



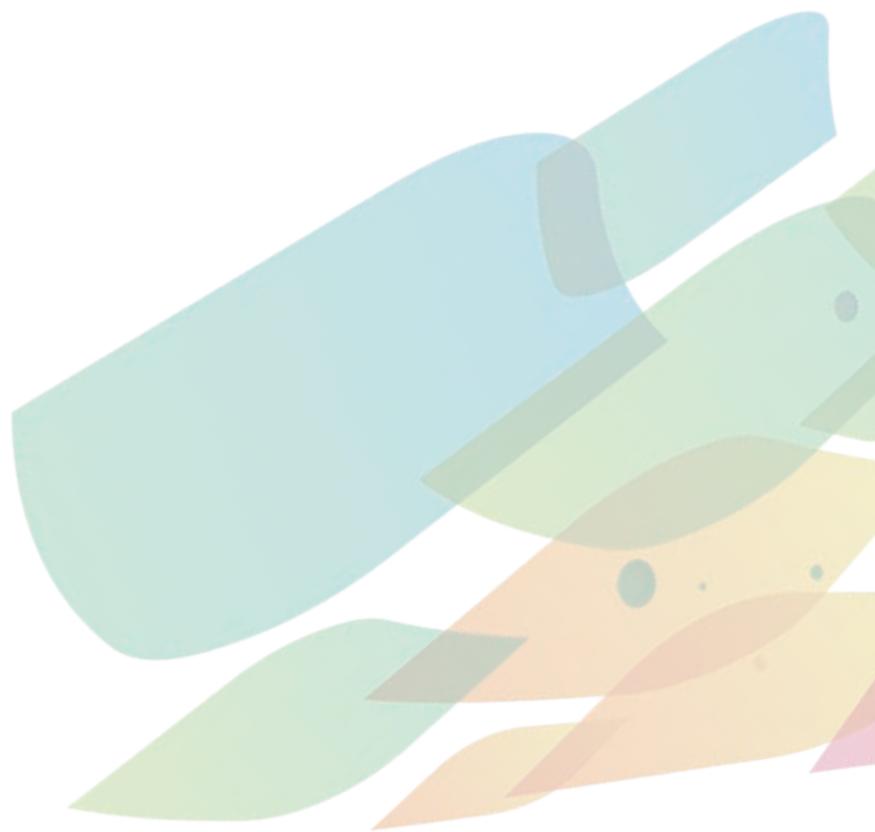
China Yurun Food Group Limited

中國雨潤食品集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1068

ANNUAL REPORT 2023



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Gao Hui (*Chairman*)
Chen Jianguo
Zhu Yuan

NOMINATION COMMITTEE

Chen Jianguo (*Chairman*)
Gao Hui
Zhu Yuan

COMPANY SECRETARY

Lee Wing Sze, Rosa *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Zhu Yuan
Lee Wing Sze, Rosa

AUDITOR

BDO Limited

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

10 Yurun Road
Jianye District
Nanjing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Harbour Road, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

As to Hong Kong Law

Sidley Austin
Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to Bermuda Law

Conyers Dill & Pearman

STOCK CODE

1068

WEBSITE

www.yurun.com.hk



CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS:

On behalf of the board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I hereby present to you the annual results of the Group for the year ended 31 December 2023 (the "Review Year").

BUSINESS REVIEW

During the Review Year, the global economy showed weak signs of recovery. The domestic situation in China was still under the lingering impact of the "scar effect" of the pandemic making the economic recovery a challenging one. Despite beginning to rebound from the lowest point, there is still insufficient consumer demand, overcapacity in some industries and weak societal expectations. Domestic market confidence still needs restoration.

During the Review Year, the Group continued to focus on the production and sales of its esteemed brands, Haroulian ("HRL") and "Dazhong Roulian". Notably, HRL holds a prestigious position as a China Well-known Trademark, while "Dazhong Roulian" has been honored by the Ministry of Commerce as a pioneer among the first batch of "China Time-honored Brands" and a leading enterprise in national agricultural industrialisation. Our main sales channels for HRL's business are through chain stores. Over the past year, the Group has closely followed market demand, adhered to innovation-driven strategies, explored new channel resources, and maintained a quality-based development philosophy, overcoming numerous difficulties to achieve steady performance improvement.



CHAIRMAN'S STATEMENT

Entering the “post-pandemic era” of 2023, the Group has embarked on a comprehensive strategy to expand transportation and tourism channels, established a presence in provincial capital-level cities throughout the Northeast China, covering airports, train stations, bus stations and core national tourist attractions, securing the consumer traffic and tourism market from the three Northeast provinces to the national market, thereby ensuring a robust and sustainable business growth. In 2023, the Group achieved a revenue of HK\$1.411 billion, with a loss attributable to equity holders of the Company of HK\$148 million. The loss arising from principal business was HK\$29 million, a 35.7% decrease in loss year-on-year.

In response to the changes and challenges in the consumer market, the Group will continue to focus on its core businesses, actively adopt new consumer demands and trends, and drive the Company forward with innovation. We will develop more new products favored by consumers, and create new growth opportunities to achieve high-quality development with pragmatism.

OUTLOOK

In 2023, the Chinese economy faced a tortuous recovery due to weak overseas economies and adjustments in the real estate sector, exerting greater overall pressure. However, it is expected that counter-cyclical policies such as stabilising confidence and promoting growth will be further intensified in 2024, with market confidence and economic vitality likely to improve as policies continue to take effect.

In the new year, we will continue to adhere to innovation-driven and quality-oriented development principals, focusing firmly on “management, profit making, cost reduction and team building” as our pragmatic management foundation. We will deepen enterprise management reform, continuously reform mechanisms, improve corporate efficiency and competitiveness. In 2024, in terms of channel development, the Group will pursue simultaneous online and offline channels based on “HRL” by expanding diversified sales channels, further enhancing brand recognition and market share. With “HRL franchise stores” as the core of channel development, the Group will optimise and intensify store presence

in Northeast China to solidify the core competitiveness advantage. We aim to lead in the “hot, marinated, fresh and smoked” product category in Northeast China, North China, Northwest China and East China (Three North and One East) and expand into in the South China and Southwest China markets, thus forming a basic landscape centered around the Northeast China and radiating out to the six major national regions. On the product end, the Group will solidify and enhance sales of main products, establishing HRL's leading position as a low-temperature meat-filled products and consistently strengthening the leading sales position of “HRL Red Sausage” in various regional markets, deeply exploring the traditional values of HRL, enhancing the research and development as well as improvement of traditional specialty products, and solidify the leadership of traditional products.

ACKNOWLEDGMENT

I would like to express heartfelt gratitude on behalf of the Board to all shareholders, customers, and partners who have always supported and trusted Yurun Food. I would also like to thank all employees in Yurun Food for their hard work and unwavering dedication over the past year. It is your contribution that have continuously brought vitality to Yurun Food. In the future, we will continue to move forward hand in hand, set sail anew, and open a new chapter together.

Zhu Yuan

Chairman

Hong Kong, 27 March 2024



MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY REVIEW

In 2023, China's economy began to recover. However, due to multiple domestic and international factors such as sluggish global economic growth and continuous adjustments in the real estate sector, the overall economy showed a weak recovery. The problems of insufficient demand and weak social expectations remained prominent. According to data released by the National Bureau of Statistics, China's gross domestic product (GDP) for 2023 is preliminary estimated to be about Renminbi ("RMB")126 trillion, with a year-on-year growth of 5.2% at constant prices. From the consumer perspective, after the release of pent-up demand at the beginning of the year, consumption tended to stabilise in mid-year. However, the overall societal purchasing power and willingness to purchase were insufficient, limiting consumption recovery. The consumer recovery in 2023 fell short of expectations, with the annual consumer price index (CPI) only increased by 0.2% from 2022.

In 2023, the hog production capacity in China remained stable. The total number of hogs slaughtered during the year was 727 million heads, a year-on-year increase of 3.8%; pork production was 57.94 million tons, a year-on-year increase of 4.6%. By the end of 2023, the stock of hogs was 434 million heads, a decrease of 4.1% from the end of the previous year. In the medium to long term, as pork is the main source of meat consumption for most residents in China, pork consumption is expected to increase steadily with the rise in residents' income. At the same time, upgrades in consumption will also lead to an increase in the demand of meat products. Coupled with the development of China's pork industry chain towards "centralised slaughtering, cold chain transportation and fresh on the market", slaughtering and meat processing enterprises with higher levels of standardisation and regulation will have greater development opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

China Yurun Food Group Limited (“Yurun Food” or “the Company”) and its subsidiaries (collectively referred to as “the Group”) faced unfavorable conditions such as weak market recovery and lack of consumer confidence during the financial year ended 31 December 2023 (the “Review Year”). The Group fully leveraged its resources, strategies, and brand advantages, prudently adjusted its product structure, and promoted stable business development in a complex and ever-changing market environment.

BUSINESS REVIEW

In 2023, domestic hog prices remained low due to the increase in supply capacity and the weaker-than-expected recovery in consumption. According to the statistics published by the Ministry of Agricultural and Rural Affairs of the People's Republic of China, the national average price of hogs for the whole year of 2023 was RMB15.35/kg, a year-on-year decrease of 19.3%; while the national average retail price of pork was RMB25.74/kg, a year-on-year decrease of 16.3%. The average purchase price of hogs for the Group decreased by 14.5% compared to last year.

Looking forward to 2024, supply pressure still exists and the speed of recovery in consumer demand is slow, which will continue to put pressure on hog prices. During the Review Year, the Group focused on developing the business of “Haroulian” (“HRL”) series brand. Centered around the trends of diversification and quality, the Group has been enriching its product varieties and improving product quality continuously, comprehensively meeting consumers’ demands for healthy and delicious products.

Product Quality and Research & Development

The Group is fully aware that product quality is the cornerstone of long-term development. The Group has therefore formulated a comprehensive internal quality control system covering the entire process of procurement, production, sales and logistics to ensure the quality and safety of its products. Through these standards and measures, the Group has established a good corporate image of food safety and quality products in the minds of consumers and gained a good market reputation.



MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group has always been committed to strengthening communication and cooperation with national and local quality supervision agencies at all levels. It actively cooperates with the relevant supervisory agencies on the requirements and guidance to ensure that the quality of its products complies with the national standards and regulations, so as to maintain a leading position in the industry. In the future, the Group will continue to invest in various quality inspection and testing fields to ensure that products comply with national regulatory requirements and provide consumers with safe, reliable, delicious and healthy meat products in the long run.

Sales and Distribution

During the Review Year, high value-added products such as chilled pork and low temperature meat products (“LTMP”) played an important role in driving the overall business development of the Group. In 2023, sales of chilled pork of the Group were HK\$835 million (2022: HK\$1.468 billion), decreased by 43.1% from last year, accounting for approximately 59% (2022: 68%) of the total revenue of the Group before inter-segment eliminations and approximately 85% (2022: 88%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK\$271 million (2022: HK\$285 million), decreased by 4.9% from last year, accounting for approximately 19% (2022: 13%) of the total revenue of the Group before inter-segment eliminations and approximately 61% (2022: 57%) of the total revenue of the downstream processed meat segment. The decrease in sales was mainly due to the slower-than-expected recovery in consumption and the decline in pork prices.

Product Quality and Research & Development

As at 31 December 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 at 31 December 2022.

FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK\$1.411 billion for the year 2023 (2022: HK\$2.162 billion). During the Review Year, the loss attributable to equity holders was approximately HK\$148 million (2022: HK\$15 million). Basic and diluted loss per share was HK\$0.081 (2022: HK\$0.008).

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 Year, the slaughtering volume experienced a decline of around 19.8% to approximately 0.5 million heads, as compared to last year. This decrease was primarily attributed to a sluggish sales market.

The average purchase price of hogs of the Group decreased by approximately 14.5% compared to 2022. Affected by the decline in pork prices, the overall sales revenue from the upstream business before inter-segment eliminations decreased by 41.3% to HK\$980 million (2022: HK\$1.670 billion) compared to last year. Among these, the revenue from chilled pork was HK\$835 million (2022: HK\$1.468 billion), and accounted for approximately 59% (2022: 68%) of the Group's total revenue before inter-segment eliminations and approximately 85% (2022: 88%) of the upstream business total revenue. The sales of frozen pork amounted to HK\$145 million (2022: HK\$202 million), representing approximately 15% (2022: 12%) of the total revenue of the upstream business.

MANAGEMENT DISCUSSION AND ANALYSIS

Processed Meat Products

During the Review Year, sales of processed meat products of the Group before inter-segment eliminations was HK\$445 million (2022: HK\$496 million).

Specifically, the revenue of LTMP was HK\$271 million (2022: HK\$285 million). LTMP continued to be the key revenue contributor of the processed meat business, accounting for approximately 61% (2022: 57%) of the total revenue of the processed meat segment. Revenue of high temperature meat products (“HTMP”) was HK\$174 million (2022: HK\$211 million), accounting for approximately 12% (2022: 10%) of the Group’s total revenue before inter-segment eliminations and approximately 39% (2022: 43%) of the total revenue of the processed meat segment, respectively.

Gross Profit and Gross Profit Margin

During the Review Year, the Group focused on the business of the HRL series brand which had higher gross profit margins, thus driving the increase in gross profit margin of LTMP. In addition, the increase in the proportion of LTMP in the Group’s revenue before inter-segment eliminations, contributed to an overall gross profit margin increase by 2.8 percentage points from last year’s 5.2% to 8.0%. The Group’s gross profit was HK\$113 million (2022: HK\$113 million), same as last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 2.0% and -3.5% respectively (2022: 1.6% and -0.6% respectively). The overall gross profit margin of the upstream segment was 1.2%, representing a slight decrease of 0.1 percentage point from 1.3% of last year.

In respect of the downstream business of processed meat products, the Group continuously optimised the products structure and focused on high-margin products. Combined with the decline in the prices of major raw materials, the gross profit margin of LTMP increased significantly by 11.4 percentage points from 18.0% of last year to 29.4%. The gross profit margin of HTMP slightly decreased by 0.9 percentage point to 17.9% from 18.8% of last year. The overall gross profit margin of the downstream business was 24.9%, an increase of 6.5 percentage points from 18.4% in last year.

Other Net (Losses)/Income

During the Review Year, the Group recorded other net losses of approximately HK\$105 million (2022: other net income of HK\$27 million). It was mainly attributable to the one-off written-off of value-added tax (“VAT”) recoverable of approximately HK\$99 million based on the latest review by the management that those production bases may not be able to operate in certain period of time in future and its VAT recoverable may not be utilised in a short period of time under current economic situation; and the net loss on disposal/written-off of non-current assets of approximately HK\$18 million.

Impairment Losses on Non-Current Assets

As at 31 December 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” (IAS 36). With reference to the valuation assessment results of the recoverable amount of property, plant and equipment of those non-operating production bases conducted by an independent professional valuer, impairment losses of approximately HK\$56 million was recognised for the Review Year. The impairment losses of non-current assets are accounting losses and non-cash items which do not affect the cash flow of the Group’s operating activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK\$177 million (2022: HK\$121 million), accounting for 12.6% (2022: 5.6%) of the Group's revenue, which included impairment losses on non-current assets of approximately HK\$56 million (2022: HK\$Nil). Operating expenses after exclusion of impairment losses amounted to HK\$121 million, similar to last year. It accounts for 8.6% of the Group's revenue (2022: 5.6%).

Results of Operating Activities

During the Review Year, the Group's operating loss was approximately HK\$170 million (2022: profit of approximately HK\$18 million).

Net Finance Costs

During the Review Year, the net finance costs of the Group were approximately HK\$38 million (2022: HK\$38 million).

Income Tax

During the Review Year, the income tax credit was approximately HK\$7 million (2022: expense of HK\$6 million).

Loss Attributable to the Equity Holders of the Company

Taking into account the above factors, loss attributable to the equity holders of the Company during the Review Year was approximately HK\$148 million (2022: HK\$15 million). During the Review Year, loss arising from principal business, being loss for the year excluding government subsidies, written-off of VAT recoverable, impairment losses, gain/loss on disposal of non-current assets, gain on extinguishment of debt, net foreign exchange gain/loss and reversal of provisional losses on litigations, was approximately HK\$29 million (2022: HK\$45 million). The main reason for the reduction in loss was the gradual effectiveness of measures to improve operations.

FINANCIAL RESOURCES

As at 31 December 2023, the Group's cash and cash equivalents was HK\$39 million, representing an increase of HK\$6 million as compared to HK\$33 million as at 31 December 2022. Of this, approximately 94% (31 December 2022: 79%) was denominated in RMB, and approximately 2% (31 December 2022: 15%) was denominated in US Dollars ("USD"), with the remaining amount in other currencies.

As at 31 December 2023, the Group had outstanding bank borrowings of HK\$468 million, representing a decrease of HK\$16 million from HK\$484 million as at 31 December 2022, of which HK\$446 million of bank borrowings were due within one year. During the Review Year, the Group repaid bank borrowings of approximately HK\$10 million. Please refer to the paragraph headed "Breach of Borrowings Agreements" below for the details regarding the Group's breach of loan agreements.

All borrowings were denominated in RMB, which was the same as the borrowings as of 31 December 2022. As at 31 December 2023, the Group's fixed-rate debt ratio was 75.0% (31 December 2022: 73.6%).

During the Review Year, the net cash inflow of the Group mainly consisted of a net amount of approximately HK\$20 million from operating activities and net proceeds from disposal of non-current assets after deduction of repayment of bank borrowings and capital expenditure.

During the Review Year, the capital expenditure was approximately HK\$14 million (2022: HK\$5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BREACH OF BORROWINGS AGREEMENTS

As at 31 December 2023, the Group could not fulfill certain covenants imposed by the bank on the bank borrowings of HK\$437 million (31 December 2022: HK\$443 million). All of these bank borrowings and the accrued interest of HK\$263 million (31 December 2022: HK\$232 million) were overdue.

The above bank borrowings were secured by corporate guarantees provided by certain restructuring companies. Such debts have been incorporated as part of the consolidated restructuring as mentioned in the Company's 2021 and 2022 annual financial reports. 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 realise 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 realise 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 realising their rights. If the creditors fail to realise 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 realise 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 borrower (being a subsidiary of the Group) in accordance with the respective loan agreements.

Subsequent to 31 December 2023 and up to the date of this report, the aforesaid bank borrowings had not been renewed.

The Group has been closely communicated with the banks (including 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. During the course of communication, the Group was given to understand that the banks would not take any radical actions against the Group and all parties hoped that the Group can sustain normal operations. As such, the Board believes that the likelihood of immediate repayment demand is not high and the above matters do not have significant adverse impact on the operations of the Group.

ASSETS AND LIABILITIES

As at 31 December 2023, the total assets of the Group were HK\$1.012 billion (31 December 2022: HK\$1.177 billion), a decrease of HK\$165 million from 31 December 2022. The Group's total liabilities as at 31 December 2023 were HK\$1.701 billion, an increase of HK\$30 million from HK\$1.672 billion as at 31 December 2022.

As at 31 December 2023, the property, plant, and equipment of the Group amounted to HK\$326 million (31 December 2022: HK\$449 million), a decrease of HK\$123 million from 31 December 2022. The decrease was mainly due to the provision of impairment losses of HK\$56 million made during the Review Year.

As at 31 December 2023, the lease prepayments of the Group amounted to HK\$46 million (31 December 2022: HK\$91 million). This represented the purchase cost of land use rights of the Group which was amortised on a straight-line basis over the respective period of the rights. The decrease was mainly due to the written-off of land use rights amounted to HK\$43 million during the Review Year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 VAT recoverable. As at 31 December 2023, they amounted to approximately HK\$2 million (31 December 2022: HK\$2 million) and HK\$40,000 (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 amortise yet. The decrease was mainly due to the written-off of VAT recoverable as mentioned in the paragraph headed “Other net (losses)/income”.

Despite the net liabilities position as at 31 December 2023, the Group had non-current assets of approximately HK\$374 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 are confident that they will return the Group to its net assets position from net liabilities.

As at 31 December 2023, the net current liabilities of the Group were HK\$979 million (31 December 2022: HK\$1.038 billion). Its current bank borrowings amounted to HK\$446 million (31 December 2022: HK\$453 million), while the cash and cash equivalents amounted to approximately HK\$39 million (31 December 2022: HK\$33 million).

As mentioned above, although the Group failed to fulfil certain contractual terms of bank borrowings and is facing various litigations, the Group has been actively communicating with the banks to discuss renewal and waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements. Meanwhile, the Group endeavored to persuade the banks to realise their rights as creditors within the relevant time frame under the consolidated restructuring plan. We consider the negotiations have been relatively positive. Given 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 Year.

As the equity attributable to equity holders of the Company was a deficit of approximately HK\$695 million, it is not appropriate to calculate the gearing level as at 31 December 2023.

CHARGES ON ASSETS

As at 31 December 2023, certain trade receivables of the Group with a carrying amount of approximately HK\$13 million (31 December 2022: HK\$12 million) were pledged against a bank borrowing with a total amount of approximately HK\$31 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

Having considered the current operation and cash flow of the Group, the Board is more cautious on capital expenditure in 2024. It is currently expected that the preliminary approval of the plan to be approximately RMB15 million. The amount will be used mainly for the construction in progress already commenced, regular maintenance of factories, upgrading and technical transformation of equipment. As at the date of this report, the relevant budgets and plans have not yet been finalised, and the Group has not identified any specified goals or plans at this stage.

MANAGEMENT DISCUSSION AND ANALYSIS

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

CONTINGENT LIABILITIES

As at 31 December 2023, there were outstanding litigations initiated by banks in the PRC against a subsidiary of the Group demanding that subsidiary to repay the outstanding bank borrowings of approximately HK\$437 million (31 December 2022: HK\$443 million) immediately. For details, please refer to note 25(iii) to the consolidated financial statements. The Group is negotiating with the banks to resolve such litigations. Save as disclosed above, the Group did not involve in any other material litigation or arbitration and did not have other material contingent liabilities.

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Other than purchases of certain equipment and materials and payment of certain professional fees in USD, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. RMB is the functional currency of the operating subsidiaries of the Group in the PRC, and is not freely convertible into foreign currencies. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

HUMAN RESOURCES

As at 31 December 2023, the Group had a total of approximately 1,000 (31 December 2022: approximately 1,400) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK\$99 million, accounting for 7.0% of the revenue of the Group (2022: HK\$106 million, accounting for 4.9% of revenue).

The Group firmly believes that the professional knowledge, capabilities and development of our employees will determine the height of corporate development. The Group is committed to providing competitive remuneration and other employee benefits, including retirement contributions schemes as social security program. In line with the industry and market practice, the Group offers performance-based bonus incentives and share option scheme to enhance employees' sense of belonging to the Group; it also encourages employees to innovate and improve. In addition, the Group also invests resources in providing continuous education and training for the management personnel and other employees, aiming to continuously improve the technical and knowledge levels of employees and enhance their competitiveness.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As global climate issues become increasingly severe, the low-carbon economy has emerged as a future development trend. More and more companies are beginning to focus on environmental protection and energy-saving issues and are implementing low-carbon business models. As a responsible corporation, the Group recognises its duties and mission as a public company and actively fulfils environmental protection measures, striving to reduce the negative impact of production and business activities on the environment.

During the Review Year, the Group adhered to green and low-carbon production methods and continued to increase investment in environmental protection and research and development. Through a variety of measures, the Group is striving to reduce waste emissions during the production process, promoting the green transformation and upgrade of the enterprise. In the future, the Group will continue to uphold the philosophy of green development, take sustainable development as its responsibility, integrate the concept of energy saving and green production into its corporate culture, and contribute to China's low-carbon development with Yurun Food's efforts.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Zhu Yuan, aged 37, has been appointed as an executive Director, the Chairman of the Board, the Chief Executive Officer, a member of both the Nomination Committee and Remuneration Committee and an authorised representative of the Company effective from 28 March 2019. Ms. Zhu obtained a bachelor's degree of commerce in business economics and finance from The University of New South Wales and a master's degree of business administration from The University of Technology, Sydney. She has passed papers 1 and 6 in the Licensing Examination for Securities and Futures Intermediaries. Ms. Zhu has 11 years of working experience in management, human resources, finance analysis and investment. Ms. Zhu is a Director of 南京中央商場(集團)股份有限公司(Nanjing Emporium (Group) Co. Ltd.) which is listed on the Shanghai Stock Exchange. Ms. Zhu is the daughter of Mr. Zhu Yicai, a substantial shareholder of the Company.

Mr. Yang Linwei, aged 55, joined the Group in March 1996 and is a vice president of the Group. He has 28 years of experience in the meat products industry. Mr. Yang was appointed as an executive Director of the Company with effect from 20 June 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Hui, aged 55, has been an independent non-executive Director of the Company since April 2005. He is a certified public accountant in the PRC and certified tax advisor in the PRC. Mr. Gao is the chairman and general manager of Jiangsu Jinling Certified Public Accountants Company Limited and the general manager of Jiangsu Jinling Engineering Consulting and Management Company Limited. Mr. Gao graduated from Jiangsu Radio and TV University specialised in finance and accounting.

Mr. Chen Jianguo, aged 63, has been an independent non-executive Director of the Company since January 2010. He is a practising lawyer in the PRC and has been a partner of 江蘇金大律師事務所 (Jiangsu Jinda Law Office) since January 2003. Mr. Chen graduated from Fudan University with specialisation in economic law and obtained a master's degree in economic law from the Graduate School of The Chinese Academy of Social Sciences.

Ms. Xu Xinglian, aged 61, has been an independent non-executive Director of the Company with effective from 18 April 2023. She is a professor and supervisor to doctoral students of Nanjing Agricultural University in China. Ms. Xu is an academic in food science with over 30 years of teaching experience in meat processing, and quality and safety control. Ms. Xu obtained a bachelor's degree and a master's degree in agriculture from Nanjing Agricultural University in 1985 and 1997, respectively, and a doctorate of engineering in food science from Nanjing Agricultural University in 2003.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

China Yurun Food Group Limited (the “Company”, together with its subsidiaries, the “Group”) is committed to achieving high standard of corporate governance to safeguard shareholders’ interest and to enhance corporate value and accountability. Throughout the year from 1 January 2023 to 31 December 2023 (the “Review Year”), the Company has complied with all applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) (the “Listing Rules”) (i.e. the new Appendix C1 to the Listing Rules with effect from 31 December 2023), except for the following deviation:

Code provision C.2.1 of the CG Code provides that 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. Meanwhile, Ms. Zhu Yuan acts as both the Chairman of the Board and Chief Executive Officer of the Company. The board (the “Board”) of directors of the Company (the “Directors”) believes that vesting the roles of the Chairman and the Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing business strategies and executing business plans, and is beneficial to the business prospects and management of the Group. The Board believes that the balance of power can be ensured by the composition of the Board which includes members who are experienced and technical individuals and of which more than half are independent non-executive Directors. In the long run, the Company would source and appoint suitable individual to take up the role of Chief Executive Officer.

The following summarises the Company’s corporate governance practices during the Review Year.

BOARD OF DIRECTORS

The Company is managed through the Board which currently comprises five Directors including, Zhu Yuan (Chairman and Chief Executive Officer), and Yang Linwei as executive Directors and Gao Hui, Chen Jianguo and Xu Xinglian as independent non-executive Directors. The biographical details of the Board members are set out on page 15 of this annual report. With the exception of Xu Xinglian who was appointed as an independent non-executive Director with effect from 18 April 2023, all other Directors as at the date of this annual report served throughout the Review Year.

The Board, led by its Chairman and the Chief Executive Officer, is responsible for approving and monitoring the Group’s overall strategies and policies, approving annual budgets and business plans, evaluating the performance of the Group, and supervising the management. The Chairman and the Chief Executive Officer also leads the Board to ensure that it acts in the best interests of the Company and its shareholders. To facilitate effective management, the Board has delegated certain functions to various Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these Board committees operates under clearly defined written terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Hong Kong Stock Exchange. Chairman of the Board committees will report to the Board on issues discussed and concluded at the respective committee meetings.

CORPORATE GOVERNANCE REPORT

The Chairman and the Chief Executive Officer ensures that the Board works effectively and objectively and all decisions are made in the interest of the Group and all key and appropriate issues are discussed by the Board members in a timely and effective manner. If a Director or his/her associate has a conflict of interest in a matter to be considered by the Board, he/she must declare such interest at the Board meeting. If the Board determines such interest to be material, the relevant Director must abstain from voting and shall not be counted in the quorum present at such Board meeting. The Chairman and the Chief Executive Officer has appointed the Company Secretary to prepare agenda for each Board meeting and to ensure that all Directors are properly briefed on issues to be discussed at Board meetings and receive adequate and accurate information in a timely manner. The Company Secretary, Lee Wing Sze, Rosa is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Lee has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the Review Year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board delegates the day-to-day operational responsibilities to the executive management team under the leadership of the Chairman and Chief Executive Officer. The Chairman and Chief Executive Officer, working with the executive management team, is responsible for the business operation of the Group, including implementation of the strategies adopted by the Board.

The Chairman of the Board and Chief Executive Officer is Zhu Yuan. She focuses on the overall corporate development and high-level strategic directions of the Group, provides leadership to the Board and oversees the efficient functioning of the Board.

The executive Directors have extensive experience in the food industry while the independent non-executive Directors are well established in their respective professions. The Board consists of members with diversified background, professional expertise and experience to meet the business requirements of the Group, and as a team, provides the Group with core competencies such as industry knowledge, technical expertise, business management experience and knowledge in finance, accounting, business and laws.

Independent non-executive Directors are selected according to the skills and experience required by the Board. They introduce an element of independence to the Board and contribute to the development of the Group's strategies and policies by providing their independent, constructive and informed opinions. One of the independent non-executive Directors, Gao Hui has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. The Company has received an annual confirmation of independence from each of the independent non-executive Directors, and the Board considered that each of the independent non-executive Directors has satisfied the independence criteria set out in Rule 3.13 of the Listing Rules.

In order to enable the Directors to discharge their duties effectively, each Director has separate and independent access to members of the management to make enquiries or obtain necessary information. Directors may also seek advices and services from external experts and consultants at the Company's expense for the purpose of facilitating them to make an informed decision. The independent non-executive Directors are not involved in daily management and they give independent views on the deliberations of the Board.

CORPORATE GOVERNANCE REPORT

In accordance with the Bye-laws of the Company, all Directors appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall hold office until the conclusion of the next following general meeting of the Company subsequent to their appointments and shall then be eligible for re-election. All Directors shall be subject to retirement by rotation at least once every three years in accordance with Code provision B.2.2 of the CG Code and the Bye-laws of the Company.

Each independent non-executive Director is appointed for a fixed term of three years according to the respective letter of appointment.

The members of the Board (including the Chairman and the Chief Executive Officer) do not have any relationship (including financial, business, family and other material/relevant relationships) with each other as required to be disclosed pursuant to the CG Code.

The Company has maintained appropriate insurance coverage for Directors' and executive officers' liabilities arising from the Group's business. The coverage is reviewed by the management on an annual basis.

During the Review Year, the Board held four regular meetings at approximately quarterly intervals to discuss overall strategy as well as operations and financial performance of the Group. It also held several ad hoc meetings as and when required. The attendance of the regular Board meetings, the Board committee meetings and the annual general meeting during the Review Year are as follows:

Number of regular Board meetings, Board committee meetings and annual general meeting attended/held during the Review Year

	Board*	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Zhu Yuan (<i>Chairman and Chief Executive Officer</i>)	4/4	N/A	2/2	2/2	1/1
Yang Linwei	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Gao Hui	4/4	4/4	2/2	2/2	1/1
Chen Jianguo	4/4	4/4	2/2	2/2	1/1
Xu Xinglian (<i>appointed on 18 April 2023</i>)	3/3	2/2	N/A	N/A	1/1
Miao Yelian (<i>resigned on 18 April 2023</i>)	1/1	2/2	N/A	N/A	N/A

* Ad hoc meetings are not included

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Every Director fully observes his or her responsibilities as a Director of the Company and keeps abreast of the conduct, business activities and development of the Company. Directors are continually updated with regulatory and governance developments. They are encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills. The Company has devised a training record to assist the Directors to record and monitor the training they have undertaken on an annual basis.

During the Review Year, the Company provided all members of the Board with monthly updates on the Company's performance, financial position and prospects. In addition, all Directors have been given relevant guidance materials regarding the duties and responsibilities of being a director and have been updated on the latest developments regarding the Listing Rules, the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO") and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practice.

Each newly appointed Director (if any) is provided with comprehensive induction and information to ensure that he or she has a proper understanding of the Company's business as well as his or her responsibilities under the relevant statutes, laws, rules and regulations. Prior to her appointment, Ms. Xu Xinglian attended an induction training on 11 April 2023 to fully understand her obligations as a Director of the Company.

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with defined terms of reference in line with the CG Code since the Company's shares were listed on the Hong Kong Stock Exchange. The written terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee, which have been reviewed from time to time by the Board to keep them in line with the most up-to-date requirements, are available on the websites of the Company and the Hong Kong Stock Exchange.

The Board has delegated the corporate governance duties to the Audit Committee and the Audit Committee is responsible for performing the corporate governance duties as set out in the CG Code which include developing and reviewing the Company's policies and practices on corporate governance (including those on compliance with legal and regulatory requirements), monitoring the Company's compliance with the CG Code and reviewing the disclosure in this Corporate Governance Report.

The Board has also delegated the risk management and internal control duties to the Audit Committee and the Audit Committee is responsible for assisting the Board to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Group's strategic objectives, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and assisting the Board to oversee management in the design, implementation and monitoring of the risk management and internal control systems as set out in the CG Code.

CORPORATE GOVERNANCE REPORT

Details of these Board committees, including their compositions, major responsibilities and functions, and works performed during the Review Year are set out in the table below:

	Audit Committee	Remuneration Committee	Nomination Committee
Committee members	Gao Hui* (<i>Chairman</i>) Chen Jianguo* Xu Xinglian* <i>(appointed on 18 April 2023)</i> Miao Yelian* <i>(resigned on 18 April 2023)</i>	Gao Hui* (<i>Chairman</i>) Chen Jianguo* Zhu Yuan+	Chen Jianguo* (<i>Chairman</i>) Gao Hui* Zhu Yuan+
Major responsibilities and functions	<ul style="list-style-type: none"> To serve as a focal point for communication among the Directors, the external auditors and the management in connection with its duties relating to financial and other reporting, risk management, internal controls and audits To assist the Board in fulfilling its responsibilities by providing an independent review of the financial reporting function, assessing the effectiveness of the Company's risk management and internal control systems and the efficiency of the audit function To perform the corporate governance duties which include developing and reviewing the Company's policies and practices on corporate governance, reviewing the Company's compliance with the CG Code and reviewing the disclosure in the Corporate Governance Report and reviewing and monitoring the training and continuous professional development of the Directors and senior management 	<ul style="list-style-type: none"> To make recommendations to the Board regarding the Group's policy and structure for the remuneration and other benefits for Directors by reference to the Group's corporate goals and objectives To determine the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and terms of the executive Directors' service contracts 	<ul style="list-style-type: none"> To review the structure, size and composition (including skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to align with the Company's corporate strategy To identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise To assess the independence of the independent non-executive Directors To make recommendations to the Board on the succession planning for Directors and senior management of the Group

* Independent non-executive Director

+ Executive Director

CORPORATE GOVERNANCE REPORT

	Audit Committee	Remuneration Committee	Nomination Committee
Work performed during the Review Year	<ul style="list-style-type: none">• Reviewed the Group's annual and interim financial statements before submission to the Board for approval• Reviewed the independence of the external auditor in connection with their provision of non-audit services to the Group and approved their remuneration and terms of engagement• Reviewed the effectiveness of the Group's financial management, internal control and risk management systems, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget• Reviewed the continuing connected transactions of the Group• Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report• Reviewed and monitored the training and continuous professional development of the Directors and senior management• Made recommendation to the Board on the re-appointment of external auditor	<ul style="list-style-type: none">• Reviewed remuneration policy and remuneration for the Directors	<ul style="list-style-type: none">• Reviewed and recommended the structure, size and composition of the Board• Reviewed the performance of the independent non-executive Directors• Reviewed the independence of the independent non-executive Directors• Reviewed and recommended on the suitability for the re-appointment of the Directors retiring at the annual general meeting with reference to their past performance

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (i.e. the new Appendix C3 to the Listing Rules with effect from 31 December 2023) as its own code of conduct regarding securities transactions of the Directors. The Company has made specific enquiries with all Directors who have confirmed that they have complied with the required standards set out in the Model Code throughout the Review Year.

REMUNERATION POLICY

The Remuneration Committee has to consult the Chairman and the Chief Executive Officer of the Company about its proposals relating to the remuneration of the Directors. The remuneration structure for the executive Directors consists of two key elements, namely fixed salary and discretionary incentive bonus. Fixed salary and other allowances are determined by reference to the remuneration benchmark in the industry and the prevailing market conditions. The discretionary incentive bonus, which comprises cash bonus and share options granted under the Company's share option scheme, is performance-based and is payable and granted upon achievement of individual and corporate performance targets as determined by the Board from time to time.

NOMINATION POLICY

The Nomination Committee adopts certain criteria and procedures in the selection and nomination of candidates of new Directors. The criteria include but are not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, in particular experience in the Group's industry, and recommendations from the management team and other knowledgeable individuals.

Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment. The Nomination Committee will also provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate. The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and the Remuneration Committee will make the recommendation to the Board on the policy and structure for the remuneration, for detail discussion and final approval by the Board.

BOARD DIVERSITY POLICY

The Board has adopted a Board diversity policy on 29 August 2013 setting out the approach to achieve diversity of members of the Board. The Company recognises and embraces the benefits of diversity of Board members. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be made upon the merit and contribution that the selected candidates will bring to the Board. In determining the Board's composition, the Company will also take into account factors based on its own business model and specific needs from time to time. The Nomination Committee will review the implementation and effectiveness of the Board diversity policy on an annual basis, to ensure its effectiveness and continue to give adequate consideration to the above measurable objectives when making recommendations of candidates for appointment to the Board.

CORPORATE GOVERNANCE REPORT

As at the date of this report, the Board comprises five Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service. The Company have three independent non-executive Directors with different industry background, including accounting, legal and food engineering experience. Furthermore, our Directors are of a wide range of age, from 37 years old to 63 years old. With regards to gender diversity on the Board, the Company recognise the particular importance of gender diversity. Our Board currently comprises two female Directors and three male Directors. The biographical details of the Board members are set out on page 15 of this annual report.

The Company will also ensure that there is gender diversity when recruiting staff at mid to senior level so that the Company will have a pipeline of female senior management and potential successors to our Board going forward. It is our objective to maintain an appropriate balance of gender diversity with reference to the expectations of shareholders and international and local recommended best practices.

AUDITORS' REMUNERATION

Details of the fees paid or payable to the Group's external auditors for the Review Year are as follows:

Services provided	Fees
	\$'000
2023 annual audit	1,250
Non-audit services*	550
Total	1,800

* Non-audit services mainly consist of works performed on preliminary results announcement and interim report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for maintaining appropriate and effective risk management and internal control systems (the "Systems"). The Systems are designed to manage rather than eliminate risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirmed that the Systems were in place and were effective throughout the Review Year.

Objectives of the Systems

The Systems are established with objectives of reasonably assuring that the shareholders' interest and the assets of the Group are safeguarded, operational controls are in place, business risks are properly managed, accounting records and financial information are kept, and, where appropriate, the relevant laws and regulations and best practices are observed.

CORPORATE GOVERNANCE REPORT

Risks and control measures

The Group's business, financial conditions and results may be affected by risks and uncertainties pertaining to the Group's business. Certain significant risks have been identified by the Group through the process of risk identification and assessment. Such significant risks and their respective control measures are set out below:

Material risks relating to our business

Our business may be affected by economic climate and individual market performance

The sales and performance of the Group would be influenced by the relationship between economic conditions and consumer confidence, as well as their consumption patterns. Similarly, consumers' expenditure on meat products would be impacted by the economic growth or decline in our geographic markets, which in turn affects consumers' expenditure on meat products.

The Group continues to develop and enhance its presence in different geographic markets to reduce reliance and economic fluctuations that may affect our business on certain specific markets. Sales reports and analysis of each market are conducted on a regular basis such that their performance can be easily accessed.

If there is any interruption to the supply of hogs, raw pork or other major raw materials or decline in their supply or quality, our business may be materially and adversely affected.

Hogs and raw pork are the respective principal raw materials used in our production in upstream and downstream segments. We purchase hogs and part of the raw pork from certain third party suppliers. Our third party suppliers may not be able to consistently supply us with adequate quantity of hogs and raw pork to satisfy our present and future production needs. Hog supply is subject to the output of pig farms, which may be affected by outbreaks of diseases or epidemics. Any interruption of or decline in hog or raw pork supply or decline in their quality could materially disrupt our production and adversely affect our business. In addition to hogs and raw pork, we also purchase from third party suppliers the auxiliary materials and packaging materials for our production. Any interruption of the decline in auxiliary materials or packaging materials supply or decline in their quality may also disrupt our production and adversely affect our business.

The Group has always emphasised the quality and supply of raw materials and adopted a number of measures to ensure the stability and sustainability of the supply chain, including:

- We negotiate with at least three or more suppliers on the supply of hogs, raw pork or other major raw materials. We monitor the source of our major raw materials and the rationality of procurement ratio of each supplier on a timely basis;
- According to the sales market forecast, we maintain inventory at reasonable level for different raw materials to deal with emergencies;
- The cooperation agreements signed by the Group and the suppliers include the provisions of quality and safety and stable supply of raw materials in order to reduce the relevant risks;

CORPORATE GOVERNANCE REPORT

- We visit the production sites of the suppliers regularly to understand their operation and to ensure that the quality of raw materials and the production capacity of suppliers are truly assessed; and
- We pay attention to media news, in particular the news of our key suppliers in respect of their possible financial, business and quality problems, and develop contingency plan to cope with unexpected disturbances of raw materials supply.

Our business is sensitive to the impact of further increase in raw materials price (particularly hogs and raw pork) and other operating costs. We may not be able to fully transfer the rising costs to our customers, particularly customers of our processed meat products.

We purchase agricultural products, such as hogs and raw pork, for production use. Price of such raw materials is subject to fluctuations, attributable to a number of factors, such as diseases, infections and the price of animal feed. During the Review Year, the Group's average purchase price of hogs fluctuated ranging from approximately RMB14.26 to RMB17.14 per kilogram. If the costs of raw materials or other costs of production and distribution of our products further increase and we are unable to entirely offset the cost increase by raising our product price, our profit margins and financial condition may be adversely affected.

In view of the fluctuation of raw material prices, the Group has formulated different plans for upstream and downstream segments to reduce its cost pressure:

- Upstream slaughtering segment: The price of fresh meat varies along with the price of hogs. When the price of hogs is expected to rise, the Group will increase the stock of hogs to cope with the cost pressure. When the price of hogs is expected to drop, the Group will reduce the stock to minimise the inventory cost.
- Downstream processed meat segment: We control the costs through strategic inventory management of raw materials which is based on predictions of market trend and thus allowing a reasonable time to adjust selling price of the products.

If the chilled and frozen pork market in China does not grow as we expect or we are unable to predict the changes in consumer preferences for processed meat products, demand for our products may decline.

If the chilled and frozen pork market in China does not grow as we expect, our business may be harmed, our growth strategy may need adjustment and our results of operation may be adversely affected. Our continued success in the processed meat products market, to a great extent, depends on our ability to correctly predict, and develop products to satisfy consumers' ever-changing tastes, diet and preferences. If we are not able to predict or identify new consumption trends and develop new products accordingly, demand for our products may decline and our operating results may be adversely affected. In addition, we may incur significant costs in developing and marketing new products or expanding our existing production lines in response to the consumer preference or demand we perceive. Such development or marketing, even launched, may not result in the expected market acceptance, sales volume or profitability.

With respect to the research, development and promotion of new products, the Group has been adopting a three-steps prudent approach which involves initial test, advanced test and production, to gradually launch products which can meet market demands. At the same time, according to the analysis on sales performance of each product, some products will be eliminated from time to time due to low volume of sales, low profit margin and no market potential. We continue to maintain our premium quality through product improvement and innovation of new products.

CORPORATE GOVERNANCE REPORT

We require various licences and permits to operate our business, and if we fail to renew any or all of these required licences and permits, our business may be materially and adversely affected.

In accordance with the relevant laws and regulations of the PRC currently in force, we are required to obtain various licences and permits in order to operate our business, including, without limitation to, a slaughtering permit in respect of each of our chilled and frozen pork production facilities or a permit for production of industrial products in respect of each of our processed meat production facilities. We are required to comply with the applicable hygiene and food safety standards in relation to our production processes. Our factories are subject to regular inspections by the regulatory authorities for compliance with the applicable laws and regulations. In the event of failure to pass these inspections or failure to renew or loss of our licences and permits, the regulatory authorities may require us to suspend or close some or all of our production or distribution operations, which may disrupt our operations and adversely affect our business.

We understand the importance of obtaining applicable licenses and permits for our business. We continue to improve our production management system in order to ensure compliance with laws and regulations of the country or region governing the production and operation. We have dedicated staff to make regular inspection and give guidance to our factories, and update or procure the factories to update the renewal status of licenses every month.

Financial risks

In the course of our business activities, the Group is exposed to various financial risks, including market risks, liquidity risks and credit risks. The monetary environment and interest rates cycles may pose significant risks to the Group's financial condition, operating results and businesses. Details of the financial risk management of the Group are set out in note 31 to the consolidated financial statements.

The Group is in net liabilities position as at 31 December 2023 and there is a risk that the Group cannot meet its financial obligations as and when they fall due. The Group still had adequate non-current assets to support its daily production and operations. Our Directors believe that this net liabilities position has not materially impaired the Group's ability to continue its daily business operations.

Litigation risks

In the course of our business activities, the Group is exposed to various litigation risks, for details, please refer to the section "Contingent Liabilities" in "Management Discussion and Analysis".

Material risks relating to our industry

The hog slaughtering and processed meat industries in China are subject to extensive governmental regulations and policies, and changes in the relevant regulations and policies may affect our business.

The hog slaughtering and processed meat industries in China are strictly regulated by a number of governmental authorities, including primarily the Ministry of Agriculture and Rural Affairs, the Ministry of Commerce, the State Administration of Market Regulation, and the Ministry of Ecology and Environment. These regulatory authorities have extensive discretion and authority to regulate the hog slaughtering and processed meat industries in China in many aspects, including, without limitation to, setting hygiene standards for production and quality standards for processed meat products. If the Group fails to comply with the standards set by the relevant regulatory authorities or such standards result in increase in our production costs and product prices which render our products less competitive, our ability to sell products in China may be limited.

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The Group's management and operation policies closely follow the directions of the government to minimise the risk of deviation. At the same time, we keep close contact with major government departments, keep abreast with the industry development and actively participate in the making of industry policies, laws and regulations in order to prevent the adverse impact on the sudden change of any policies.

The outbreak of COVID-19 pandemic, animal diseases or other epidemics may adversely affect our operations.

The COVID-19 pandemic delivered a heavy blow to the overall retail market, causing disruptions of offline consumer activities. The outbreak of serious animal diseases, such as African Swine Fever, foot-and-mouth disease and blue ear pig disease, or other epidemics in China affecting animals or humans might also result in material disruptions to the operations of our customers or suppliers, sluggish performance of supermarket or food retail industry or slowdown in economic growth in China and surrounding regions, and any of which could have a material adverse effect on our operations and revenue. However, there is no assurance that our production facilities or products will not be affected by the outbreak of animal diseases or other epidemics, or that the market demand for pork products in China will not decline due to the concerns about the disease. In either case, our business, results of operations and financial condition may be adversely and materially affected.

The Group minimises the potential impact of the outbreak of animal diseases or other diseases through the adoption of the following measures:

- Strengthening disease surveillance: The hogs purchasing department and quality management department of the Group keep monitoring the epidemic situation, enhancing the inspection and quarantine and reducing or even suspending the purchase from the infected region; and
- Leveraging on the national-scale of sales: As a national-scale hog slaughter enterprise, we are able to protect our business by rearranging the sales of goods in different regions in the event of the outbreak of disease.

Food safety risks

Sale of food products for human consumption involves risks of causing harm to consumers. Such harms may result from disruption by unauthorised third parties or product contamination or spoilage, including but not limited to the presence of external contaminants, chemical or other residue substances in various stages of procurement and production. Although our products are subject to governmental inspections as well as compliance with the relevant laws and regulations, there is no assurance that the raw materials or products of the Group will not be contaminated during the production, transportation, distribution and sales process for reasons unknown to us or beyond our control. If our products are contaminated or spoiled or otherwise damaged, we may need to recall the products and possibly subject to products liability claims, negative media coverage or government investigation. Any of such situations may harm our reputation, and corporate image and brand image which subsequently have a material and adverse effect on our business operations.

Yurun Food has been adhering to its operation philosophy of “you trust because we care” and is the first player in the industry to launch the “21 procedures on inspection and quarantine of the quality control system”. Starting from the rapid screening of hogs, we have professional staff conducting the urine and blood tests. When the hogs are slaughtered, batch inspection is implemented online. The slaughtering line does not accept hogs failing the online ELISA test or professional tests such as PCR. Each hog is marked with a unique “inspection and quarantine and tracing” bar code and all products supplied to the market are qualified.

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On the production and processing of food, we have been proactively introducing the advanced meat processing equipment from Europe. Every stage of the food production (from pre-treatment of raw food products, seasoning, filling, cooking to packaging) is carried out by a closed and automatic operation to minimise the likeliness of contamination arising from manually operated system as well as to keep a qualified hygienic environment for meat processing.

We will make sure that each batch of products has undergone chemical and microbiological examinations before it is allowed to leave the factory. The Group's testing competence has received accreditation from the Quality Assessment Committee of the China Quality Inspection Association and obtained the China Metrology Accreditation Certificate (CMA Certificate).

In order to assure food quality, all subsidiaries of the Group have implemented a three-step management measure before products are despatched out from factory. Firstly, we carry out physical inspection using metal detectors and X-ray machine. Secondly, we have a professional team to carry out inspection on each product before distribution. Thirdly, each batch of end-products will undergo chemical and microbiological examinations to ensure food safety.

At the same time, the Group strategically deploys a network of production bases across the country for local sourcing, local production, and local sales, achieving seamless integration between production plants and the markets. The temperature on each transportation vehicle is being equipped with temperature measurement and control instruments. Through the automatic recorder, including the Global Positioning System, the temperature and other information is automatically recorded by the control center on real-time monitoring to ensure that the temperature is being monitored throughout the transportation.

028 INTERNAL CONTROL STRUCTURE

The Board is responsible for ensuring appropriate and effective Systems, and determining the nature and extent of the risks it is willing to take in achieving the strategic objectives of the Company. It also monitors and takes measures to mitigate risks in day-to-day operations, and gives prompt responses to the findings on risk management and internal control matters raised by the Group's Internal Audit Department or external auditors.

The Board delegates to the Audit Committee the responsibilities of monitoring and reviewing the effectiveness of the Systems, and ensuring that the management performed its duty to maintain effective operation of the Systems. The Audit Committee reviews the reports submitted by the Internal Audit Department and the issues relating to risk management and internal controls of the Group, and evaluates the effectiveness of the Systems, which is then discussed and reviewed by the Board periodically every year.

The Internal Audit Department, consisting of qualified and experienced staff, carries out internal audit according to the internal audit plan reviewed and approved by the Audit Committee, and reports its audit findings and recommended remedial actions to the Audit Committee directly. This is done by conducting interviews with the management, reviewing relevant documentation and evaluating various material internal control aspects, including financial, operational and compliance controls with an aim of minimising the overall business and operational risks of the Group. It identifies key risk areas and develops appropriate control measures and management actions for improvement. The internal control reports are submitted by the Internal Audit Department to the Audit Committee for review and the audit findings and recommendations therein are discussed at the Audit Committee meetings and Board meetings.

CORPORATE GOVERNANCE REPORT

During the Review Year, the Board, with the assistance of the Audit Committee and the Internal Audit Department, reviewed the effectiveness of the Systems of the Group, including financial, operational and compliance controls, and risk management functions, the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions and their training programmes and budget. The Board and the Audit Committee considered that the key areas of the Systems of the Group are reasonably and effectively implemented.

An Environmental, Social and Governance ("ESG") Working Group has been established to assist the Board in coordinating and supervising the Group's ESG related matters, establishing ESG management policies and strategies, and identifying and assessing ESG matters (including risks) related to the Group. Our ESG Working Group comprises of senior management members of our subsidiaries.

Internal Control policies

Crisis management policies

Crisis management policies procedures have been put in place in order to respond swiftly and positively to any sudden event that may affect consumers' confidence in the Group.

Policies on inside information

With respect to the procedures and internal controls for handling and dissemination of inside information, the Company is aware of its obligations under Part XIVA of the SFO and the Listing Rules, and has established the inside information disclosure policy with close regard to the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission.

Policies on whistleblowing

The Company considers whistleblowing channels as a useful means in identifying possible misconduct or fraud risks of a particular operation or function by encouraging employees to raise concerns in good faith. It has delegated the Audit Committee to be responsible for monitoring and reviewing the effectiveness of the whistleblowing policy and system periodically.

The Company has adopted a whistleblowing policy setting out the principles and procedures to guide the Directors and employees of the Company and persons dealing with the Company in reporting cases of possible irregularities and misconduct in a fair and proper manner. According to the whistleblowing policy, concerns can be raised either verbally or in writing to the chairman of the Audit Committee or the Chairman of the Board (if the report concerns the chairman of the Audit Committee or a member of the Audit Committee). Upon receiving the report, the chairman of the Audit Committee or such other person as designated by the Audit Committee shall discuss the report with the Audit Committee (unless the report concerns the Audit Committee) to evaluate if an investigation is warranted. If an investigation is considered necessary, the chairman of the Audit Committee or such other person as designated by the Audit Committee shall conduct an investigation to establish whether any misconduct has occurred. The chairman of the Audit Committee or such other person as designated by the Audit Committee shall report findings of an investigation to the Audit Committee. On the basis of the findings, the Audit Committee shall make recommendations to the Board on actions to be taken. If the investigation concerns the Audit Committee, findings of the investigation shall be reported to the Chairman of the Board. Where there is evidence of a possible criminal offence, the matter should be referred to the relevant authorities for further action.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group.

With the assistance of the Finance Department of the Group, the Directors have ensured that the consolidated financial statements of the Group are prepared in accordance with the statutory requirements and the applicable accounting standards. The Directors have also ensured that the consolidated financial statements of the Group are published in a timely manner in accordance with the applicable laws and regulations.

The responsibility statement of the auditor of the Company in connection with the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 51 to 52 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted a Shareholders Communication Policy with the objective of ensuring that the Company's shareholders are provided with ready, equal and timely access to balanced and comprehensible information about the Company.

The Company aims at providing its shareholders and potential investors with high standards of disclosure and financial transparency. The Investor Relations Department of the Company is responsible for handling investor relations matters and also maintained close connection with international investors through teleconferences if necessary.

The Company makes use of various communication channels to keep its shareholders and potential investors abreast of the Group's business and latest development, such as publication of annual and interim reports, circulars to shareholders and announcements in a timely manner in accordance with the requirements of the Listing Rules. These publications are also available on the websites of the Company and the Hong Kong Stock Exchange. Annual general meeting is also one of the principal channels to communicate with the shareholders. The Company's investor relations webpage is regularly reviewed, improved and updated so as to include all key information. The Company believes that the interactive communications with investors can help enhancing corporate transparency and the Company's potential and actual value can be better understood by the market.

During the Review Year, the Board reviewed the effectiveness of the Shareholders Communication Policy, including its objectives and implementation. The Board considered that the objectives of the Shareholders Communication Policy are reasonably and effectively implemented.

During the Review Year, the Board amended the Bye-laws for the purposes of, among others, ensuring its compliance with the relevant requirements of the Listing Rules relating to the core shareholder protection standards set out in Appendix 3 to the Listing Rules (i.e. the new Appendix A1 to the Listing Rules with effect from 31 December 2023). The Board obtained the approval of the shareholders at the annual general meeting held on 19 June 2023 for such amendments. The latest version of the amended and restated Bye-laws is available for download from the websites of the Company and the Hong Kong Stock Exchanges.

SHAREHOLDERS' RIGHTS

(i) Convening a special general meeting (“SGM”)

Pursuant to the Bye-laws of the Company and the Bermuda Companies Act 1981, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Board or the Company Secretary of the Company, to require a SGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. The written requisition must state the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form, each signed by one or more requisitionists.

If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the requisition is invalid, the requisitionists will be advised of this outcome and accordingly, no SGM will be convened as requested.

If the Board does not proceed duly to convene a SGM within twenty-one days from the date of the deposit of the requisition, the requisitionists, or any of them representing more than half of the total voting rights of all of them, may themselves convene a SGM, but any meeting so convened shall not be held after the expiration of three months from the said date of the deposit of the requisition.

(ii) Putting forward proposals at general meetings

Pursuant to the Bermuda Companies Act 1981, any number of the registered shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, or not less than 100 of such registered shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to receive notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the requisitionists must be deposited at the registered office of the Company with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if an annual general meeting is called for on a date falling within six weeks or less after the requisition has been deposited, the requisition, though not deposited within the time required, shall be deemed to have been properly deposited for the purposes thereof.

(iii) Proposing a person for election as a Director

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of Director(s), wishes to propose a person (other than the shareholder himself/herself) for election as a Director at that meeting, such shareholder can deposit a written notice at the Company's head office at 10 Yurun Road, Jianye District, Nanjing, the PRC or at the Company's branch share registrar, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, for the attention of the Board or the Company Secretary of the Company.

CORPORATE GOVERNANCE REPORT

In order for the Company to inform all shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director and his/her biographical details as required by Rule 13.51(2) of the Listing Rules and be signed by the shareholder concerned and that person indicating his/her willingness to be elected.

The period for lodgment of such a written notice will commence no earlier than the day after the despatch of the notice of the general meeting and end no later than seven days prior to the date of such general meeting.

(iv) Directing enquiries from shareholders to the Board

Shareholders may at any time send their enquiries in writing to the Investor Relations Department of the Company at the Company's principal place of business in Hong Kong at Suite 4707, 47th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

In addition, shareholders may direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong.

DIVIDEND POLICY

The declaration, recommendation and payment of dividends will be subject to the discretion of the Board. The Board shall consider a range of factors before declaring or recommending any dividends, including but not limited to:

- The Company's actual and expected financial performance;
- The Group's liquidity position;
- Retained earnings and distributable reserves of the Company and each of the members of the Group;
- The Group's expected working capital requirements and future expansion plans;
- General economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- Any other factors that the Board deems relevant.

The shareholders of the Company may not expect any dividends under the following circumstances, including but not limited to:

- During the growth phase of the Group or during significant expansion or undertaking of any acquisitions or joint ventures requiring higher allocation of capital;
- Whenever the Company proposes or plans to utilise surplus cash to repurchase the shares of the Company; or
- Inadequacy of profits or if the Company incurs losses.

The declaration, recommendation and payment of any dividends are also subject to compliance with applicable laws, regulations and the Bye-laws. There can be no assurance that dividends will be paid in any particular amount for any given period.

GOING CONCERN

RESPONSES FROM THE DIRECTORS REGARDING THE “DISCLAIMER OF OPINION” SET OUT IN THE INDEPENDENT AUDITOR’S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

BDO Limited (the “Auditor”), the independent auditor of the Company, stated in the Independent Auditor’s Report (the “Independent Auditor’s Report”) set out in the 2023 Annual Report that they do not express an opinion on the consolidated financial statements of the Group due to the potential interaction of the multiple uncertainties relating to going concern and their possible cumulative effects on the consolidated financial statements. For details, please refer to “Independent Auditor’s Report”.

As disclosed in note 3(b) to the consolidated financial statements of the Group for 2023, assuming the success of the plans and measures to mitigate the liquidity pressure and to improve financial position, 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 Directors consider the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. However, the Auditor was unable to obtain sufficient supporting bases to assess the appropriateness and reasonableness of the use of the going concern assumption and thus unable to form an opinion of the basis. Although the Directors explained the situation to the Auditor, it is difficult for the Directors to provide such supporting evidences that the Auditor considers sufficient at this stage, in view of the differences in the weighting given to the Chinese political, legal and economic considerations.

The Group has been actively tackling the challenges from all aspects during the Review Year

Despite facing multiple challenges, including business losses, breaches of certain covenants in bank borrowings and litigation, the Directors and Management Team have been actively addressing these issues throughout the Review Year. The Group maintained regular communication with the remaining two banks on the outstanding bank borrowings during the Review Year. All parties hope that the Group can sustain normal operations, and the banks have indicated that they would not take any aggressive actions against the Group. The Directors and Management Team believe that the likelihood of the banks requiring immediate repayment from the Group is low, therefore not posing a significant impact on the Group’s business operations.

Taking into account the above circumstances, the Directors believe that the Group has sufficient financial resources to support its operations and fulfil its financial obligations maturing within 12 months from 31 December 2023.

However, the auditor did not remove the “Disclaimer of Opinion” for the year under review due to the outstanding bank borrowings that have yet to be fully resolved. The main reason for this is that the tightened audit process timeline by domestic banks during the Review Year compared to previous years has resulted in a prolonged communication process, and a satisfactory resolution was not reached before 31 December 2023.

Views of the Audit Committee and Directors

Regarding the consolidated financial statements of the Group for the year ended 31 December 2023, the Audit Committee of the Company has carefully reviewed the relevant documents and discussed at its meeting the dissenting opinions of the Directors and auditor on the going concern basis. The Audit Committee and Directors share the same position and view on the going concern basis.

CORPORATE GOVERNANCE REPORT

Major plans to resolve the disagreement on the going concern basis with Auditor and the removal of the “Disclaimer of Opinion”

The main focus of our Company's work plan to address overdue bank borrowings: Currently, the Group has two overdue but outstanding bank borrowings from two state-owned and national commercial banks in the PRC. The Group has been in communication with the relevant banks, hoping to reach consensus such as installment repayment of the principal and the waiving of penalties and compound interest for the previous periods. Meanwhile, the Group endeavored to persuade the banks to realise their rights as creditors within the relevant time frame under the consolidated restructuring plan. However, the communication process generally requires first reaching a consensus with the branch of the relevant lending bank, then obtaining approval at the branch level before reporting to the head office. The branch can only execute the solution after the head office's final approval. The communication timetable, approval process, and difficulty vary with each bank, requiring coordination with each bank according to its internal procedures.

The Directors and the management have continuously negotiated with the banks in the past on several occasions, but due to the COVID-19 pandemic in recent years and the tightening of bank approval processes, work progress has been severely delayed. In 2024, the Directors and management will continue to fulfill their responsibilities and strive to secure the most favorable solutions for the Group.

The Company will further disclose details of the settlement of overdue bank borrowings to the stakeholders of the Company as and when appropriate.

Removal of “Disclaimer of Opinion”

The Directors believe that when the above work plan can be implemented as expected, the Group will be able to comply with the revised terms or re-financing terms of the outstanding bank borrowings to eliminate the uncertainty of the Auditor on the going concern of the Group. Subject to the successful and favorable results of such action plans (as the outcome of resolving the overdue bank borrowings depends on the approval process and communication of the progress of the respective banks), and subject to the conclusion of negotiations with the respective banks in 2024, the Directors expect that the “Disclaimer of Opinion” could be removed in the auditor's report on the financial statements for the year ending 31 December 2024.

Views of the Audit Committee and Directors

The Directors and the Audit Committee have reviewed and commented on the proposed action plan, and are of the view that, if implemented as anticipated, the above action plan would be sufficient to eliminate the auditor's concerns about the Group's ability to continue as a going concern and remove the “Disclaimer of Opinion”.

REPORT OF THE DIRECTORS

The board of directors (the “Board” or the “Directors”) of China Yurun Food Group Limited (the “Company”, together with its subsidiaries, the “Group”) presents its 2023 annual report, together with the report of the Directors and the consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise provision of a wide range of meat (chilled and frozen) and processed meat (low temperature meat products and high temperature meat products) with a particular focus on pork products. There was no significant change in the nature of the Group’s principal activities during the year. Details of the activities of the principal subsidiaries are set out in Appendix 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group’s result for the year ended 31 December 2023 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 53 to 123.

The Board does not recommend the payment of final dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2023 are set out in note 16 to the consolidated financial statements.

BUSINESS REVIEW

Review of business and performance

A business review of the Group, a discussion and analysis of the Group’s performance and material factors underlying its results and financial position during the year and the outlook of the Group are set out in the Chairman’s Statement and the Management Discussion and Analysis from pages 3 to 5 and pages 6 to 14 respectively of this annual report. The discussion forms a part of this Report of the Directors.

Principal risks and uncertainties

In addition to the matters referred to in the Chairman’s Statement and the Management Discussion and Analysis, the description of the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies Ordinance (Chapter 622 of the laws of Hong Kong) can be found from pages 23 to 28 of this annual report. Save as stated above, there may be other risks and uncertainties which are unknown to the Group or which may not be material now but is likely to become material in the future.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Group is committed to promote environmental protection and makes its best effort to minimise the environmental impact of its existing production and business activities. The industry in which the Group operates is not classified as heavily polluting industries. However, some emissions such as discharged slag, waste water and off gas are generated during the hogs slaughtering process. The Group has adopted the concept of system-wide food safety and environmental-friendly production in designing infrastructures for its factories. Our production base had obtained the approval of the local government prior to its operation and received the approval for the environmental impact report. In addition to the ISO14001 Environmental Management System (“EMS”), the Group implements a review mechanism to monitor the clean production practices, adopts recycle practices and takes a number of environmental protection measures.

Further details of the Group’s environmental policies and performance will be disclosed in the Environmental, Social and Governance Report of the Company for the year ended 31 December 2023 to be published on the same date of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS THAT HAVE A SIGNIFICANT IMPACT ON THE GROUP

Compliance procedures of the Group are in place to ensure compliance with the applicable laws, rules and regulations which, in particular, have significant impact on the Group. Our Audit Committee is delegated by the Board to review and monitor the Group’s compliance with the policies and practices on corporate governance and regulatory requirements and such policies are regularly reviewed. The relevant employees and the operation units are kept informed from time to time of any change to the applicable laws, rules and regulations.

RELATIONSHIP WITH EMPLOYEES

Working environment

As at 31 December 2023, the Group had approximately 1,000 employees in the mainland China and Hong Kong in total.

The Group provides its employees in the mainland China with nice workplace in a green factory, reasonable remuneration packages, sound incentive mechanism, extensive career advancement opportunities and other benefits such as accommodation, meals allowances, insurance, housing fund and retirement benefit. We are committed to improve working environment of our staff.

We always care for our staff who are living in hardship. The Group has set up a mutual-help charity fund to assist staff who are facing financial difficulties. We also extend our care to former staff who have retired and any staff with families who are in difficulties on festive occasions.

Training and career development of employees

The Group values the importance of staff training. We organise in-house management training courses as well as training programmes specialising in aspects such as human resources, finance, administration, quality control, marketing and project management for enhancing the level of skills of managerial and professional staff.

The Group actively recruits young and vibrant employees to serve the Group’s new products and sales channels developed for the new generation consumer group. We focus on fostering colleagues with motivation and potential to allow them more room for development and promotion. We retain our talent for the Group’s future needs.

Health and safety of employees

The Group monitors the management of safe production in strict compliance with the relevant laws and regulations. We set up safety management team and formulated guidelines and annual objectives for management of safe production. We formed an integrated and comprehensive accident prevention system and formulated contingency plans and predetermined procedures for emergency according to the nature of incident. Regular emergency drills and exercises are conducted every year to ensure our employees' full understanding of these plans.

In addition, the Group has included safety management as one of the annual objectives of all levels of the management to enhance their awareness of safety management and ensure the effective implementation of the safe production process.

RELATIONSHIP WITH CUSTOMERS

We highly value our customers as important partners for the Group's sustainability and development. We treasure our cooperative relationship with customers and require our staff to provide attentive service with sincere attitude.

Meanwhile, in order to monitor business operation and to achieve business integrity and mutual benefits, we established an incentive mechanism for distributors and relevant agreements are signed with them to regulate business, so as to ensure that the interests of customers and the Group are protected by law.

RELATIONSHIP WITH SUPPLIERS

As the origin of the supply chain, suppliers are essential to the efficient operation of the whole supply chain and also the sustainability and growth of enterprises. The Group established a series of policies and rules to monitor the suppliers and their supply of raw materials to ensure that the interests of the Group and suppliers are not prejudiced and the quality of the raw materials can comply with the Group's standard.

FORWARD-LOOKING STATEMENTS

These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like "potential", "estimate", "expect", "intend", "plan", "believe", and similar expressions or variations on such expressions may be considered "forward-looking statements".

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only at the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events.

SUBSEQUENT EVENTS

For details of the important events affecting the Group that have occurred since the end of the financial year, please refer to note 35 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$220,000.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda.

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 year.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 30 to the consolidated financial statements. Details of the movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 57 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out on page 124 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK\$160,983,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the five largest customers of the Group and aggregate purchases attributable to the five largest suppliers of the Group represented less than 30% of the Group's total sales and total purchases, respectively.

As at 31 December 2023, two of the Group's five largest customers, were held directly or indirectly as to approximately 33% by Mr. Zhu Yicai ("Mr. Zhu"), a substantial shareholder of the Company. For further details, please refer to the continuing connected transactions of "Sales of processed meat products to Nanjing Yurun" on page 47 of this annual report. Save for the above, none of the Directors or their respective associates, or the existing shareholders, who to the knowledge of the Directors, own more than 5% of the Company's issued share capital, has any interest in any of the five largest customers and suppliers of the Group.

DIRECTORS

The Directors during the year and up to the date of this annual report are:

Executive Directors

Zhu Yuan ^{R/N} (Chairman and Chief Executive Officer)

Yang Linwei

Independent non-executive Directors

Gao Hui ^{A/R/N}

Chen Jianguo ^{A/R/N}

Xu Xinglian ^A (appointed on 18 April 2023)

Miao Yelian ^A (resigned on 18 April 2023)

A: Members of Audit Committee

R: Members of Remuneration Committee

N: Members of Nomination Committee

REPORT OF THE DIRECTORS

All Directors are subject to the rotation provisions set out in the Bye-laws of the Company.

In accordance with Bye-law 87 of the Company's Bye-laws, Zhu Yuan and Gao Hui will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent Directors and the Company considers such Directors to be independent during the financial year ended 31 December 2023 and remain so as of the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors of the Company as at the date of this annual report are set out on page 15 of this annual report. Each member of our senior management is also our executive Director.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Details of the remuneration payable to the Directors for the year ended 31 December 2023 are set out in note 12 to the consolidated financial statements.

DIRECTORS' REMUNERATION POLICY

The Directors' remuneration are determined by the Board with reference to duties and responsibilities of the Directors and the performance and results of the Group. The Remuneration Committee was established for reviewing and determining the remuneration and compensation packages of the Directors and senior management of the Company. Details of the Remuneration Policy are set out on page 22 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Ms. Zhu Yuan, the executive Director of the Company, is the daughter of Mr. Zhu. As Mr. Zhu is a connected person of the Group, Ms. Zhu is therefore an associate of Mr. Zhu, who has a material interest in each of the continuing connected transactions as disclosed under the section headed "Continuing Connected Transactions" below. Since Ms. Zhu Yuan has a material interest in the relevant transactions, she has abstained from voting on the Board meeting approving such transactions.

Save for the above, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest (direct or indirect), subsisted at the end of the financial year or at any time during the year ended 31 December 2023.

PERMITTED INDEMNITY PROVISION

The Company's Bye-laws provide that every Director shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they will or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their offices.

The Company has taken out and maintained directors' liability insurance during the year which provides appropriate cover for the Directors.

COMPETING BUSINESS

None of the Directors had any interest in any business that competes with the Company or any of its subsidiaries during the year.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or subsisting during the year.

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

As at 31 December 2023, the number of issued ordinary shares of the Company was 1,822,755,650; and none of the Directors and/or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules (i.e. the new Appendix C3 to the Listing Rules with effect from 31 December 2023).

DEBENTURE ISSUED

There was no debenture issued by the Company during the year.

SHARE OPTION SCHEMES

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

(a) Purpose of the Share Option Schemes

The purpose of both share option schemes is to enable the Board, at its discretion, to grant options to any Qualified Participant (as defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(b) Qualified Participants

The Qualified Participants include: (i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary of the Company or any entity in which the Company or any subsidiary of the Company holds any equity interest (the "Invested Entity"); (ii) any non-executive director (including independent non-executive director) of the Company, any subsidiary of the Company or any Invested Entity; (iii) any supplier of goods or services to the Company, any subsidiary of the Company or any Invested Entity; (iv) any customer of the Company, any subsidiary of the Company or any Invested Entity; and (v) any person or entity that provides research, development or technological support (in the case of the Old Scheme) and consultancy or advisory services (in the case of the New Share Option Scheme) to the Company, any subsidiary of the Company or any Invested Entity (collectively, the "Qualified Participants").

(c) Maximum number of shares available for issue

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of shares representing 10% of the total number of shares in issue as at the date of passing the relevant resolution for approving the adoption of the New Share Option Scheme, being 182,275,565 shares. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the total number of shares in issue of the Company from time to time.

As at the date of this annual report, the total number of shares available for issue under the New Share Option Scheme is 182,275,565 shares, which represents 10% of the total issued shares of the Company.

(d) Maximum entitlement of each Qualified Participant

Unless approved by the shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may not grant options to any Qualified Participant if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total number of shares in issue of the Company at the time.

(e) Timing for exercise of options

The period during which an option may be exercised in accordance with the terms of the Old Scheme or the New Share Option Scheme shall be such period of time notified or to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the Offer Date (as defined below).

(f) Payment for acceptance of option

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. Under the New Share Option Scheme, an offer shall remain open for acceptance by a Qualified Participant for a period of 30 business days from the date on which the offer was made.

(g) Basic of determining the exercise price

The exercise price shall be a price determined by the Board but in any event shall not be lower than the highest of: (i) the closing price of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date on which the option is offered to a Qualified Participant (the "Offer Date"); (ii) the average of the closing prices of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares of the Company.

(h) Period of the New Share Option Scheme

Subject to earlier termination by the Company at a general meeting or by the Board, the New Share Option Scheme shall be valid and effective for a period of ten years from 7 August 2015.

REPORT OF THE DIRECTORS

No share options were granted under the New Share Option Scheme during the year.

The following share options were outstanding under the Old Scheme during the year:

Categories of grantee	Number of shares which may be issued pursuant to the share options				Outstanding as at 31 December 2023	Exercise price per share ⁽³⁾ HK\$	Date of grant (DD.MM.YYYY)	Option Period ⁽¹⁾ (DD.MM.YYYY)
	Outstanding as at 1 January 2023	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year				
Director								
Yang Linwei	2,000,000	-	-	(2,000,000)	-	5.142	25.03.2013	25.03.2013 – 24.03.2023
Subtotal	2,000,000 ⁽²⁾	-	-	(2,000,000)	-			
Other employees (including ex-employees)								
In aggregate	5,300,000	-	-	(5,300,000)	-	5.142	25.03.2013	25.03.2013 – 24.03.2023
	7,050,000	-	-	(7,050,000)	-	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	12,350,000	-	-	(12,350,000)	-			
Total	14,350,000	-	-	(14,350,000)	-			

Notes:

- The option period during which the options may be exercised. Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantees, if any, as set out in the respective offer letters, the share options granted on 25 March 2013 and 14 June 2013 would be vested in the grantees in four equal tranches, i.e., 25% of the share options will be vested after the publication of the results of the financial years ended 2013, 2014, 2015 and 2016 respectively. The first tranche (25%) and second tranche (25%) of the share options had lapsed due to the performance targets of the Group and the individual grantees not having been achieved. For the third tranche (25%) and fourth tranche (25%) of the share options, the Board had approved to waive the performance-based condition set by the Company in order to provide incentives for the qualified employees.
- The share options represent personal interests held by the relevant Director as beneficial owners.
- The closing price of the shares of the Company immediately before the date of grant (i.e. 22 March 2013 and 13 June 2013 respectively) were HK\$5.17 and HK\$4.83 respectively.
- The share options in this column were lapsed in accordance with the terms of the Old Scheme during the year. No share options were cancelled under the Old Scheme during the year.

In relation to the estimated fair value of the share options granted under the Old Scheme at the date of grant and the accounting standard and policy adopted, please refer to note 28 to the consolidated financial statements.

Information on the accounting policy for share options granted is set out in note 4(k)(iv) to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of share options granted to or exercised by the Directors or Qualified Participants (as defined above) of the Company during the year and their outstanding balances as at 31 December 2023 are set out in the paragraph headed "Share Option Schemes" on pages 40 to 42 of this annual report and note 28 to the consolidated financial statements.

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

EQUITY-LINKED AGREEMENTS

Other than the Share Option Schemes of the Company as disclosed above, no equity-linked agreements were entered into by the Group during the financial year or subsisted at the year end.

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

As at 31 December 2023, so far as is known to the Directors and the chief executive of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

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

Note:

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

Save as disclosed above, as at 31 December 2023, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 33 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules:

REPORT OF THE DIRECTORS

Purchase of carton boxes packaging materials from the Selling Entity (as defined below)

On 11 December 2020, the Company entered into a carton boxes packaging materials purchase framework agreement (the “Carton Boxes Packaging Materials Purchase Framework Agreement”) with 濰溪福潤禽類食品有限公司 (Suixi Furun Food Group Limited*), being entity incorporated in the PRC, owned and/or controlled by Mr. Zhu and his associates, which is principally engaged in the business of slaughtering of poultry and manufacture and sales of packaging materials (the “Selling Entity”), for the purchases of carton boxes packaging materials from the Selling Entity. Pursuant to the Carton Boxes Packaging Materials Purchase Framework Agreement, the price for the sourcing of carton boxes packaging materials shall be determined on an arm’s length basis, and negotiated between the parties to the Carton Boxes Packaging Materials Purchase Framework Agreement with reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm’s length basis and normal commercial terms for the same type of products during the relevant period. The Carton Boxes Packaging Materials Purchase Framework Agreement has a term of three years, commencing on 1 January 2021 and ended on 31 December 2023. Details of the Carton Boxes Packaging Materials Purchase Framework Agreement were disclosed in the Company’s announcement dated 11 December 2020. The annual caps for the transactions under the Carton Boxes Packaging Materials Purchase Framework Agreement for the financial years ended 31 December 2021, 2022 and 2023 were RMB14.20 million, RMB15.00 million and RMB15.80 million, respectively.

The aggregate purchase amount pursuant to the Carton Boxes Packaging Materials Purchase Framework Agreement during the year amounted to approximately RMB3,360,000 (equivalent to approximately HK\$3,730,000).

The Carton Boxes Packaging Materials Purchase Framework Agreement expired on 31 December 2023. Prior to the expiration, on 20 December 2023, the Company entered into a new packaging materials purchase framework agreement (the “Packaging Materials Purchase Framework Agreement”) with 桐城市福潤包裝材料有限公司 (Tongcheng Furun Packaging Materials Company Limited*) and 淮北和潤包裝製品有限公司 (Huabei Herun Packaging Products Company Limited*) (the “Packaging Materials Selling Entity”) for the continual sourcing of packaging materials from the Packaging Materials Selling Entity. Pursuant to the Packaging Materials Purchase Framework Agreement, the price for the sourcing of packaging materials shall be determined on an arm’s length basis, and negotiated between the parties to the Packaging Materials Purchase Framework Agreement with reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm’s length basis and normal commercial terms for the same type of products during the relevant period. The Packaging Materials Purchase Framework Agreement has a term of three years, commencing on 1 January 2024 and ending on 31 December 2026. The annual caps of the transactions amounts for the financial years ending 31 December 2024, 2025 and 2026 are RMB12.60 million, RMB12.70 million and RMB12.80 million, respectively.

Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. The Packaging Materials Selling Entity, being entity owned and/or controlled by 江蘇雨潤精選食品股份有限公司 (Jiangsu Yurun Delicacies Co., Ltd.)* (“Jiangsu Yurun Delicacies”). As Jiangsu Yurun Delicacies is held as to approximately 33% by Mr. Zhu, the Packaging Materials Selling Entity has become connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Packaging Materials Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Packaging Materials Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Details of the Packaging Materials Purchase Framework Agreement were disclosed in the Company’s announcement dated 20 December 2023.

Sales of packaging materials to Packaging Products and Materials Purchasing Entities (as defined below)

On 11 December 2020, the Company entered into the packaging materials supply framework agreement (the “Packaging Materials Supply Framework Agreement”) with Mr. Zhu (for and on behalf 雨潤生物科技(東海)有限公司 (Yurun Biotechnology (Tonghai) Company Limited*), 桐城市雨潤生物科技有限公司 (Tongcheng Yurun Biotechnology Company Limited*), 黑山雨潤生物蛋白製品有限公司 (Heishan Yurun Biological Protein Products Company Limited*), 蒙城宏健食品有限公司 (Mengcheng Hongjian Food Co., Limited*), 臨邑福潤禽業食品有限公司 (Linyi Furun Poultry Food Company Limited*), 赤峰利源肉類加工有限公司 (Chifeng Liyuan Meat Processing Company Limited*), 聊城市福潤禽業食品有限公司 (Liaocheng Furun Poultry Food Company Limited*) and 南京中央商場(集團)股份有限公司 (Nanjing Emporium (Group) Co. Ltd*) (“Nanjing Emporium Group”), being entities incorporated in the PRC, owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of slaughtering and sales of poultry, meat processing, manufacturing and sales of beef products, biotechnology development and retail business) (the “Packaging Materials Purchasing Entities”) for the supply of packaging materials to the Packaging Materials Purchasing Entities. Pursuant to the Packaging Materials Supply Framework Agreement, the sales price of the packaging materials under the Packaging Materials Supply Framework Agreement shall be determined on an arm's length basis, and negotiated between the buyer and the seller with reference to the market price at the time the purchase order is placed, provided that such price shall not be lower than the average price offered by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Packaging Materials Supply Framework Agreement has a term of three years, commencing on 1 January 2021 and ended on 31 December 2023. Details of the Packaging Materials Supply Framework Agreement were disclosed in the Company's announcement dated 11 December 2020. The annual caps for the transactions under the Packaging Materials Supply Framework Agreement for the financial years ended 31 December 2021, 2022 and 2023 were RMB11.70 million, RMB12.30 million and RMB12.90 million, respectively.

The aggregate sales amount pursuant to the Packaging Materials Supply Framework Agreement during the year amounted to approximately RMB1,180,000 (equivalent to approximately HK\$1,310,000).

The Packaging Materials Supply Framework Agreement expired on 31 December 2023. Prior to the expiration, on 20 December 2023, the Company entered into a new packaging products and materials supply framework agreement (the “Packaging Products and Materials Supply Framework Agreement”) with Mr. Zhu (for and on behalf 桐城市雨潤生物科技有限公司 (Tongcheng Yurun Biotechnology Company Limited*), 黑山雨潤生物蛋白製品有限公司 (Heishan Yurun Biological Protein Products Company Limited*), 蒙城宏健食品有限公司 (Mengcheng Hongjian Food Co., Limited*), 臨邑福潤禽業食品有限公司 (Linyi Furun Poultry Food Company Limited*), 赤峰利源肉類加工有限公司 (Chifeng Liyuan Meat Processing Company Limited*), 聊城市福潤禽業食品有限公司 (Liaocheng Furun Poultry Food Company Limited*), 瀋陽福潤肉類加工有限公司 (Shenyang Furun Meat Processing Company Limited*), 齊齊哈爾萬潤食品有限公司 (Qiqihar Wanrun Food Company Limited*), 東寧雨潤綏陽木耳大市場有限公司 (Dongning Yurun Suiyang Fungus Market Company Limited*), and Nanjing Emporium Group (the “Packaging Products and Materials Purchasing Entities”) for the continual supply of packaging products and materials to the Packaging Products and Materials Purchasing Entities. Pursuant to the Packaging Products and Materials Supply Framework Agreement, the sales price of the packaging products and materials under the Packaging Products and Materials Supply Framework Agreement shall be determined on an arm's length basis, and negotiated between the buyer and the seller with reference to the market price at the time the purchase order is placed, provided that such price shall not be lower than the average price offered by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Packaging Products and Materials Supply Framework Agreement has a term of three years, commencing on 1 January 2024 and ending on 31 December 2026. The annual caps for the transactions amounts for the financial years ending 31 December 2024, 2025 and 2026 are RMB2.60 million, RMB2.90 million and RMB3.20 million, respectively.

REPORT OF THE DIRECTORS

Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. The Packaging Products and Materials Purchasing Entities (except for Nanjing Emporium Group), being entities owned and/or controlled by Jiangsu Yurun Delicacies, which is held as to approximately 33% by Mr. Zhu, and Nanjing Emporium Group is held directly or indirectly as to approximately 57% by Mr. Zhu, the Packaging Products and Materials Purchasing Entities have become connected persons of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Packaging Products and Materials Supply Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Packaging Products and Materials Supply Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of the Packaging Products and Materials Supply Framework Agreement were disclosed in the Company's announcement dated 20 December 2023.

Purchase of hogs from the Selling Entities (as defined below)

On 21 December 2021, the Company entered into a new hogs purchase framework agreement (the "Hogs Purchase Framework Agreement") with Mr. Zhu's Entities (namely 江蘇雨潤肉類產業集團有限公司 (Jiangsu Yurun Meat Group Company Limited*) and 南京雨潤養殖產業集團有限公司 (Nanjing Yurun Breeding Group Company Limited*), entities incorporated in the PRC and owned and/or controlled by Mr. Zhu and his associates, and principally engaged in the business of breeding and/or sales of hogs) (the "Selling Entities") for the continual sourcing of hogs from the Selling Entities upon the expiry of the purchase framework agreements on 31 December 2021.

Pursuant to the Hogs Purchase Framework Agreement, the price for the sourcing of hogs shall be determined on an arm's length basis, and negotiated between the parties to the Hogs Purchase Framework Agreement with reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Hogs Purchase Framework Agreement has a term of three years, commencing on 1 January 2022 and ending on 31 December 2024. Details of the Hogs Purchase Framework Agreement were disclosed in the Company's announcement dated 21 December 2021. The annual caps for the transactions under the Hogs Purchase Framework Agreement for the financial years ending 31 December 2022, 2023 and 2024 are RMB11 million, RMB14 million and RMB18 million, respectively.

The aggregate purchase amount pursuant to the Hogs Purchase Framework Agreement during the year amounted to approximately RMB330,000 (equivalent to approximately HK\$370,000).

Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. The Selling Entities, being entities owned and/or controlled by Mr. Zhu and his associates, are associates of Mr. Zhu and are connected persons of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Hogs Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Hogs Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Sales of processed meat products to Nanjing Yurun (as defined below)

Reference is made to the announcement of the Company dated 30 January 2022. Unless otherwise defined, terms used in this annual report shall have the same meanings as those defined in the announcement.

Upon the Restructuring Plan was adjudicated effective on 28 January 2022, Jiangsu Yurun Delicacies gained legal and actual control over 南京雨潤食品有限公司(Nanjing Yurun Food Co., Ltd.*) (“Nanjing Yurun”). As Jiangsu Yurun Delicacies is held as to approximately 33% by Mr. Zhu, a substantial shareholder and connected person of the Company, Nanjing Yurun has become a connected person of the Company under the Listing Rules.

On 20 December 2021, the Company entered into a processed meat products supply agreement (the “Processed Meat Products Supply Agreement”) with Nanjing Yurun, being entity incorporated in the PRC, owned and/or controlled by Mr. Zhu through Jiangsu Yurun Delicacies, which are principally engaged in the business of meats processing, sales of meat products and retail business, for supply of processed meat products to Nanjing Yurun. Pursuant to the Processed Meat Products Supply Agreement, the reference unit price of the products is the market price of such products as at the date of the Processed Meat Products Supply Agreement. The Company (or its subsidiaries) has discretion to increase the reference unit price by not more than 10% based on the past 6 months average increment of raw materials meats price as published by the information centre of Ministry of Agriculture and Rural Affairs of the People’s Republic of China (中華人民共和國農業農村部信息中心), the prices are negotiated by the parties on an arm’s length basis and is determined based on prevailing market rates and normal commercial terms. The Processed Meat Products Supply Agreement has a term of three years, commencing on 1 January 2022 and ending on 31 December 2024. Details of the Processed Meat Products Supply Agreement were disclosed in the Company’s announcement dated 30 January 2022, which was made pursuant to Rule 14A.60 for the Listing Rules.

As the transactions contemplated under the Processed Meat Products Supply Agreement constitute continuing connected transactions under Rule 14A.60(1) of the Listing Rules, annual caps are not applicable to the relevant transactions. The aggregate sales amount pursuant to the Processed Meat Products Supply Agreement during the year amounted to approximately RMB192,170,000 (equivalent to approximately HK\$213,260,000).

REPORT OF THE DIRECTORS

Sales of raw pork to the Raw Pork Purchasing Entities (as defined below)

On 18 August 2022, the Company entered into a raw pork supply framework agreement (the “Raw Pork Supply Framework Agreement”) with 江蘇雨潤肉類產業集團有限公司 (Jiangsu Yurun Meat Group Limited*) and Nanjing Yurun, being entities incorporated in the PRC, owned and/or controlled by Mr. Zhu through Jiangsu Yurun Delicacies, which are principally engaged in the business of meats processing, sales of meat products and retail business (the “Raw Pork Purchasing Entities”) for supply of raw pork to the Raw Pork Purchasing Entities and/or their subsidiaries and/or associates. Pursuant to the Raw Pork Supply Framework Agreement, the sales price of the raw pork under the Raw Pork Supply Framework Agreement shall be determined on an arm’s length basis, and negotiated between the buyer and the seller with reference to the market price at the time the purchase order is placed, provided that such price shall not be lower than the average price offered by the Group to other independent third parties on an arm’s length basis and normal commercial terms for the same type of products in the same site area during the relevant period. The Raw Pork Supply Framework Agreement has a term of commencing on 18 August 2022 and ending on 31 December 2024. Details of the Raw Pork Supply Framework Agreement were disclosed in the Company’s announcement dated 18 August 2022. The annual caps for the transactions under the Raw Pork Supply Framework Agreement for the financial years ending 31 December 2022, 2023 and 2024 are RMB41 million, RMB41 million and RMB41 million, respectively.

The aggregate sales amount pursuant to the Raw Pork Supply Framework Agreement during the year amounted to approximately RMB1,890,000 (equivalent to approximately HK\$2,090,000).

Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. The Raw Pork Purchasing Entities, being entities owned and/or controlled by Mr. Zhu and his associates, are associates of Mr. Zhu and are connected persons of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Raw Pork Supply Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Raw Pork Supply Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

The transactions detailed under the headings “Purchase of carton boxes packaging materials from the Selling Entity”, “Sales of packaging materials to the Packaging Products and Materials Purchasing Entities”, “Purchase of hogs from the Selling Entities”, “Sales of processed meat products to Nanjing Yurun” and “Sales of raw pork to the Raw Pork Purchasing Entities” above constituted continuing connected transactions of the Group. The independent non-executive Directors have reviewed these continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. according to the agreements governing them on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued the unqualified report containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 43 to 49 of this annual report in accordance with Rule 14A.56 of the Listing Rules. The auditor of the Company has confirmed in its letter to the Board that nothing has come to his attention that causes him to believe that:

1. the disclosed continuing connected transactions have not been approved by the Board of the Company;
2. for transactions involving the provision of goods or services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
3. the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
4. the disclosed continuing connected transactions have exceeded the annual cap, where applicable.

Details of the significant related party transactions conducted in the normal course of business are set out in note 33 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined and required to be disclosed under the Listing Rules, except for those described in the section headed "Continuing Connected Transactions" in this annual report, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Save as disclosed above, there is no other transaction of the Company which requires disclosure in this annual report in accordance with the Listing Rules.

* *For identification purposes only*

REPORT OF THE DIRECTORS

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company maintained sufficient level of public float as required under the Listing Rules during the year and up to the date of this annual report.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (i.e. the new Appendix C1 to the Listing Rules with effect from 31 December 2023), throughout the year except for a deviation in code provision C.2.1.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 16 to 34 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the year.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2023 were audited by BDO, whose term of office will retire at the close of the AGM. A resolution for the re-appointment of BDO as the auditor of the Company will be proposed at the AGM.

By Order of the Board

Zhu Yuan

Chairman

Hong Kong, 27 March 2024

INDEPENDENT AUDITOR'S REPORT



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**To the Shareholders of China Yurun Food Group Limited
(incorporated in Bermuda with limited liability)**

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Yurun Food Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 123, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

We do not express an opinion on the consolidated financial statements of the Group due to the potential interaction of the multiple uncertainties relating to going concern and their possible cumulative effects on the consolidated financial statements as described in the "Basis for Disclaimer of Opinion" section of our report. In all other aspects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

As described in note 3(b) to the consolidated financial statements, the Group incurred a net loss of \$201,293,000 for the year ended 31 December 2023 and as at 31 December 2023, the Group had net current liabilities of \$979,241,000. At 31 December 2023, current and non-current bank borrowings amounted to \$446,196,000 and \$22,029,000 respectively, while its cash and cash equivalents amounted to \$39,298,000 only.

As at 31 December 2023, certain bank borrowings amounted to \$437,069,000 together with the accrued interest of \$263,326,000 (included in trade and other payables (note 27)) were overdue. In addition, as disclosed in notes 3(b), 25(i) and 25(iii) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to the abovementioned current bank borrowings of \$437,069,000 and the banks have commenced litigations against the Group to settle the outstanding balances.

The directors of the Company have been implementing a number of measures to improve the Group's liquidity and financial position, which are set out in note 3(b) to the consolidated financial statements.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's plans and measures to mitigate its liquidity pressure and to improve its financial performance as set out in note 3(b) to the consolidated financial statements, including (i) the successful negotiation 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) the successful outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 25(i) to the consolidated financial statements; and (iii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required. These indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, and therefore that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in note 3(b) to the consolidated financial statements, 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 the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

We disclaimed our opinion on the consolidated financial statements for the year ended 31 December 2022 (“2022 consolidated financial statements”) relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2022 would affect the balances of these financial statements items as at 1 January 2023 and the corresponding movements, if any, during the year ended 31 December 2023. The balances as at 31 December 2022 and the amounts for the year then ended are presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2023. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2023 also for the possible effect of the disclaimer of audit opinion on 2022 consolidated financial statements on the comparability of 2023 figures and 2022 figures in these consolidated financial statements.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”) and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The audit committee assists the directors in discharging their responsibilities in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and to issue an auditor's report. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

However, due to the potential interaction of the multiple uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements as described in the “Basis for Disclaimer of Opinion” section of our report, it is not possible for us to form an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's “Code of Ethics for Professional Accountants” (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

BDO Limited

Certified Public Accountants

Amy Yau Shuk Yuen

Practising Certificate Number: P06095

Hong Kong, 27 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 \$'000	2022 \$'000
Revenue	7	1,410,943	2,162,440
Cost of sales		(1,297,953)	(2,049,633)
Gross profit		112,990	112,807
Other net (losses)/income	8	(105,354)	26,758
Distribution expenses		(45,038)	(48,036)
Administrative and other operating expenses		(132,184)	(73,107)
Results from operating activities		(169,586)	18,422
Finance income		97	803
Finance costs		(38,384)	(38,504)
Net finance costs	9(a)	(38,287)	(37,701)
Loss before income tax	9(b)&(c)	(207,873)	(19,279)
Income tax credit/(expense)	10	6,580	(6,050)
Loss for the year		(201,293)	(25,329)
Attributable to:			
Equity holders of the Company		(147,641)	(15,037)
Non-controlling interests		(53,652)	(10,292)
Loss for the year		(201,293)	(25,329)
Loss per share			
Basic and diluted	15	HK\$(0.081)	HK\$(0.008)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 \$'000	2022 \$'000
Loss for the year		(201,293)	(25,329)
Other comprehensive income for the year (after tax and reclassification adjustments)	14		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		6,507	355
Total comprehensive income for the year		(194,786)	(24,974)
Attributable to:			
Equity holders of the Company		(151,618)	(12,010)
Non-controlling interests		(43,168)	(12,964)
Total comprehensive income for the year		(194,786)	(24,974)

The notes on pages 60 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 \$'000	2022 \$'000
Non-current assets			
Property, plant and equipment	16	326,449	449,037
Lease prepayments	17	45,618	90,699
Intangible assets	19	–	659
Non-current prepayments and other receivables	20	1,758	95,343
		373,825	635,738
Current assets			
Inventories	21	146,006	117,265
Trade and other receivables	22	452,756	390,635
Income tax recoverable	11	66	67
Cash and cash equivalents	23	39,298	33,210
		638,126	541,177
Current liabilities			
Bank borrowings	25	446,196	453,396
Lease liabilities	26	869	693
Trade and other payables	27	1,170,268	1,122,566
Income tax payable	11	34	2,134
		1,617,367	1,578,789
Net current liabilities		(979,241)	(1,037,612)
Total assets less current liabilities		(605,416)	(401,874)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 \$'000	2022 \$'000
Non-current liabilities			
Bank borrowings	25	22,029	30,498
Lease liabilities	26	61,934	62,221
		83,963	92,719
NET LIABILITIES		(689,379)	(494,593)
EQUITY			
Share capital	29	182,276	182,276
Reserves		(877,245)	(725,627)
Total equity attributable to equity holders of the Company		(694,969)	(543,351)
Non-controlling interests		5,590	48,758
TOTAL EQUITY		(689,379)	(494,593)

Approved and authorised for issue by the board of directors on 27 March 2024.

Zhu Yuan

Director

Yang Linwei

Director

The notes on pages 60 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Capital surplus	Merger reserve	PRC statutory reserves	Exchange reserve	Accumulated losses	Total		
	(Note 29(a))	(Note 30(b))	(Note 30(c))	(Note 30(d))	(Note 30(e))	(Note 30(f))				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
At 1 January 2022	182,276	7,400,418	3,290	(70,363)	91,397	85,185	(8,223,544)	(531,341)	61,722	(469,619)
Loss for the year	-	-	-	-	-	-	(15,037)	(15,037)	(10,292)	(25,329)
Total other comprehensive income for the year	-	-	-	-	-	3,027	-	3,027	(2,672)	355
Total comprehensive income for the year	-	-	-	-	-	3,027	(15,037)	(12,010)	(12,964)	(24,974)
At 31 December 2022 and 1 January 2023	182,276	7,400,418	3,290	(70,363)	91,397	88,212	(8,238,581)	(543,351)	48,758	(494,593)
Loss for the year	-	-	-	-	-	-	(147,641)	(147,641)	(53,652)	(201,293)
Total other comprehensive income for the year	-	-	-	-	-	(3,977)	-	(3,977)	10,484	6,507
Total comprehensive income for the year	-	-	-	-	-	(3,977)	(147,641)	(151,618)	(43,168)	(194,786)
At 31 December 2023	182,276	7,400,418	3,290	(70,363)	91,397	84,235	(8,386,222)	(694,969)	5,590	(689,379)

The notes on pages 60 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Loss for the year		(201,293)	(25,329)
Adjustments for:			
Depreciation	9(c)	33,418	36,648
Amortisation of intangible assets	9(c)	617	967
Interest income from bank deposits	9(a)	(97)	(348)
Finance costs		38,384	38,504
Impairment losses on property, plant and equipment	9(c)	56,495	–
Impairment losses on trade receivables, net	9(c)	1,608	4,963
Gain on disposal of property, plant and equipment	8	(25,555)	(1,746)
Written-off of right-of-use-assets	8	43,094	–
Gain on extinguishment of debt	8	–	(12,713)
Written-off of value-added tax recoverable	8	99,107	–
(Reversal of write-down)/write-down of inventories	9(c)	(1,350)	1,815
Income tax (credit)/expense		(6,580)	6,050
Operating profit before changes in working capital		37,848	48,811
Change in inventories		(29,232)	(8,889)
Change in trade and other receivables		(76,868)	(51,566)
Change in trade and other payables		85,113	6,276
Cash generated from/(used in) operating activities		16,861	(5,368)
Finance costs paid		(48)	(93)
Income tax paid		(46)	(5,634)
Income tax refunded		3,678	–
Net cash generated from/(used in) operating activities		20,445	(11,095)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 \$'000	2022 \$'000
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		12,558	2,738
Interest received		97	348
Acquisitions of property, plant and equipment		(13,912)	(5,064)
Net cash used in investing activities		(1,257)	(1,978)
Cash flows from financing activities			
Repayments of bank borrowings	24	(10,360)	(20,904)
Payments of lease liabilities	24	(4,442)	(3,426)
Net cash used in financing activities		(14,802)	(24,330)
Net increase/(decrease) in cash and cash equivalents		4,386	(37,403)
Cash and cash equivalents at 1 January		33,210	79,751
Effect of exchange rate fluctuations on cash held		1,702	(9,138)
Cash and cash equivalents at 31 December	23	39,298	33,210

The notes on pages 60 to 123 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL

China Yurun Food Group Limited (the “Company”) was incorporated in Bermuda on 21 March 2005 as an exempted company with limited liability under the Bermuda Companies Act 1981. The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The consolidated financial statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiaries (collectively referred to as the “Group”). The Group is primarily involved in slaughtering, production and sales of chilled and frozen meat and processed meat products. The consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the “Board” or the “Directors”) on 27 March 2024.

2. ADOPTION OF IFRS ACCOUNTING STANDARDS AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (“IFRS ACCOUNTING STANDARDS”)

(a) Adoption of new/revised IFRS Accounting Standards – effective from 1 January 2023

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
IFRS 17	Insurance Contracts
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

Except as discussed below, none of the new or amended IFRS Accounting Standards have a material effect on the reported results or financial position of the Group for both current and prior reporting periods. The Group has not early applied any new or amended IFRS Accounting Standards that are not yet effective for the current accounting period.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group’s financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. ADOPTION OF IFRS ACCOUNTING STANDARDS AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (“IFRS ACCOUNTING STANDARDS”) (CONTINUED)

(b) New/revised IFRS Accounting Standards that have been issued but are not yet effective

The following new or revised IFRS Accounting Standards, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1	Non-current Liabilities with Covenants ¹
Amendments to IFRS 16	Lease liability in a Sale and Leaseback ¹
Amendments to IAS 7 and IFRS 7	Supplier Financial Arrangements ¹
Amendments to IAS 21	Lack of Exchangeability ²
Amendments to IFRS10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after a date to be determined.

The Directors of the Group do not anticipate that the application of the above amendments in the future will have an impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards, which collective term includes all applicable individual IFRSs, IASs and Interpretations issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

(b) Basis of measurement and Going concern assumption

The consolidated financial statements have been prepared under the historical cost basis.

Going concern basis

The Group incurred a net loss of \$201,293,000 for the year ended 31 December 2023 and as at 31 December 2023, the Group had net current liabilities of \$979,241,000. At 31 December 2023, the Group’s current and non-current bank borrowings amounted to \$446,196,000 and \$22,029,000 respectively, while its cash and cash equivalents amounted to \$39,298,000 only.

As at 31 December 2023, certain current bank borrowings amounted to \$437,069,000 together with the accrued interest of \$263,326,000 (included in trade and other payables (note 27)) were overdue. In addition, as disclosed in notes 25(i) and 25(iii), the Group could not fulfil certain bank covenants relating to the abovementioned current bank borrowings of \$437,069,000 and the banks have commenced litigations against the Group to settle the outstanding balances.

For the purpose of assessing going concern, management have prepared a cash flow forecast covering a period of twelve months from the end of the reporting period with the following plans and measures to mitigate the liquidity pressure and to improve its financial position taken into account:

- (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) The potential outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 25(i); and
- (iii) Actively negotiating with banks to obtain additional new financing and other source of funding as and when required.

Based on the above, the Directors considered the Group would have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement and Going concern assumption (Continued)

Going concern basis (Continued)

However, the validity of the going concern assumption depends upon the successful outcome of the Group's plans and measures, including (i) the successful negotiation 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) the successful outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 25(i); and (iii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required. These indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, and therefore that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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 the consolidated financial statements.

(c) Functional and presentation currency

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currencies in Hong Kong dollars ("HKD" or "\$") and subsidiaries established in the People's Republic of China (the "PRC") have their functional currencies in Renminbi ("RMB"). These consolidated financial statements are presented in HKD, which is the Company's functional currency. All financial information presented in HKD has been rounded to the nearest thousand except when otherwise indicated.

4. MATERIAL ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see accounting policy (a)(ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see accounting policy (g)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see accounting policy (e)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (Continued)

(ii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less impairment losses (see accounting policy (g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy (g)).

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain and loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment are as follows:

–	Properties	20–40 years
–	Machinery and equipment	10–15 years
–	Transportation vehicles	5–15 years
–	Furniture and fixtures	5–10 years

Depreciation methods, useful lives and residual values are reassessed at each end of the reporting period and adjusted if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Property, plant and equipment (Continued)

(iv) Construction in progress

Construction in progress is stated at cost less impairment losses (see accounting policy (g)). Cost comprises direct costs of construction during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are substantially complete, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(c) Leasing

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

(i) Right-of-use asset

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

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under IAS 40 and held for own use under IAS 16 (see accounting policy (b)) are carried at cost less accumulated depreciation and impairment losses. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(c) Leasing (Continued)

(ii) Lease liability

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

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

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

(iii) Accounting as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(d) Lease prepayments

Lease prepayments represent purchase cost of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see accounting policy (g)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights. The lease terms of land use rights are from 35 to 50 years.

(e) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

(ii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance, shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s.148 and s.149 of the Ordinance.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and distribution expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment

(i) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss (“ECL”) on trade and other receivables. The ECLs are measured on either of the following bases: (i) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (ii) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (Continued)

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Revenue recognition

The Group principally derives revenue from manufacturing and sales of chilled and frozen meat and processed meat products.

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(h) Revenue recognition (Continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(i) Meat production

Customers obtain control of the meat products when the goods are delivered to and have been accepted. Revenue is thus recognised upon at the point in time when control of the meat products is transferred to the customers. There is generally only one performance obligation. For the credit sales, invoices are usually payable within 30 days to 90 days; while the payment of the transaction price is due immediately when the customer purchases the products and takes delivery in plants. As the payment by the customer does not exceed one year, the Group does not adjust any of the transaction prices for the time value of money. In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

Some of the Group's contracts with customers from the sale of meat product provides customers a right of return (a right to exchange another product). These rights of return do not allow the returned goods to be refund in cash. The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. In the comparative period, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to tax payable in respect of previous years. It is measured using tax rates enacted or substantially enacted at the end of the reporting period. Current tax payable also includes any tax arising from dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each end of the reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to HKD at exchange rates at the end of the reporting period. The income and expenses of foreign operations are retranslated to HKD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the exchange reserve in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the related cumulative amount in the exchange reserve attributable to the Group is reclassified to profit or loss as part of the gain or loss on disposal.

(k) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(iv) Equity-settled share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For equity-settled share-based payment awards with non-vesting conditions, the grant date fair value of the equity-settled share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(l) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(n) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Critical judgments in applying accounting policies

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(b) Key sources of estimation uncertainty

Notes 28 and 31(e) contain information about the assumptions relating to the determination of fair value of share options granted and financial instruments respectively. Other sources of estimation uncertainties are as follows:

Accounting estimates and judgements

(i) Impairment of property, plant and equipment, lease prepayments, intangible assets and non-current prepayments

The Group reviews its property, plant and equipment, lease prepayments, intangible assets and non-current prepayments for indications of impairment at the end of each reporting period according to accounting policies set out in note 4(g). The recoverable amount is estimated based on projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for assets which management considers are likely to be recoverable through continuing use or recent transaction prices of similar assets when they are available and depreciated replacement cost when appropriate for assets which management considers are likely to be recoverable through a sales transaction. If the estimation of recoverable amount is different, any impairment will impact the profit or loss of the Group.

(ii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (Continued)

Accounting estimates and judgements (Continued)

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the end of the reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(iv) Taxation

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(v) Vesting of share options

The share options granted are subject to the achievement of performance-based vesting condition. The Group recognises the cost for services received from the grantees based on the estimation on the number of share options expected to vest. The equity-settled share-based payment expense for future periods is adjusted if subsequent information indicates that the number of share options expected to vest differs from previous estimates.

(vi) Provision for losses on litigations

The Group has been involved in several legal proceedings. The Group assessed the provision required or disclosed as contingent liabilities based on its legal assessment. Further details of the proceedings are disclosed in notes 25(iii) and 32(b). Further development of the proceedings may result in different assessments of the financial consequences in subsequent years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (Continued)

Accounting estimates and judgements (Continued)

(vii) ECLs on trade and other receivable

The Group recognises loss allowances for ECLs on trade and other receivables measured at amortised cost. The ECLs are measured on either of the following bases: (i) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (ii) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

(viii) Going concern assumption

These consolidated financial statements have been prepared on a going concern basis even though there were certain events or conditions as explained in note 3(b). In view of these circumstances, the Directors have been given consideration to the future liquidity and performance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures as stated in note 3(b) have been and are being taken to manage the Group's liquidity and to improve its financial positions.

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 the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. OPERATING SEGMENTS

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's Chief Executive Officer, being the chief operating decision maker ("CODM"), the Group has identified the following two reportable segments. No other operating segments have been aggregated to form the following reportable segments.

Chilled and frozen meat : The chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.

Processed meat products : The processed meat products segment manufactures and distributes processed meat products.

The Group's CODM reviews the results of the two operating segments regularly. The decisions made regarding resource allocation and performance assessment are mainly based on the segment results.

(a) Segment results

In accordance with IFRS 8, segment information disclosed in these consolidated financial statements has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.
- Finance income and finance costs are not allocated as segment expenses.
- The measure used for reportable segment loss is adjusted loss before interests and taxes for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. OPERATING SEGMENTS (CONTINUED)

(a) Segment results (Continued)

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly finance costs, head office expenses and income tax expenses.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Segment assets and liabilities of the Group are not reported to the Group's CODM regularly. As a result, segment information concerning assets and liabilities have not been presented in these consolidated financial statements.

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 years ended 31 December 2023 and 2022 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
External revenue	966,400	1,666,115	444,543	496,325	1,410,943	2,162,440
Inter-segment revenue	13,845	3,585	–	2	13,845	3,587
Reportable segment revenue	980,245	1,669,700	444,543	496,327	1,424,788	2,166,027
Depreciation and amortisation	(22,825)	(27,046)	(11,210)	(10,569)	(34,035)	(37,615)
Gain/(loss) on disposal of property, plant and equipment	25,228	(605)	327	2,351	25,555	1,746
Written-off of right-of-use assets	(43,094)	–	–	–	(43,094)	–
Written-off of value-added tax recoverable	(99,107)	–	–	–	(99,107)	–
Impairment losses on property, plant and equipment	(56,495)	–	–	–	(56,495)	–
Impairment losses on trade receivables, net	(241)	(523)	(1,367)	(4,440)	(1,608)	(4,963)
Government subsidies	789	2,478	2,983	148	3,772	2,626
Reportable segment (loss)/profit before income tax	(225,344)	(34,860)	64,170	65,639	(161,174)	30,779
Income tax credit/(expense)	–	–	6,580	(6,050)	6,580	(6,050)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. OPERATING SEGMENTS (CONTINUED)

(b) Reconciliations of reportable segment revenue and (loss)/profit

	2023 \$'000	2022 \$'000
Revenue		
Total revenue of reportable segments	1,424,788	2,166,027
Elimination of inter-segment revenue	(13,845)	(3,587)
Consolidated revenue	1,410,943	2,162,440
(Loss)/profit		
Total reportable segment (loss)/profit before income tax	(161,174)	30,779
Elimination of inter-segment loss	4,732	865
	(156,442)	31,644
Net finance costs (note 9(a))	(38,287)	(37,701)
Income tax credit/(expense)	6,580	(6,050)
Unallocated head office and corporate expenses	(13,144)	(13,222)
Consolidated loss for the year	(201,293)	(25,329)

(c) Geographical information

The Group's revenue and (loss)/profit are derived entirely from the manufacturing and sales of chilled and frozen meat and processed meat products in the PRC. Almost all of the Group's non-current assets are located in the PRC.

(d) Information about major customers

During the years ended 31 December 2023 and 2022, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. REVENUE

Revenue represents the sale value of goods sold to customers, excludes value-added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts and volume rebates.

	2023	2022
	\$'000	\$'000
Sales of chilled and frozen meat, recognised at a point in time	966,400	1,666,115
Sales of processed meat products, recognised at a point in time	444,543	496,325
	1,410,943	2,162,440

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	2023	2022
	\$'000	\$'000
Trade receivables, net (note 22)	108,683	70,593
Contract liabilities (note 27(ii))	28,906	24,583

As at 31 December 2023, the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing contracts were \$28,906,000 (2022: \$24,583,000). These amounts represent revenue expected to be recognised in the future from the existing sales contracts. The Group will recognise the expected revenue in future when or as the goods are transferred to the customers, which is expected to occur in the next 12 months.

8. OTHER NET (LOSSES)/INCOME

	2023	2022
	\$'000	\$'000
Government subsidies	3,772	2,626
Reversal of provisional losses on litigations	–	1,681
Written-off of value-added tax recoverable (note)	(99,107)	–
Written-off of right-of-use assets (note 17)	(43,094)	–
Gain on disposal of property, plant and equipment	25,555	1,746
Gain on extinguishment of debt (note 25 (iv))	–	12,713
Rental income	316	126
Sales of scrap	346	441
Sundry income	6,858	7,425
	(105,354)	26,758

Note:

The written-off of value-added tax recoverable was mainly derived from certain subsidiaries which have suspended or terminated their operations and the management of the Company expects these production bases may not be able to operate in certain period of time in future. These non-operating subsidiaries are entitled to the value-added tax recoverable but the utilisation of such value-added tax recoverable is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	2023 \$'000	2022 \$'000
Interest on bank borrowings	35,918	36,228
Interest on lease liabilities	2,123	2,183
	38,041	38,411
Bank charges	48	93
Net foreign exchange loss/(gain)	295	(455)
Interest income from bank deposits	(97)	(348)
	38,287	37,701

(b) Personnel expenses (including directors' remunerations)

	2023 \$'000	2022 \$'000
Salaries, wages and other benefits	91,795	98,386
Contributions to defined contribution pension schemes	7,623	7,150
	99,418	105,536

The Group participates in pension schemes organised by the PRC government whereby the Group is required to pay annual contributions at rates of 16% (2022: 15% to 16%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2023.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% (2022: 5%) of the employees' relevant income, subject to a cap of monthly relevant income of \$30,000 (2022: \$30,000). Contributions to the scheme vest immediately.

Save for the above schemes, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. LOSS BEFORE INCOME TAX (CONTINUED)

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

(c) Other items

	2023	2022
	\$'000	\$'000
Cost of inventories [#]	1,297,953	2,049,633
(Reversal of write-down)/write-down of inventories	(1,350)	1,815
Impairment losses on trade receivables [^] (note 22(b))	1,608	4,963
Impairment losses on property, plant and equipment [^]	56,495	–
Depreciation [*]		
– Owned property, plant and equipment	26,967	29,753
– Right-of-use-assets including:		
– Properties	5,241	4,286
– Lease prepayments (note 17)	1,210	2,609
Amortisation of intangible assets [^] (note 19)	617	967
Research and development expenses [^] (other than amortisation costs)	–	5
Auditors' remuneration		
– audit services	1,250	1,250
– other services	550	550

[#] Cost of inventories included approximately \$85,969,000 (2022: \$82,574,000) relating to personnel expenses, depreciation and (reversal of write-down)/write-down of inventories, which amount were also included in the respective total amounts disclosed separately above or in note 9(b) for each of these types of expenses.

[^] These items are included in “administrative and other operating expenses” in the consolidated statement of profit or loss and other comprehensive income.

^{*} Depreciation included in “cost of sales”, “distribution expenses” and “administrative and other operating expenses” amounting to approximately \$6,851,000 (2022: \$8,189,000), \$509,000 (2022: \$574,000) and 26,058,000 (2022:\$27,885,000) respectively in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. INCOME TAX (CREDIT)/EXPENSE

Income tax (credit)/expense in the consolidated statement of profit or loss and other comprehensive income represents:

	2023	2022
	\$'000	\$'000
Current income tax expense	46	5,316
(Over)/under-provision in respect of prior years	(6,626)	734
Income tax (credit)/expense in the consolidated statement of profit or loss and other comprehensive income	(6,580)	6,050

- (a) Pursuant to the rules and regulations of Bermuda and 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 during the years ended 31 December 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 years ended 31 December 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 years ended 31 December 2023 and 2022.
- (d) Under the PRC tax law, dividends received by foreign investors from their investment in foreign-invested enterprises in respect of their profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

At 31 December 2023, temporary differences relating to the undistributed profits of subsidiaries amounted to \$486,468,000 (2022: \$443,795,000). Deferred tax liabilities of \$24,323,000 (2022: \$22,190,000) in respect of the undistributed profits of \$486,468,000 (2022: \$443,795,000) were not recognised as at 31 December 2023 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

In accordance with the accounting policy set out in note 4(i), the Group has not recognised (i) deferred tax assets in respect of cumulative tax losses arising in the PRC, which will expire in 5 years, of \$1,438,912,000 (2022: \$1,184,638,000) and the deductible temporary differences relating to property, plant and equipment of \$82,445,000 (2022: \$116,974,000) due to the unpredictability of future taxable profit streams in the relevant tax jurisdiction; (ii) deferred tax assets in respect of the deductible temporary differences relating to trade and other receivables of \$12,571,000 (2022: \$11,122,000) due to the effect is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

- (e) 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 rate 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.

Reconciliation between income tax (credit)/expense and accounting loss at applicable tax rate:

	2023	2022
	\$'000	\$'000
Loss before income tax	(207,873)	(19,279)
Income tax using the PRC enterprise income tax rate of 25% (2022: 25%)	(51,968)	(4,819)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,104	1,102
Effect of non-taxable income	(6,692)	(6,431)
Effect of non-deductible expenses	2,265	3,437
(Over)/under-provision in respect of prior years	(6,626)	734
Recognition of tax expense in relation to interest income from PRC subsidiaries	38	61
Effect of tax losses not recognised	71,076	37,942
Effect of temporary differences not recognised	(8,270)	(23,377)
Utilisation of tax losses not recognised	(7,507)	(2,599)
Income tax (credit)/expense	(6,580)	6,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. INCOME TAX RECOVERABLE/(PAYABLE)

Income tax recoverable/(payable) in the consolidated statement of financial position represents:

	2023 \$'000	2022 \$'000
At beginning of the year	(2,067)	(1,833)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	(46)	(5,316)
Over/(under)-provision in respect of prior years	6,626	(734)
PRC income tax and withholding tax (refunded)/paid	(3,632)	5,634
Exchange adjustment	(849)	182
At end of the year	32	(2,067)
Represented by:		
Income tax recoverable	66	67
Income tax payable	(34)	(2,134)
	32	(2,067)

12. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2023						Total \$'000
	Directors' fees \$'000	Salaries, allowance and other benefits \$'000	Contributions to retirement benefit schemes \$'000	Bonus \$'000	Sub-total \$'000	Equity-settled share-based payments (Note) \$'000	
Executive directors							
Zhu Yuan (Chief Executive Officer)	689	1,311	-	-	2,000	-	2,000
Yang Linwei	-	722	46	-	768	-	768
Independent non-executive directors							
Gao Hui	253	-	-	-	253	-	253
Chen Jianguo	155	-	-	-	155	-	155
Xu Xinglian (appointed on 18 April 2023)	94	-	-	-	94	-	94
Miao Yelian (resigned on 18 April 2023)	33	-	-	-	33	-	33
Total	1,224	2,033	46	-	3,303	-	3,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

12. DIRECTORS' EMOLUMENTS (CONTINUED)

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows: (continued)

	2022						Total \$'000
	Directors' fees \$'000	Salaries, allowance and other benefits \$'000	Contributions to retirement benefit schemes \$'000	Bonus \$'000	Sub-total \$'000	Equity-settled share-based payments (Note) \$'000	
Executive directors							
Zhu Yuan (Chief Executive Officer)	689	1,311	–	–	2,000	–	2,000
Yang Linwei	–	1,096	50	–	1,146	–	1,146
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	162	–	–	–	162	–	162
Miao Yelian	116	–	–	–	116	–	116
Total	1,220	2,407	50	–	3,677	–	3,677

Note: These represent the estimated value of the non-cash share options granted to the Directors under the Company's share option scheme. The value of these share options were measured according to the Group's accounting policies for equity-settled share-based payment transactions as set out in note 4(k). Details of the principal terms and number of options granted, are disclosed in note 28.

Salaries, allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or payable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments included two (2022: two) existing directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the remaining three (2022: three) individuals during the year ended 31 December 2023 are as follows:

	2023	2022
	\$'000	\$'000
Salaries and other emoluments	4,175	4,456
Contributions to retirement benefit schemes	54	53
	4,229	4,509

The emoluments fell within the following bands:

	2023	2022
	Number of individuals	Number of individuals
<\$1,000,000	1	1
\$1,000,001 – \$1,500,000	1	1
\$2,000,001 – \$2,500,000	1	1

For the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group and no other amounts were paid by the Group to the Directors, or the five highest paid individuals, as compensation for loss of office.

14. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2023 and 2022.

15. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2023 is based on the loss attributable to equity holders of the Company for the year of \$147,641,000 (2022: \$15,037,000) and the weighted average number of 1,822,756,000 (2022: 1,822,756,000) shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the years ended 31 December 2023 and 2022 because the potential ordinary shares outstanding were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT

	Properties \$'000	Machinery and equipment \$'000	Transportation vehicles \$'000	Furniture and fixtures \$'000	Construction in progress \$'000	Total \$'000
Cost:						
At 1 January 2022	1,293,846	659,026	19,123	32,815	261,215	2,266,025
Additions	2,503	256	77	1,754	543	5,133
Disposals	–	(4,418)	–	(463)	–	(4,881)
Effect of movements in exchange rates	(111,850)	(55,702)	(2,197)	(3,841)	(11,521)	(185,111)
At 31 December 2022 and 1 January 2023	1,184,499	599,162	17,003	30,265	250,237	2,081,166
Additions	3,769	7,714	92	1,018	2,157	14,750
Disposals	(2,830)	(2,854)	(330)	(190)	(102,182)	(108,386)
Effect of movements in exchange rates	(17,056)	(8,557)	(242)	(436)	(3,337)	(29,628)
At 31 December 2023	1,168,382	595,465	16,523	30,657	146,875	1,957,902
Accumulated depreciation and impairment:						
At 1 January 2022	998,259	546,091	18,074	25,546	158,139	1,746,109
Depreciation	11,257	20,505	281	1,996	–	34,039
Disposals	–	(3,660)	–	(229)	–	(3,889)
Effect of movements in exchange rates	(81,863)	(40,061)	(3,324)	(5,481)	(13,401)	(144,130)
At 31 December 2022 and 1 January 2023	927,653	522,875	15,031	21,832	144,738	1,632,129
Depreciation	12,994	17,160	1,045	1,009	–	32,208
Disposals	(2,830)	(2,836)	(329)	(189)	(59,740)	(65,924)
Impairment loss	24,129	26,536	9	467	5,354	56,495
Effect of movements in exchange rates	(13,288)	(7,570)	(221)	(315)	(2,061)	(23,455)
At 31 December 2023	948,658	556,165	15,535	22,804	88,291	1,631,453
Carrying amounts:						
At 31 December 2023	219,724	39,300	988	7,853	58,584	326,449
At 31 December 2022	256,846	76,287	1,972	8,433	105,499	449,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of \$43,220,000 (2022: \$48,633,000) at 31 December 2023 are yet to be obtained. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the properties, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2023.

Right-of-use assets

	2023	2022
	Properties	Properties
	\$'000	\$'000
At 1 January	19,807	26,747
Addition	3,096	–
Depreciation	(5,241)	(4,286)
Impairment loss	(13,697)	–
Effect of movement in exchange rates	(258)	(2,654)
At 31 December	3,707	19,807

Pursuant to a reorganisation (the "Reorganisation") of the Group completed on 10 September 2005 to rationalise the group structure in preparation for the public listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange, certain property, plant and equipment owned by the entities under common control (collectively referred to as "Predecessor Entities") were not transferred to the Group but were leased to the Group (note 26) effected during the year ended 31 December 2005. The Predecessor Entities granted an option in favour of the Group to purchase the land use rights and properties subject to the relevant lease agreements at a consideration which is equal to the higher of:

- (i) the fair market value at the time of exercise of the option; and
- (ii) an amount calculated by reference to the net book value of the relevant land use rights and properties at the time the lease commenced, lease payment made and the leasing period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment

Certain CGUs of the Group resulted in operating loss during the year continuously. The management of the Company identified this as an impairment indicator and carried out an impairment review on the CGUs' non-current assets. In assessing the recoverable amounts, management expected that the business performance could be gradually improved during the projection period as a result of improving operating environment.

The management then updated the business plans of the Group based on its revised and updated assessment of the operating environment and as a consequence had identified certain production facilities whereby the management decided that the production activities would cease. Hence these items of property, plant and equipment and lease prepayments whose carrying values would likely to be recovered through sales rather than continuing use in operations of the Group were identified as at 31 December 2023. These assets were taken out from their CGUs to which they were belonged and written down to their recoverable amounts, which were measured based on their estimated fair value less costs of disposal. The valuation models used to estimate the fair values of these assets included the use of recent transaction prices of similar assets of similar age and conditions when such prices could be reliably obtained and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for percentage of completion (for construction in progress), age, physical deterioration as well as economic obsolescence. The fair values upon which recoverable amounts of these assets were based are categorised as a Level 3 measurement under the fair value hierarchy. Key unobservable inputs used included replacement cost, economic obsolescence, and physical deterioration. Key assumptions in determining economic obsolescence include utilisation rate (average of 9% (2022: 9%)) and depreciation rate (11% (2022: 11%)) adopted in the valuation. An impairment loss on property, plant and equipment of \$56,495,000 (2022: \$Nil) respectively was recognised in "administrative and other operating expenses" in respect of assets falling into this category for the year ended 31 December 2023. Any unfavourable change would lead to further impairment loss recognised in future financial years.

For assets which management considered were likely to be recoverable through continuing use in the operation of the Group, the Group assesses the recoverable amounts of each CGU to which these assets were belonged based on value-in-use calculations. These calculations used cash flow projections based on financial forecasts approved by management covering a five-year period. The key assumptions used during the five-year forecast period for the value-in-use calculations are as follows:

	At 31 December 2023		At 31 December 2022	
	CGUs in chilled and frozen meat segment	CGU in processed meat products segment	CGUs in chilled and frozen meat segment	CGU in processed meat products segment
Gross profit margin (average of next five years)	1%	9%	2%	9%
EBITDA margin (average of next five years)	1%	1%	1%	4%
Growth rate (average of next five years)	3%	3%	3%	3%
Discount rate	11%	11%	11%	11%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment (continued)

The management determined the budgeted gross profit margin, EBITDA 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. Cash flows beyond the five-year period are extrapolated using growth rate of 0% (2022: 0%), which does not exceed the long-term average growth rate for the business in which the CGU operates.

At 31 December 2023 and 2022, the recoverable amounts of the CGUs based on the estimate value-in-use calculations were higher than their carrying amounts, no impairment losses were recognised for the year ended 31 December 2023 and 2022.

17. LEASE PREPAYMENTS

	2023 \$'000	2022 \$'000
At 1 January	90,699	101,851
Written-off (note)	(43,094)	–
Depreciation	(1,210)	(2,609)
Exchange adjustment	(777)	(8,543)
At 31 December	45,618	90,699

Note:

The lease prepayments represent leasehold lands located in the PRC, on which the Group built its factory plant and buildings.

Written-off of lease prepayments amounted to \$43,094,000 was recognised under "other net (losses)/income" (note 8) during the year ended 31 December 2023 as a result of the reclaiming of idle land by the municipal people's government in the PRC.

18. INVESTMENTS IN SUBSIDIARIES

Particulars of principal subsidiaries are set out in Appendix 1 on page 123.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

19. INTANGIBLE ASSETS

	2023 \$'000	2022 \$'000
Cost:		
At 1 January	5,188	5,621
Effect of movements in exchange rates	(102)	(433)
At 31 December	5,086	5,188
Accumulated amortisation:		
At 1 January	4,529	3,881
Charge for the year	617	967
Effect of movements in exchange rates	(60)	(319)
At 31 December	5,086	4,529
Carrying amount:		
At 31 December	-	659

Intangible assets represent computer software acquired by the Group. Amortisation charge of intangible assets was included in "administrative and other operating expenses" (note 9(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

20. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	2023	2022
	\$'000	\$'000
Value-added tax recoverable (note)	35	92,750
Prepayments for acquisitions of property, plant and equipment	1,723	2,593
	1,758	95,343

Note: Value-added tax recoverable is eligible for offset against future value-added tax payable with no time limit. As at 31 December 2023, based on the reassessment of the relevant facts and circumstances, the Directors expected that the utilisation of such amount of value-added tax recoverable will take more than 12 months from the reporting date and accordingly have classified this amount as non-current asset.

21. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2023	2022
	\$'000	\$'000
Raw materials	52,163	32,478
Work in progress	10,750	4,949
Finished goods	83,093	79,838
	146,006	117,265

Reversal of write-down of inventories to their net realisable value amounting to \$1,350,000 (2022: Write-down of inventories: \$1,815,000) was recognised under "cost of sales" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. TRADE AND OTHER RECEIVABLES

	2023 \$'000	2022 \$'000
Trade receivables	121,254	81,715
Less: ECLs (note (b))	(12,571)	(11,122)
Trade receivables, net (note (a))	108,683	70,593
Value-added tax recoverable	100,282	116,556
Deposits and prepayments	180,922	169,127
Other receivables (note (c))	62,869	34,359
	452,756	390,635

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

At 31 December 2023 and 2022, certain trade receivables were pledged against bank borrowings (note 25(ii)).

The Group's exposure to credit and foreign currency risk related to trade and other receivables are disclosed in note 31.

(a) Ageing analysis

An ageing analysis of trade receivables (net of impairment losses) of the Group based on invoice date is analysed as follows:

	2023 \$'000	2022 \$'000
Within 30 days	102,991	64,178
31 days to 90 days	26	269
91 days to 180 days	5,602	6,139
Over 180 days	64	7
	108,683	70,593

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Special approval from senior management is required for extension of credit terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables according to their past due dates:

	Gross carrying amount \$'000	Loss allowance \$'000	Net carrying amount \$'000
As at 31 December 2023			
Within 30 days	106,135	(3,126)	103,009
31 days to 90 days	5,026	(1,574)	3,452
91 days to 180 days	5,800	(3,578)	2,222
Over 180 days	4,293	(4,293)	–
	121,254	(12,571)	108,683

	Gross carrying amount \$'000	Loss allowance \$'000	Net carrying amount \$'000
As at 31 December 2022			
Within 30 days	66,974	(2,610)	64,364
31 days to 90 days	5,975	(2,068)	3,907
91 days to 180 days	5,933	(3,611)	2,322
Over 180 days	2,833	(2,833)	–
	81,715	(11,122)	70,593

ECLs rates are based on historical loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables (Continued)

Movement in the loss allowance in respect of trade receivables during the year is as follow:

	2023 \$'000	2022 \$'000
At 1 January	11,122	6,729
Impairment losses recognised	1,608	4,963
Effect of movements in exchange rate	(159)	(570)
At 31 December	12,571	11,122

(c) Impairment of other receivables

	2023 \$'000	2022 \$'000
Other receivables	89,495	61,369
Less: Impairment	(26,626)	(27,010)
	62,869	34,359

The movement in provision for impairment of other receivables during the year is as follows:

	2023 \$'000	2022 \$'000
At 1 January	27,010	29,510
Effect of movements in exchange rate	(384)	(2,500)
At 31 December	26,626	27,010

The above provision for impairment losses of other receivables represents provision for individually impaired other receivables of \$26,626,000 (2022: \$27,010,000) with a carrying amount of 26,626,000 (2022: \$27,010,000). The individually impaired receivables mainly relate to other receivables which the Group consider that the chances of collection of the outstanding amounts are remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2023	2022
	\$'000	\$'000
RMB	37,124	26,300
United States dollars ("USD")	777	5,124
Euro dollars ("EUR")	209	209
Other currencies	1,188	1,577
	39,298	33,210

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately \$37,124,000 (2022: approximately \$26,300,000). RMB is not freely convertible into other currencies, however, under Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC. Exchanging RMB for other currencies is permitted through the banks that are authorised to conduct foreign exchange business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

24. OTHER CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Bank borrowings \$'000 (note 25)	Lease liabilities \$'000 (note 26)
At 1 January 2022	544,288	69,960
Changes from financing cash flows:		
Repayments of bank borrowings	(20,904)	–
Payments of lease liabilities	–	(3,426)
	(20,904)	(3,426)
Exchange adjustment	(26,777)	(5,803)
Other changes:		
Interest on lease liabilities (note 9(a))	–	2,183
Gain on extinguishment of debt (notes 8 and 25(iv))	(12,713)	–
	(12,713)	2,183
At 31 December 2022	483,894	62,914
At 1 January 2023	483,894	62,914
Changes from financing cash flows:		
Repayments of bank borrowings	(10,360)	–
Payments of lease liabilities	–	(4,442)
	(10,360)	(4,442)
Exchange adjustment	(6,840)	(888)
Other changes:		
Addition of lease liabilities	–	3,096
Interest on lease liabilities (note 9(a))	–	2,123
Interest on bank borrowings	1,531	–
	1,531	5,219
At 31 December 2023	468,225	62,803

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For the year ended 31 December 2023

25. BANK BORROWINGS

The bank borrowings are repayable as follows:

	2023 \$'000	2022 \$'000
Current		
– Within one year or on demand	446,196	453,396
Non-current		
– After one year but within two years	8,123	8,970
– After two years but within five years	13,906	21,528
	22,029	30,498
Total bank borrowings	468,225	483,894

	2023 \$'000	2022 \$'000
Terms		
Unsecured bank borrowings denominated in RMB (notes (i) and (iii))		
– Variable interest rate at prevailing market rate	86,028	87,271
– Fixed interest rate from 4.69% to 5.34% (2022: 4.69% to 5.34%)	351,041	356,110
Secured bank borrowings denominated in RMB		
– Variable interest rate at 3.78% (2022: 3.87%) (notes (ii) and (iv))	31,156	40,513
	468,225	483,894

Notes:

- (i) As at 31 December 2023, the Group could not fulfil certain covenants imposed by the bank on certain bank borrowings of \$437,069,000 (2022: \$443,381,000). All of these bank borrowings and the accrued interest of \$263,326,000 (2022: \$232,225,000) were overdue.

The above bank borrowings were secured by corporate guarantees provided by certain restructuring companies and have been incorporated as part of the consolidated restructuring. 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 realise 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 realise 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 realising their rights. If the creditors fail to realise 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 realise 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 borrower, i.e. a subsidiary of the Group in accordance with the respective loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

25. BANK BORROWINGS (CONTINUED)

Notes: (continued)

- (ii) The carrying value of assets pledged against the bank borrowings is analysed as follows:

	2023	2022
	\$'000	\$'000
Trade receivables	12,723	12,234

- (iii) At 31 December 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 \$437,069,000 (2022: \$443,381,000) (as mentioned in note 25(i)) or to secure the repayment with assets of equivalent amounts immediately. Among these, the courts in the PRC handed down the judgements in related to certain outstanding bank borrowings of \$327,697,000 during the year ended 31 December 2023 and up to date of approval of these consolidated financial statements. Pursuant to the judgements, the subsidiary shall repay the outstanding bank borrowings together with accrued interest of \$506,208,000 in total. These bank borrowings were secured by corporate guarantees provided by certain restructuring companies and fall into the restructuring plan as mentioned in note 25(i), the Group will continue to negotiate with the banks on these bank borrowings.

- (iv) In December 2022, the Group had undergone a mediation with a bank for an agreed settlement plan on bank borrowing with principal of \$43,434,000 and accrued interests of \$19,347,000. The agreed settlement plan contains modifications to the contractual terms of the bank borrowings which are considered substantial and resulted in the recognition of gain on extinguishment of debt of \$12,713,000 during the year ended 31 December 2022.

Up to the date of approval of these consolidated financial statements, except for the abovementioned bank borrowing, the remaining bank borrowings were not yet renewed nor repaid. Further details of the Group's management of liquidity risk are set out in note 31(b).

26. LEASES

Nature of leasing activities (in the capacity as lessee)

The group leases a number of properties in the jurisdictions from which it operates. The periodic rent is fixed over the lease term.

RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2023	2022
	\$'000	\$'000
Ownership interests in leasehold land (note 17), carried at amortised cost with remaining lease term of:		
– Between 10 and 50 years	45,618	90,699
Ownership interests in leasehold properties (note 16), carried at depreciated cost with remaining lease term of:		
– Between 10 and 50 years	2,259	19,414
Other properties leased for own use (note 16), carried at depreciated cost	1,448	393

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For the year ended 31 December 2023

26. LEASES (CONTINUED)

Lease liabilities

	2023	2022
	Properties	Properties
	\$'000	\$'000
At 1 January	62,914	69,960
Addition	3,096	–
Interest expense	2,123	2,183
Payments of lease liabilities	(4,442)	(3,426)
Foreign exchange movements	(888)	(5,803)
	62,803	62,914

Future lease payments are due as follows:

	2023		
	Minimum lease payments	Interest	Present value of minimum lease payments
	\$'000	\$'000	\$'000
Within one year	2,944	2,075	869
After one but within two years	2,944	2,035	909
After two but within five years	33,184	3,374	29,810
More than five years	35,291	4,076	31,215
	71,419	9,485	61,934
	74,363	11,560	62,803

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. LEASES (CONTINUED)

Lease liabilities (Continued)

	2022		Present value of minimum lease payments \$'000
	Minimum lease payments \$'000	Interest \$'000	
Within one year	2,754	2,061	693
After one but within two years	2,333	2,047	286
After two but within five years	34,938	4,757	30,181
More than five years	36,586	4,832	31,754
	73,857	11,636	62,221
	76,611	13,697	62,914

The present value of future lease payments are analysed as:

	2023 \$'000	2022 \$'000
Current liabilities	869	693
Non-current liabilities	61,934	62,221
	62,803	62,914

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. TRADE AND OTHER PAYABLES

	2023	2022
	\$'000	\$'000
Trade payables (note (i))	171,617	191,633
Deposits from customers	20,038	5,458
Contract liabilities (note (ii))	28,906	24,583
Salary and welfare payables	12,024	13,433
Value-added tax payable	66,331	63,547
Payables for acquisitions of property, plant and equipment	30,081	35,221
Provision for losses on litigations	64,682	104,840
Interest payables	263,326	232,225
Other payables and accruals	513,263	451,626
	1,170,268	1,122,566

Notes:

- (i) All of the trade and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

An ageing analysis of trade payables of the Group based on invoice date, is analysed as follows:

	2023	2022
	\$'000	\$'000
Within 30 days	64,900	107,805
31 days to 90 days	57,651	74,830
91 days to 180 days	7,197	1,509
Over 180 days	41,869	7,489
	171,617	191,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. TRADE AND OTHER PAYABLES (CONTINUED)

Notes: (continued)

(ii) Contract liabilities

	2023	2022
	\$'000	\$'000
Contract liabilities arising from:		
Sale of goods	28,906	24,583

Movements in contract liabilities are as follow:

	2023	2022
	\$'000	\$'000
Balance as at 1 January	24,583	31,223
Decrease in contract liabilities as a result of recognition of revenue during the year	(24,370)	(29,587)
Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred or not yet accepted by the customers	29,070	25,452
Exchange realignment	(377)	(2,505)
Balance as at 31 December	28,906	24,583

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sale of goods

As noted above, the receipts in advance received from the customers remains as a contract liability until the goods have been transferred and accepted by the customer.

All the contract liabilities as at 31 December 2022 were recognised as revenue during the year ended 31 December 2023. The Group expects that the contract liabilities as at 31 December 2023 will be recognised as revenue within a year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. EQUITY-SETTLED SHARE-BASED PAYMENTS

On 10 September 2005, the Group established a share option scheme that entitles qualified employees to purchase shares in the Company. On 10 November 2006, 3 September 2011, 25 March 2013 and 14 June 2013, the Group granted 40,250,000 options ("2006 Options"), 83,400,000 options ("2011 Options"), 59,600,000 options ("2013 March Options") and 105,500,000 options ("2013 June Options") to qualified employees respectively. Each option gives the holders the right to subscribe for one ordinary share in the Company.

(a) Term and conditions of the grants are as follows:

All the options have a contractual life of ten years. All the options granted are subject to a vesting scale in tranches of 25% each per annum starting from 2008, 2012, 2014 and 2014 after announcement of results for the previous year for 2006 Options, 2011 Options, 2013 March Options and 2013 June Options respectively, and achievement of performance-based vesting condition. The option shall lapse when the performance-based condition is not satisfied.

The Company estimated that the performance-based condition of the 2011 Options, 2013 March Options and 2013 June Options would not be achieved and hence no amount is recognised as cost of services received from the grantees.

The Directors approved to waive the performance-based condition set by the Company for the third and fourth tranche of 2013 March Options and 2013 June Options in order to provide incentives for the qualified employees. No cost of services received from the grantees was recognised for the years ended 31 December 2023 and 2022.

(b) The number and weighted average exercise prices of share options are as follows:

	2023		2022	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at 1 January	5.07	14,350	5.06	16,275
Lapsed during the year	5.07	(14,350)	5.00	(1,925)
Outstanding at 31 December	–	–	5.07	14,350
Exercisable at 31 December	–	–	5.07	14,350

No share options were exercised during the years ended 31 December 2023 and 2022.

2013 March Options and 2013 June Options outstanding during the year ended 31 December 2023 had exercise price of \$5.142 and \$5.002 respectively. As at 31 December 2022, the weighted average contractual lives of 0.23 and 0.45 year respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28. EQUITY-SETTLED SHARE-BASED PAYMENTS (CONTINUED)

(c) Fair value of share options and assumptions

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

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

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

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

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

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29. SHARE CAPITAL

(a) Authorised and issued share capital

	2023		2022	
	Number of ordinary shares '000	Amount \$'000	Number of ordinary shares '000	Amount \$'000
Authorised:				
At 1 January and 31 December	3,000,000	300,000	3,000,000	300,000
Issued and fully paid:				
At 1 January and 31 December	1,822,756	182,276	1,822,756	182,276

(b) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2023 Number '000	2022 Number '000
After the result announcement for the year ended 31 December 2015 to 24 March 2023	\$5.142	–	3,650
After the result announcement for the year ended 31 December 2016 to 24 March 2023	\$5.142	–	3,650
After the result announcement for the year ended 31 December 2015 to 13 June 2023	\$5.002	–	3,525
After the result announcement for the year ended 31 December 2016 to 13 June 2023	\$5.002	–	3,525
		–	14,350

Further details of these options are set out in note 28.

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For the year ended 31 December 2023

30. RESERVES AND DIVIDENDS

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) The Company

	Share premium (note 30(b)) \$'000	Contributed surplus (note 30(g)) \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2022	7,400,418	297,480	(7,522,192)	175,706
Loss for the year	–	–	(7,835)	(7,835)
At 31 December 2022	7,400,418	297,480	(7,530,027)	167,871
At 1 January 2023	7,400,418	297,480	(7,530,027)	167,871
Loss for the year	–	–	(6,888)	(6,888)
At 31 December 2023	7,400,418	297,480	(7,536,915)	160,983

(b) Share premium

Under the Bermuda Companies Act 1981, the share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(c) Capital surplus

The capital surplus represented the excess of paid-in capital of the companies comprising the Group.

(d) Merger reserve

The merger reserve of the Group represents the difference between the net carrying value of the Predecessor Entities and non-controlling interests acquired over the consideration given. This reserve is distributable.

(e) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) Statutory surplus reserve

The domestic companies in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. RESERVES AND DIVIDENDS (CONTINUED)

(e) PRC statutory reserves (Continued)

(ii) Statutory general reserve

Under the PRC Company Law and the subsidiaries' articles of association, each of the subsidiaries of the Group which is a foreign investment enterprise in the PRC is required to transfer at least 10% of its net profit, as determined under the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

Statutory surplus reserve and statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by issuing new shares to equity owners proportionate to their existing percentage of equity interests provided that the balance after such issue is not less than 25% of the registered capital.

(f) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(g) Contributed surplus

Pursuant to the Reorganisation, the Company became the holding company of the Group on 10 September 2005. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

(h) Distributable reserves

In addition to retained earnings, under the Bermuda Companies Act 1981, the contributed surplus account of the Company is also available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2023, the Company had reserves available for distribution to equity holders of the Company amount to \$160,983,000 (2022: \$167,871,000).

(i) Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. RESERVES AND DIVIDENDS (CONTINUED)

(j) Capital management

The Board's capital management policies are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Certain measures have been taken by the Directors to mitigate the liquidity pressure as set out in note 3(b). The Board monitors the return on capital (defined by the Group as profit attributable to equity holders of the Company divided by total equity attributable to equity holders of the Company, excluding non-controlling interests) and the level of dividends to ordinary shareholders. In order to maintain the capital structure, the Company may also repurchase existing shares. There was capital deficiency of \$694,969,000 at 31 December 2023, calculation of return on capital at 31 December 2023 was inappropriate. The Group is not subject to externally imposed capital requirement.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Directors are exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- interest rate risk
- foreign currency risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Directors are responsible for the establishment and oversight of the Group's risk management framework.

The Group's internal control systems are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which employees understand their roles and obligations.

The audit committee of the Company oversees how management monitors compliance with the Group's internal control systems and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee of the Company is assisted in its oversight role by Internal audit department. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the findings and recommendations of which are reported to the audit committee of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, derivative financial instruments and deposits with banks. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and counterparty to the financial instruments.

Trade and other receivables

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Credit limits are established for each customer, which represent the maximum open amount without requiring special approval from senior management; these limits are reviewed annually. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 15% (2022: 17%) of the trade receivables were due from the five largest customers of the Group, all of whom are companies which have good track record with the Group.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Credit risk on trade and other receivables has already been taken into account as trade and other receivables are shown in the consolidated statement of financial position net of impairment losses. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

Cash and cash equivalents

Cash is placed with a group of banks in the PRC and Hong Kong which management considers have good credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. As disclosed in note 3(b), certain measures have been taken by the Directors to mitigate the liquidity pressures faced by the Group.

The contractual maturities and contractual cash outflow of the lease liabilities are disclosed in note 26. The following are the contractual maturities at the end of the reporting period of bank borrowings of the Group based on lender's ability to demand earliest repayment, including estimated interest payments and excluding the impact of netting agreements:

31 December 2023

	Carrying amount \$'000	Contractual undiscounted cash flows \$'000	3 months or less or on demand \$'000	9-12 months \$'000	1-2 years \$'000	2-5 years \$'000
Bank borrowings	468,225	471,202	437,069	9,508	8,734	15,891

31 December 2022

	Carrying amount \$'000	Contractual undiscounted cash flows \$'000	3 months or less or on demand \$'000	9-12 months \$'000	1-2 years \$'000	2-5 years \$'000
Bank borrowings	483,894	488,460	443,381	10,432	9,645	25,002

Save as the above, the Group's other financial liabilities are required to be settled within one year or on demand and the total contractual undiscounted cash outflows of these financial liabilities approximate to their carrying amounts on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group actively monitors the interest rate fluctuation to ensure that its net exposure is kept to an acceptable level.

The interest rates and terms of repayment of bank borrowings are disclosed in note 25.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the end of the reporting period would have increased the Group's accumulated losses and loss for the year by approximately \$879,000 (2022: \$958,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The impact on the Group's loss after tax and accumulated losses is estimated as impact on interest expense in respect of the borrowing remaining outstanding as at the end of the reporting period of such a change in interest rate. The analysis is performed on the same basis for 2022.

A decrease of 100 basis points in interest rates at the end of the reporting period would have had the equal amount but opposite effect, on the basis that all other variables remain constant.

(d) Foreign currency risk

Substantially all the revenue-generating operations of the Group are transacted in RMB, the functional currency of the operating subsidiaries in the PRC, which is not freely convertible into foreign currencies. All foreign exchange transactions in the PRC must take place either through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

The Group actively monitors foreign exchange rate fluctuations to ensure that its net exposure is kept to an acceptable level.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Foreign currency risk (Continued)

Included in assets and liabilities are the following balances denominated in a currency other than the functional currency of the entity to which they relate:

	Exposure to foreign currencies (expressed in HKD)					
	2023			2022		
	EUR \$'000	USD \$'000	RMB \$'000	EUR \$'000	USD \$'000	RMB \$'000
Other current assets	209	14,173	11	209	28,299	11
Other current liabilities	-	-	-	-	-	-
	209	14,173	11	209	28,299	11

As HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and USD to be insignificant.

No sensitivity analysis for the Group's exposure to currency risk arising from financial assets and liabilities denominated in EUR and RMB is prepared since the Directors considered that the impact is insignificant.

(e) Fair value

Fair values versus carrying amounts

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables, amounts due from/to related parties and short-term bank borrowings are not materially different from their carrying amounts based on the nature or short-term maturity of these instruments.

The carrying amounts of the Group's long-term bank borrowings approximate their fair values because the borrowing rates were similar to rates currently available for bank borrowings with similar terms and maturity.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value (Continued)

Fair values versus carrying amounts (Continued)

The fair value and the level of fair value hierarchy of the Group's other financial liabilities estimated by discounting estimated future cash flows using the Group's financing interest rate is as follows:

	2023			2022		
	Carrying amount \$'000	Fair value \$'000	Fair value measurements categorised into Level 2 \$'000	Carrying amount \$'000	Fair value \$'000	Fair value measurements categorised into Level 2 \$'000
Lease liabilities	62,803	62,803	62,803	62,914	62,914	62,914

The interest rates used to estimate the fair value of financial instruments above are based on the Group's financing interest rates. The interest rates used are as follows:

	2023	2022
Lease liabilities	3.65%	3.38%

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(f) Natural risk

The Group is engaged in slaughtering, production and sale of chilled and frozen meat and processed meat products. An occurrence of serious animal diseases, such as African swine fever, foot-and-mouth disease, or any outbreak of other epidemics in the PRC affecting animals or humans might result in material disruptions to the Group's operations and revenue.

The Group has implemented stringent quality control measures both in the procurement and production stages. All raw materials are subject to vigorous inspections and examination. The Group also has regular communications with animal epidemic prevention supervisory departments and implemented the animal epidemic prevention policies promulgated by the supervisory departments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

32. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

Capital commitments outstanding at 31 December 2023 in respect of property, plant and equipment not provided for in the consolidated financial statements were as follows:

	2023	2022
	\$'000	\$'000
Contracted for	470,868	432,198

(b) Contingent liabilities

As at the end of the reporting period, expect for the litigations commenced by the banks against a subsidiary of the Group as disclosed in note 25(iii), the Group was not involved in any other material litigation or arbitration. As far as the management of the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had material related party transactions during the year as described below. Related companies in the consolidated financial statements refer to companies owned and controlling by Mr. Zhu Yicai (“Mr. Zhu”), the Honorary Chairman and the senior advisor of the Board, who also has beneficial interest in the shares of the Company.

(a) Significant related party transactions

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

	2023	2022
	\$'000	\$'000
Sales of raw materials to related companies	3,409	37,143
Sales of finished goods to related companies	213,258	277,012
Purchases of raw materials from related companies	4,100	10,519
Purchases of finished goods from related companies	–	783

(ii) Lease of property, plant and equipment and land use rights

Certain property, plant and equipment and land use rights owned by the Predecessor Entities were leased to the Group under leases (notes 16 and 26). The rental paid or payable to the Predecessor Entities for the year ended 31 December 2023 amounted to \$3,107,000 (2022: \$1,123,000).

(iii) Use of property, plant and equipment and land use rights of the Predecessor Entities

Certain Predecessor Entities made available their properties and land use rights with a total carrying value of \$40,277,000 (2022: \$41,660,000) as at 31 December 2023 to the Group. No rental is paid or payable by any of the companies in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related parties

	2023	2022
	\$'000	\$'000
Trade receivables due from related companies	82,312	43,898
Other receivables due from related companies	51,835	26,569

Amounts due from related parties are unsecured, interest free and are expected to be recovered within one year. There was no impairment made against these amounts at 31 December 2023 and 2022.

(c) Amounts due to related parties

	2023	2022
	\$'000	\$'000
Trade payables due to related companies	40,998	14,376
Other payables due to related companies	391,566	313,750

(i) Certain related companies settled certain payables on behalf of the Group during the year ended 31 December 2023 and 2022.

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

(d) Key management personnel remuneration

Remuneration for key management personnel, mainly representing the amounts paid to the Directors and a chief executive of the Company, was disclosed in note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2023 \$'000	2022 \$'000
Non-current assets			
Investments in subsidiaries		408,212	408,212
Current assets			
Other receivables		570	532
Cash and cash equivalents		576	478
		1,146	1,010
Current liabilities			
Amounts due to subsidiaries		32,574	28,352
Amounts due to related companies		27,011	21,869
Other payables		6,514	8,854
		66,099	59,075
Net current liabilities		(64,953)	(58,065)
Total assets less current liabilities		343,259	350,147
Net assets		343,259	350,147
Equity			
Share capital	29	182,276	182,276
Reserves	30(a)	160,983	167,871
Total equity		343,259	350,147

35. SUBSEQUENT EVENTS

On 27 March 2024, the Board approved a capital expenditure plan for 2024 amounting to RMB15,000,000 (equivalent to approximately \$16,553,000).

LIST OF PRINCIPAL SUBSIDIARIES

APPENDIX 1

The following list contains only the particulars of subsidiaries as at 31 December 2023 which principally affected the results, assets or liabilities of the Group.

Name of company (note (iii))	Place of establishment and operation	Registered capital	Attributable equity interest held by the Company		Principal activity
			Direct	Indirect	
			%	%	
Daye Longqing Meat Processing Co., Ltd. (note(ii)) 大冶隆慶肉類加工有限公司	The PRC	RMB140,000,000	–	80%	Slaughtering, production and sales of chilled and frozen meat
Fuyang Yurun Meat Processing Co., Ltd. (note (i)) 阜陽雨潤肉類加工有限公司	The PRC	USD44,000,000	–	100%	Production and sales of processed meat products
Gansu Yurun Meat Processing Co., Ltd. (note(i)) 甘肅雨潤肉類加工有限公司	The PRC	USD1,000,000	–	100%	Production and sales of processed meat products
Guangzhou Yurun Meat Product Co., Ltd.(note(i)) 廣州雨潤肉類食品有限公司	The PRC	USD10,000,000	–	100%	Production and sales of processed meat products
Harbin Dazhong Roulian Food Co., Ltd. (note(ii)) 哈爾濱大眾肉聯食品有限公司	The PRC	USD50,000,000	–	99%	Slaughtering, production and sales of chilled and frozen meat and processed meat products
Shihezi Tianshi Meat Processing Co., Ltd. (note (ii)) 石河子市天石肉類加工有限公司	The PRC	RMB130,000,000	–	90%	Slaughtering, production and sales of chilled and frozen meat

Notes:

- (i) These entities established in the PRC are wholly foreign owned enterprises.
- (ii) These entities established in the PRC are domestic limited liability companies.
- (iii) The English translation of the company names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

All of these are controlled subsidiaries as defined under note 4(a)(ii) and have been consolidated into the consolidated financial statements.

FIVE-YEAR SUMMARY

	2019 \$'000	2020 \$'000	2021 \$'000	2022 \$'000	2023 \$'000
Assets and liabilities					
Non-current assets	6,535,628	5,798,076	791,259	635,738	373,825
Net current liabilities	(7,078,486)	(8,945,133)	(1,192,791)	(1,037,612)	(979,241)
Total assets less current liabilities	(542,858)	(3,147,057)	(401,532)	(401,874)	(605,416)
Non-current liabilities	(773,602)	(97,500)	(68,087)	(92,719)	(83,963)
Net liabilities	(1,316,460)	(3,244,557)	(469,619)	(494,593)	(689,379)
Share capital	182,276	182,276	182,276	182,276	182,276
Reserves	(1,552,739)	(3,484,237)	(713,617)	(725,627)	(877,245)
Total equity attributable to equity holders of the Company	(1,370,463)	(3,301,961)	(531,341)	(543,351)	(694,969)
Non-controlling interests	54,003	57,404	61,722	48,758	5,590
Total equity	(1,316,460)	(3,244,557)	(469,619)	(494,593)	(689,379)
Operating results					
Revenue	15,224,976	15,213,237	8,440,202	2,162,440	1,410,943
Results from operating activities	(3,379,712)	(1,620,917)	3,075,996	18,422	(169,586)
Net finance costs	(550,605)	(366,838)	(34,651)	(37,701)	(38,287)
(Loss)/profit before income tax	(3,930,317)	(1,987,755)	3,041,345	(19,279)	(207,873)
Income tax (expense)/credit	(5,346)	(23,951)	(10,838)	(6,050)	6,580
(Loss)/profit for the year	(3,935,663)	(2,011,706)	3,030,507	(25,329)	(201,293)
Attributable to:					
Equity holders of the Company	(3,940,484)	(2,019,264)	3,060,499	(15,037)	(147,641)
Non-controlling interests	4,821	7,558	(29,992)	(10,292)	(53,652)
(Loss)/profit for the year	(3,935,663)	(2,011,706)	3,030,507	(25,329)	(201,293)
(Loss)/earnings per share					
Basic (\$)	(2.162)	(1.108)	1.679	(0.008)	(0.081)
Diluted (\$)	(2.162)	(1.108)	1.679	(0.008)	(0.081)