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CHINA YURUN FOOD GROUP LIMITED
中國雨潤食品集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1068)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023 (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 2023 – unaudited

	<i>Notes</i>	Six months ended 30 June	
		2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	3	769,700	979,466
Cost of sales		<u>(700,679)</u>	<u>(913,212)</u>
Gross profit		69,021	66,254
Other net income	4	1,842	4,692
Distribution expenses		(27,664)	(23,523)
Administrative and other operating expenses		<u>(71,141)</u>	<u>(38,817)</u>
Results from operating activities		<u>(27,942)</u>	8,606
Finance income		354	300
Finance costs		<u>(18,280)</u>	<u>(20,448)</u>
Net finance costs	5(a)	<u>(17,926)</u>	<u>(20,148)</u>
Loss before income tax	5	(45,868)	(11,542)
Income tax credit/(expenses)	6	<u>6,719</u>	<u>(4,593)</u>
Loss for the period		<u>(39,149)</u>	<u>(16,135)</u>
Attributable to:			
Equity holders of the Company		(20,197)	(10,648)
Non-controlling interests		<u>(18,952)</u>	<u>(5,487)</u>
Loss for the period		<u>(39,149)</u>	<u>(16,135)</u>
Loss per share			
Basic	7(a)	<u>HK\$(0.011)</u>	<u>HK\$(0.006)</u>
Diluted	7(b)	<u>HK\$(0.011)</u>	<u>HK\$(0.006)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

for the six months ended 30 June 2023 – unaudited

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Loss for the period	(39,149)	(16,135)
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	<u>32,808</u>	<u>(6,178)</u>
Total comprehensive income for the period	<u>(6,341)</u>	<u>(22,313)</u>
Attributable to:		
Equity holders of the Company	<u>2,531</u>	<u>(8,711)</u>
Non-controlling interests	<u>(8,872)</u>	<u>(13,602)</u>
Total comprehensive income for the period	<u>(6,341)</u>	<u>(22,313)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 – unaudited

		30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	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		163,730	117,265
Trade and other receivables	9	376,619	390,635
Income tax recoverable		65	67
Cash and cash equivalents		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	10	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)
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)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2023 – unaudited

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Cash (used in)/generated from operations	(11,082)	13,997
Finance costs paid	(33)	(53)
Tax refunded/(paid)	<u>3,729</u>	<u>(1,954)</u>
Net cash (used in)/ generated from operating activities	(7,386)	11,990
Net cash used in investing activities	(5,035)	(5,085)
Net cash used in financing activities	<u>(2,323)</u>	<u>(13,793)</u>
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	<u>7,853</u>	<u>(12,950)</u>
Cash and cash equivalents at 30 June	<u><u>26,319</u></u>	<u><u>59,913</u></u>

NOTES:

1 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 2, the interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements.

The Group incurred a net loss of HK\$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 HK\$982,359,000 and HK\$500,934,000 respectively. At 30 June 2023, the Group’s bank borrowings amounted to HK\$468,831,000, while its cash and cash equivalents amounted to HK\$26,319,000 only.

As at 30 June 2023, certain bank borrowings amounted to HK\$429,579,000 together with the related accrued interest of HK\$240,764,000 (included in trade and other payables (note 10)) were overdue. In addition, the Group could not fulfil certain bank covenants relating to the abovementioned bank borrowings of HK\$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.

2 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.

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 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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'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	<u>549,207</u>	<u>721,623</u>	<u>231,711</u>	<u>258,007</u>	<u>780,918</u>	<u>979,630</u>
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)	<u>-</u>	<u>-</u>	<u>6,719</u>	<u>(4,593)</u>	<u>6,719</u>	<u>(4,593)</u>

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

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Revenue		
Total revenue from reportable segments	780,918	979,630
Elimination of inter-segment revenue	(11,218)	(164)
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Consolidated revenue	769,700	979,466
	<hr/> <hr/>	<hr/> <hr/>
Loss		
Total reportable segment results before income tax	(24,192)	16,391
Elimination of inter-segment profit	2,835	–
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	(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)
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Consolidated loss for the period	(39,149)	(16,135)
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4 OTHER NET INCOME

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Government subsidies	1,308	1,954
Provision for losses on litigations (<i>Note</i>)	(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
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	1,842	4,692
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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 5(a), included in provision for losses on litigations was litigation initiated by a commercial competitor in the People's Public of China ("PRC") claiming against a subsidiary of the Group in view of the economic losses due to patent of approximately HK\$229,000 (six months ended 30 June 2022: HK\$Nil).

5 LOSS BEFORE INCOME TAX

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

(a) Net finance costs

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

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

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 HK\$429,579,000 (31 December 2022: HK\$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
	HK\$'000	HK\$'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
	HK\$'000	HK\$'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 HK\$30,990,000 (six months ended 30 June 2022: HK\$35,720,000) relating to personnel expenses, which the amount is also included in the above note 5(b).

6 INCOME TAX (CREDIT)/EXPENSES

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'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.

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK\$20,197,000 (six months ended 30 June 2022: HK\$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.

8. PROPERTY, PLANT AND EQUIPMENT

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 HK\$32,422,000 (six months ended 30 June 2022: HK\$Nil) and HK\$3,160,000 (six months ended 30 June 2022: HK\$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.

9 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 HK\$'000	31 December 2022 HK\$'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.

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 2023 HK\$'000	31 December 2022 HK\$'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
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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
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	1,108,289	1,122,566
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11 DIVIDENDS

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

12 CONTINGENT LIABILITIES

As at the end of the reporting period, except as disclosed in note 5(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.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 “Haroulia” (“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 announcement, 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 announcement, 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.

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 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 2023 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 2023 interim report of the Company containing all the information required by Appendix 16 to the Listing Rules, as applicable, will be despatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board

Zhu Yuan

Chairman & CEO

Hong Kong, 18 August 2023

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 Xu Xinglian.