YURUN FOOD

INTERIM REPORT 2017

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

Contents

Board of Directors

Executive Directors

Yu Zhangli *(Chairman)*
Li Shibao *(Chief Executive Officer)*
Sun Tiexin
Yang Linwei
Yao Guozhong

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

Auditor

Moore Stephens CPA Limited

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

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2 Church Street
Hamilton HM 11
Bermuda

Head Office

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Jianye District
Nanjing
The People's Republic of China

Principal Place of Business in Hong Kong

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Central Plaza
18 Harbour Road, Wanchai
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
Iu, 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 2017 (the "Review Period"), China's economy exhibited an improvement with stability. According to the data published by the National Bureau of Statistics of China, China's gross domestic product in the first half of the year increased by 6.9% to Renminbi ("RMB") 38,149 billion as compared to the same period last year.

At the beginning of this year, pork prices increased due to the festival season, but resumed from March to June the downward drift in last July. At the end of June this year, the average price of hogs per kilogram was about RMB14.02, representing a decrease of approximately 20% compared to that of the end of last year. In the second half of the year, pork prices are expected to ride on a steady upward trend.

Facing various unstable factors during the Review Period, the management of China Yurun Food Group Limited (the "Company" or "Yurun Food") and its subsidiaries (collectively referred to as the "Group") adopted a more prudent strategy and continued to adhere to the Group's belief of providing quality meat products for consumers amidst difficult market conditions.

Business Review

During the Review Period, overall pork prices significantly declined. Despite the slight rebound in pork prices in mid-June, the price rise was sluggish. The Group, therefore, sustained lesser production costs pressure but increasing the sales pressure. Facing various formidable challenges, the Group proactively adopted feasible measures and methods to adjust its product structure, optimise sales channels and strengthen brand image and market positioning, in order to sustain business stability.

Product Quality and Research and Development

During the Review Period, under the leadership of the 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 processes and technology. At the Annual Conference of the Development of Consumer Markets and the Press Conference of Product Sales Statistics of the Chinese 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 April 2017, Yurun Food successively topped the chilled pork market in China in terms of market share for five years in a row. The Group will continue to guarantee 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 and leading position in the industry.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP") remained the key drivers to the overall business development of the Group during the Review Period. During the Review Period, the Group's sales of chilled pork was HK$4.442 billion (first half of 2016: HK$7.233 billion), representing a decrease of 38.6% over the same period last year, accounting for approximately 75% (first half of 2016: 80%) of the total revenue of the Group prior to inter-segment eliminations and approximately 92% (first half of 2016: 91%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$938 million (first half of 2016: HK$1.002 billion), representing a decrease of 6.3% over the same period last year, accounting for approximately 16% (first half of 2016: 11%) of the total revenue of the Group prior to inter-segment eliminations and approximately 87% (first half of 2016: 90%) 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 its business conditions.

The Group's upstream slaughtering capacity was 55.15 million heads per year as at 30 June 2017, which was 0.6 million heads less than that as at 31 December 2016.

As at 30 June 2017, the annual production capacity of the Group's downstream processed meat segment maintained at approximately 312,000 tons, in line with that as at 31 December 2016.

Financial Review

The Group recorded revenue of HK$5.802 billion in the Review Period, representing a decrease of 35.4% from HK$8.987 billion of the same period last year. Loss attributable to the equity holders of the Company during the Review Period was HK$552 million (first half of 2016: HK$672 million). During the Review Period, loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gain/loss on disposal/write off of non-current assets, net foreign exchange gain/loss, impairment loss and provision for one-off losses on litigations, was approximately HK$387 million (first half of 2016: HK$521 million), representing a decrease in such loss of approximately 25.7% over the same period last year. Diluted loss per share was HK$0.303 (first half of 2016: HK$0.369).

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

Revenue

Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group was approximately 2.55 million heads, representing a decrease of approximately 25.4% over the same period last year. Total sales from the upstream business prior to inter-segment eliminations decreased by 39.3% to HK$4.818 billion (first half of 2016: HK$7.941 billion). During the Review Period, due to the falling trend of hog price and the Group's appropriate compromise on the growth of slaughtering volume with an aim at maintaining profit, the overall revenue of the upstream business decreased accordingly. Sales of chilled pork decreased by 38.6% to HK$4.442 billion (first half of 2016: HK$7.233 billion), accounting for approximately 75% (first half of 2016: 80%) of the Group's total revenue prior to inter-segment eliminations and approximately 92% (first half of 2016: 91%) of the total revenue of the upstream business. Sales of frozen pork decreased by 46.9% to HK$376 million (first half of 2016: HK$708 million), accounting for approximately 8% (first half of 2016: 9%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Period, sales of processed meat products prior to inter-segment eliminations of the Group was HK$1.075 billion (first half of 2016: HK$1.109 billion), representing a decrease of 3.0% over the same period last year.

Specifically, revenue of LTMP was HK$938 million, representing a decrease of 6.3% from HK$1.002 billion of the same period last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 87% (first half of 2016: 90%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") increased to HK$137 million over the same period last year (first half of 2016: HK$107 million), accounting for approximately 13% (first half of 2016: 10%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 1.6% from HK$358 million in the first half of 2016 to HK$364 million during the Review Period. Overall gross profit margin increased by 2.3 percentage points to 6.3% from 4.0% of the same period last year. During the Review Period, the Group adjusted the sales channels, where appropriate, by reducing sales volume through channels with relatively lower gross profit margins, with an aim at enhancing profit.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 3.5% and -2.3% respectively (first half of 2016: 1.8% and -0.1% respectively). Decline in hog prices had a negative impact on the gross profit margin of frozen pork. The overall gross profit margin of the upstream segment was 3.1%, representing an increase of 1.5 percentage points from 1.6% of last year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 19.2%, comparable to 19.3% of the same period last year. Gross profit margin of HTMP was 25.8%, representing a decrease of 9.0 percentage points from 34.8% over the same period last year. The overall gross profit margin of the downstream segment was 20.0%, representing a decrease of 0.8 percentage point from 20.8% of the same period last year.

Other Net Loss

During the Review Period, other net loss of the Group was HK$167 million (first half of 2016: HK$62.98 million). Other net loss during the Review Period was mainly attributable to non-recurring losses, including provision for losses on litigations (please refer to section headed "Contingent Liabilities" for details), loss on disposal and write off of lease prepayments and property, plant and equipment.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$619 million, representing a decrease of 18.8% from HK$762 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 further cut certain positions to save costs and therefore, staff salary and related staff costs reduced accordingly. During the first half of 2016, other operating expenses included impairment losses of approximately HK$37.62 million on certain assets. The Board assessed the non-current assets as at 30 June 2017 according to the relevant accounting standard and considered that no provision for impairment loss on non-current assets was necessary during the Review Period. Operating expenses during the Review Period represented 10.7% (first half of 2016: 8.5%) of the Group's revenue, representing an increase of 2.2 percentage points over the same period last year.

Results of Operating Activities

During the Review Period, operating loss of the Group was HK$421 million (first half of 2016: HK$466 million), representing a reduction in loss of 9.7% over the same period last year.

Net Finance Costs

During the Review Period, net finance costs of the Group were HK$126 million, representing a decrease of 36.5% from HK$198 million over the same period last year. Net finance costs decreased from the same period of last year mainly due to the exchange gain arising from the appreciation of RMB as at 30 June 2017 compared with 31 December 2016.

Income Tax

Income tax expense for the Review Period was approximately HK$4.61 million, representing a decrease of approximately HK$3.00 million from HK$7.84 million of the same period last year.

Loss Attributable to the Equity Holders of the Company

Taking into account of all the above factors, loss attributable to the equity holders of the Company was HK$552 million during the Review Period (first half of 2016: HK$672 million). During the Review Period, loss arising from principal business (loss attributable to equity holders excluding government subsidies, gain/loss on disposal/write off of non-current assets, net foreign exchange gain/loss, impairment loss and provision for one-off losses on litigations) was approximately HK$387 million (first half of 2016: HK$521 million), representing a decrease of approximately 25.7% compared with that of the same period last year.

Financial Resources

As at 30 June 2017, the Group's cash balances together with time deposits, pledged deposits and restricted bank deposits were HK$211 million, representing a decrease of HK$136 million from HK$347 million as at 31 December 2016.

Approximately 73% (31 December 2016: 82%) of the above-mentioned financial resources was denominated in Hong Kong dollars or RMB, and approximately 26% (31 December 2016: 17%) was denominated in United States dollars, while the remaining amount was denominated in other currencies.

As at 30 June 2017, the Group had outstanding bank loans and other loans of HK$7.150 billion, representing an increase of HK$367 million from HK$6.783 billion as at 31 December 2016, of which HK$6.748 billion (31 December 2016: HK$6.309 billion) was repayable within one year and were expected by the management to be renewed upon maturity. All borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2016. As at 30 June 2017, the Group's fixed-rate debt ratio decreased to 80.8% (31 December 2016: 81.4%).

Net cash outflow of the Group during the Review Period was mainly used for daily operations, payment of the construction payables for those projects already started and repayments of borrowings. The Group has unutilised credit facilities and the bank loans are expected to be renewed upon maturity that 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 by 13.1% to HK$54.68 million during the Review Period from HK$62.90 million of the same period last year.

Breach of Loan Agreement

Certain bank loan facilities of the Group are subject to certain covenants on financial gearing and capital requirements, as commonly required under lending arrangements with financial institutions. As at 30 June 2017, the Group was unable to fulfil the covenants in respect of bank loans with an aggregate amount of HK$4.219 billion (31 December 2016: HK$3.793 billion), of which (i) a total of HK$143 million was long-term loans re-classified as current liabilities in the Consolidated Statement of Financial Position as at 31 December 2016 and no such reclassification is necessary as at 30 June 2017; and (ii) out of the aggregate outstanding bank loans of HK$701 million (31 December 2016: HK$1.033 billion), an amount of HK$693 million (31 December 2016: HK$776 million) expired on or before 30 June 2017 but has not been renewed or repaid at the end of the reporting period. As at the date of this interim financial report, the above bank loans have not been renewed (31 December 2016: nil) and bank loans of HK$11.40 million (31 December 2016: HK$699,000) have been repaid.

The Group has been actively negotiating with the relevant banks to renew the relevant loans. It, however, takes time for the Group to go through the negotiation with the banks to renew or extend loans. Currently, the Group is in active communication with the banks and has reached consensus with the relevant banks to extend the repayment period of a number of these loans to the second half of 2017 and/or beyond. Good progress was made in respect of the remaining loans. The Board believes that the overdue loans have no material impact on the operation of the Group's business.

Assets and Liabilities

As at 30 June 2017, the total assets and total liabilities of the Group were HK$19.312 billion (31 December 2016: HK$19.310 billion) and HK$10.280 billion (31 December 2016: HK$9.919 billion) respectively, representing an increase of HK$2.28 million and HK$361 million as compared with the total assets and liabilities as at 31 December 2016 respectively.

As at 30 June 2017, the properties, plants and equipment of the Group amounted to HK$12.674 billion (31 December 2016: HK$12.553 billion), representing a slight increase of 1.0% as compared with that as at 31 December 2016.

Lease prepayments of the Group as at 30 June 2017 amounted to HK$2.684 billion (31 December 2016: HK$2.663 billion). This represented the purchase cost of land use rights of the Group which was amortised 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 acquisitions of land use rights and properties, plants and equipment. As at 30 June 2017, it amounted to HK$261 million (31 December 2016: HK$234 million). These assets have not started to depreciate nor amortise yet.

During the Review Period, the Group recorded a net loss of HK$552 million (first half of 2016: HK$672 million) and net cash used in operating activities of HK$282 million (first half of 2016: HK$144 million). As at 30 June 2017, the net current liabilities of the Group were HK$6.211 billion (31 December 2016: HK$5.619 billion). As mentioned above, although the Group failed to fulfil the contract terms of certain loans and some subsidiaries of the Group are facing various litigations, the Directors believe that the bank loans due within one year will be renewed upon maturity. Moreover, the Group will implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the recovery of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cash flows. In view of these, the Directors believe that the Group has 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 2017, equity attributable to equity holders of the Company was HK$8.982 billion in total, representing a decrease of HK$361 million as compared with HK$9.343 billion as at 31 December 2016.

As at 30 June 2017, the gearing ratio (total debt represented by the sum of bank and other loan and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 44.8%, representing an increase of 2.3 percentage points as compared with 42.5% as at 31 December 2016. As at 30 June 2017, after excluding cash in bank, time deposits, pledged deposits and restricted bank deposits, the net gearing ratio was 43.5% (31 December 2016: 40.4%).

Charges on Assets

As at 30 June 2017, certain properties, machineries, equipment and construction in progress of the Group with a carrying amount of approximately HK$2.842 billion (31 December 2016: HK$2.435 billion), an investment property of the Group with a carrying amount of approximately HK$143 million (31 December 2016: HK$141 million), certain lease prepayments of the Group with a carrying amount of approximately HK$1.188 billion (31 December 2016: HK$1.201 billion), and certain trade receivables of the Group with a carry amount of approximately HK$30 million (31 December 2016: HK$26 million) were pledged against certain bank loans with a total amount of HK$3.865 billion (31 December 2016: HK$3.378 billion).

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 have any substantial acquisition or disposal of subsidiaries or associated companies during the Review Period. As at the date of this interim financial report, the Group has no plan to make any significant investment in, or to acquire, any capital assets.

Contingent Liabilities

At 30 June 2017, there were outstanding litigations commenced by several banks in the People's Republic of China (the "PRC") against certain subsidiaries of the Group, requesting such subsidiaries to secure an immediate repayment of outstanding bank loans of approximately HK$471 million (31 December 2016: HK$314 million) or otherwise assets of equivalent amount. As at 30 June 2017, certain assets of the Group with a carrying value of approximately HK$166 million (31 December 2016: HK$356 million) have been frozen by the courts in the PRC which including the restricted bank deposits of HK$32.39 million (31 December 2016: HK$46.10 million). The Group is negotiating with the banks to settle such litigations.

There were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming an aggregate construction fee of approximately HK$200 million (31 December 2016: HK$222 million). Pursuant to the judgments, the Group was ordered to make an immediate repayment of approximately HK$11 million to the plaintiffs. As of the date of this interim financial report, litigations regarding the remaining claims with an aggregate amount of approximately HK$189 million are still in progress. However, based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group may be liable to pay approximately HK$116 million (31 December 2016: HK$222 million) for the settlement of the aforesaid construction fee. Provision for such amounts had been made in previous periods accordingly.

During the Review Period, there were litigations initiated by municipal people's governments claiming against certain subsidiaries and a related company of the Group for immediate repayment and write off of certain assets of an aggregate of approximately HK$159 million. As at 30 June 2017, the Group made full provisions for the aforesaid claims. As of the date of this interim financial report, no appeal was lodged by the Group.

In 2016, there was a litigation initiated by a government-related entity claiming against a subsidiary and a related company of the Group for an immediate repayment of approximately HK$115 million. In July 2017, the Group lodged an appeal application to the Shanghai Municipal Intermediate People's Court. As at the date of this interim financial report, the litigation is still in progress. As at 30 June 2017 and 31 December 2016, the Group made full provisions for the claim.

In respect of the progress of the above litigations, 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 United States dollars, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. RMB is the functional currency of the operating subsidiaries of the Group in the PRC, and is not freely convertible into foreign currencies. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 30 June 2017, the Group had approximately 10,000 (31 December 2016: approximately 12,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff costs were HK$280 million, accounting for 4.8% of the revenue of the Group (first half of 2016: HK$326 million, accounting for 3.6% 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-linked 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

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

Interim Dividend

The Board has resolved not to declare an interim dividend for the Review Period (first half of 2016: HK$Nil).

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

As at 30 June 2017, 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 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(Note)	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	Beneficial owner	–	2,000,000	2,000,000	0.11%
Yao Guozhong	Beneficial owner	–	750,000	750,000	0.04%

Note:

The interests in underlying shares represent the interests in the share options granted on 25 March 2013 pursuant to the Company's share option scheme, details of which are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, as at 30 June 2017, 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 2017, 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:

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

Note:

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

Save as disclosed above, as at 30 June 2017, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

Share Option Schemes

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

The detailed terms of the New Share Option Scheme were disclosed in the 2016 annual report of the Company. The Company had not granted any share option under the New Share Option Scheme since its adoption.

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

Name or category of participant	Number of shares which may be issued pursuant to the share options					Exercise price per share[3] HK$	Date of grant (DD.MM.YYYY)	Option period[1] (DD.MM.YYYY)
	As at 1 January 2017	Granted during the Review Period	Exercised during the Review Period	Lapsed during the Review Period	As at 30 June 2017			
Directors								
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	2,000,000	–	–	–	2,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Yao Guozhong	750,000	–	–	–	750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Subtotal	14,000,000[2]	–	–	–	14,000,000[2]			
Other employees (including ex-employees)								
In aggregate	13,300,000	–	–	–	13,300,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	30,800,000	–	–	–	30,800,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	44,100,000	–	–	–	44,100,000			
Total	58,100,000	–	–	–	58,100,000			

Notes:

(1) Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantees, if any, as set out in the respective offer letters, the share options granted on 25 March 2013 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. The first tranche (25%) and second tranche (25%) of the share options had lapsed due to the performance targets of the Group and the individual grantees not having been achieved. For the third tranche (25%) and fourth tranche (25%) of the share options, the Board had approved to waive the performance-based condition set by the Company in order to provide incentives for the qualified employees.

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

(3) 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.

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

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 enhance shareholders' value.

The Board currently comprises eight Directors. To facilitate effective management, the Board has delegated certain functions to various Board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Company has formulated specific terms of reference of each committee, covering its authority, responsibilities and functions. The major responsibilities of the Board and its committees include supervising the implementation of corporate governance, monitoring and advising the management in respect of financial and business strategy and targets, monitoring public disclosures, as well as assessing 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 with all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the Review Period.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Audit Committee

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

By Order of the Board
Yu Zhangli
Chairman

Hong Kong, 25 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	**$'000**	$'000
Revenue	4	**5,802,445**	8,986,883
Cost of sales		**(5,438,410)**	(8,628,547)
Gross profit		**364,035**	358,336
Other net loss	6	**(166,519)**	(62,976)
Distribution expenses		**(249,013)**	(320,861)
Administrative and other operating expenses		**(369,759)**	(440,907)
Results from operating activities		**(421,256)**	(466,408)
Finance income		**642**	1,018
Finance costs		**(126,364)**	(198,917)
Net finance costs	7(a)	**(125,722)**	(197,899)
Loss before income tax	7	**(546,978)**	(664,307)
Income tax expense	8	**(4,611)**	(7,843)
Loss for the period		**(551,589)**	(672,150)
Attributable to:			
Equity holders of the Company		**(551,753)**	(672,458)
Non-controlling interests		**164**	308
Loss for the period		**(551,589)**	(672,150)
Loss per share			
Basic (HK$)	10(a)	**(0.303)**	(0.369)
Diluted (HK$)	10(b)	**(0.303)**	(0.369)

The notes on pages 20 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	**$'000**	$'000
Loss for the period		**(551,589)**	(672,150)
Other comprehensive income for the period (after tax and reclassification adjustments)	9		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**213,106**	(192,123)
Foreign currency translation differences reclassified to profit or loss upon deconsolidation/disposal of subsidiaries		**(13,980)**	(157)
		199,126	(192,280)
Total comprehensive income for the period		**(352,463)**	(864,430)
Attributable to:			
Equity holders of the Company		**(354,095)**	(864,074)
Non-controlling interests		**1,632**	(356)
Total comprehensive income for the period		**(352,463)**	(864,430)

The notes on pages 20 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017 – unaudited

(Expressed in Hong Kong dollars)

	Note	30 June 2017 $'000	31 December 2016 $'000
Non-current assets			
Property, plant and equipment	11	**12,673,575**	12,553,216
Investment property		**208,830**	204,096
Lease prepayments		**2,611,801**	2,595,284
Intangible assets		**22,011**	25,628
Non-current prepayments and receivables		**260,539**	233,752
Deferred tax assets		**1,761**	16
		15,778,517	15,611,992
Current assets			
Inventories	12	**566,891**	642,780
Other investment		**968**	939
Current portion of lease prepayments		**71,760**	67,917
Trade and other receivables	13	**2,659,660**	2,617,132
Income tax recoverable		**2,838**	2,590
Restricted bank deposits		**32,393**	46,103
Pledged deposits		**4,489**	4,356
Time deposits		**4,609**	4,472
Cash and cash equivalents	14	**169,501**	291,868
Assets held for sale		**20,350**	19,547
		3,533,459	3,697,704
Current liabilities			
Bank and other loans		**6,748,320**	6,308,910
Finance lease liabilities		**465**	442
Trade and other payables	15	**2,981,768**	2,992,397
Income tax payable		**5,621**	7,241
Liabilities held for sale		**8,175**	7,330
		9,744,349	9,316,320
Net current liabilities		**(6,210,890)**	(5,618,616)
Total assets less current liabilities		**9,567,627**	9,993,376

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017 – unaudited

(Expressed in Hong Kong dollars)

	30 June 2017 $'000	31 December 2016 $'000
Non-current liabilities		
Bank loans	**402,069**	474,003
Finance lease liabilities	**127,246**	128,615
Deferred tax liabilities	**6,663**	–
	535,978	602,618
Net assets	**9,031,649**	9,390,758
Equity		
Share capital	**182,276**	182,276
Reserves	**8,799,943**	9,160,684
Total equity attributable to equity holders of the Company	**8,982,219**	9,342,960
Non-controlling interests	**49,430**	47,798
Total equity	**9,031,649**	9,390,758

Approved and authorised for issue by the board of directors on 25 August 2017.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 20 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – 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 statutory reserves $'000	Exchange reserve $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2016		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	16(b)	–	–	–	–	–	–	6,268	6,268	–	6,268
Transfer to reserves		–	–	–	–	2,057	–	(2,057)	–	–	–
At 30 June 2016		182,276	7,400,418	3,887	(70,363)	879,136	871,514	2,155,867	11,422,735	50,733	11,473,468
At 1 January 2017		**182,276**	**7,400,418**	**3,887**	**(70,363)**	**881,895**	**391,046**	**553,801**	**9,342,960**	**47,798**	**9,390,758**
Loss for the period		**-**	**-**	**-**	**-**	**-**	**-**	**(551,753)**	**(551,753)**	**164**	**(551,589)**
Total other comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**197,658**	**-**	**197,658**	**1,468**	**199,126**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**197,658**	**(551,753)**	**(354,095)**	**1,632**	**(352,463)**
Deconsolidation of a subsidiary		**-**	**-**	**(244)**	**-**	**(11,116)**	**-**	**-**	**(11,360)**	**-**	**(11,360)**
Equity-settled share-based payments	16(b)	**-**	**-**	**-**	**-**	**-**	**-**	**4,714**	**4,714**	**-**	**4,714**
At 30 June 2017		**182,276**	**7,400,418**	**3,643**	**(70,363)**	**870,779**	**588,704**	**6,762**	**8,982,219**	**49,430**	**9,031,649**

The notes on pages 20 to 34 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2017 $'000	Six months ended 30 June 2016 $'000
Cash used in operations		**(278,919)**	(139,508)
Tax paid		**(3,054)**	(4,344)
Net cash used in operating activities		**(281,973)**	(143,852)
Investing activities			
Acquisitions of property, plant and equipment		**(54,684)**	(61,421)
Payment for lease prepayment		**–**	(1,475)
Proceeds from disposal of lease prepayments and property, plant and equipment		**22,998**	73,568
Proceeds from disposal of a subsidiary		**–**	11,395
Cash acquired of through acquisition of a subsidiary		**–**	1,994
Other cash flows arising from investing activities		**642**	(10,301)
Net cash (used in)/generated from investing activities		**(31,044)**	13,760
Financing activities			
Net proceeds/(repayments) from bank loans, medium term notes and short term financing notes		**294,321**	(1,286,656)
Net (repayments)/proceeds from a loan from a related party		**(119,048)**	1,247,475
Changes in pledged deposits		**1**	2,900
Other cash flows arising from financing activities		**10,306**	(2,783)
Net cash generated from/(used in) financing activities		**185,580**	(39,064)
Net decrease in cash and cash equivalents		**(127,437)**	(169,156)
Cash and cash equivalents at 1 January		**291,868**	401,011
Effect of exchange rate fluctuations on cash held		**5,070**	(2,395)
Cash and cash equivalents at 30 June	14	**169,501**	229,460

The notes on pages 20 to 34 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017
(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 2017 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 25 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 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 2016 are available from the Company's principal place of business in Hong Kong. The auditor has disclaimed an opinion on those financial statements in its report dated 24 March 2017.

2. Basis of preparation (continued)

During the six months ended 30 June 2017, the Group recorded a net loss of $551,589,000 (six months ended 30 June 2016: $672,150,000) and operating cash outflow of $281,973,000 (six months ended 30 June 2016: $143,852,000). As at 30 June 2017, the Group had net current liabilities of $6,210,890,000 (31 December 2016: $5,618,616,000). Its total bank and other loans and finance lease liabilities amounted to $7,278,100,000 (31 December 2016: $6,911,970,000), out of which $6,748,785,000 (31 December 2016: $6,309,352,000) is due within 12 months of that date. The Group incurred interest expenses before interest capitalisation of $172,165,000 (six months ended 30 June 2016: $185,752,000) for the six months ended 30 June 2017. As further detailed in note 7(a), as at 30 June 2017, the Group could not fulfil covenants imposed by banks of certain bank loans of an aggregate amount of $4,218,603,000 (31 December 2016: $3,792,684,000), of which repayments of $692,782,000 (31 December 2016: $776,052,000) were due on or before 30 June 2017. Certain subsidiaries of the Group are also parties to various litigations as mentioned in note 19. 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;

(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:

- Amendments to IAS 7 *Disclosure Initiative*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2017 and 2016 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	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**4,752,944**	7,881,282	**1,049,501**	1,105,601	**5,802,445**	8,986,883
Inter-segment revenue	**65,505**	59,960	**25,839**	3,000	**91,344**	62,960
Reportable segment revenue	**4,818,449**	7,941,242	**1,075,340**	1,108,601	**5,893,789**	9,049,843
Depreciation and amortisation	**(165,088)**	(195,897)	**(51,512)**	(53,469)	**(216,600)**	(249,366)
Impairment losses on property, plant and equipment and lease prepayments	**–**	(37,617)	**–**	–	**–**	(37,617)
Impairment losses on assets held for sale	**–**	(71,986)	**–**	–	**–**	(71,986)
(Provision)/reversal of provision for impairment losses on trade and other receivables	**(4,034)**	(9,578)	**2,862**	(7,535)	**(1,172)**	(17,113)
Write off of lease prepayments and property, plant and equipment	**(49,964)**	–	**(4,642)**	–	**(54,606)**	–
Government subsidies	**2,855**	1,479	**8,030**	7,047	**10,885**	8,526
Reportable segment loss	**(375,002)**	(377,614)	**(30,822)**	(55,676)	**(405,824)**	(433,290)
Income tax expense	**(642)**	(74)	**(3,718)**	(5,311)	**(4,360)**	(5,385)

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

4. Revenue and segment information (continued)

(b) Reconciliations of reportable segment revenue and loss

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Revenue		
Total revenue from reportable segments	**5,893,789**	9,049,843
Elimination of inter-segment revenue	**(91,344)**	(62,960)
Consolidated revenue	**5,802,445**	8,986,883
Loss		
Reportable segment loss	**(405,824)**	(433,290)
Elimination of inter-segment loss	**(2,270)**	(613)
Reportable segment loss derived from Group's external customers	**(408,094)**	(433,903)
Loss on deconsolidation/disposal of subsidiaries	**(1,437)**	(1,189)
Impairment losses on receivables arising from the disposal of a subsidiary	**–**	(25,090)
Net finance costs	**(125,722)**	(197,899)
Unallocated head office and corporate expenses	**(11,725)**	(6,226)
Consolidated loss before income tax for the period	**(546,978)**	(664,307)

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

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Government subsidies	**10,885**	9,246
Provision for losses on litigations (note 19(b))	**(105,090)**	–
Loss on deconsolidation/disposal of subsidiaries (note)	**(1,437)**	(1,189)
Loss on disposal of lease prepayments and property, plant and equipment	**(51,465)**	(3,482)
Write off of lease prepayments and property, plant and equipment (note 19(b))	**(54,606)**	–
Impairment losses on receivables arising from the disposal of a subsidiary	**–**	(25,090)
Impairment losses on assets held for sale	**–**	(71,986)
Rental income	**21,951**	20,854
Sales of scrap	**2,030**	1,126
Sundry income	**11,213**	7,545
	(166,519)	(62,976)

Note:

In February 2017, the Group terminated the sub-contracting arrangement of a deemed subsidiary in chilled and frozen meat segment which result in loss in control of this subsidiary. A loss on deconsolidation of a subsidiary amounting to $1,437,000 was recognised in the consolidated statement of profit or loss during the six months ended 30 June 2017.

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 the consolidated statement of profit or loss during the six months ended 30 June 2016.

7. Loss before income tax

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

(a) Net finance costs

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Interest on bank and other loans, short term financing notes and medium term notes	**170,009**	183,239
Interest on lease obligations	**2,156**	2,513
Less: Interest expense capitalised into property, plant and equipment under development	**(9,056)**	(8,196)
	163,109	177,556
Bank charges	**455**	493
Net foreign exchange (gain)/loss	**(37,200)**	20,868
Interest income from bank deposits	**(642)**	(1,018)
	125,722	197,899

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 2017, the Group could not fulfil covenants imposed by banks on certain loans of an aggregate amount of $4,218,603,000 (31 December 2016: $3,792,684,000). Included in this amount are, (i) loans of an aggregate amount of $Nil (31 December 2016: $142,583,000) 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 $700,847,000 (31 December 2016: $1,033,175,000) of which repayments of $692,782,000 (31 December 2016: $776,052,000) were due on or before 30 June 2017 but were not yet renewed or repaid at the end of the reporting period. Up to the date of this interim financial report, the aforesaid bank loans were not yet renewed and bank loans of $11,398,000 (31 December 2016: $699,000) were repaid. The Group is negotiating with banks to renew bank loans which have fallen due but are not yet renewed or repaid.

At 30 June 2017, 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 secure the repayment of outstanding bank loans of approximately $470,557,000 (31 December 2016: $314,349,000) or otherwise assets of equivalent amount immediately. Certain assets of the Group with carrying value of approximately $166,453,000 (31 December 2016: $356,225,000) have been frozen by the court in the PRC as of 30 June 2017 which included restricted bank deposits of $32,393,000 (31 December 2016: $46,103,000). The Group is negotiating with the banks to settle these litigations.

7. Loss before income tax (continued)

(b) Other items

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Provision for impairment losses on trade and other receivables	**7,299**	17,113
Reversal of impairment losses on trade and other receivables	**(6,127)**	–
Amortisation of lease prepayments	**31,261**	36,379
Amortisation of intangible assets	**4,332**	4,539
Depreciation of property, plant and equipment	**185,346**	212,243
Impairment losses on property, plant and equipment (note 11)	**–**	37,617
Impairment losses on assets held for sale	**–**	71,986

8. Income tax expense

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Current tax expense	**1,193**	4,024
Deferred tax expense	**3,418**	3,819
	4,611	7,843

(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 2017 and 2016.

(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% (six months ended 30 June 2016: 25%) during the six months ended 30 June 2017, 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 2017 and 2016.

8. Income tax expense (continued)

(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 2017 was -0.8% (six months ended 30 June 2016: -1.2%).

9. Other comprehensive income

The components of other comprehensive income do not have any tax effect for the six months ended 30 June 2017 and 2016.

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 $551,753,000 (six months ended 30 June 2016: $672,458,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2016: 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 2017 and 2016 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 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Additions	**89,602**	252,375
Carrying value of assets acquired of through acquisition of a subsidiary	**–**	20,919
Carrying value of assets disposed of through deconsolidation/disposal of subsidiaries	**(5,927)**	(5,529)
Carrying value of other assets disposed of	**(95,857)**	(65,122)
Carrying value of other assets written off	**(47,887)**	–
Fair value of assets reclassified to assets held for sale	**–**	(42,288)

11. Property, plant and equipment (continued)

During the six months ended 30 June 2017, the Group assessed the recoverable amounts of certain assets which management considers are likely to be recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit ("CGU") to which these assets belong based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period.

The recoverable amounts of each CGU based on the estimated value-in-use calculation were higher than their carrying amounts as at 30 June 2017. Accordingly, during the current period, no provision for impairment loss for assets which management considers are likely to be recoverable through continuing use.

In addition, the Group assessed the recoverable amounts of certain other assets which carrying values are likely to be recovered through sales transaction during the current period. No provision for impairment was considered after the assessment. The estimates of recoverable amount were based on these assets' fair values less costs of disposal, using depreciated replacement cost approach. Depreciated replacement cost reflects adjustments for percentage of completion, physical deterioration as well as economic obsolescence.

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 of disposal, 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 amounts are based are categorised as a Level 3 measurement under the fair value hierarchy.

12. Inventories

	30 June 2017 $'000	31 December 2016 $'000
Raw materials	**253,304**	217,736
Work in progress	**41,744**	87,759
Finished goods	**271,843**	337,285
	566,891	642,780

12. Inventories (continued)

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

	Six month ended 30 June	
	2017	2016
	$'000	$'000
Carrying amount of inventories sold	**5,438,410**	8,593,956
Write down of inventories	**–**	34,591
	5,438,410	8,628,547

13. 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 2017	31 December 2016
	$'000	$'000
Trade receivables		
– Within 30 days	**164,162**	211,172
– 31 days to 90 days	**149,874**	106,553
– 91 days to 180 days	**32,033**	40,810
– Over 180 days	**48,653**	66,387
	394,722	424,922
Less: Provision for impairment of trade receivables	**(29,941)**	(30,374)
Total trade receivables, net of impairment losses (note 20(b))	**364,781**	394,548
Bills receivables	**5,574**	22
Value-added tax ("VAT") recoverable	**2,049,974**	1,979,951
Deposits and prepayments	**152,071**	168,255
Others (note 20(b))	**87,260**	74,356
	2,659,660	2,617,132

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

14. Cash and cash equivalents

	30 June 2017 $'000	31 December 2016 $'000
Cash and cash equivalents	**169,501**	291,868

15. Trade and other payables

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

	30 June 2017 $'000	31 December 2016 $'000
Trade payables		
– Within 30 days	**499,563**	566,339
– 31 days to 90 days	**101,537**	76,561
– 91 days to 180 days	**39,609**	19,513
– Over 180 days	**38,084**	131,891
Total trade payables (note 20(c))	**678,793**	794,304
Receipts in advance	**159,347**	278,495
Deposits from customers	**126,745**	111,297
Salary and welfare payables	**56,803**	60,424
VAT payable	**10,770**	5,020
Payables for acquisitions of property, plant and equipment	**593,806**	574,470
Interest payables	**379,974**	219,129
Provision for losses on litigations (note 19(b))	**220,393**	110,218
Other payables and accruals (note 20(c))	**755,137**	839,040
	2,981,768	2,992,397

16. Capital, reserves and dividends

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

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: $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 HK$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 2017 and 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 2016, the Directors approved to waive the performance-based condition set by the Company for the fourth tranche of 2013 March Options and 2013 June Options in order to provide incentives for the qualified employees. Expense of $4,714,000 (six months ended 30 June 2016: $6,268,000) was recognised as cost of services received from the grantees for the six months ended 30 June 2017.

During the six months ended 30 June 2017, no options were exercised (six months ended 30 June 2016: No) and lapsed (six months ended 30 June 2016: 200,000).

17. Fair value measurement of financial instruments

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2017 and 31 December 2016.

18. Capital commitments outstanding not provided for in the interim financial report

	30 June 2017 $'000	31 December 2016 $'000
Contracted for	**4,723,311**	4,402,233

19. Contingent liabilities

(a) In addition to the litigations commenced by banks against subsidiaries of the Group as discussed in note 7(a), there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fee totalling approximately $200,392,000 (31 December 2016: $222,218,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group may be liable to pay approximately $116,135,000 (31 December 2016: $222,218,000) for the settlement of the aforesaid construction fee. This amount had been provided and included in "trade and other payables". During the six months ended 30 June 2017, pursuant to the judgments, the Group was ordered to make immediate repayment of payables of approximately $11,470,000 to the plaintiffs. Up to the date of this interim financial report, the remaining litigation claims with an aggregate amount of approximately $188,922,000 are still in progress. No further provision for litigation was made in this interim financial report for the six months ended 30 June 2017.

(b) During the current period, there were litigations initiated by municipal people's governments claiming against subsidiaries and a related company of the Group, for immediate repayment and write off of certain assets of approximately $105,090,000 and approximately $54,606,000, respectively. The Group recorded the aforesaid amounts in the consolidated statement of profit or loss as "provision for losses on litigations" and "write off of lease prepayments and property, plant and equipment" in "other net loss" for the six months ended 30 June 2017. The corresponding payables were recorded in the consolidated statement of financial position as "trade and other payables" and the corresponding assets were written off in "property, plant and equipment" and "lease prepayments" as at 30 June 2017. Up to the date of this interim financial report, no appeal was lodged by the Group.

During the year ended 31 December 2016, there was a litigation initiated by a government related entity claiming against a subsidiary and a related company of the Group, for immediate repayment of approximately $115,028,000. The Group recorded the aforesaid amounts in the consolidated statement of profit or loss as "provision for loss on litigation" in "other net loss" for the year ended 31 December 2016 and the corresponding payables in the consolidated statement of financial position as "trade and other payables" as at 30 June 2017 and 31 December 2016. In July 2017, the Group lodged appeal application to the Shanghai Municipal Intermediate People's Court. Up to the date of this interim financial report, the litigation is still in progress. No further provision for litigation was made in the interim financial report for the six months ended 30 June 2017.

The Directors are of the opinion that the provision for the above litigations is sufficient in the consolidated statement of financial position as at 30 June 2017.

Other than the disclosure of above, as at the end of the reporting period, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2017, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained 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 of the Group.

20. Related party transactions

During the six months ended 30 June 2017 and 2016, 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:

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Sales of raw materials to related companies (note 20(a)(vi))	**1,381**	1,946
Sales of finished goods to related companies (note 20(a)(vi))	**6,110**	5,787
Purchases of raw materials from related companies (note 20(a)(vi))	**30,769**	48,458

(ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties (note 20(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 2017 amounted to $2,549,000 (six months ended 30 June 2016: $2,843,000).

(iii) Certain related parties (note 20(a)(vi)) made available their properties and land use rights with a total carrying value of $144,055,000 (31 December 2016: $141,071,000) as at 30 June 2017 to the Group. No rental is paid or payable by any of the group companies.

(iv) As at 30 June 2017, bank loans of $1,364,442,000 (31 December 2016: $1,117,943,000) were guaranteed by related companies and secured by assets owned by related companies, including equity securities with market value of $639,590,000 (31 December 2016: $686,305,000) and receivables of $587,625,000 (31 December 2016: $570,151,000). Bank loans of $253,485,000 (31 December 2016: $245,947,000) were secured by land use rights owned by a related company with fair value of $104,275,000 (31 December 2016: $101,174,000). These related companies were owned by Mr. Zhu Yicai ("Mr. Zhu"). In addition, bank loans of $115,221,000 (31 December 2016: $111,794,000) were guaranteed by Mr. Zhu.

(v) As at 30 June 2017, a related company provided a loan of $1,088,835,000 (31 December 2016: $1,173,840,000) to a subsidiary of the Company for the settlement of certain payables. The loan is unsecured, interest bearing at 4.35% per annum and with a fixed term of repayment (31 December 2016: unsecured, interest bearing at 4.35% per annum and with a repayment term of 12 months). Total interest expenses of $26,752,000 (30 June 2016: $7,386,000) were incurred during the six months ended 30 June 2017.

(vi) Mr. Zhu is the beneficial shareholder of the Company, the honorary chairman and the senior advisor to the board of the Company and also has beneficial interest in the related companies.

20. Related party transactions (continued)

(b) Amounts due from related parties

	30 June 2017 $'000	31 December 2016 $'000
Trade receivables due from related parties (note 20(a)(vi))	**4,773**	4,976
Other receivables due from related parties (note 20(a)(vi))	**6,000**	5,083

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

(c) Amounts due to related parties

	30 June 2017 $'000	31 December 2016 $'000
Trade payables due to related parties (note 20(a)(vi))	**81,462**	82,621
Other payables due to related parties (notes 20(a)(vi) and 20(c)(i))	**146,831**	246,265
Other loan due to a related party (notes 20(a)(v) and 20(a)(vi))	**1,088,835**	1,173,840

(i) Certain related companies settled certain payables on behalf of the Group for the six months ended 30 June 2017 and 2016.

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

(d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2017 $'000	2016 $'000
Salaries and other emoluments	**5,250**	1,472
Contributions to retirement benefit schemes	**78**	60
	5,328	1,532