, the Group could not fulfil covenants imposed by banks on certain borrowings with an aggregate amount of HK\$535,032,000 (31 December 2020: HK\$5,972,672,000). 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 the banks to renew the bank borrowing facilities at the end of the reporting period. Subsequent to 30 June 2021 and up to the date of this interim financial report, the aforesaid bank borrowings facilities are not yet renewed.

At 30 June 2021, 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\$440,960,000 (31 December 2020: HK\$2,305,940,000) or to repay with assets of equivalent amount immediately. The Group is negotiating with the banks to settle these litigations.

At 31 December 2020, certain property, plant and equipment and bank deposits of the Group with carrying value of HK\$136,290,000 and HK\$13,316,000 respectively have been frozen by the courts in the PRC.

(b) Personnel expenses

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 |
| Salaries, wages and other benefits | 333,863 | 301,260 |
| Contributions to defined contribution pension schemes | 18,417 | 3,852 |
| | <u>352,280</u> | <u>305,112</u> |

(c) **Other items**

| | Six months ended 30 June | |
|--|---------------------------------|----------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Cost of inventories [#] | 6,791,541 | 7,092,161 |
| Write-down of inventories | 7,979 | – |
| Impairment losses on trade receivables | 28,781 | 11,222 |
| Impairment losses on property, plant and equipment and lease prepayments | – | 37,112 |
| Amortisation of lease prepayments | 8,176 | 16,534 |
| Amortisation of intangible assets | 544 | – |
| Depreciation of property, plant and equipment | 57,330 | 95,744 |
| | <u>57,330</u> | <u>95,744</u> |

[#] Cost of inventories includes approximately HK\$123,146,000 (six months ended 30 June 2020: HK\$104,954,000) 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 | |
|--|---------------------------------|----------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Current tax expense | | |
| Current year | 7,125 | 4,620 |
| Under-provision in respect of prior year | 434 | 1,710 |
| | <u>7,559</u> | <u>6,330</u> |
| Deferred tax expense | – | 7,788 |
| | <u>–</u> | <u>7,788</u> |
| Total income tax expenses | <u>7,559</u> | <u>14,118</u> |

- (a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in Bermuda and the BVI.
- (b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2021 and 2020.
- (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 2021 and 2020, 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 2021 and 2020.
- (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 PROFIT/(LOSS) PER SHARE

(a) Basic profit/(loss) per share

The calculation of basic profit/(loss) per share is based on the profit attributable to equity holders of the Company of HK\$3,288,097,000 (loss attributable to equity holders of the Company for the six months ended 30 June 2020: HK\$407,917,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2020: 1,822,756,000).

(b) Diluted profit/(loss) per share

Diluted profit/(loss) per share equals to basic profit/(loss) per share for the six months ended 30 June 2021 and 2020 because all potential ordinary shares outstanding were anti-dilutive.

8 PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2021, 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 2020: 2%), the other key assumptions remain unchanged. Cash flows beyond the five-year period are extrapolated using growth rate of 0% (31 December 2020: 0%), which does not exceed the long-term average growth rate for the business in which the CGU operates.

During the six months ended 30 June 2021, no impairment loss (six months ended 30 June 2020: impairment losses of \$27,630,000 and \$9,482,000 respectively) in respect of property, plant and equipment and lease prepayments was recognised as the recoverable amounts of the CGUs is higher than its carrying amounts. 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 | 31 December |
|---|-----------------|-----------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Within 30 days | 12,649 | 294,585 |
| 31 days to 90 days | 6,485 | 56,066 |
| 91 days to 180 days | 6,332 | 53,189 |
| Over 180 days | 2,662 | 50,898 |
| | <hr/> | <hr/> |
| | 28,128 | 454,738 |
| Less: Impairment losses | (8,177) | (136,570) |
| | <hr/> | <hr/> |
| Total trade receivables, net of impairment losses | 19,951 | 318,168 |
| Bills receivables | – | 3,089 |
| Value-added tax (“VAT”) recoverable | 122,981 | 1,390,767 |
| Deposits and prepayments | 134,607 | 547,956 |
| Other receivables | 5,966 | 164,634 |
| | <hr/> | <hr/> |
| | 283,505 | 2,424,614 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Within 30 days | 201,735 | 415,821 |
| 31 days to 90 days | 26,418 | 53,119 |
| 91 days to 180 days | 122,502 | 82,067 |
| Over 180 days | 26,125 | 42,296 |
| | <hr/> | <hr/> |
| Total trade payables | 376,780 | 593,303 |
| Deposits from customers | 9,427 | 96,256 |
| Contract liabilities | 16,876 | 376,123 |
| Salary and welfare payables | 26,509 | 137,970 |
| VAT payable | 53,958 | 48,806 |
| Payables for acquisitions of property, plant and equipment | 25,278 | 614,195 |
| Provision for losses on litigations | 75,148 | 141,596 |
| Interest payables | 212,842 | 1,743,886 |
| Other payables and accruals | 171,111 | 1,539,793 |
| | <hr/> | <hr/> |
| | 967,929 | 5,291,928 |
| | <hr/> <hr/> | <hr/> <hr/> |

11 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$Nil).

12. GAIN ON DECONSOLIDATION OF SUBSIDIARIES

As disclosed in note 1, the Restructuring Companies were not consolidated by the Group. The net (liabilities)/assets deconsolidated were as follow:

| | Nanjing Yurun Group (Note (i)) HK\$'000 | Others (Note (ii)) HK\$'000 | Total HK\$'000 |
|---|--|-----------------------------------|-----------------------|
| Net (liabilities)/assets deconsolidated of: | | | |
| Property, plant and equipment | 2,893,644 | 400,779 | |
| Investment properties | 208,394 | – | |
| Lease prepayments | 811,034 | 58,403 | |
| Intangible assets | 60 | – | |
| Non-current prepayments and other receivables | 608,574 | 92,255 | |
| Inventories | 410,113 | 204,111 | |
| Trade and other receivables | 2,136,641 | 285,537 | |
| Income tax recoverable | 950 | 1,161 | |
| Cash and cash equivalents | 138,096 | 8,624 | |
| Bank and other loans | (5,248,081) | (1,457,036) | |
| Lease liabilities | – | (30,157) | |
| Trade and other payables | (4,856,188) | (1,076,773) | |
| Net amounts due (to)/from Restructuring Companies | (2,742,890) | 2,742,890 | |
| Income tax payable | (5,230) | (886) | |
| Total net (liabilities)/assets deconsolidated of | <u>(5,644,883)</u> | <u>1,228,908</u> | (4,415,975) |
| Non-controlling interests | | | (60,410) |
| Exchange reserve realised on deconsolidation | | | <u>(320,886)</u> |
| Net liabilities | | | (4,797,271) |
| Non-controlling interests arising on deconsolidation | | | 99,096 |
| Current accounts with Restructuring Companies | | | <u>1,206,869</u> |
| | | | <u>(3,491,306)</u> |
| Net cash outflow arising on deconsolidation of subsidiaries: Cash and cash equivalents deconsolidated of | | | <u><u>146,720</u></u> |

Notes:

- (i) Nanjing Yurun Group represents 南京雨潤食品有限公司 (transliterated as Nanjing Yurun Food Co., Ltd.) and its subsidiaries.
- (ii) Others represent the remaining Restructuring Companies other than those included in Nanjing Yurun Group.

13 CONTINGENT LIABILITIES

Upon the deconsolidation of subsidiaries (note 12) and up to the date of this interim financial report, there were no material contingent liabilities.

During the year ended 31 December 2020, 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\$193,044,000. 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\$74,850,000 ("Provision Amount") for the aforesaid construction fees and corresponding late penalties, which had been provided and included in "trade and other payables" as at 31 December 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\$46,330,000 and corresponding late penalties of approximately HK\$2,000,000. These amounts were included in the Provision Amount already and the settlement had not yet been made as at 31 December 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 2021, 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 2020: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of 2021, the positive trend of global epidemic prevention and control work was expanding, and the world's economy maintained the recovery momentum. During the same period, China's economy continued to recover steadily, the domestic demand for production continued to rise, the expectations for market were favorable, and the economy registered a stable performance with good momentum for growth. According to the data published by the National Bureau of Statistics of China ("NBS"), when calculated at comparable prices, China's gross domestic product grew by 12.7% year-on-year to Renminbi ("RMB") 53,216.7 billion in the first half of 2021. In the first half of 2021, the year-on-year increase of consumer price index (CPI) was 0.5%, while that of the core CPI after deducting food and energy prices was 0.4%. The food and beverage market continued to return steadily to an uptrend. According to the latest data published by the NBS, in the first half of 2021, the revenue in the national food and beverage sector was RMB2,171.2 billion, representing a year-on-year increase of 48.6%.

During the Review Period, as the effectiveness of the previous policies and measures for steady production and supply protection was further demonstrated, the production capability of hogs in the newly added, reconstructed and expanded hog farms has improved continuously, leading to a rapid recovery of hog production capacity. According to the latest data published by the NBS, in the first half of 2021, the number of hogs slaughtered in China was 337.42 million, representing a year-on-year increase of 34.4%. The pork production was 27.15 million tons, representing an increase of 35.9%. The hog production capability continued to improve, and the number of hogs slaughtered and in stocks significantly increased year-on-year.

During the Review Period, China successively introduced the "Regional Prevention and Control Work Plan for African Swine Fever and Other Major Animal Diseases (Trial)" (《非洲豬瘟等重大動物疫病分區防控工作方案(試行)》), and "Improving the Government's Pork Reserve Adjustment Mechanism and Ensuring the Supply and Price Stability of Pork Market" (《完善政府豬肉儲備調節機制做好豬肉市場保供穩價工作預案》) policies, which are conducive to the balance of pork supply and sales. Pork supply and demand should be distributed within the region to stabilize the supply and price of pork. The Group will continue to leverage its core competitiveness in resources, strategies and branding to seize the opportunities amidst the challenges to ensure stable business development.

Despite the 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 active and prudent strategy and still adheres to its belief that it will provide consumers with high-quality meat products in the turbulent market environment.

Business Review

During the Review Period, the average purchase price of hogs of the Group decreased by 27.3% from the same period last year. Since Chinese New Year, impacted by factors such as the recovery of hog production capacity, import of large amount of pork and the release of the pork from China's central reserves into the market, the pork supply in the market has increased significantly, the pork price in the wholesale market continued to fall nationwide. From the demand side, pork price has currently been close to a normal year's level, which may stimulate the end-user consumption to a certain extent. In addition, towards the end of the summer, the second half of the year is usually the peak time for consumption, which may have a certain boosting effect on the price of hogs. As one of the leaders in the sector, the Group focused on the main business operation in a prudent manner during the Review Period, continuously improved product portfolio and quality, so as to bring safe and reliable products to consumers.

In the future, we will continue to work diligently, move forward persistently and make best endeavor to overcome difficulties. To turn the Group into a new chapter, we will also seize opportunities arising from the increasing industry concentration, strive to gradually enhance business growth and tackle all the challenges and crises our Group is facing.

Product Quality and Research and Development

Yurun Food has always put product quality as its top priority, and has adopted a strict internal quality control system in all processes of procurement, production, sales and logistics. With its strict attitude towards quality control, Yurun Food has successfully established a positive corporate image of food safety and high quality in the minds of consumers.

The Group focuses on the research and development of mid-to-high-end products, the research and development team, consisting of a number of elites, continues to develop new products with market competitiveness, leading the new trend of meat consumption. The new products, highlighting freshness, deliciousness, nutritious and convenience, are well received by consumers.

In the future, the Group will continue to focus on the development of new products that will be welcomed by the market while ensuring high product quality to further enhance its market competitiveness and maintain its leading position in the industry.

Updates on the Consolidated Restructuring of the 44 Relevant Subsidiaries

Reference is made to the announcements of the Company dated 17 November 2020, 23 February 2021, 30 April 2021, 25 May 2021, 27 May 2021 and 27 August 2021 in relation to the Consolidated Restructuring of the 44 Relevant Subsidiaries (the “Announcements”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Administrator appointed by the Court (“Administrator”) has commenced the Consolidated Restructuring of the 44 Relevant Subsidiaries in accordance with the Enterprise Bankruptcy Law of the People’s Republic of China (企業破產法) under the instruction and supervision of the Court. On 23 June 2021, the first creditors’ meeting in relation to the Consolidated Restructuring of 44 Relevant Subsidiaries was held and the audit findings in relation to the debt were presented to the creditors in form of Proof of Debt (債權表) thereon. The creditors verified their rights over debt and the Administrator also requested the creditors to vote on the establishment of the creditors’ committee and the rules of procedure thereof. A resolution in relation to the above matters has been passed thereon. The appointment of the Nanjing Gulou Sub-branch of the Bank of China Limited as the chairman of the creditors’ meeting was recommended by the Administrator. The Court appointed the Nanjing Gulou Sub-branch of the Bank of China Limited to be the chairman of the creditors’ meeting in relation to Consolidated Restructuring of the 44 Relevant Subsidiaries.

As disclosed in the Announcements, the 44 Relevant Subsidiaries of the Group had been included in the Consolidated Restructuring with effect from 30 April 2021 as a result of the ruling of the Court, thereafter, the Administrator commenced the taking over of the 44 Relevant Subsidiaries on 25 May 2021, the Company had lost the legal and actual management rights over the 44 Relevant Subsidiaries since 30 April 2021.

As at 30 April 2021, prior to the deconsolidation of accounts of the 44 Relevant Subsidiaries and the 68 Non-Taken-over Subsidiaries (collectively, the “Restructuring Companies”) into the consolidated accounts of the Group (“Deconsolidation”), the overdue bank borrowings of the 44 Relevant Subsidiaries amounted to RMB4.581 billion and interest on such borrowings ceased to accrue interest since 16 November 2020 in accordance with the Enterprise Bankruptcy Law of the People’s Republic of China (企業破產法). As at the date of this announcement, the Company and the 44 Relevant Subsidiaries are in continuous negotiation with the Administrator and creditors to evaluate various options, so as to formulate a Consolidated Restructuring plan for the 44 Relevant Subsidiaries based on the best interests of the creditors and the Company’s stakeholders (including the treatment of the overdue bank borrowings of the 44 Relevant Subsidiaries). As at the date of this announcement, based on the Company’s negotiation with the Administrator, all details of the Consolidated Restructuring plan have yet to be agreed between the creditors and other stakeholders of the 44 Relevant Subsidiaries. Therefore there is a high degree of uncertainty on the actual details of the Consolidated Restructuring plan and its impact on the financial position and business operations of the Group is yet to be determined. Further announcement(s) will be made by the Company as and when required under the Listing Rules to update the Shareholders and potential investors with the latest information on the progress of the Consolidated Restructuring, and its impact on the Group’s financial position and business operations.

Deconsolidation of Restructuring Companies

Due to the Deconsolidation, the assets and liabilities of the Restructuring Companies were excluded from the consolidated financial statements of the Group on 30 April 2021. The Restructuring Companies were companies with heavy liabilities, therefore resulting in recognition of approximately HK\$3.491 billion gain on deconsolidation of subsidiaries during the Review Period, which is a one-off and non-cash item.

The consolidated statement of profit or loss of the Group comprises of the figures of the Company and all of the subsidiaries (including Restructuring Companies) for the four months ended 30 April 2021 and the figures of the Company and the remaining 39 subsidiaries for May and June 2021 (the comparative figures are the amounts disclosed in the interim report for the six months ended 30 June 2020). For the consolidated statement of financial position as at 30 June 2021 (the comparative figures are the amounts disclosed in the 2020 annual report), it only comprises of the assets and liabilities for the Company and the remaining 39 subsidiaries. As the scope of consolidation changed, the profit and loss, assets and liabilities items have significant variances compared with same period last year. This will also affect the comparability of the financial figures.

Sales and Distribution

Chilled pork and low temperature meat products (“LTMP”), being the products with high added values, remained to be the key business drivers of the Group during the Review Period. In the first half of 2021, sales of chilled pork of the Group was HK\$5.276 billion (first half of 2020: HK\$5.642 billion), decreased by 6.5% from same period last year, accounting for approximately 72% (first half of 2020: 75%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (first half of 2020: 88%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK\$1.091 billion (first half of 2020: HK\$943 million), increased by 15.7% from same period last year, accounting for about 15% (first half of 2020: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 76% (first half of 2020: 82%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

As at 30 June 2021, the annual production capacity of the Group’s upstream slaughtering segment and downstream processed meat segment was approximately 7.35 million heads (31 December 2020: 52.65 million heads) and 61,000 tons (31 December 2020: 312,000 tons) respectively.

Financial Review and Key Performance Indicators

During the Review Period, the Group recorded revenue of HK\$7.179 billion, representing a decrease of 4.7% from HK\$7.536 billion of the same period last year. Profit attributable to the equity holders of the Company was HK\$3.288 billion (first half of 2020: loss attributable to the equity holders of HK\$408 million). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding the gain on deconsolidation of subsidiaries, government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for losses on litigations, was HK\$216 million (first half of 2020: HK\$322 million), representing a reduction in loss of approximately 33.0% from same period last year. Diluted profit per share was HK\$1.804 (first half of 2020: loss of HK\$0.224).

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 average purchase price of hogs of the Group decreased significantly by approximately 27.3% compared with same period last year. With the gradual elimination of the impact of the COVID-19, hogs supply became more stable, coupled with the continued decline in hog price which is favourable to the upstream business. However, the change in scope of consolidation offset the impact and the slaughtering volume decreased by approximately 11.1% to approximately 1.29 million heads compared with same period last year.

As a result of the combined effect of the decrease in pork prices and the change in scope of consolidation, the overall sales revenue of the upstream business prior to inter-segment eliminations decreased by 8.9% to HK\$5.856 billion (first half of 2020: HK\$6.426 billion). Specifically, the revenue from chilled pork was HK\$5.276 billion (first half of 2020: HK\$5.642 billion), representing a decrease of 6.5% from same period last year, and accounted for approximately 72% (first half of 2020: 75%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (first half of 2020: 88%) of the upstream business total revenue. The sales of frozen pork amounted to HK\$580 million (first half of 2020: HK\$784 million), down 26.1% compared with same period last year, and representing approximately 10% (first half of 2020: 12%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Period, sales of processed meat products of the Group prior to inter-segment eliminations was HK\$1.441 billion (first half of 2020: HK\$1.152 billion), representing an increase of 25.1% over the same period last year.

Specifically, revenue of LTMP was HK\$1.091 billion, representing an increase of 15.7% from HK\$943 million of the same period last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 76% (first half of 2020: 82%) of the total revenue of the processed meat segment. Revenue of high temperature meat products (“HTMP”) was HK\$350 million (first half of 2020: HK\$209 million), accounting for approximately 24% (first half of 2020: 18%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

The Group’s gross profit decreased by 12.8% from HK\$444 million in the first half of 2020 to HK\$387 million in the Review Period. The overall gross profit margin decreased by 0.5 percentage point to 5.4% from 5.9% of the same period last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.9% and 0.8% respectively (first half of 2020: 2.2% and -4.5% respectively). The overall gross profit margin of the upstream segment was 1.8%, representing an increase of 0.4 percentage point from 1.4% of same period last year due to the positive impact from the decrease in hogs price.

In respect of the downstream business of processed meat products, gross profit margin of LTMP was 18.0%, representing a decrease of 11.7 percentage points from 29.7% of the same period last year. The gross profit margin of HTMP decreased by 15.8 percentage points to 20.1% from 35.9% of the same period last year. The overall gross profit margin of the downstream business was 18.5%, down 12.4 percentage points from 30.9% of the same period last year.

Other Net Income

During the Review Period, the Group recorded other net income of HK\$67 million (first half of 2020: HK\$11 million). It was mainly attributable to non-recurring income, including government subsidies and gain on disposal of lease prepayments and property, plant and equipment.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK\$638 million, representing an increase of 7.2% from HK\$595 million of the same period last year and including the provision of HK\$37 million on impairment losses of non-current assets in the same period last year. Operating expenses excluding impairment losses represented an increase of 14.3% as compared to the same period last year and accounting for 8.9% (first half of 2020: 7.4%) of the Group's revenue. The increase in operating expenses was mainly due to the increase in advertising expenses, salary and wages for new employees. In addition, social security contribution by enterprises was waived under a government policy in 2020 so the social security expenses decreased in the same period last year. Such treatment is not applicable during the Review Period.

Results of Operating Activities

During the Review Period, operating profit of the Group was HK\$3.308 billion (first half of 2020: loss of HK\$139 million).

Net Finance Costs

During the Review Period, net finance costs of the Group were HK\$14 million, while they were HK\$251 million in the same period last year. The significant decrease of net finance costs was mainly due to the cessation of the accrual of interests on the bank borrowings of the companies which are subject to the Consolidated Restructuring according to relevant laws.

Income Tax

During the Review Period, the income tax expenses were approximately HK\$8 million, and they were HK\$14 million in the same period last year.

Profit/(Loss) Attributable to the Equity Holders of the Company

Taking into account the above factors, profit attributable to the equity holders of the Company during the Review Period was HK\$3.288 billion (first half of 2020: loss attributable to the equity holders of HK\$408 million). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding one-off gain/loss such as the gain on deconsolidation of subsidiaries, government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for losses on litigations, was HK\$216 million (first half of 2020: HK\$322 million), representing a reduction in loss of approximately 33.0% from the same period last year.

FINANCIAL RESOURCES

As at 30 June 2021, the sum of the Group's cash balance and bank deposits was HK\$95 million (31 December 2020: HK\$308 million). Approximately 83% (31 December 2020: 96%) of the above-mentioned financial resources was denominated in RMB, and approximately 13% (31 December 2020: 3%) was denominated in US Dollars, while the remaining was denominated in other currencies.

As at 30 June 2021, the Group had outstanding bank and other borrowings of HK\$535 million (31 December 2020: HK\$6.997 billion) which are repayable within one year. Please refer to paragraph headed "Breach of Borrowings Agreements" below for the details of breach of borrowings agreements of bank borrowings of the Group.

All borrowings were denominated in RMB, which were the same with the borrowings as at 31 December 2020. As at 30 June 2021, the Group's fixed-rate debt ratio was 82.4% (31 December 2020: 80.2%).

The net cash outflow of the Group during the Review Period was mainly due to the change in scope of consolidation.

During the Review Period, the capital expenditure was HK\$102 million (first half of 2020: HK\$120 million) for the payment for construction in progress of those projects already commenced.

BREACH OF BORROWINGS AGREEMENTS

Certain bank borrowings facilities of the Group are subject to certain covenants on financial gearing and capital requirements as commonly required under lending arrangements with financial institutions. As at 30 June 2021, the Group could not fulfil the covenants in respect of bank borrowings with an aggregate amount of approximately HK\$535 million (31 December 2020: HK\$5.973 billion) and these bank borrowings were classified as current liabilities in the consolidated statement of financial position. Subsequent to 30 June 2021 and up to the date of this announcement, the aforesaid bank borrowings have not been renewed.

The Group has closely communicated 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 would 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 the banks for immediate repayment is not high and the above matters do not have significant impact on the operations of the Group. The Board expects the above matters can be resolved upon completion of the Consolidated Restructuring.

ASSETS AND LIABILITIES

As at 30 June 2020, the total assets of the Group were HK\$1.342 billion (31 December 2020: HK\$9.156 billion). Its total liabilities as at 30 June 2021 were HK\$1.581 billion (31 December 2020: HK\$12.401 billion).

As at 30 June 2021, the property, plant and equipment of the Group amounted to HK\$530 million (31 December 2020: HK\$3.788 billion).

Lease prepayments as at 30 June 2021 amounted to HK\$141 million (31 December 2020: HK\$1.026 billion). 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 2021, they amounted to HK\$4 million (31 December 2020: HK\$170 million) and HK\$164 million (31 December 2020: HK\$607 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize.

Despite the net liabilities position as at 30 June 2021, the situation has improved significantly as compared with 31 December 2020 after the Deconsolidation of the subsidiaries under Consolidated Restructuring. In addition, the Group had non-current assets of approximately HK\$841 million to support the daily production and operations of the Group. This net liabilities position has not materially impaired the Group's ability to continue its daily business operation. The Directors believe that upon the completion of the Consolidated Restructuring by leveraging the improvement in the economic environment and the management's proactive efforts to keep improving its operating profit based on the new business plans, we are confident that the Group will be able to be back to net assets position.

During the Review Period, the Group had net cash used in operating activities of HK\$13 million (first half of 2020: net cash generated of HK\$163 million). As at 30 June 2021, net current liabilities and net liabilities of the Group were HK\$1.006 billion (31 December 2020: HK\$8.945 billion) and HK\$238 million (31 December 2020: HK\$3.245 billion) respectively. Its current bank and other borrowings amounted to HK\$535 million (31 December 2020: HK\$6.997 billion). As mentioned above, although the Group failed to fulfil the contractual terms of bank borrowings and some subsidiaries of the Group are facing various litigations, the Group has been in active negotiations with banks on the renewal and waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of bank borrowings. 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 2021, 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 261.8% (31 December 2020: 189.4%). As at 30 June 2021, after excluding cash in bank and restricted bank deposits, the net debt/net gearing ratio was 215.2% (31 December 2020: 180.7%). The Board expects the above ratios will be improved upon completion of the Consolidated Restructuring.

CHARGES ON ASSETS

As at 30 June 2021, certain trade receivables of the Group with a carrying amount of approximately HK\$5 million (31 December 2020: HK\$5 million) were pledged against certain bank borrowings with a total amount of approximately HK\$47 million (31 December 2020: HK\$46 million).

As at 31 December 2020, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK\$792 million, certain investment properties of the Group with a carrying amount of HK\$208 million, and certain lease prepayments of the Group with a carrying amount of approximately HK\$491 million were pledged against certain bank borrowings with a total amount of approximately HK\$4.028 billion.

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

Save for the matters mentioned in the section headed “Updates on the Consolidated Restructuring of the 44 Relevant Subsidiaries”, as at the date of this announcement, the Group has no plan to make any significant investment in or acquisition of capital assets. Save as disclosed herein, the Group did not hold any other significant investment nor have any substantial acquisition and disposal of subsidiaries or associated companies during the Review Period.

CONTINGENT LIABILITIES

As at 30 June 2021, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group demanding them to repay the outstanding bank borrowings of approximately HK\$441 million (31 December 2020: HK\$2.306 billion) or otherwise assets of equivalent amount. The Group is negotiating with the banks to resolve such litigations. As at 31 December 2020, certain assets of the Group with a carrying amount of approximately HK\$136 million were frozen by the courts in the PRC, including the restricted bank deposits of approximately HK\$13 million.

As at 31 December 2020, 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\$193 million. However, based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group may be liable to pay approximately HK\$75 million for the settlement of 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 construction fee payables of approximately HK\$46 million and the corresponding late penalties of approximately HK\$2 million during 2020.

Upon the deconsolidation of subsidiaries and up to the date of this announcement, there were no other material contingent liabilities except mentioned above.

In respect of the progress of the above, the Company will make further announcements in due course in accordance with the requirements of 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 2021, the Group had approximately 1,400 (31 December 2020: approximately 10,400) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK\$352 million, accounting for 4.9% of the revenue of the Group (first half of 2020: HK\$305 million, accounting for 4.0% of revenue).

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 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 POLICIES 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 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 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 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 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 2021 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 2021 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, 31 August 2021

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.