



# China Yurun Food Group Limited

## 中國雨潤食品集團有限公司

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

## INTERIM REPORT 2016



*Perseverance,  
our key to a prosperous future*

# Contents

1	Corporate Information
2	Management Discussion and Analysis
7	Other Information
12	Consolidated Statement of Profit or Loss
13	Consolidated Statement of Profit or Loss and Other Comprehensive Income
14	Consolidated Statement of Financial Position
16	Consolidated Statement of Changes in Equity
17	Condensed Consolidated Cash Flow Statement
18	Notes to the Unaudited Interim Financial Report



# Corporate Information

## Board of Directors

### Executive Directors

Yu Zhangli (Chairman)  
 Li Shibao (Chief Executive Officer)  
 Ge Yuqi (resignation with effect from 20 June 2016)  
 Sun Tiexin  
 Yang Linwei (appointment with effect from 20 June 2016)  
 Yao Guozhong (appointment with effect from 20 June 2016)

### Independent Non-executive Directors

Gao Hui  
 Chen Jianguo  
 Miao Yelian

### Audit Committee

Gao Hui (Chairman)  
 Chen Jianguo  
 Miao Yelian

### Remuneration Committee

Gao Hui (Chairman)  
 Yu Zhangli  
 Chen Jianguo

### Nomination Committee

Chen Jianguo (Chairman)  
 Gao Hui  
 Yu Zhangli

### Company Secretary

Lee Wing Sze, Rosa HKICPA, FCCA

### Authorised Representatives

Yu Zhangli  
 Lee Wing Sze, Rosa

### Auditors

KPMG

### Principal Bankers

Bank of China Limited  
 Agricultural Bank of China Limited  
 China CITIC Bank Corporation Limited  
 Industrial and Commercial Bank of China Limited  
 China Merchants Bank Co., Ltd.  
 China Minsheng Banking Corp., Ltd.

## Registered Office

Clarendon House  
 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

Room 4006, 40th Floor  
 Tower Two, Lippo Centre  
 89 Queensway  
 Hong Kong

## Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited  
 The Belvedere Building  
 69 Pitts Bay Road  
 Pembroke HM08  
 Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited  
 Level 22, Hopewell Centre  
 183 Queen's Road East  
 Hong Kong

## Legal Advisors

### As to Hong Kong Law

Norton Rose Fulbright Hong Kong  
 lu, Lai & Li Solicitors & Notaries

### As to Bermuda Law

Conyers Dill & Pearman

## Stock Code

1068

## Website

www.yurun.com.hk

# Management Discussion and Analysis

## Industry Overview (and outlook)

During the six months ended 30 June 2016 (the “Review Period”), China’s national economy performed stably with advancement. According to the data published by the National Bureau of Statistics of China, China’s gross domestic product for the first half of this year was Renminbi (“RMB”) 34,063.7 billion, representing an increase of 6.7% as compared to the same period last year.

However, in the first half of this year, affected by factors such as tight market supply, hog prices rose rapidly and increased significantly by approximately 48% compared to the same period last year to approximately RMB21.4 per kilogram, being the highest price in the past 5 years. During the Review Period, pork production in China amounted to 24.73 million tons, representing a decrease of 3.9% over the same period last year. During the Review Period, the number of live hogs production of China was approximately 402 million heads, representing a decrease of 3.7% over the same period in 2015; the number of hogs output was approximately 320 million heads, representing a year on year decrease of 4.4% as compared to the same period last year. As the hog farmers’ incentives to rebuild inventories resumed gradually and the supply should improve steadily, pork prices are therefore expected to decrease in the second half of 2016.

Facing all these enormous challenges, China Yurun Food Group Limited (the “Company” or “Yurun Food”) and its subsidiaries (collectively referred to as the “Group”) will continue to make its best efforts to adopt a number of prudent actions to maintain the stability of its business.

## Business Review

During the Review Period, pork prices rose rapidly and maintained at a high level. Certain consumers chose other meats as alternatives, which worsened the pork consumption. The Group experienced greater difficulty in transferring cost to consumers with rising production cost and sluggish market for high-end catering and meat consumption.

Despite all the unfavorable factors during the Review Period, the Group continued to adhere to its belief to provide quality meat products for consumers against the backdrop of the challenging market environment.

## Product Quality and Research and Development

During the Review Period, under the leadership of the Group’s management, Yurun Food adhered to its operation philosophy of “you trust because we care”, took the lead in the industry development by technical research and development, and ensured product quality through advanced production process and technology. Yurun Food ranked top in terms of market shares of low temperature meat products (“LTMP”) and chilled pork in China, and successively topped the LTMP and chilled pork market in China in terms of market shares for the consecutive eighteenth year and fourth year respectively in the Annual Conference of the Development of Consumer Markets and the Release of Product Sales Statistics of the China Market (中國消費市場發展年會暨商品銷售統計新聞發佈會) held in March 2016. The Group will continue to ensure high product quality, and focus on research and development of products which are well received by the market, so as to maintain its competitive advantages.

## Sales and Distribution

Chilled pork and LTMP, which are the Group’s products with higher added value, remained the focus of the overall business development of the Group during the Review Period. Sales of chilled pork of the Group was HK\$7.233 billion (1H2015: HK\$6.953 billion) during the Review Period, representing an increase of 4.0% over the same period last year, accounting for approximately 80% (1H2015: 71%) of the total revenue of the Group prior to inter-segment eliminations and approximately 91% (1H2015: 82%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK\$1.002 billion (1H2015: HK\$1.201 billion), representing a decrease of 16.6% over the same period last year, accounting for approximately 11% (1H2015: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (1H2015: 92%) of the total revenue of the downstream processed meat segment.

## Production Facilities and Production Capacity

Adhering to the strict cost control on investment, the Group adjusted its expansion pace according to the market changes and business conditions of the Group.

## Management Discussion and Analysis

During the Review Period, no new plant of the Group commenced production. As at 30 June 2016, upstream slaughtering capacity was 56.35 million heads per year and the production capacity of downstream processed meat segment was approximately 312,000 tons per year, which remains unchanged as compared with that as at 31 December 2015.

### Financial Review

The board of directors (the “Board” or the “Directors”) and the management of the Company assessed the development, performance or position of the business of the Group according to the following key performance indicators.

During the Review Period, the Group recorded a revenue of HK\$8.987 billion, representing a decrease of 6.2% from HK\$9.584 billion of the same period last year. However, during the Review Period, loss attributable to equity holders was HK\$672 million (1H2015: HK\$724 million), reducing by 7.1% compared with the same period last year. Diluted loss per share was HK\$0.369 (1H2015: HK\$0.397).

### Revenue

#### Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group was approximately 3.42 million heads, representing a decrease of approximately 32.1% over the same period last year, mainly because the Group positioned improvements in profitability as its objective and made appropriate compromise to the slaughtering volume in light of the significant increase in hog prices and decrease in overall pork consumption in China. Total sales derived from upstream business (before inter-segment eliminations) decreased by 6.2% to HK\$7.941 billion (1H2015: HK\$8.470 billion) as compared with the same period last year of which, sales of chilled pork increased by 4.0% to HK\$7.233 billion (1H2015: HK\$6.953 billion) as compared with the same period last year, accounting for approximately 80% (1H2015: 71%) and approximately 91% (1H2015: 82%) of the total revenue (before inter-segment eliminations) of the Group and the total revenue of the upstream business of the Group respectively. Sales of frozen pork decreased by 53.3% to HK\$708 million (1H2015: HK\$1.517 billion) as compared with the same period last year, accounting for approximately 9% (1H2015: 18%) of the total revenue of the upstream business.

#### Processed Meat Products

During the Review Period, sales of processed meat products (before inter-segment eliminations) of the Group was HK\$1.109 billion (1H2015: HK\$1.312 billion), representing a decrease of 15.5% over the same period last year.

Specifically, revenue of LTMP was HK\$1.002 billion, representing a decrease of 16.6% as compared with HK\$1.201 billion of the same period last year, accounting for approximately 90% (1H2015: 92%) of the processed meat segment. LTMP remained the key revenue driver to the processed meat business. Revenue of high temperature meat products (“HTMP”) was HK\$107 million (1H2015: HK\$111 million), accounting for approximately 10% (1H2015: 8%) of the total revenue of the processed meat segment.

#### Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 40.3% from HK\$255 million in the first half of 2015 to HK\$358 million during the Review Period. Overall gross profit margin increased by 1.3 percentage points to 4.0% from 2.7% of the same period last year. During the Review Period, production costs of the Group increased along with the significant rising pork price. The Group therefore adjusted sales channels where appropriate, set increasing profits as the goal and reduced sales to the relatively low-margin channel.

In respect of the upstream business, gross profit margin of chilled pork and frozen pork were 1.8% and -0.1% respectively (1H2015: 3.8% and -13.6% respectively). Increase in hog price improved the gross profit margin of frozen pork significantly. The overall gross profit margin of the upstream segment was 1.6%, representing an increase of 0.9 percentage point from 0.7% of the same period last year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 19.3%, representing an increase of 4.5 percentage points from 14.8% of the same period last year. Since the Group adjusted the product mix of HTMP and purchased certain raw materials at a lower price in the second half of 2015 that lowered the production cost, gross profit margin of HTMP significantly increased by 21.1 percentage points from 13.7% over the same period last year to 34.8%. The overall gross profit margin of the downstream segment was 20.8%, representing an increase of 6.1 percentage points from 14.7% of the same period last year.

## Management Discussion and Analysis

### Other Net Loss

During the Review Period, other net loss of the Group was HK\$62.98 million (1H2015: other net income of HK\$50.48 million). Other net loss during the Review Period was mainly attributable to non-recurring losses including impairment losses on assets held for sale, impairment losses on receivables arising from disposal of a subsidiary, the loss on disposal of lease prepayment and property, plant and equipment, and significant decrease in government subsidies income.

### Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK\$762 million, representing a decrease of 13.5% from HK\$881 million of the same period last year. Such decrease was mainly due to the decrease in transportation costs in line with the decrease in sales volume. In addition, the Group cut certain positions to save costs and the staff salary and related staff costs thereby reduced. Other operating expenses including impairment losses on certain non-current assets of approximately HK\$37.62 million during the Review Period (1H2015: HK\$34.16 million). Operating expenses excluding impairment losses represented 8.1% of the Group's revenue, representing a decrease of 0.7 percentage point from 8.8% of the same period last year.

### Results of Operating Activities

During the Review Period, operating loss of the Group was HK\$466 million (1H2015: HK\$575 million).

### Finance Costs

During the Review Period, net finance costs of the Group were HK\$198 million as compared with HK\$142 million of the same period last year. Net finance costs increased mainly because of the decrease in interest expense capitalized into property, plant and equipment under development due to the slow-down of construction in progress, as well as exchange loss due to depreciation of RMB during the Review Period.

### Income Tax

Income tax for the Review Period was HK\$7.84 million, representing an increase of 19.7% as compared with HK\$6.55 million of the same period last year, due to the increase in deferred tax expense during the Review Period.

### Loss Attributable to the Equity Holders of the Company

Taking into account all of the above factors, loss attributable to the equity holders of the Company was HK\$672 million during the Review Period (1H2015: HK\$724 million), representing a decrease of 7.1% over the same period last year.

### Financial Resources

As at 30 June 2016, the Group's cash balance including time deposits, pledged deposits and restricted bank deposits were HK\$299 million, representing a decrease of HK\$120 million from HK\$419 million as at 31 December 2015. Approximately 76% (31 December 2015: 92%) was denominated in Hong Kong dollars or RMB and approximately 23% (31 December 2015: 7%) was denominated in United States dollars, remaining are in other currencies.

As at 30 June 2016, the Group had outstanding bank and other loans of HK\$7.138 billion, representing a decrease of HK\$182 million from HK\$7.320 billion as at 31 December 2015 (balance at 31 December 2015 including the domestic medium term notes ("MTN") and the Short Term Financing Notes issued in China by Nanjing Yurun Food Co., Ltd ("Nanjing Yurun"), a wholly owned subsidiary of the Company), of which, HK\$6.673 billion (31 December 2015: HK\$4.775 billion of bank loans, HK\$1.192 billion of the MTN and HK\$597 million of the Short Term Financing Notes) were bank and other loans which are repayable within one year. The management expected the bank loans which are due within one year to be renewed upon maturity. All of the borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2015. The fixed rate debt ratio of the Group was 60.9% as at 30 June 2016 (31 December 2015: 60.7%).

Nanjing Yurun was unable to repay the Short Term Financing Notes in the principal amount of RMB0.5 billion and the second tranche of the MTN in the principal amount of RMB1 billion on 17 March 2016 and 13 May 2016 respectively. The said Short Term Financing Notes and the said second tranche of the MTN were repaid in full on 31 March 2016 and 16 May 2016 respectively. The aforesaid late repayments might have triggered cross default provisions of certain outstanding financial facilities entered into by the Group.

Please refer to the announcements of the Company dated 9 March 2016, 21 March 2016, 30 March 2016, 6 May 2016, 13 May 2016, 16 May 2016 and 17 May 2016 for further details.

## Management Discussion and Analysis

Net cash outflow of the Group during the Review Period was mainly used for daily operations, payment for the construction payables for those projects already started and repayments of borrowings. The Group has adequate amount of unutilized credit facilities. The bank loans are expected to be renewed upon maturity and the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased significantly by 83.6% to HK\$62.90 million during the Review Period from HK\$383 million of the same period last year.

### Assets and Liabilities

As at 30 June 2016, the total assets and total liabilities of the Group were HK\$21.531 billion (31 December 2015: HK\$22.509 billion) and HK\$10.058 billion (31 December 2015: HK\$10.178 billion) respectively, representing a decrease of HK\$978 million and HK\$120 million as compared with the total assets and liabilities as at 31 December 2015 respectively.

As at 30 June 2016, the property, plant and equipment of the Group amounted to HK\$14.253 billion (31 December 2015: HK\$14.656 billion), representing a slight decrease of 2.8% compared with that as at 31 December 2015.

Lease prepayments of the Group as at 30 June 2016 amounted to HK\$3.120 billion (31 December 2015: HK\$3.059 billion). This represented the purchase cost of land use rights which was amortized on a straight-line basis over the respective periods of the rights.

Non-current prepayments and receivables of the Group mainly represented the prepayments for acquisition of land use rights and property, plant and equipment and amounted to HK\$187 million as at 30 June 2016 (31 December 2015: HK\$215 million). These assets have not started to depreciate nor amortise yet.

The management of the Company is committed to a plan to dispose the non-current assets of a wholly owned subsidiary in the chilled and frozen meat segment to a third party (the "Disposal"). Those assets are expected to be disposed within twelve months after the end of the Review Period. No agreement has been entered into by the Group in relation to the Disposal as of the date of this report. Accordingly, the assets to be disposed were classified as assets held for sale. Impairment losses of

approximately HK\$71.99 million on these assets was charged for the Review Period. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as and when appropriate.

During the Review Period, the Group recorded a net loss of HK\$672 million (1H2015: HK\$724 million) and operating cash outflow of HK\$144 million (1H2015: HK\$61.02 million). As at 30 June 2016, the Group had net current liabilities of HK\$5.714 billion (31 December 2015: HK\$4.742 billion). The Directors believe that the current bank loans due within one year are expected to be renewed upon maturity. In addition, the Group will implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the collections of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cash flow. In view of these, the Directors believe that the Group will 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 Review Period.

As at 30 June 2016, equity attributable to equity holders of the Company was HK\$11.423 billion in total, representing a decrease of HK\$858 million as compared with HK\$12.281 billion as at 31 December 2015.

As at 30 June 2016, the gearing ratio (total debt represented by the sum of bank and other loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 38.9%, representing an increase of 1.1 percentage points as compared with 37.8% as at 31 December 2015. As at 30 June 2016, after excluding cash in bank, time deposits, pledged deposits and restricted bank deposits, the net gearing ratio was 37.3% (31 December 2015: 35.7%).

### Charges on Assets

As at 30 June 2016, certain properties and construction in progress of the Group with a carrying amount of HK\$1.999 billion (31 December 2015: HK\$1.937 billion) and lease prepayments of the Group with a carrying amount of HK\$1.183 billion (31 December 2015: HK\$1.148 billion) were pledged against certain bank loans with a total amount of HK\$3.558 billion (31 December 2015: HK\$2.990 billion).

## Management Discussion and Analysis

At 30 June 2016, no bank loans were secured by pledged deposits (31 December 2015: HK\$3 million).

### Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, and Future Plans for Material Investment or Acquisition of Capital Assets

The Group did not hold any other significant investment nor make any material acquisition or disposal of subsidiaries during the Review Period. As at the date of this report, the Group has no plan to make any significant investment or acquisition of capital assets.

### Contingent Liabilities

As at 30 June 2016, there were outstanding litigations commenced by banks in China against certain subsidiaries of the Group requesting such subsidiaries to: (i) secure the repayment of outstanding bank loans of HK\$176 million or with assets of equivalent amount; and (ii) repay the outstanding loans of HK\$17.47 million immediately. Certain assets of the Group with carrying amount of HK\$242 million have been frozen by the court in China as of 30 June 2016, which also included restricted bank deposits of HK\$44.13 million as disclosed in the Consolidated Statement of Financial Position. The Group is in the process of negotiating with the banks to settle these litigations.

There were outstanding litigations commenced by several contractors against certain subsidiaries of the Group claiming construction fee totaling approximately HK\$208 million (31 December 2015: HK\$104 million). Based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group will likely be liable to pay HK\$165 million (31 December 2015: HK\$70 million) for the settlement of the litigations. As such, provision of this amount had been made.

There were outstanding litigations commenced by several government related entities against certain subsidiaries of the Group claiming certain assets with a total amount of approximately HK\$317 million. Certain assets of the Group with carrying value of HK\$40.50 million have been frozen by the court in China as of 30 June 2016. Based on the advice of the Group's in-house legal counsel, the Directors were of the opinion that it is not probable for the Group to be liable for such claims. The Board will continue to seek advice from the in-house legal counsel. No provision has therefore been made in respect of these claims as at 30 June 2016.

Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

### Exposure to Fluctuations in Exchange Rates and Related Hedges

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

### Human Resources

As at 30 June 2016, the Group had approximately 13,000 (31 December 2015: approximately 16,000) employees in China and Hong Kong in total. During the Review Period, total staff cost was HK\$326 million, accounting for 3.6% of the revenue (1H2015: HK\$432 million, accounting for 4.5% of the revenue) of the Group.

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

### Environmental Policies and Performance

As a responsible corporation, the Group is committed to promoting environmental protection and makes best effort to minimise the environmental impact of its existing production and business activities. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimize waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.



## Other Information

### Interim Dividend

The board of directors of the Company (the “Board” or the “Directors”) has resolved not to declare an interim dividend for the Review Period (2015: \$Nil).

### Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, the number of issued ordinary shares of the Company was 1,822,755,650; and the interests and short positions of the Directors and chief executive of the Company 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 (“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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) were as follows:

#### Interest in shares and underlying shares of the Company

Name of Directors	Capacity	Interest in ordinary shares	Interest in underlying shares <sup>(Note 1)</sup>	Total	Approximate percentage of interest
Yu Zhangli	Beneficial owner	89,000	5,000,000	5,089,000	0.28%
Li Shibao	Beneficial owner	89,000	3,750,000	3,839,000	0.21%
Sun Tiexin	Beneficial owner	–	2,500,000	2,500,000	0.14%
Yang Linwei <sup>(Note 2)</sup>	Beneficial owner	–	2,040,000	2,040,000	0.11%
Yao Guozhong <sup>(Note 2)</sup>	Beneficial owner	–	750,000	750,000	0.04%

Notes:

- (1) The interests in underlying shares represent the interests in the share options granted on 10 November 2006 and 25 March 2013 pursuant to the Company’s share option scheme, details of which are set out in the section headed “Share Option Scheme” below.
- (2) Yang Linwei and Yao Guozhong were appointed as executive Directors on 20 June 2016.

Save as disclosed above, as at 30 June 2016, none of the Directors and/or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the 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 Hong Kong Stock Exchange pursuant to the Model Code.

## Other Information

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2016, so far as is known to the Directors and 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:

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

Note:

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

Save as disclosed above, as at 30 June 2016, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

### Share Option Scheme

The Company unconditionally adopted a share option scheme ("Share Option Scheme") on 3 October 2005. Pursuant to the Share Option Scheme, the initial maximum number of ordinary shares of nominal value of HK\$0.10 each in the capital of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 139,908,380 shares (the "Scheme Mandate Limit"), representing 10% of the total number of issued shares on 3 October 2005, which may be refreshed pursuant to the terms of the Share Option Scheme. At the annual general meeting of the Company held on 21 May 2013 (the "2013 AGM"), the shareholders of the Company approved the refreshment of the Scheme Mandate Limit in accordance with the Share Option Scheme and the Listing Rules, thereby allowing the Company to grant further options for subscription of up to a total of 182,275,565 shares, representing 10% of the 1,822,755,650 shares in issue as at the date of the 2013 AGM.

At the annual general meeting of the Company held on 24 June 2015, the shareholders of the Company approved the termination of the Share Option Scheme and the adoption of a new share option scheme ("New Share Option Scheme"). The Company had not granted any option under the New Share Option Scheme since its adoption.

## Other Information

Details of the movements of the share options under the Share Option Scheme during the Review Period are shown below:

Name or category of participant	Number of shares which may be issued pursuant to the share options				As at 30 June 2016	Exercise price per share <sup>(5)</sup> HK\$	Date of grant (DD.MM.YYYY)	Option period <sup>(1) &amp; (2)</sup> (DD.MM.YYYY)
	As at 1 January 2016	Granted during the Review Period	Exercised during the Review Period	Lapsed during the Review Period <sup>(2)</sup>				
<b>Directors</b>								
Yu Zhangli	5,000,000	-	-	-	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Li Shibao	3,750,000	-	-	-	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Sun Tiexin	2,500,000	-	-	-	2,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Yang Linwei (appointed on 20 June 2016)	40,000 2,000,000	- -	- -	- -	40,000 2,000,000	7.46 5.142	10.11.2006 25.03.2013	10.11.2006 – 09.11.2016 25.03.2013 – 24.03.2023
Yao Guozhong (appointed on 20 June 2016)	750,000	-	-	-	750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Subtotal	14,040,000 <sup>(3)</sup>	-	-	-	14,040,000 <sup>(3)</sup>			
<b>Other employees (including ex-employees)</b>								
In aggregate	7,191,000 13,300,000 <sup>(4)</sup> 34,275,000	- - -	- - -	- - (200,000)	7,191,000 13,300,000 34,075,000	7.46 5.142 5.002	10.11.2006 25.03.2013 14.06.2013	10.11.2006 – 09.11.2016 25.03.2013 – 24.03.2023 14.06.2013 – 13.06.2023
Subtotal	54,766,000	-	-	(200,000)	54,566,000			
Total	68,806,000	-	-	(200,000)	68,606,000			

## Notes:

- (1) All of the share options granted on 10 November 2006 have been vested in the grantees.
- (2) 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 will 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.
- (3) The share options represent personal interests held by the relevant Directors as beneficial owners.
- (4) Including 2,500,000 share options granted to Ge Yuqi on 25 March 2013, who resigned as a Director on 20 June 2016.
- (5) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006, 22 March 2013 and 13 June 2013 respectively) were HK\$7.58, HK\$5.17 and HK\$4.83 respectively.
- (6) No share options were cancelled under the Share Option Scheme during the Review Period.

## Other Information

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

## Corporate Governance

The Company adheres to corporate governance principles of integrity, transparency, openness and efficiency. It has strived to strictly observe and follow stringent corporate governance practice at all times through a comprehensive corporate governance structure and measures, so as to achieve a high standard of corporate governance and improve shareholders' value.

The Board comprises eight Directors as at the date of this report. To facilitate effective management, the Board has delegated certain functions to various Board committees, including, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Company has formulated specific terms of reference of each committee, covering its authority, responsibilities and functions. The major responsibilities of the Board and its committees include supervising the implementation of corporate governance, monitoring and advising the management in respect of financial and business strategy and targets, monitoring public disclosures, as well as assessing the performance of the management whether they are in line with the Company's operating objectives.

The Company has also established risk management and internal control systems to ensure that the Company's assets are under protection, operating and governance measures are in place, business risks are properly managed and accounting records and financial statements are properly kept and maintained. The Audit Committee is responsible for reviewing the effectiveness of the Group's risk management and internal control systems with the assistance of the Group's Internal Audit Department.

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the Review Period.

## Model Code for Securities Transactions by Directors

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

## Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Review Period.

## Other Information

### Audit Committee

The Audit Committee of the Company has reviewed with the management, the accounting principles and practices adopted by the Group and discussed internal controls, risk management and financial reporting matters, including the review of the unaudited interim results of the Group for the Review Period.

### Change of Directors

Mr. Yang Linwei and Mr. Yao Guozhong were appointed as executive Directors with effect from 20 June 2016.

Mr. Ge Yuqi resigned as an executive Director with effect from 20 June 2016.

Please refer to the Company's announcement dated 20 June 2016 for further details.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules since the publication of the 2015 annual report of the Company.

By Order of the Board

**Yu Zhangli**

*Chairman*

Hong Kong, 26 August 2016

# Consolidated Statement of Profit or Loss

for the six months ended 30 June 2016 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2016 \$'000	2015 \$'000
<b>Revenue</b>	4	<b>8,986,883</b>	9,583,710
Cost of sales		<b>(8,628,547)</b>	(9,328,376)
<b>Gross profit</b>		<b>358,336</b>	255,334
Other net (loss)/income	6	<b>(62,976)</b>	50,478
Distribution expenses		<b>(320,861)</b>	(365,860)
Administrative and other operating expenses		<b>(440,907)</b>	(515,123)
<b>Results from operating activities</b>		<b>(466,408)</b>	(575,171)
Finance income		<b>1,018</b>	11,481
Finance costs		<b>(198,917)</b>	(153,343)
Net finance costs	7(a)	<b>(197,899)</b>	(141,862)
Share of loss of a joint venture (net of income tax)		<b>–</b>	(660)
<b>Loss before income tax</b>	7	<b>(664,307)</b>	(717,693)
Income tax expense	8	<b>(7,843)</b>	(6,553)
<b>Loss for the period</b>		<b>(672,150)</b>	(724,246)
<b>Attributable to:</b>			
Equity holders of the Company		<b>(672,458)</b>	(723,991)
Non-controlling interests		<b>308</b>	(255)
<b>Loss for the period</b>		<b>(672,150)</b>	(724,246)
<b>Loss per share</b>			
Basic (\$)	10(a)	<b>(0.369)</b>	(0.397)
Diluted (\$)	10(b)	<b>(0.369)</b>	(0.397)

The notes on pages 18 to 30 form part of this interim financial report.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2016 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2016 \$'000	2015 \$'000
<b>Loss for the period</b>		<b>(672,150)</b>	(724,246)
<b>Other comprehensive income for the period (after reclassification adjustments)</b>	9		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		<b>(192,123)</b>	2,841
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary and a joint venture		<b>(157)</b>	(1,776)
		<b>(192,280)</b>	1,065
<b>Total comprehensive income for the period</b>		<b>(864,430)</b>	(723,181)
<b>Attributable to:</b>			
Equity holders of the Company		<b>(864,074)</b>	(722,944)
Non-controlling interests		<b>(356)</b>	(237)
<b>Total comprehensive income for the period</b>		<b>(864,430)</b>	(723,181)

The notes on pages 18 to 30 form part of this interim financial report.

# Consolidated Statement of Financial Position

at 30 June 2016 – unaudited  
(Expressed in Hong Kong dollars)

	Note	30 June 2016 \$'000	31 December 2015 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	14,252,579	14,656,216
Investment properties	12	206,294	–
Lease prepayments		3,046,379	2,988,918
Goodwill		88,981	90,776
Intangible assets		31,292	36,484
Non-current prepayments and receivables		186,712	214,859
Deferred tax assets		7,976	11,014
		<b>17,820,213</b>	17,998,267
<b>Current assets</b>			
Inventories	13	575,681	885,300
Other investment		983	1,003
Current portion of lease prepayments		73,567	70,440
Trade and other receivables	14	2,694,592	3,134,274
Income tax recoverable		2,577	1,387
Restricted bank deposits	7	44,133	–
Pledged deposits		4,489	7,493
Time deposits		21,320	10,199
Cash and cash equivalents	15	229,460	401,011
Assets held for sale	19	63,999	–
		<b>3,710,801</b>	4,511,107
<b>Current liabilities</b>			
Bank and other loans		6,673,302	4,774,516
Short term financing notes		–	596,801
Medium term notes		–	1,192,305
Finance lease liabilities		497	542
Trade and other payables	16	2,745,628	2,684,164
Income tax payable		5,543	4,553
		<b>9,424,970</b>	9,252,881
<b>Net current liabilities</b>		<b>(5,714,169)</b>	(4,741,774)
<b>Total assets less current liabilities</b>		<b>12,106,044</b>	13,256,493



# Consolidated Statement of Financial Position

at 30 June 2016 – unaudited  
(Expressed in Hong Kong dollars)

	<b>30 June 2016 \$'000</b>	31 December 2015 \$'000
<b>Non-current liabilities</b>		
Bank loans	<b>464,296</b>	756,021
Finance lease liabilities	<b>134,835</b>	137,791
Deferred tax liabilities	<b>33,445</b>	31,051
	<b>632,576</b>	924,863
<b>NET ASSETS</b>	<b>11,473,468</b>	12,331,630
<b>EQUITY</b>		
Share capital	<b>182,276</b>	182,276
Reserves	<b>11,240,459</b>	12,098,265
<b>Total equity attributable to equity holders of the Company</b>	<b>11,422,735</b>	12,280,541
<b>Non-controlling interests</b>	<b>50,733</b>	51,089
<b>TOTAL EQUITY</b>	<b>11,473,468</b>	12,331,630

Approved and authorised for issue by the board of directors on 26 August 2016.

**Yu Zhangli**  
Director

**Li Shibao**  
Director

The notes on pages 18 to 30 form part of this interim financial report.

# Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016 – unaudited  
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Note	Share capital \$'000	Share premium \$'000	Capital surplus \$'000	Merger reserve \$'000	PRC			Retained earnings \$'000	Non-controlling interests \$'000	Total equity \$'000
						statutory reserves \$'000	Exchange reserve \$'000	Total \$'000			
<b>At 1 January 2015</b>		182,276	7,400,418	3,887	(70,363)	876,084	1,767,538	5,732,404	15,892,244	55,068	15,947,312
Loss for the period		-	-	-	-	-	-	(723,991)	(723,991)	(255)	(724,246)
Total other comprehensive income for the period		-	-	-	-	-	1,047	-	1,047	18	1,065
Total comprehensive income for the period		-	-	-	-	-	1,047	(723,991)	(722,944)	(237)	(723,181)
Transfer to reserves		-	-	-	-	954	-	(954)	-	-	-
<b>At 30 June 2015</b>		182,276	7,400,418	3,887	(70,363)	877,038	1,768,585	5,007,459	15,169,300	54,831	15,224,131
<b>At 1 January 2016</b>		182,276	7,400,418	3,887	(70,363)	877,079	1,063,130	2,824,114	12,280,541	51,089	12,331,630
Loss for the period		-	-	-	-	-	-	(672,458)	(672,458)	308	(672,150)
Total other comprehensive income for the period		-	-	-	-	-	(191,616)	-	(191,616)	(664)	(192,280)
Total comprehensive income for the period		-	-	-	-	-	(191,616)	(672,458)	(864,074)	(356)	(864,430)
Equity-settled share-based payments	17(b)	-	-	-	-	-	-	6,268	6,268	-	6,268
Transfer to reserves		-	-	-	-	2,057	-	(2,057)	-	-	-
<b>At 30 June 2016</b>		182,276	7,400,418	3,887	(70,363)	879,136	871,514	2,155,867	11,422,735	50,733	11,473,468

The notes on pages 18 to 30 form part of this interim financial report.

# Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2016 - unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2016 \$'000	2015 \$'000
<b>Cash used in operations</b>		<b>(139,508)</b>	(47,990)
<b>Tax paid</b>		<b>(4,344)</b>	(13,026)
<b>Net cash used in operating activities</b>		<b>(143,852)</b>	(61,016)
<b>Investing activities</b>			
Acquisitions of property, plant and equipment		<b>(61,421)</b>	(380,966)
Payment for lease prepayment		<b>(1,475)</b>	(2,530)
Proceeds from disposal of lease prepayment and property, plant and equipment		<b>73,568</b>	9,831
Proceeds from disposal of a joint venture		–	10,630
Proceeds from/(payment for) disposal of a subsidiary		<b>11,395</b>	(73)
Cash acquired of through acquisition of a subsidiary		<b>1,994</b>	–
Other cash flows arising from investing activities		<b>(10,301)</b>	107,570
<b>Net cash generated from/(used in) investing activities</b>		<b>13,760</b>	(255,538)
<b>Financing activities</b>			
Net proceeds from bank loans, medium term notes and short term financing notes		<b>(1,286,656)</b>	313,563
Net proceeds from a loan from a related party		<b>1,247,475</b>	–
Changes in pledged deposits		<b>2,900</b>	21,370
Other cash flows arising from financing activities		<b>(2,783)</b>	(2,964)
<b>Net cash (used in)/generated from financing activities</b>		<b>(39,064)</b>	331,969
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(169,156)</b>	15,415
<b>Cash and cash equivalents at 1 January</b>		<b>401,011</b>	885,028
<b>Effect of exchange rate fluctuations on cash held</b>		<b>(2,395)</b>	298
<b>Cash and cash equivalents at 30 June</b>	15	<b>229,460</b>	900,741

The notes on pages 18 to 30 form part of this interim financial report.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 1 Reporting entity

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

The interim financial report of the Company as at and for the six months ended 30 June 2016 comprises the Company and its subsidiaries (collectively referred to as the “Group”).

## 2 Basis of preparation

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company’s principal place of business in Hong Kong. The auditors have disclaimed an opinion on those financial statements in their report dated 30 March 2016.

During the six months ended 30 June 2016, the Group recorded a net loss of \$672,150,000 (six months ended 30 June 2015: \$724,246,000) and operating cash outflow of \$143,852,000 (six months ended 30 June 2015: \$61,016,000) for the six months ended 30 June 2016. As at 30 June 2016, the Group had net current liabilities of \$5,714,169,000 (31 December 2015: \$4,741,774,000). Its total bank and other loans and finance lease liabilities amounted to \$7,272,930,000 (31 December 2015: total bank loans, short term financing notes, medium term notes and finance lease liabilities of \$7,457,976,000), out of which \$6,673,799,000 (31 December 2015: \$6,564,164,000) is due within 12 months of that date. The Group incurred gross interest expenses before interest capitalisation of \$185,752,000 (six months ended 30 June 2015: \$256,472,000) for the six months ended 30 June 2016. As further detailed in note 7, as at 30 June 2016, the Group could not fulfil covenants imposed by banks of certain bank loans of an aggregate amount of \$3,128,465,000 (31 December 2015: \$2,200,752,000), of which repayments of \$361,615,000 (31 December 2015: \$104,458,000) were due on or before 30 June 2016. Certain subsidiaries of the Group are also party to various litigations as mentioned in note 22. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern.

The directors of the Company (the “Directors”) have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

- (i) Actively negotiating with banks to renew bank loans that have fallen due;
- (ii) Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure;

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 2 Basis of preparation (continued)

- (iii) Taking active measures to expedite collections of outstanding receivables;
- (iv) Seeking potential strategic investors; and
- (v) Looking for buyers for certain non-core assets.

Taking into account the Group's cash flow projections covering a period of twelve months from the end of the reporting period prepared by management, and assuming the success of the above measures, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

## 3 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*
- *Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets – Clarification of acceptable methods of depreciation and amortisation*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

In addition, accounting policies that are adopted by the Group in 2016 are set out below:

### Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets, or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 4 Revenue and segment information

### (a) Segment results

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2016 and 2015 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External revenue	7,881,282	8,288,353	1,105,601	1,295,357	8,986,883	9,583,710
Inter-segment revenue	59,960	182,111	3,000	16,636	62,960	198,747
Reportable segment revenue	7,941,242	8,470,464	1,108,601	1,311,993	9,049,843	9,782,457
Depreciation and amortisation	(195,897)	(205,331)	(53,469)	(65,890)	(249,366)	(271,221)
Impairment losses on property, plant and equipment	(37,617)	-	-	-	(37,617)	-
Impairment losses on assets held for sale	(71,986)	-	-	-	(71,986)	-
(Provision for)/reversal of impairment losses on trade and other receivables	(9,578)	276	(7,535)	(15,162)	(17,113)	(14,886)
Government subsidies	1,479	44,642	7,047	24,995	8,526	69,637
Reportable segment loss	(377,614)	(428,828)	(55,676)	(81,897)	(433,290)	(510,725)
Income tax expense	(74)	(1,302)	(5,311)	(4,932)	(5,385)	(6,234)

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

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

	Six months ended 30 June	
	2016	2015
	\$'000	\$'000
<b>Revenue</b>		
Total revenue from reportable segments	9,049,843	9,782,457
Elimination of inter-segment revenue	(62,960)	(198,747)
Consolidated revenue	8,986,883	9,583,710
<b>Loss</b>		
Reportable segment loss	(433,290)	(510,725)
Elimination of inter-segment (loss)/profit	(613)	4,165
Reportable segment loss derived from Group's external customers	(433,903)	(506,560)
Share of loss of a joint venture	-	(660)
Loss on disposal of a joint venture	-	(2,086)
Loss on disposal of a subsidiary	(1,189)	(12,047)
Impairment losses on receivables arising from the disposal of a subsidiary	(25,090)	-
Net finance costs	(197,899)	(141,862)
Unallocated head office and corporate expenses	(6,226)	(54,478)
Consolidated loss before income tax for the period	(664,307)	(717,693)

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 5 Seasonality of operations

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

## 6 Other net (loss)/income

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Government subsidies	<b>9,246</b>	70,446
Loss on disposal of a joint venture	–	(2,086)
Loss on disposal of a subsidiary (note)	<b>(1,189)</b>	(12,047)
Loss on disposal of lease prepayment and property, plant and equipment	<b>(3,482)</b>	(55,248)
Impairment losses on receivables arising from the disposal of a subsidiary	<b>(25,090)</b>	–
Impairment losses on assets held for sale (note 19)	<b>(71,986)</b>	–
Rental income	<b>20,854</b>	17,920
Sales of scrap	<b>1,126</b>	175
Sundry income	<b>7,545</b>	31,318
	<b>(62,976)</b>	50,478

Note: In March 2016, the Group disposed of its entire equity interest in its wholly owned subsidiary in chilled and frozen meat segment to a third party, of which net assets disposed amounted to \$12,668,000. The cash consideration amounting to Renminbi ("RMB") 9,529,000 (approximately \$11,395,000) has been settled before 30 June 2016. A loss on disposal of a subsidiary amounting to \$1,189,000 was recognised in profit or loss during the six months ended 30 June 2016.

In January 2015, the Group disposed of its entire equity interest in its wholly owned subsidiary in chilled and frozen meat segment to a third party, of which net assets disposed amounted to \$38,491,000. The cash consideration amounting to RMB24,300,000 (approximately \$30,164,000) shall be settled by instalments within five years from the date of the transfer agreement. A loss on disposal of a subsidiary amounting to \$12,047,000 was recognised in profit or loss during the six months ended 30 June 2015.

## 7 Loss before income tax

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

### (a) Net finance costs

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Interest on bank and other loans, short term financing notes and medium term notes	<b>183,239</b>	253,783
Interest on lease obligations	<b>2,513</b>	2,689
Less: Interest expense capitalised into property, plant and equipment under development	<b>(8,196)</b>	(106,657)
	<b>177,556</b>	149,815
Bank charges	<b>493</b>	2,648
Net foreign exchange loss	<b>20,868</b>	880
Interest income from bank deposits	<b>(1,018)</b>	(7,047)
Investment income from available-for-sale financial assets	–	(4,434)
	<b>197,899</b>	141,862

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 7 Loss before income tax (continued)

### (a) Net finance costs (continued)

Certain of the Group's bank loan facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 30 June 2016, the Group could not fulfil covenants imposed by banks on certain loans of an aggregate amount of \$3,128,465,000 (31 December 2015: \$2,200,752,000). Included in this amount are, (i) loans of an aggregate amount of \$150,150,000 which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position; and (ii) an outstanding loan balance of \$751,680,000 (31 December 2015: \$291,456,000) of which instalment repayments of \$361,615,000 (31 December 2015: \$104,458,000) were due on or before 30 June 2016 but were not yet renewed or repaid at the end of the reporting period. The Group is in negotiating with banks to renew bank loans which have fallen due but are not yet renewed or repaid.

At 30 June 2016, there were outstanding litigations commenced by banks in the People's Republic of China (the "PRC") against certain subsidiaries of the Group requesting such subsidiaries to: (i) secure the repayment of outstanding bank loans of \$176,074,000 with assets of equivalent amount; and (ii) repay the outstanding loans of \$17,468,000 immediately. Certain assets of the Group with carrying value of \$242,435,000 have been frozen by the court in the PRC as of 30 June 2016 which included restricted bank deposits of \$44,133,000. The Group is negotiating with the banks to settle these litigations.

At 31 December 2015, there were outstanding litigations commenced by a bank against a subsidiary of the Group requesting the subsidiary to secure the repayment of outstanding bank loans of \$100,776,000 with assets of equivalent amount. Certain assets of the Group with carrying value of \$87,864,000 have been frozen by the court as of 31 December 2015. The Group was negotiating with the bank to settle these litigations.

### (b) Other items

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Provision for impairment losses on trade and other receivables	17,113	14,886
Amortisation of lease prepayments	36,379	40,918
Amortisation of intangible assets	4,539	6,194
Depreciation	212,243	231,724
Impairment losses on property, plant and equipment (note 11)	37,617	34,163
Impairment losses on assets held for sale (note 19)	71,986	–

## 8 Income tax expense

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Current tax expense	4,024	8,559
Deferred tax expense/(credit)	3,819	(2,006)
	<b>7,843</b>	6,553

- (a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in Bermuda and the BVI.
- (b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2016 and 2015.



# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 8 Income tax expense (continued)

- (c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the six months ended 30 June 2016 and 2015, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the six months ended 30 June 2016 and 2015.
- (d) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and subject to PRC corporate income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC corporate income tax at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.
- (e) The Group's consolidated effective tax rate for the six months ended 30 June 2016 was -1.2% (six months ended 30 June 2015: -0.9%).

## 9 Other comprehensive income

The components of other comprehensive income do not have any tax effect for the six months ended 30 June 2016 and 2015.

## 10 Loss per share

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of \$672,458,000 (six months ended 30 June 2015: a loss of \$723,991,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2015: 1,822,756,000).

### (b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the six months ended 30 June 2016 and 2015 because all potential ordinary shares outstanding were anti-dilutive.

## 11 Property, plant and equipment

The additions and disposals of items of property, plant and equipment during the six months ended 30 June 2016 and 2015 are as follows:

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Additions	252,375	407,765
Carrying value of assets acquired of through acquisition of a subsidiary (note 18)	20,919	–
Carrying value of assets disposed of through disposal of a subsidiary	(5,529)	(29,072)
Carrying value of other assets disposed of	(65,122)	(33,475)
Fair value of assets reclassified to assets held for sale	(42,288)	–

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 11 Property, plant and equipment (continued)

During the six months ended 30 June 2016, the Group assessed the recoverable amounts of certain assets under construction in progress and impairment losses of \$37,617,000 were recognised in “administrative and other operating expenses”. The estimates of recoverable amount were based on these assets’ fair values less costs to sell, using depreciated replacement cost approach. Depreciated replacement cost reflects adjustments for percentage of completion, physical deterioration as well as economic obsolescence. Economic obsolescence has to be taken into consideration future economic benefits to be generated by the assets. As such, cash flow projection is used in the determination of economic obsolescence. The fair values on which recoverable amount are based are categorised as a Level 3 measurement under the fair value hierarchy.

During the six months ended 30 June 2015, the Group assessed the recoverable amounts of certain assets under transportation vehicles and as a result the carrying amounts of these assets were written down to their recoverable amount of \$64,594,000. Impairment losses of \$34,163,000 were recognised in “administrative and other operating expenses”. The estimates of recoverable amount were based on these assets’ fair values less costs to sell, using market comparison approach by reference to recent quotations or sales prices of comparable assets. The fair values on which the recoverable amounts are based on are categorised as a Level 3 measurement under the fair value hierarchy.

## 12 Investment properties

The additions of items of investment properties during the six month ended 30 June 2016 are as follows:

	<b>Six months ended 30 June 2016 \$'000</b>
Carrying value of investment properties acquired of through acquisition of a subsidiary (note 18)	<b>214,446</b>

Investment properties are acquired through acquisition of a subsidiary during the six months ended 30 June 2016. All of the investment properties of the Group are situated in the PRC under medium-term leases. The Group leases out investment properties under operating leases. The leases typically carry rental based on storage volume and run for an initial period within one year, with an option to renew the lease when all terms will be re-negotiated.

The management considered that the carrying value of the investment properties was close to their fair value as at 30 June 2016.

## 13 Inventories

	<b>30 June 2016 \$'000</b>	31 December 2015 \$'000
Raw materials	<b>219,010</b>	253,394
Work in progress	<b>36,351</b>	104,132
Finished goods	<b>320,320</b>	527,774
	<b>575,681</b>	885,300

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 13 Inventories (continued)

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Carrying amount of inventories sold	8,593,956	9,339,151
Write down/(reversal of write down) of inventories	34,591	(10,775)
	<b>8,628,547</b>	9,328,376

## 14 Trade and other receivables

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

	30 June 2016 \$'000	31 December 2015 \$'000
	Trade receivables	
– Within 30 days	238,529	341,309
– 31 days to 90 days	138,020	139,861
– 91 days to 180 days	50,918	48,599
– Over 180 days	81,787	57,732
	<b>509,254</b>	587,501
Less: Provision for impairment of trade receivables	(39,740)	(25,829)
Total trade receivables, net of impairment losses (note 23(b))	469,514	561,672
Bills receivable	608	21,724
Value-added tax (“VAT”) recoverable	1,979,135	1,951,077
Deposits and prepayments	158,201	116,710
Receivables arising from the disposal of subsidiaries (notes 6 and 18)	–	388,990
Others (note 23(b))	87,134	94,101
	<b>2,694,592</b>	3,134,274

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

## 15 Cash and cash equivalents

	30 June 2016 \$'000	31 December 2015 \$'000
	Cash and cash equivalents	229,460

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 16 Trade and other payables

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables (including amounts due to related parties) as at the end of the reporting period are analysed as follows:

	<b>30 June 2016 \$'000</b>	31 December 2015 \$'000
Trade payables		
– Within 30 days	<b>546,087</b>	690,771
– 31 days to 90 days	<b>104,380</b>	95,153
– 91 days to 180 days	<b>55,684</b>	57,131
– Over 180 days	<b>120,924</b>	117,223
<b>Total trade payables (note 23(c))</b>	<b>827,075</b>	960,278
Receipts in advance	<b>198,954</b>	260,285
Deposits from customers	<b>117,591</b>	118,375
Salary and welfare payables	<b>103,567</b>	82,543
VAT payable	<b>8,676</b>	4,239
Payables for acquisitions of property, plant and equipment	<b>617,908</b>	503,671
Other payables and accruals (note 23(c))	<b>871,857</b>	754,773
	<b>2,745,628</b>	2,684,164

## 17 Capital, reserves and dividends

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

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: \$Nil).

### (b) Equity settled share-based transactions

On 25 March 2013 and 14 June 2013, 59,600,000 share options (“2013 March Options”) and 105,500,000 share options (“2013 June Options”) were granted for \$1 to qualified employees of the Group under the Company’s employee share option scheme (no share options were granted during the six months ended 30 June 2016). Each option gives the holder the right to subscribe for one ordinary share of the Company. The options granted are subject to a vesting scale in tranches of 25% each annum starting from 2014 after announcement of results for the previous year and achievement of performance-based vesting condition. The option shall lapse when the performance-based condition is not satisfied. The exercise prices are \$5.142 and \$5.002 respectively, being the weighted average closing prices of the Company’s ordinary shares immediately before the grant.

As at 30 June 2016, the Company estimated that the performance-based condition of the unvested 2013 March Options and 2013 June Options would not be achieved.

In 2015, the Directors approved to waive the performance-based condition set by the Company for the third tranche of 2013 March Options and 2013 June Options in order to provide incentives for the qualified employees. Expense of \$6,268,000 (six months ended 30 June 2015: nil) was recognised as cost of services received from the grantees for the six months ended 30 June 2016.

No options were exercised while 200,000 (six months ended 30 June 2015: 72,085,500) options were lapsed during the six months ended 30 June 2016.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 18 Business combination

### Acquisition of a subsidiary in 2016

In December 2014, the Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited ("Nanjing Runlong")\* 南京潤隆商業投資管理有限公司, which is indirectly owned as to 29% by Mr. Zhu Yicai ("Mr. Zhu"), a beneficial shareholder of the Company, and directly owned as to 71% by an independent third party, at a total consideration of \$682,686,000.

Nanjing Runlong was unable to fully settle the consideration. The transaction was terminated and the transfer of the equity of the former subsidiary back to the Group was completed in March 2016.

The fair value of assets and liabilities of the subsidiary acquired as at the date of transfer are set out as follows:

	\$'000
<b>Net assets acquired:</b>	
Property, plant and equipment	20,919
Investment properties	214,446
Lease prepayments	196,795
Inventories	16
Trade and other receivables	1,889
Cash and cash equivalents	1,994
Trade and other payables	(50,726)
<b>Total identifiable net assets acquired</b>	<b>385,333</b>
<b>Satisfied by:</b>	
Receivables arising from the disposal of a subsidiary	385,333
An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:	
Cash and cash equivalents acquired	1,994

\* The English translation of the Company name is for reference only. The official name of this Company is in Chinese.

The subsidiary contributed loss of \$1,816,000 to the consolidated statement of profit or loss for the six months ended 30 June 2016.

Had the business combination taken place at the beginning of the year, the loss of the Group for the six months ended 30 June 2016 would have been \$673,120,000.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 19 Assets held for sale

In June 2016, management is committed to a plan to dispose of the non-current assets of a wholly owned subsidiary in chilled and frozen meat segment to a third party. Those assets are expected to be disposed within twelve months after the end of the reporting period.

Accordingly, the assets to be disposed were classified as assets held for sale and measured at the lower of their carrying amounts and the fair value less costs to sell.

Fair value less cost to sell of the assets held for sale:

	<b>30 June 2016 \$'000</b>
Property, plant and equipment	<b>42,288</b>
Lease prepayments	<b>12,546</b>
Trade and other receivables	<b>9,165</b>
<b>Total fair value less cost to sell of assets held for sale</b>	<b>63,999</b>

Impairment losses of approximately \$71,986,000 were charged on these assets for the six months ended 30 June 2016. The recoverable amount was determined based on the fair value less costs to sell. The fair values on which the recoverable amounts are based on are categorised as a Level 3 measurement.

## 20 Fair value measurement of financial instruments

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2016 and 31 December 2015.

## 21 Capital commitments outstanding not provided for in the interim financial report

	<b>30 June 2016 \$'000</b>	31 December 2015 \$'000
Contracted for	<b>3,847,429</b>	4,504,540

## 22 Contingent liabilities

In addition to the litigations commenced by banks against subsidiaries of the Group as discussed in note 7, there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fee totalling approximately \$208,279,000 (31 December 2015: \$104,405,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group will likely be liable to pay \$165,127,000 (31 December 2015: \$70,317,000) for the settlement of the litigations. Provision of this amount had been provided and included in "trade and other payables".

There were outstanding litigations commenced by several government related entities against certain subsidiaries of the Group claiming certain assets with a total amount of approximately \$316,783,000. Certain assets of the Group with carrying value of \$40,497,000 have been frozen by the court in the PRC as of 30 June 2016. Based on the advice of the Group's in-house legal counsel, the Directors were of the opinion that it is not probable for the Group to be liable for such claims. The Board will continue to seek advice from the in-house legal counsel. No provision has therefore been made in respect of these claims as at 30 June 2016.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 23 Related party transactions

During the six months ended 30 June 2016 and 2015, in addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group had the following material related party transactions:

### (a) Significant related party transactions

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Sales of raw materials to related companies (note 23(a)(vi))	<b>1,946</b>	2,954
Sales of finished goods to related companies (note 23(a)(vi))	<b>5,787</b>	8,397
Purchases of raw materials from related companies (note 23(a)(vi))	<b>48,458</b>	276,576

- (ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties (note 23(a)(vi)) under finance leases and operating leases respectively. The rental paid or payable to the related parties for the six months ended 30 June 2016 amounted to \$2,670,000 (six months ended 30 June 2015: \$2,843,000).
- (iii) Certain related parties (note 23(a)(vi)) made available their properties and land use rights with a total carrying value of \$56,500,000 (31 December 2015: \$155,808,000) as at 30 June 2016 to the Group. No rental is paid or payable by any of the group companies.
- (iv) As at 30 June 2016, bank loans of \$1,170,001,000 (31 December 2015: \$1,193,602,000) were guaranteed by related companies and secured by assets owned by related companies, including equity securities with market value of \$553,645,000 (31 December 2015: \$933,278,000) and receivables of \$596,701,000 (31 December 2015: \$608,737,000). Bank loans of \$257,400,000 (31 December 2015: \$nil) were secured by land use rights owned by a related company with fair value of \$105,359,000 (31 December 2015: \$nil). These related companies were owned by Mr. Zhu. In addition, bank loans of \$117,000,000 (31 December 2015: \$119,360,000) were guaranteed by Mr. Zhu.
- (v) A related company provided a loan of \$1,228,501,000 to a subsidiary of the Company for the settlement of certain payables. The loan is unsecured, interest bearing at the one year base rate of lending set by the People's Bank of China and repayment term of 12 months. Total interest expenses of \$7,386,000 was incurred during the six months ended 30 June 2016.
- (vi) Mr. Zhu is the beneficial shareholder of the Company and also has beneficial interest in the related companies. Mr. Zhu is the Honorary Chairman and the senior advisor of the Board of the Company.

### (b) Amounts due from related parties

	<b>30 June</b>	31 December
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Trade receivables due from related parties (note 23(a)(vi))	<b>6,239</b>	3,859
Other receivables due from related parties (note 23(a)(vi))	<b>2,412</b>	1,520

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

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 23 Related party transactions (continued)

### (c) Amounts due to related parties

	<b>30 June 2016 \$'000</b>	31 December 2015 \$'000
Trade payables due to related parties (note 23(a)(vi))	<b>61,334</b>	65,795
Other payables due to related parties (notes 23(a)(vi) and 23(c)(i))	<b>263,991</b>	178,682
Other loan due to a related party (notes 23(a)(v) and 23(a)(vi))	<b>1,228,501</b>	–

- (i) Certain related companies settled certain payables on behalf of the Group for the six months ended 30 June 2016.

Amounts due to related parties are unsecured, interest free and have no fixed terms of repayment except for the loan due to a related party.

### (d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	<b>Six months ended 30 June</b>	
	<b>2016 \$'000</b>	2015 \$'000
Salaries and other emoluments	<b>1,472</b>	1,720
Contributions to retirement benefit schemes	<b>60</b>	79
	<b>1,532</b>	1,799