China Yurun Food Group Limited
中國雨潤食品集團有限公司

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

Annual Report 2017

Contents

CORPORATE INFORMATION

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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Hamilton HM 11
Bermuda

HEAD OFFICE

10 Yurun Road
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Nanjing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Harbour Road, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I hereby present you with the annual results of the Group for the year ended 31 December 2017 (the "Review Year").

BUSINESS REVIEW

During the Review Year, the overall supply of meat in the People's Republic of China ("China") was driven by market consumption. Hog prices experienced downward fluctuation in the first half of the year, followed by a slight rebound in the second half of the year. Facing with the challenges arising from the economic environment and hog market, hog slaughtering and processed meat products industries found the overall control and management challenging.

In 2017, the Chinese government continued to push ahead with its regulatory management on livestock and poultry slaughtering industry with a focus on strengthening law enforcement and management on environmental protection. The emphasis of the national policies on reorganising slaughterhouses will further strengthen our development in the industry as well as consumers' confidence in slaughtering on a larger scale and in enterprises engaging in meat product processing.

Against the ever-changing and complicated macro-economic environment, the revenue of the Group in 2017 amounted to HK$12.057 billion and the loss attributable to the equity holders of the Company was HK$1.915 billion, representing a significant reduction of loss of HK$427 million from the loss attributable to the equity holders of the Company of HK$2.342 billion in 2016.

During the Review Year, the Group continued to encounter challenges and difficulties in financing. We therefore adopted a prudent strategy and made efforts to reduce capital expenditure and improve the existing asset structure. Meanwhile, we strengthened brand image and market positioning, expanded sales channels and network as well as kept the business stable with its best endeavors, with an aim to enhance the quality of operation and the standards of the entire industry and the confidence of consumers.

The Board believes that the Group, with its advantages and experience in food industry development and market competition, will seize opportunities from various challenges and continue to capitalise the Group's competitive advantages in internal resources, strategies and branding, in order to promote steady business development in the favorable environment created by the Government's immense efforts in food safety.

CHAIRMAN'S STATEMENT

PROSPECT

As the Chinese economy keeps improving, it is expected that the consumption on meat products will continue its upward swing, driving the sound development of the slaughtering and meat product industries in 2018.

With ongoing optimisation of national industrial policy and intensified efforts in food safety control, compounded by consistently enhanced environmental protection and implementation of the macro industry policy, industry standardisation will be pushed forward, which will be beneficial to the development of branded enterprises.

The Group will capitalise the development opportunities arising from the branded enterprise and fully consolidate its advantageous resources under the premise of ensuring food safety. Riding on the consolidation of the food industry, the Group will further enhance its profitability by increasing the Group's business revenue through measures such as structural adjustment to regional capacity structure, continuous improvement in product structure, gradual extension and expansion of distribution channels and reduction in operating costs.

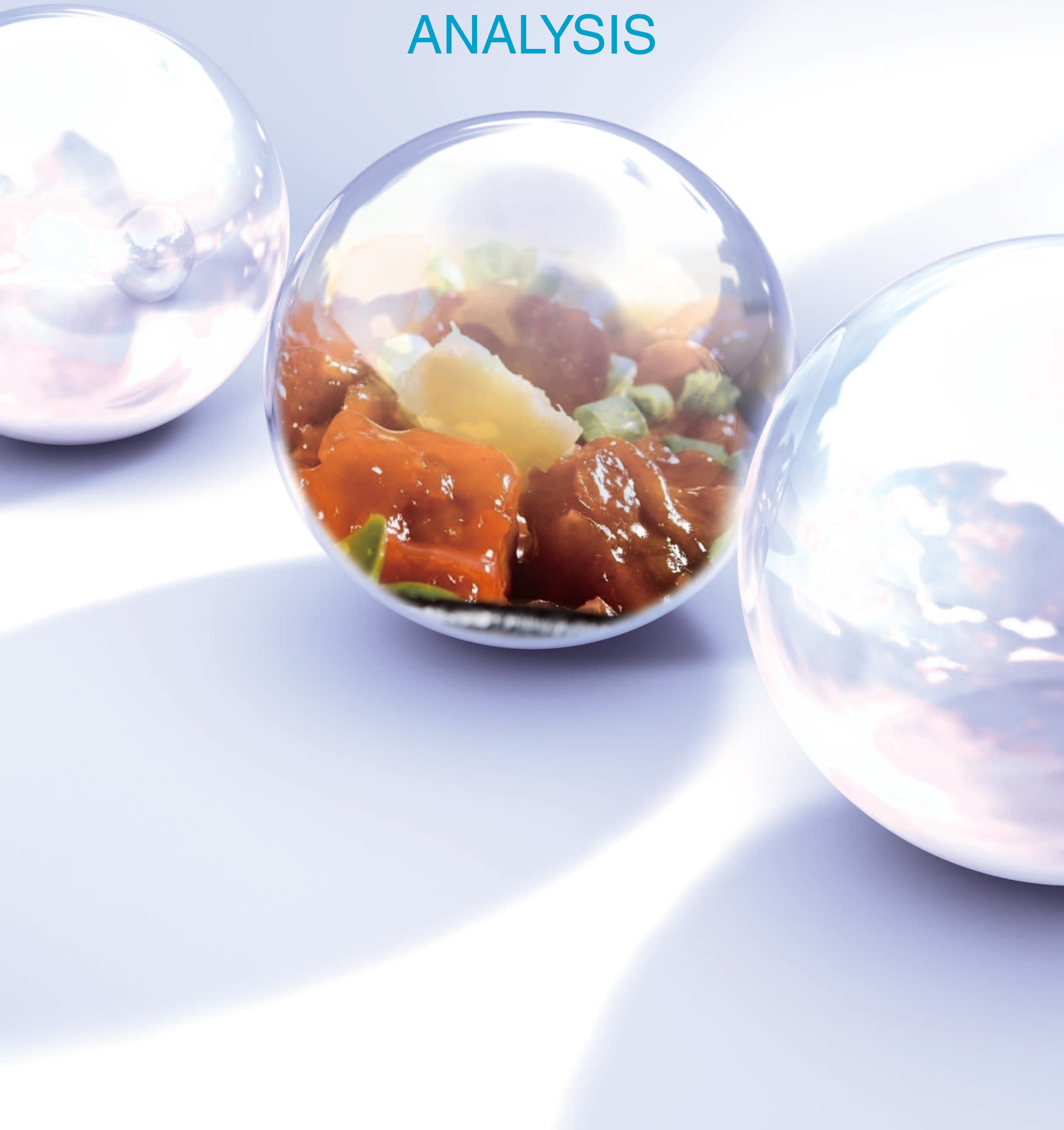
We believe that against the backdrop of the industry integration, the management of the Group will work closely together and make concerted efforts to overcome all difficulties, do our best to further improve the Group's cash flow and efficiency of all aspects and strive to promote business growth, so as to mitigate the challenges and risks that the Group is currently facing.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend my gratitude to our shareholders, customers and business partners for their persistent support and trust. My gratitude also goes to our management team and staff who, with their ample industry experience and unfailing efforts, have contributed to the Group's development against a challenging market environment.

Yu Zhangli
Chairman
Hong Kong, 20 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the year ended 31 December 2017 (the "Review Year"), the national economy, being stable and growing, achieved steady and sound development. According to the data published by the National Bureau of Statistics of the People's Republic of China ("PRC"), the gross domestic product sustained a stable growth of 6.9% in 2017 and the national disposable income per capita was Renminbi ("RMB") 25,974, an increase of 7.3% over last year.

Under the influence of the macroeconomic environment, the competition in the Chinese meat market remained keen in 2017. The total output of pork, beef, mutton and poultry reached 84.31 million tons in 2017, of which, the output of pork accounted for 53.40 million tons, up by 0.8%. The downward fluctuation in pork price during the first half of the year and the slight recovery followed in the second half of the year drove the average pork price down by approximately 8.8% compared with that of last year. Uncertainties in the economic environment and pork market affected the business operations of the industry players to a certain extent.

During the Review Year, the Chinese government stepped up efforts in food safety promotion and implementation of measures to strengthen the surveillance of food sources, supervision on procedures and risk control, and efforts in enhancing of food safety governance and protection standards. The Ministry of Agriculture also continued to improve the monitoring of slaughtering industry, with focus on enhancing the establishment of slaughtering industry regulatory system, regulatory supervision and enforcement against the slaughtering industry, risk control capability of slaughtering industry players as well as spearheading the slaughtering industry transformation and upgrading to facilitate healthy development of the livestock and poultry slaughtering industry. In addition, the Chinese government also regarded environmental protection issues as its focus, including tightening the pollutant emission standards, increasing dischargers' liabilities, improving the environmental protection credit ratings and imposing severe punishment etc. The board of directors (the "Board" or the "Directors") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group") believes that coupled with the government's favorable policy to eliminate the substandard slaughterhouses and the elimination of small slaughterhouses pursuant to the environmental laws and regulations which will sharpen the competitive advantages of slaughterhouses of larger scale, the Group will capture the opportunities arising therefrom to achieve stable business development by leveraging on its core competitiveness in resources, strategies and branding on an ongoing basis.

Against all uncertainties during the Review Year, the management adopted a more prudent strategy and continued to adhere to the Group's corporate mission to provide quality meat products for consumers amid the difficult market environment.

BUSINESS REVIEW

During the Review Year, the average purchase cost of hog of the Group decreased by 18% as compared to that of the previous year. During the first half of 2017, hog prices increased in January, followed by a five-month consecutive decline, expanding from single digit to double digit. Hog prices rallied in June and picked up steadily thereafter. Facing the challenges arising from instabilities and uncertainties, the Group used its best endeavors to take all practical and prudent measures and methods to reduce capital expenditure, optimise existing asset structure, strengthen brand image and market positioning and expand sales channels and networks to sustain stable business.

Product Quality and Research and Development

As one of the industry leaders, Yurun Food's products have been well received by the market for years. Apart from the three Chinese brands, namely "Yurun Low Temperature Meat Product (雨潤牌低溫肉製品)", "Yurun Fresh Frozen Pork Cutout (雨潤牌鮮凍凍分割豬肉)" and "Wangrun High Temperature Sausage (旺潤高溫火腿腸)", the Group also owns two well-known trademarks, namely "Yurun (雨潤)" and "Haroulian (哈肉聯)". These achievements are contributed by the philosophy "You trust because we care" that Yurun Food has been following all along the years in leading the industry through technical research and development and in ensuring product quality through advanced production processes and technologies.

In addition to the above honors, Yurun Food ranked first in terms of combined market shares of low temperature meat products ("LTMP") and chilled pork in China, topping the LTMP market nineteen years in a row and the chilled pork market five years in a row at the Annual Conference of the Development of Consumer Markets and the Press Conference of Product Sales Statistics of the PRC 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. During the Review Year, "Dried Sausage" and "Bacon" of Yurun Food were granted "Nongfu Cup – 2017 Quality Meat Product Award of China (農畉杯-2017全國優質肉類產品獎)" by China Meat Association.

The Group will continue to ensure high product quality, and focus on the research and development of new products which would be well received by the market, thereby further reinforcing its competitive edge and maintaining its leading position in the industry.

Sales and Distribution

Chilled pork and LTMP, being the Group's products with higher added value, remained as the key drivers of the Group to sustain the overall business development during the Review Year. In 2017, sales of chilled pork of the Group was HK$9.275 billion (2016: HK$13.669 billion), representing a decrease of 32.1% over last year, accounting for approximately 75% (2016: 81%) of the total revenue of the Group prior to inter-segment eliminations and approximately 91% (2016: 93%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.914 billion (2016: HK$1.886 billion), representing an increase of 1.5% over last year, accounting for approximately 16% (2016: 11%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2016: 90%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

The Group expanded rapidly in previous years without smoothly adjusting along with the macro environment, resulting in an increased capital expenditure and borrowing costs and intensified operating pressure. In light of this, the Group adjusted its expansion pace according to market changes and its business conditions in strict compliance with its principle of investment cost control. The Group will continue to review the functional positioning of its factories and optimise existing resources structure from time to time, such as by integrating certain outlets distant from raw materials markets and consumer markets, in order to maximise the factories' strengths and ultimately increase capacity utilisation rate.

With respect to the upstream slaughtering, the annual production capacity of the Group was 55.15 million heads per year as at 31 December 2017, representing a decrease of 0.6 million as compared with that as at 31 December 2016, due to the disposal of an upstream slaughtering subsidiary of the Group during the Review Year.

As at 31 December 2017, the annual production capacity of downstream processed meat segment was approximately 312,000 tons per year, same as that as at 31 December 2016.

FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$12.057 billion in 2017, representing a decrease of 27.8% from HK$16.702 billion last year. During the Review Year, despite the provision of approximately HK$674 million (2016: HK$1.257 billion) made by the Group for impairment losses on non-current assets as well as operating losses and other one-off losses, the loss attributable to equity holders significantly decreased by 18.2% from HK$2.342 billion in the previous year to HK$1.915 billion.

During the Review Year, loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gains or losses on disposal of non-current assets and other investment, write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations of the Group, was HK$881 million (2016: HK$956 million), representing a reduction in loss of approximately 7.8% from the previous year. Basic and diluted loss per share was HK$1.051, representing a reduction in loss per share of approximately 18.2% from HK$1.285 of the previous year.

The Board and the management assessed the business development, performance and position of the Group according to the following key performance indicators.

Impairment Losses on Non-Current Assets

Amidst the slow economic growth of China and the Group's operating pressure during the Review Year, the Board performed impairment assessment on relevant non-current assets of the Group according to the requirement of "International Accounting Standard 36 – Impairment of Assets".

During the assessment process, in particular for the cash flow projection model which covers a five-year period, many assumptions about future performance, including but not limited to future sales volume, gross profit margin, expenses ratio and discount rate, were used. Any change in these relevant assumptions will affect the recoverable amount of the relevant assets.

According to the relevant accounting standards, the Directors adopted the cash flow projection of cash generating units to assess the amounts recoverable from cash generating units with continuing operation and engaged an external asset appraisal firm with professional qualification in the PRC to assess the assets. The Directors and the management, with their professional experience in and understanding of the industry and considering factors such as the operation data of the Group, the industry's future development and the macro economy of China, believe that the operation performance of the Group will improve gradually in the next five years. This forms the basis and assumption of the cash flow projection model as at 31 December 2017. In addition, the Board also referred to the recommendations set out in the relevant accounting standards and took into account the weighted average cost of capital and specific risks of the Group in their calculation of the discount rate for the cash flow projection. The discount rate was also reviewed by an external professional valuer which considered that the discount rate used by the Group is appropriate. The Board believes that the calculation of discount rate adequately reflects the underlying risks of the cash flow projection model.

Based on the assessment results, provision for impairment losses of certain non-current assets of approximately HK$674 million (2016: HK$1.257 billion) was made by the Group as at 31 December 2017.

The Board reiterates that the Group performed the impairment assessment on the relevant non-current assets according to the requirement of "International Accounting Standard 36 – Impairment of Assets". The Directors believe that the assumptions used in the assessment are reasonable, appropriate and prudent. Other than the factors relating to the macro economy, the state and the industry, the Group also considered several uncertain risks relating to the Group so as to ensure they, albeit the difficulties to quantify, could be specifically and reasonably reflected in the cash flow projection model. In view of this, the Directors and the management of the Company believe that the discount rate used by the Group and the calculations in the cash flow projection model are objective, reasonable and appropriate.

Revenue

Chilled and Frozen Pork

During the Review Year, the slaughtering volume of the Group was approximately 5.46 million heads, representing a decrease of approximately 17.6% over last year. Total sales from upstream business prior to inter-segment eliminations decreased by 31.1% to HK$10.162 billion (2016: HK$14.743 billion). During the Review Year, due to the falling trend of hog price and the Group's appropriate adjustment to the growth of slaughtering volume with an aim at maximising the profit, the overall revenue of the upstream business decreased accordingly. Sales of chilled pork decreased by 32.1% to HK$9.275 billion (2016: HK$13.669 billion), accounting for approximately 75% (2016: 81%) and approximately 91% (2016: 93%) of the total revenue of the Group prior to inter-segment eliminations and the total revenue of the upstream business of the Group respectively. Sales of frozen pork decreased by 17.4% to HK$887 million (2016: HK$1.074 billion), accounting for approximately 9% (2016: 7%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products of the Group prior to inter-segment eliminations was HK$2.134 billion (2016: HK$2.105 billion), representing an increase of 1.4% over last year.

Specifically, revenue of LTMP was HK$1.914 billion, representing an increase of 1.5% from HK$1.886 billion of last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 90% (2016: 90%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$220 million (2016: HK$219 million), accounting for approximately 10% (2016: 10%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 2.2% from HK$708 million in 2016 to HK$723 million in the Review Year. Overall gross profit margin increased by 1.8 percentage points to 6.0% from 4.2% of the previous year. The Group reduced sales through channels which were of relatively low profit margin, as and when appropriate, with an aim to increase profit.

In respect of the upstream business, gross profit margin of chilled pork and frozen pork were 3.4% and -3.3% respectively (2016: 2.5% and -6.5% respectively). The overall gross profit margin of the upstream segment was 2.9%, representing an increase of 1.1 percentage points from 1.8% of last year.

In respect of the downstream processed meat products, the gross profit margin of LTMP was 19.9%, representing an increase of 0.5 percentage point from 19.4% of the previous year. Gross profit margin of HTMP was 23.4%, representing a decrease of 10.4 percentage points from 33.8% over last year. The overall gross profit margin of the downstream segment was 20.3%, representing a decrease of 0.6 percentage point from 20.9% of the previous year.

Other Net Loss

During the Review Year, other net loss of the Group was HK$371 million (2016: net income of HK$25.74 million), mainly attributable to non-recurring losses, including provision for losses on litigations, loss on disposal/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 Year, operating expenses of the Group were HK$1.994 billion, representing a decrease of 25.7% from HK$2.682 billion of last year. Such expenses included impairment losses on certain assets in the amount of approximately HK$674 million (2016: HK$1.257 billion). Such decrease was mainly due to the decrease of approximately HK$582 million in impairment losses on non-current assets over last year. In addition, the Group took further measures to streamline certain work positions in order to reduce expenses, and therefore cost of wages and related staff cost decreased. Operating expenses excluding impairment losses represented 10.9% (2016: 8.5%) of the Group's revenue.

Results of Operating Activities

During the Review Year, operating loss of the Group was HK$1.641 billion (2016: HK$1.949 billion), representing a significant reduction in operating loss of 15.8% from the previous year.

Finance Costs

During the Review Year, net finance costs of the Group were HK$264 million while that of the previous year was HK$404 million. Net finance costs decreased by 34.7% as compared with that of the previous year, which was mainly due to the exchange gains of the Group arising from the appreciation of RMB during the Review Year.

Income Tax

Income tax expense for the Review Year was HK$9.97 million (2016: credit of HK$10.76 million).

Loss Attributable to the Equity Holders of the Company

Taking into account of the above factors, loss attributable to the equity holders of the Company during the Review Year was HK$1.915 billion (2016: HK$2.342 billion), representing a reduction in loss of 18.2% from the previous year. Loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gains or losses on disposal of non-current assets and other investment, write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations of the Group, was HK$881 million (2016: HK$956 million), representing a reduction in loss of approximately 7.8% from the previous year.

FINANCIAL RESOURCES

As at 31 December 2017, the Group's cash balance together with time deposits, pledged deposits and restricted bank deposits were HK$271 million, representing a decrease of approximately HK$75 million from HK$347 million as at 31 December 2016. Approximately 83% (31 December 2016: 82%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or RMB, and approximately 16% (31 December 2016: 17%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 31 December 2017, the Group had outstanding bank and other loans of HK$7.432 billion, representing an increase of HK$649 million from HK$6.783 billion as at 31 December 2016, of which bank loans of HK$7.214 billion (31 December 2016: HK$6.309 billion) are repayable within one year and the bank loans repayable within one year are expected to be renewed upon maturity.

All borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2016. As at 31 December 2017, the Group's fixed-rate debt ratio was 69.9% (31 December 2016: 81.4%).

Net cash outflow of the Group during the Review Year was mainly used for daily operations, payment for construction payables of projects already commenced and repayments of borrowings. The Group expects that the bank loans can be renewed upon maturity for its daily operating activities and other funding requirements.

During the Review Year, under the principle of strict control over investment costs, the capital expenditure of the Group further decreased significantly by 54.6% to HK$62 million from HK$138 million of last year.

BREACH OF LOAN AGREEMENTS

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 31 December 2017, the Group could not fulfil the covenants in respect of certain bank loans with an aggregate amount of approximately HK$5.916 billion (31 December 2016: HK$3.793 billion), of which (i) HK$120 million (31 December 2016: HK$143 million), being an aggregate amount of certain long-term bank loans, was re-classified as current liabilities in the consolidated statement of financial position as at 31 December 2017; and (ii) HK$1.846 billion (31 December 2016: HK$776 million), being the outstanding bank loans, were due on or before 31 December 2017 but not yet renewed at the end of the reporting period. As at the date of this report, the aforesaid bank loans were not renewed yet and bank loans of HK$46 million were repaid. The Group has been in active discussion with the banks regarding the above matters and the renewal of those matured bank loans. In the course of communication, the Group understood that the banks will not take any radical adverse actions against the Group and all parties hope that the Group can maintain normal operations. As such, the Board believes that the likelihood of demands from bank for immediate repayment is not high and the above matters do not have significant impact on the operations of the Group.

ASSETS AND LIABILITIES

As at 31 December 2017, the total assets and total liabilities of the Group were HK$19.174 billion (31 December 2016: HK$19.310 billion) and HK$11.261 billion (31 December 2016: HK$9.919 billion) respectively, representing a decrease of approximately HK$136 million and an increase of approximately HK$1.342 billion as compared with the total assets and liabilities as at 31 December 2016 respectively.

As at 31 December 2017, the property, plant and equipment of the Group amounted to HK$12.395 billion (31 December 2016: HK$12.553 billion), representing a decrease of approximately HK$158 million as compared with that as at 31 December 2016. Such decrease was mainly attributable to an impairment loss of approximately HK$545 million (2016: HK$948 million) in respect of certain assets after the impairment assessment and a disposal/write off of property, plant and equipment with a carrying amount of approximately HK$284 million were recognised during the Review Year, net the increase of approximately HK$785 million in the carrying amount of property, plant and equipment as at 31 December 2017 caused by movement in foreign exchange arising from appreciation of RMB during the Review Year.

Lease prepayments as at 31 December 2017 amounted to HK$2.516 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 period of the rights. The lease prepayments decreased by HK$147 million as compared with the previous year mainly due to the impairment loss of approximately HK$129 million (2016: HK$221 million) and write-off of lease prepayments of approximately HK$117 million (2016: HK$Nil) were recognised and partially set off with the movement in foreign exchange arising from appreciation of RMB during the Review Year.

Non-current prepayments and other receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment and the non-current portion of value-added tax recoverable. As at 31 December 2017, it amounted to HK$242 million (31 December 2016: HK$234 million) and HK$873 million (31 December 2016: HK$Nil) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortise yet.

During the Review Year, the Group recorded a net loss of HK$1.915 billion (2016: HK$2.342 billion) and net cash used in operating activities of HK$355 million (2016: HK$107 million). As at 31 December 2017, the net current liabilities of the Group were HK$7.912 billion (31 December 2016: HK$5.619 billion). Its total bank and other loans and finance lease liabilities amounted to HK$7.564 billion (2016: HK$6.912 billion), of which HK$7.215 billion (2016: HK$6.309 billion) is due within 12 months from that date. As mentioned above, the Group failed to fulfil the terms of certain bank loans and some subsidiaries of the Group are facing various litigations. In addition, the Group recognised impairment losses on property, plant and equipment and lease prepayments which are likely to be recovered through sale transactions rather than through continuing use in the operation of the Group. These conditions indicate the existence of material uncertainties about the Group's ability to continue as a going concern. To improve the above situations, the Group will actively negotiate with the banks to renew bank loans, 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 Year.

As at 31 December 2017, equity attributable to equity holders of the Company was HK$7.862 billion in total, representing a decrease of HK$1.481 billion as compared with HK$9.343 billion as at 31 December 2016.

As at 31 December 2017, 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 49.0%, representing an increase of 6.5 percentage points as compared with 42.5% as at 31 December 2016. As at 31 December 2017, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 47.3% (31 December 2016: 40.4%).

CHARGES ON ASSETS

As at 31 December 2017, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$3.482 billion (31 December 2016: HK$2.435 billion), certain investment properties of the Group with a carrying amount of HK$147 million (31 December 2016: HK$141 million), certain lease prepayments of the Group with a carrying amount of approximately HK$1.521 billion (31 December 2016: HK$1.201 billion), and certain trade receivables of the Group with a carry amount of approximately HK$36 million (31 December 2016: HK$26 million) were pledged against certain bank loans with a total amount of approximately HK$4.379 billion (31 December 2016: HK$3.378 billion).

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

Having considered the current operation and cash flow of the Group, the Board will take a more prudent approach on capital expenditure for 2018. The preliminary approved capital expenditure plan for 2018 is expected to be approximately RMB100 million, which will be used mainly for the construction in progress.

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

CONTINGENT LIABILITIES

As at 31 December 2017, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group, demanding them to secure an immediate repayment of the outstanding bank loans of approximately HK$1.481 billion (2016: HK$314 million) or otherwise assets of equivalent amount. As at 31 December 2017, certain assets of the Group with a carrying amount of approximately HK$173 million (2016: HK$356 million) were frozen by the courts in the PRC, in addition to the restricted bank deposits of approximately HK$47 million (2016: HK$46 million) which had already been frozen. The Group is negotiating with the banks to resolve such litigations. Subsequent to 31 December 2017 and up to date of this report, the Group has repaid the bank loans under litigations of approximately HK$10 million and the corresponding frozen property, plant and equipment and restricted bank deposit of approximately HK$50 million and HK$37 million respectively had been released.

There were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming an aggregate construction fee together with the late penalties of approximately HK$249 million (2016: HK$222 million). Pursuant to the judgments, the Group was ordered to make an immediate repayment of construction fee payables of approximately HK$62 million (2016: HK$32 million) and corresponding late penalties of approximately HK$27 million (2016: HK$Nil). As of the date of this report, litigations regarding the remaining claims of approximately HK$159 million (2016: HK$189 million) are still in progress. However, according to the advice of the Group's in-house legal counsel, the Directors estimate that the Group may be liable to pay approximately HK$168 million (2016: HK$222 million) for the settlement of the aforesaid construction fee and corresponding penalties. Provision for such amounts had been made accordingly.

During the Review Year, there were litigations initiated by certain local governments in the PRC against certain subsidiaries and a related company of the Group for immediate cash repayment of approximately HK$174 million (2016: HK$115 million) and return of certain assets with an aggregate amount of approximately HK$146 million (2016: HK$Nil). The Group made full provisions for the aforesaid claims and wrote off corresponding assets as at 31 December 2017.

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 as and when required.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

HUMAN RESOURCES

As at 31 December 2017, the Group had approximately 11,000 (31 December 2016: approximately 12,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$594 million, accounting for 4.9% of the revenue (2016: HK$683 million, accounting for 4.1% 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 bonuses 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 Year, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimise waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yu Zhangli, aged 50, joined the Group in March 1996 and has been an executive Director of the Company since January 2010. Mr. Yu was the Chief Executive Officer of the Company from March to July 2012 and was appointed as the chairman of the Board with effect from 7 July 2012. He also holds directorships in various subsidiaries of the Company and is responsible for the strategic planning of the Group. He graduated from the School of Business Administration of Henan University with specialisation in economic management. Mr. Yu has 22 years of experience in the industry.

Mr. Li Shibao, aged 42, joined the Group in August 1999 and has been the Chief Executive Officer of the Company since 7 July 2012. Mr. Li was appointed as an executive Director of the Company with effect from 23 March 2013. He holds a bachelor's degree in economics from Nanjing University of Chemical Technology (currently known as Nanjing Tech University) and a bachelor's degree in law from Nanjing University. Mr. Li has 19 years of experience in the meat products industry.

Mr. Sun Tiexin, aged 39, joined the Group in July 2000 and is responsible for the upstream slaughtering business of the Group. He has 17 years of experience in the meat products industry. Mr. Sun was appointed as an executive Director of the Company with effect from 5 December 2014.

Mr. Yang Linwei, aged 49, joined the Group in March 1996 and is a vice president of the Group. He is responsible for the downstream processed meat business. He has 22 years of experience in the meat products industry. Mr. Yang was appointed as an executive Director of the Company with effect from 20 June 2016.

Mr. Yao Guozhong, aged 47, joined the Group in September 2002 and is responsible for the upstream slaughtering business. He was the general manager of various subsidiaries of the Company and has 15 years of experience in the meat products industry. Mr. Yao was appointed as an executive Director of the Company with effect from 20 June 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Hui, aged 49, has been an independent non-executive Director of the Company since April 2005. He is a certified public accountant in the PRC and certified tax advisor in the PRC. Mr. Gao is the chairman and general manager of Jiangsu Jinling Certified Public Accountants Company Limited and the general manager of Jiangsu Jinling Engineering Consulting and Management Company Limited. Mr. Gao graduated from Jiangsu Radio and TV University specialised in finance and accounting.

Mr. Chen Jianguo, aged 57, has been an independent non-executive Director of the Company since January 2010. He is a practising lawyer in the PRC and has been a partner of 江蘇金大律師事務所 (Jiangsu Jinda Law Office) since January 2003. Mr. Chen graduated from Fudan University with specialisation in economic law and obtained a master's degree in economic law from the Graduate School of The Chinese Academy of Social Sciences.

Mr. Miao Yelian, aged 59, has been an independent non-executive Director of the Company since August 2015. He is a professor and supervisor to doctoral students of the College of Food Science and Light Industry of Nanjing Tech University, and the vice director of the Institute of Bioresources Engineering of Nanjing Tech University. Mr. Miao is an academic in food engineering with over 30 years of working experience with different tertiary institutions. Mr. Miao obtained a bachelor's degree of engineering in agricultural machinery design and manufacturing from the Zhenjiang Institute of Agricultural Machinery (currently known as Jiangsu University) in 1982, a master's degree in agriculture from Kagoshima University in Japan in 1987 and a doctorate in agriculture from the University of Tsukuba in Japan in 1990.

The board of directors (the "Board" or the "Directors") of China Yurun Food Group Limited (the "Company", together with its subsidiaries, the "Group") presents its 2017 annual report, together with the report of the Directors and the consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise provision of a wide range of meat (chilled and frozen) and processed meat (low temperature meat products and high temperature meat products) with a particular focus on pork products, primarily marketed under its key brand names, "Yurun", "Furun", "Wangrun" and "Haroulian". There was no significant change in the nature of the Group's principal activities during the year. Details of the activities of the principal subsidiaries are set out in Appendix 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's result for the year ended 31 December 2017 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 53 to 127.

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2017 are set out in note 15 to the consolidated financial statements.

BUSINESS REVIEW

Review of business and performance

A business review of the Group, a discussion and analysis of the Group's performance and material factors underlying its results and financial position during the year and the outlook of the Group are set out in the Chairman's Statement and the Management Discussion and Analysis from pages 3 to 6 and pages 7 to 16 respectively of this annual report. The discussion forms a part of this Report of the Directors.

Principal risks and uncertainties

In addition to the matters referred to in the Chairman's Statement and the Management Discussion and Analysis, the description of the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the laws of Hong Kong) can be found from pages 40 to 44 of this annual report. Save as stated above, there may be other risks and uncertainties which are unknown to the Group or which may not be material now but is likely to become material in the future.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Group is committed to promote environmental protection and makes its best effort to minimise the environmental impact of its existing production and business activities. The industry in which the Group operates is not classified as heavily polluting industries. However, some emissions such as discharged slag, waste water and off gas are generated during the hogs slaughtering process. The Group has adopted the concept of system-wide food safety and environmental-friendly production in designing infrastructures for its factories. Our production base had obtained the approval of the local government prior to its operation and received the approval for the environmental impact report. In addition to the ISO14001 Environmental Management System ("EMS"), the Group implements a review mechanism to monitor the clean production practices, adopts recycle practices and takes a number of environmental protection measures, such as: (1) construction of underground sewage stations to process waste water discharged from factories, introduction of new facilities to reduce odour from sewage treatment works, making of improvements to environment surrounding the sewage station, introduction of advanced facilities to deal with the water quality and odour at the sewage stations; (2) the Group has implemented effective processing and preventive measures to process and discharge the waste water, off gas and discharged slag generated in the production process strictly in accordance with the environmental protection requirements, and its facilities are refurbished and upgraded annually to minimise the environmental impact to the surrounding; (3) no major violation of discharge limits of sewage, smoke and dusts had been noted in the past three years according to the real time monitoring system of the environmental bureau of the place where the Group is located and no major violation of waste treatment regulation was found under the periodic audit of EMS.

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

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

RELATIONSHIP WITH EMPLOYEES

Working environment

As at 31 December 2017, the Group had approximately 11,000 employees in the mainland China and Hong Kong in total.

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

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

Training and career development of employees

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

Health and safety of employees

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

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

RELATIONSHIP WITH CUSTOMERS

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

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

RELATIONSHIP WITH SUPPLIERS

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

FORWARD-LOOKING STATEMENTS

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

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

SUBSEQUENT EVENTS

For details of the important events affecting the Group that have occurred since the end of the financial year, please refer to note 40 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 33 to the consolidated financial statements. Details of the movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 57 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out on page 128 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK$7,793,133,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

None of the Directors or their respective associates, or the existing shareholders, who to the knowledge of the Directors, own more than 5% of the Company's issued share capital, has any interest in any of the five largest customers and suppliers of the Group.

DIRECTORS

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

Executive Directors

Yu Zhangli [R/N]	*Chairman*
Li Shibao	*Chief Executive Officer*
Sun Tiexin	
Yang Linwei	
Yao Guozhong	

Independent non-executive Directors

Gao Hui [A/R/N]
Chen Jianguo [A/R/N]
Miao Yelian [A]

A: *Members of Audit Committee*
R: *Members of Remuneration Committee*
N: *Members of Nomination Committee*

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

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

The Company has received from each of the independent non-executive Directors an annual confirmation of their respective independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and the Company considered them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors of the Company as at the date of this annual report are set out on page 18 of this annual report. The senior management of the Group is also executive Directors of the Company.

DIRECTORS' SERVICE CONTRACTS

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

Details of the remuneration payable to the Directors for the year ended 31 December 2017 are set out in note 11 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest (direct or indirect), subsisted at the end of the financial year or at any time during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

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

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

COMPETING BUSINESS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 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 (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules 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 31 December 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.

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.

(a) Purpose of the Share Option Schemes

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

(b) Qualified Participants

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

(c) Maximum number of shares available for issue

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

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

(d) Maximum entitlement of each Qualified Participant

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

(e) Timing for exercise of options

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

(f) Payment for acceptance of option

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

(g) Basic of determining the exercise price

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

(h) Period of the New Share Option Scheme

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

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

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

	Number of shares which may be issued pursuant to the share options							
Name or category of participant	**As at 1 January 2017**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2017**	**Exercise price per share[3]** HK$	**Date of grant** (DD.MM.YYYY)	**Option period[1]** (DD.MM.YYYY)
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	–	–	(2,350,000)	28,450,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	44,100,000	–	–	(2,350,000)	41,750,000			
Total	58,100,000	–	–	(2,350,000)	55,750,000			

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 year.

Information on the accounting policy for share options granted is set out in note 3(m)(iv) to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of share options granted to or exercised by the Directors or Qualified Participants (as defined above) of the Company during the year and their outstanding balances as at 31 December 2017 are set out in the paragraph headed "Share Option Schemes" on pages 25 to 27 of this annual report and note 31 to the consolidated financial statements.

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

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

As at 31 December 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 31 December 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.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 38 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules:

Purchase of raw poultry meat from the Poultry Selling Entities (as defined below)

On 20 December 2016, the Company entered into a poultry purchase agreement (the "Poultry Purchase Framework Agreement") with 江蘇雨潤肉類產業集團有限公司 (Jiangsu Yurun Food Group Limited*) and 南京雨潤禽類產業集團有限公司 (Nanjing Yurun Poultry Group Limited*), being entities incorporated in the People's Republic of China ("PRC") owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of meats processing, manufacturing and sales of poultry and poultry products (the "Poultry Selling Entities") for the continual sourcing of raw poultry meat and poultry products from the Poultry Selling Entities upon expiry of the purchase agreement on 31 December 2016, which was entered into by the Company and Mr. Zhu (for and on behalf of certain entities incorporated in the PRC and owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of manufacturing and sales of poultry meat and poultry products) on 16 December 2013. Pursuant to the Poultry Purchase Framework Agreement, the price for the sourcing of raw poultry meat and poultry products shall be determined on an arm's length basis, and negotiated between the parties to the Poultry Purchase Framework Agreement with reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Poultry Purchase Framework Agreement has a term of three years, commencing on 1 January 2017 and ending on 31 December 2019. Details of the Poultry Purchase Framework Agreement were disclosed in the Company's announcement dated 20 December 2016. The annual caps of transaction amounts for the financial years ending 31 December 2017, 2018 and 2019 was/will be RMB77 million, RMB85 million and RMB93 million respectively.

The aggregate purchase amount pursuant to the Poultry Purchase Framework Agreement during the year amounted to approximately RMB50,797,000 (equivalent to approximately HK$58,725,000).

The Poultry Selling Entities are owned and/or controlled by Mr. Zhu, a substantial shareholder and a former executive Director of the Company, and his associates. Since Mr. Zhu indirectly controls approximately 25.82% interest in the Company through Willie Holdings, these companies are therefore connected persons of the Company as defined in the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Poultry Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Poultry Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

* *For identification purposes only*

Sales of pig blood products to the Pig Blood Products Purchasing Entities (as defined below)

On 20 December 2016, the Company entered into an agreement (the "Pig Blood Products Supply Framework Agreement") with 雨潤生物科技(東海)有限公司 (Yurun Biotechnology (Tonghai) Company Limited*), 桐城市雨潤生物科技有限公司 (Tongcheng Yurun Biotechnology Company Limited*) and 黑山雨潤生物蛋白製品有限公司 (Heishan Yurun Biological Protein Products Company Limited*), being entities incorporated in the PRC owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of manufacturing and sales of feed stock and biotechnology development (the "Pig Blood Products Purchasing Entities") for the continual supply of pig blood products to the Pig Blood Products Purchasing Entities upon expiry of the agreement on 31 December 2016, which was entered into by the Company and Mr. Zhu (for and on behalf of certain entities owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of manufacturing and sales of feed stock and biotechnology development) on 24 April 2014. Pursuant to the Pig Blood Products Supply Framework Agreement, the sales price of the pig blood products under the Pig Blood Products Supply Framework Agreement shall be determined on an arm's length basis, and negotiated between the parties to the Pig Blood Products Supply Framework Agreement with reference to the market price at the time the purchase order is placed, provided that such price shall not be lower than the average price offered by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Pig Blood Products Supply Framework Agreement has a term of three years, commencing on 1 January 2017 and ending on 31 December 2019. Details of the Pig Blood Products Supply Framework Agreement were disclosed in the Company's announcement dated 20 December 2016. The annual caps of transaction amounts for the financial years ending 31 December 2017, 2018 and 2019 was/will be RMB9.60 million, RMB11.50 million and RMB13.80 million respectively.

The aggregate purchase amount pursuant to the Pig Blood Products Supply Framework Agreement during the year amounted to approximately RMB9,284,000 (equivalent to approximately HK$10,733,000).

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

* *For identification purposes only*

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

On 17 December 2015, the Company entered into the Hogs Purchase Framework Agreements with Mr. Zhu's Entities (namely 江蘇雨潤肉類產業集團有限公司 (Jiangsu Yurun Food Group Company Limited*) and 南京雨潤養殖產業集團有限公司 (Nanjing Yurun Breeding Group Company Limited*), entities incorporated in the PRC and owned and/or controlled by Mr. Zhu and his associates, and principally engaged in the business of breeding and/or sales of hogs) and Ms. Wu's Entity (namely, Success Legend Development Ltd, a company incorporated in Hong Kong and owned and controlled by Ms. Wu, and principally engaged in the business of breeding and/or sales of hogs) (collectively, the "Selling Entities") respectively (collectively, the "Hogs Purchase Framework Agreements") for the continuous sourcing of hogs from the Selling Entities and/or their subsidiaries for production use upon expiry of the framework purchase agreement on 31 December 2015, which was entered into by the Company and Mr. Zhu (on behalf of the entities owned and controlled by him which are principally engaged in the business of hog breeding) on 14 November 2012. Pursuant to the Hogs Purchase Framework Agreements, the price for the sourcing of hogs shall be negotiated and determined by the contracting parties with reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Hogs Purchase Framework Agreements have a term of three years, commencing on 1 January 2016 and ending on 31 December 2018. Details of the Hogs Purchase Framework Agreements were disclosed in the Company's announcement dated 17 December 2015. The annual caps for the financial years ending 31 December 2016, 2017 and 2018 was/will be RMB100 million, RMB105 million and RMB110 million respectively.

The aggregate purchase amount pursuant to the Hogs Purchase Framework Agreements during the year amounted to approximately RMB2,947,000 (equivalent to approximately HK$3,407,000).

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

The transactions detailed under the headings "Purchase of raw poultry meat from the Poultry Selling Entities", "Sales of pig blood products to the Pig Blood Products Purchasing Entities" and "Purchase of hogs from the Selling Entities" above constituted continuing connected transactions of the Group. The independent non-executive Directors have reviewed these continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. according to the agreements governing them on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

* *For identification purposes only*

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued the unqualified report containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 29 to 32 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's report has been provided by the Company to the Hong Kong Stock Exchange, in which the auditor of the Company has stated that nothing has come to his attention that causes him to believe that:

1. the disclosed continuing connected transactions have not been approved by the Board of the Company;

2. for transactions involving the provision of goods or services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. the disclosed continuing connected transactions have exceeded the annual cap.

Details of the significant related party transactions conducted in the normal course of business are set out in note 38 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined and required to be disclosed under the Listing Rules, except for those described in the section headed "Continuing Connected Transactions" in this annual report, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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 set out in Appendix 14 to the Listing Rules throughout the Review Year.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 34 to 48 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the Review Year.

AUDITOR

Following the resignation of KPMG ("KPMG") as auditors of the Company on 25 November 2016, Moore Stephens CPA Limited ("Moore Stephens") was appointed as the auditor of the Company on the same day to fill in the vacancy.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements of the Company for the years ended 31 December 2016 and 2017 were audited by Moore Stephens, who will retire at the AGM and a resolution for its re-appointment as the auditor of the Company will be proposed at the AGM.

By Order of the Board

Yu Zhangli
Chairman
Hong Kong, 20 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

China Yurun Food Group Limited (the "Company", together with its subsidiaries, the "Group") is committed to achieving high standard of corporate governance to safeguard shareholders' interest and to enhance corporate value and accountability. Throughout the year from 1 January 2017 to 31 December 2017 (the "Review Year"), the Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

BOARD OF DIRECTORS

The Company is managed through the board of directors of the Company (the "Board" or the "Directors") which currently comprises eight Directors including, Yu Zhangli (Chairman), Li Shibao, Sun Tiexin, Yang Linwei and Yao Guozhong as executive Directors and Gao Hui, Chen Jianguo and Miao Yelian as independent non-executive Directors. The biographical details of the Board members are set out on page 18 of this annual report. All Directors as at the date of this annual report served throughout the Review Year.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

The Chairman of the Board is Yu Zhangli, and the Chief Executive Officer is Li Shibao. The positions of the Chairman of the Board and the Chief Executive Officer are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business.

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

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

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

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

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

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

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

	Number of regular Board meetings*, Board committee meetings and annual general meeting attended/held during the Review Year				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Yu Zhangli *(Chairman)*	4/4	N/A	1/1	2/2	1/1
Li Shibao	4/4	N/A	N/A	N/A	1/1
Sun Tiexin	4/4	N/A	N/A	N/A	1/1
Yang Linwei	4/4	N/A	N/A	N/A	1/1
Yao Guozhong	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Gao Hui	4/4	4/4	1/1	2/2	1/1
Chen Jianguo	4/4	4/4	1/1	2/2	1/1
Miao Yelian	4/4	4/4	N/A	N/A	1/1

* *Ad hoc meetings are not included*

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

Each newly appointed Director is provided with comprehensive induction and information to ensure that he has a proper understanding of the Company's business as well as his responsibilities under the relevant statutes, laws, rules and regulations.

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

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

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

The Board has also delegated the risk management and internal control duties to the Audit Committee and the Audit Committee is responsible for assisting the Board to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Group's strategic objectives, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and assisting the Board to oversee management in the design, implementation and monitoring of the risk management and internal control systems as set out in the CG Code. The terms of reference of the Audit Committee has been amended and became effective on 17 December 2015 to reflect the above changes.

The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice when appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and works performed during the Review Year are set out in the table below:

	Audit Committee	**Remuneration Committee**	**Nomination Committee**
Committee members	Gao Hui* *(Chairman)* Chen Jianguo* Miao Yelian*	Gao Hui* *(Chairman)* Yu Zhangli+ Chen Jianguo*	Chen Jianguo* *(Chairman)* Gao Hui* Yu Zhangli+
Major responsibilities and functions	• To serve as a focal point for communication among the Directors, the external auditors and the management in connection with its duties relating to financial and other reporting, risk management, internal controls and audits • To assist the Board in fulfilling its responsibilities by providing an independent review of the financial reporting function, assessing the effectiveness of the Company's risk management and internal control systems and the efficiency of the audit function • To perform the corporate governance duties which include developing and reviewing the Company's policies and practices on corporate governance, reviewing the Company's compliance with the CG Code and reviewing the disclosure in the Corporate Governance Report and reviewing and monitoring the training and continuous professional development of the Directors and senior management	• To make recommendations to the Board regarding the Group's policy and structure for the remuneration and other benefits for Directors by reference to the Group's corporate goals and objectives • To determine the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment	• To review the structure, size and composition (including skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to align with the Company's corporate strategy • To identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise • To assess the independence of the independent non-executive Directors • To make recommendations to the Board on the succession planning for Directors and senior management of the Group

* *Independent non-executive Director*
\+ *Executive Director*

	Audit Committee	Remuneration Committee	Nomination Committee
Work performed during the Review Year	• Reviewed the Group's annual and interim financial statements before submission to the Board for approval • Reviewed the external auditor's letter to the management and ensured the management provided timely responses to the issues raised therein • Reviewed the independence of the external auditor in connection with their provision of non-audit services to the Group and approved their remuneration and terms of engagement • Reviewed the effectiveness of the Group's financial management, internal control and risk management systems, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget • Reviewed the continuing connected transactions of the Group • Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report • Reviewed and monitored the training and continuous professional development of the Directors and senior management • Made recommendation to the Board on the re-appointment of the external auditor	• Reviewed remuneration policy and remuneration for the Directors	• Reviewed and recommended the structure, size and composition of the Board • Reviewed the performance of the independent non-executive Directors • Reviewed the independence of the independent non-executive Directors • Reviewed and recommended on the suitability for the re-appointment of the Directors retiring at the annual general meeting with reference to their past performance

DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION POLICY

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

NOMINATION POLICY

The Nomination Committee adopts certain criteria and procedures in the selection and nomination of candidates of new Directors. The major criteria include professional background, in particular experience in the Group's industry, and recommendations from the management team and other knowledgeable individuals. The Nomination Committee shortlists suitable candidates and submits the same to the Board for discussion and final approval.

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

AUDITORS' REMUNERATION

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

Services provided	**Fees**
	HK$'000
2017 annual audit	5,177
Non-audit services*	800
Total	5,977

* *Non-audit services mainly consist of works performed on interim report.*

RISK MANAGEMENT AND INTERNAL CONTROL

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

Objectives of the Systems

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

Risks and control measures

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

Material risks relating to our business

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

The impact of economic conditions on consumer confidence and consumption pattern would affect the sales and results of the Group. The impact of economic growth or decline in our geographic markets on consumers' spending on meat products would also affect our business.

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

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

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

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

- We negotiate with at least three or more suppliers on the supply of hogs, raw pork or other major raw materials. We concern the source of the major raw materials and the rationality of procurement ratio of each supplier on a timely basis;

- According to the sales market forecast, we maintain inventory at reasonably level for different raw materials to deal with emergencies;

- The cooperation agreements signed by the Group and the suppliers include the provisions of quality and safety and stable supply of raw materials in order to reduce the relevant risks;

- We visit the production sites of the suppliers regularly to understand their operation and to ensure that the quality of raw materials and the production capacity of suppliers are truly assessed; and

- We pay attention to media news, particularly the news of our key suppliers in respect of their possible financial, business and quality problems, and develop contingency plan to cope with the unexpected disturbances of raw materials supply.

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

We purchase agricultural products, such as hogs and raw pork, for production use. Price of such raw materials is subject to fluctuations, attributable to a number of factors, such as the price of animal feed, diseases and infections. From 2013 to the end of 2017, the Group's purchase price of hogs fluctuated ranging from approximately RMB10.70 to RMB21.09 per kilogram. If the costs of raw materials or other costs of production and distribution of our products further increase and we are unable to entirely offset the cost increase by raising our product price, our profit margins and financial condition may be adversely affected.

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

- Upstream slaughtering segment: The price of fresh meat varies along with the price of hogs. When the price of hogs is expected to rise, the Group will increase the stock of hogs to cope with the cost pressure. When the price of hogs is expected to fall, the Group will reduce the stock to minimise the inventory cost.

- Downstream processed meat segment: We control the costs through the strategic inventory management of raw materials which is based on predictions of market trend and thus allows a reasonable time to adjust selling price of the products.

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

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

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

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

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

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

Financial risks

In the course of our business activities, the Group is exposed to various financial risks, including market risks, liquidity risks and credit risks. The monetary environment and interest rates cycles may pose significant risks to the Group's financial condition, operating results and businesses. Details of the financial risk management of the Group are set out in note 36 to the consolidated financial statements.

Material risks relating to our industry

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

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

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

The outbreak of animal diseases or other epidemics may adversely affect our operations.

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

The Group will minimise the potential impact of the outbreak of animal diseases or other diseases through the following measures:

- Strengthening disease surveillance: The raw material costing group and quality management department of the Group will strengthen the information collection and monitoring of the epidemic situation and enhance the inspection and quarantine, and reduce or even stop the purchase from the infected region; and

- Leveraging on the national-scale of sales: As a national-scale hog slaughter enterprise, we are able to protect our business by rearrangement of the sales of goods in different regions in the outbreak of disease.

Food safety risks

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

Yurun Food has been adhering to its operation philosophy of "you trust because we care" and is the first player in the industry to launch the "21 procedures on inspection and quarantine of the quality control system". Starting from the rapid screening of hogs, we have veterinary surgeon for conducting the urine test. The slaughtering line does not accept hogs failing the on-line ELISA test, "clenbuterol" test or other hormones tests. Each hog is marked with a unique "inspection and quarantine and tracing" bar code and all products supplied to the market are qualified.

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

We will make sure that each batch of products has undergone chemical and microbiological examinations before it is allowed to leave the factory. The Company's testing competence has passed the laboratory system audit performed by and received accreditation from the Quality Assessment Committee of the China Quality Inspection Association. In our inspections, we have adopted a standard higher than the industry and national standards to ensure our products fulfil quality standard.

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

At the same time, the Group adopt a full cold chain transport mode. Through the network of production bases in the country, we link up all processing plants and markets within a distance under a three hours cold chain coverage. The temperature on each transportation vehicle is being controlled at 0.4 degree Celsius. Through the automatic recorder, including the Global Positioning System, the temperature and other information is automatically recorded by the control center on real-time monitoring to ensure that the temperature in no circumstances exceeds 0.4 degree Celsius throughout the transportation.

INTERNAL CONTROL STRUCTURE

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

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

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

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

Internal Control policies

Crisis management policies

Crisis management policies procedures were developed in order to respond swiftly and positively to any sudden event that may affect consumers' confidence in the Group.

Policies on inside information

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

Policies on whistleblowing

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

The responsibility statement of the auditor of the Company in connection with the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 49 to 52 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

During the Review Year, there was no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

(i) Convening a special general meeting ("SGM")

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

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

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

(ii) Putting forward proposals at general meetings

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

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

(iii) Proposing a person for election as a Director

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of Director(s), wishes to propose a person (other than the shareholder himself/herself) for election as a Director at that meeting, such shareholder can deposit a written notice at the Company's head office at 10 Yurun Road, Jianye District, Nanjing, the PRC or at the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Board or the Company Secretary of the Company.

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

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

(iv) Directing enquiries from shareholders to the Board

Shareholders may at any time send their enquiries in writing to the Investor Relations Department of the Company at the Company's principal place of business in Hong Kong at Suite 5302, 53rd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

In addition, shareholders may direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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大華馬施雲
會計師事務所有限公司

Independent Auditor's Report to the Members of
China Yurun Food Group Limited
(Incorporated in Bermuda with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Yurun Food Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 127, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties relating to going concern described in the *Basis for disclaimer of opinion* section of our report and the significance of their possible cumulative effects on the consolidated financial statements, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

On 26 March 2015, the Company received a notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the board of directors of the Company and a director of certain key operating subsidiaries of the Group, that a procuratorate in the People's Republic of China (the "PRC") had imposed measures on Mr. Zhu such that he had been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). Up to the date of this report, neither the Company nor any of its subsidiaries had received any update on the circumstances of this Incident or had any contact with Mr. Zhu.

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

Multiple uncertainties relating to going concern (continued)

The directors of the Company (the "Directors") are of the view that the Incident has not caused any material adverse impact on the operations of the Group. However, as described in note 2(b) to the consolidated financial statements, there are a number of other matters identified by the Directors which indicate the existence of material uncertainties which may cast significant doubts on the Group's ability to continue as a going concern. These include the facts that the Group incurred a net loss of HK$1,915,045,000 and operating cash outflow of HK$355,143,000 for the year ended 31 December 2017 and as at 31 December 2017, the Group had net current liabilities of HK$7,911,964,000. Its total borrowings and finance lease liabilities amounted to HK$7,564,235,000 as at 31 December 2017, out of which HK$7,214,827,000 was due within 12 months of that date. In addition, as disclosed in note 2(b) and note 28(i) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to certain bank loans amounted to HK$5,915,854,000 as at 31 December 2017. The corresponding litigations commenced by the banks against the Group as at 31 December 2017 was amounted to HK$1,481,340,000, details of which are set out in note 28(iii) to the consolidated financial statements. Furthermore, the Group had delayed in settlement of certain loans from banks. As at 31 December 2017, the principal amounts of the bank loans amounted to HK$1,845,503,000 had been overdue and had not been settled by the Group.

Besides, there were other litigations against the Group by certain local governments and constructors during the year. As a result of litigations initiated by local governments, the Group made provision for litigation of HK$173,823,000 and wrote off the corresponding property, plant and equipment and lease prepayments of HK$44,926,000 and HK$101,224,000 respectively as disclosed in note 37 (c)(ii) to the consolidated financial statements during the year ended 31 December 2017. As for litigations initiated by constructors, there were provision for construction fees and corresponding late penalties of HK$167,543,000 as disclosed in note 37 (c)(i) to the consolidated financial statements as at 31 December 2017.

Additionally, following the continuous drop in business over the last few years, management of the Group had changed the intended use of certain items of property, plant and equipment and lease prepayments such that these items would likely to be recovered through sales transaction rather than through continuing use in the operations of the Group. An aggregate amount of impairment loss on property, plant and equipment and lease prepayments which are likely to be recovered through sales transaction amounting to HK$602,890,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to repay, renew or extend existing bank borrowings and other liabilities upon their maturities, through cash flows from operations and continuing support from the Group's bankers. The Directors have prepared the consolidated financial statements on a going concern basis, having taken into account the measures they have taken and plans to take to mitigate the liquidity pressures on the Group and to improve the Group's financial position, as disclosed in note 2(b) to the consolidated financial statements. Up to the date of this report, we were unable to obtain sufficient supporting bases from the management for their underlying assumptions on going concern as set out in note 2(b) to the consolidated financial statements to satisfy ourselves that they were reasonable and supportable. Hence we were unable to assess the appropriateness or reasonableness of the use of the going concern assumption in the preparation of the consolidated financial statements.

Because of the significance of the matters above, we are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements is appropriate. Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to reclassify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

DISAGREEMENT ARISING FROM NON-COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARD 36 (IAS 36), "IMPAIRMENT OF ASSETS" ISSUED BY THE IASB

As disclosed in note 15 to the consolidated financial statements, impairment assessments were carried out by the management of the Group on the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments with carrying amounts of HK$12,394,914,000, HK$2,516,048,000, HK$18,283,000 and HK$241,578,000 after impairment as at 31 December 2017, respectively. For assets which the management of the Group had identified were recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit ("CGU") to which these assets were belonged based on value-in-use calculations. These value-in-use calculations used cash flow projections based on the most recent financial forecasts covering a period of five years approved by the Directors. The financial forecasts were supposed to be based on their best estimates of the range of economic conditions that would exist over the period covered by the forecasts.

As a result of the impairment assessments, the management had assessed that the recoverable amounts of certain CGUs based on the estimated value-in-use calculations were lower than their carrying amounts as at 31 December 2017. Accordingly, provision for impairment losses on property, plant and equipment and lease prepayments, which are considered to be recoverable through continuing use, in relation to certain CGUs of approximately HK$55,847,000 and HK$15,754,000 were recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

Based on our audit procedures carried out to satisfy ourselves that the value-in-use of the CGUs of the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments which the management had identified would be recoverable through continuing use of the assets, we noted that the discount rate, being one of the key assumptions, applied to arrive at present values of the projected cash flows, was too low as they did not adequately take into account the challenges in operating and financing activities that the Group faced recently. Therefore in our opinion, the impairment assessment carried out by management was not in accordance with IAS 36. Accordingly, in our opinion, the use of the discount rate had resulted in the recoverable amounts of these assets being materially overstated.

Any deficit of recoverable amount compared to carrying amount would represent an impairment loss to be recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 in accordance with IAS 36. However, in the absence of a discounted cash flow projection using an overall balanced set of assumptions and appropriate discount rate, we are unable to quantify the amount of any additional impairment losses that should be recognised on these assets for the year ended 31 December 2017.

Recognition of any additional impairment losses against the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments would decrease the net assets of the Group as at 31 December 2017, increase the Group's loss for the year and affect the related disclosures in the consolidated financial statements.

In addition, as the property, plant and equipment, lease prepayments, intangible assets and non-current prepayments as stated above were held by various subsidiaries of the Company, any adjustment on the carrying amounts of these assets found to be necessary would also affect the carrying amounts of the Company's interests in subsidiaries and amounts due from subsidiaries with aggregate amounts of HK$7,950,970,000 as at 31 December 2017 as disclosed in note 39 to the consolidated financial statements and the amount of the Company's loss for the year then ended as disclosed in the Company's statement of changes in equity as disclosed in note 33 to the consolidated financial statements.

Even had there been no multiple material uncertainties relating to going concern as described above in the *Basis for disclaimer of opinion* section which precluded us from expressing an opinion on the consolidated financial statements, our opinion would have been qualified for this disagreement.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee assists the Directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, due to the potential interaction of the uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements as described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419

Hong Kong, 20 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Revenue	6	**12,057,239**	16,702,103
Cost of sales		**(11,333,870)**	(15,994,270)
Gross profit		**723,369**	707,833
Other net (loss)/income	7	**(370,790)**	25,737
Distribution expenses		**(568,975)**	(644,103)
Administrative and other operating expenses		**(1,424,858)**	(2,038,392)
Results from operating activities		**(1,641,254)**	(1,948,925)
Finance income		**3,298**	3,908
Finance costs		**(267,116)**	(408,017)
Net finance costs	8(a)	**(263,818)**	(404,109)
Loss before income tax	8	**(1,905,072)**	(2,353,034)
Income tax (expense)/credit	9	**(9,973)**	10,764
Loss for the year		**(1,915,045)**	(2,342,270)
Attributable to:			
Equity holders of the Company		**(1,915,101)**	(2,341,865)
Non-controlling interests		**56**	(405)
Loss for the year		**(1,915,045)**	(2,342,270)
Loss per share			
Basic and diluted	14	**$(1.051)**	$(1.285)

The notes on pages 60 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Loss for the year		**(1,915,045)**	(2,342,270)
Other comprehensive income for the year (after tax and reclassification adjustments)	13		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**447,514**	(680,275)
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries/deconsolidation of a deemed subsidiary		**(15,042)**	4,955
		432,472	(675,320)
Total comprehensive income for the year		**(1,482,573)**	(3,017,590)
Attributable to:			
Equity holders of the Company		**(1,485,974)**	(3,013,949)
Non-controlling interests		**3,401**	(3,641)
Total comprehensive income for the year		**(1,482,573)**	(3,017,590)

The notes on pages 60 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Property, plant and equipment	15	**12,394,914**	12,553,216
Investment properties	16	**211,395**	204,096
Lease prepayments	17	**2,441,581**	2,595,284
Goodwill	19	**–**	–
Intangible assets	20	**18,283**	25,628
Non-current prepayments and other receivables	21	**1,114,729**	233,752
Deferred tax assets	22	**–**	16
		16,180,902	15,611,992
Current assets			
Inventories	23	**663,733**	642,780
Other investment	24	**–**	939
Current portion of lease prepayments	17	**74,467**	67,917
Trade and other receivables	25	**1,980,304**	2,617,132
Income tax recoverable	10	**2,749**	2,590
Restricted bank deposits		**53,207**	46,103
Pledged deposits	26	**25**	4,356
Time deposits		**–**	4,472
Cash and cash equivalents	27	**218,212**	291,868
Assets held for sale	35	**–**	19,547
		2,992,697	3,697,704
Current liabilities			
Bank and other loans	28	**7,214,335**	6,308,910
Finance lease liabilities	29	**492**	442
Trade and other payables	30	**3,682,396**	2,992,397
Income tax payable	10	**7,438**	7,241
Liabilities held for sale	35	**–**	7,330
		10,904,661	9,316,320
Net current liabilities		**(7,911,964)**	(5,618,616)
Total assets less current liabilities		**8,268,938**	9,993,376

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Note	2017 $'000	2016 $'000
Non-current liabilities			
Bank loans	28	**217,538**	474,003
Finance lease liabilities	29	**131,870**	128,615
Deferred tax liabilities	22	**6,982**	–
		356,390	602,618
Net assets		**7,912,548**	9,390,758
Equity			
Share capital	32	**182,276**	182,276
Reserves		**7,679,424**	9,160,684
Total equity attributable to equity holders of the Company		**7,861,700**	9,342,960
Non-controlling interests		**50,848**	47,798
Total equity		**7,912,548**	9,390,758

Approved and authorised for issue by the board of directors on 20 March 2018.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 60 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to equity holders of the Company									
		Share capital	Share premium	Capital surplus	Merger reserve	PRC statutory reserves	Exchange reserve	Retained earnings/ (accumulated losses)	Total	Non-controlling interest	Total equity
		(Note 32(a))	(Note 33(b))	(Note 33(c))	(Note 33(d))	(Note 33(e))	(Note 33(f))				
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'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 year		–	–	–	–	–	–	(2,341,865)	(2,341,865)	(405)	(2,342,270)
Total other comprehensive income for the year		–	–	–	–	–	(672,084)	–	(672,084)	(3,236)	(675,320)
Total comprehensive income for the year		–	–	–	–	–	(672,084)	(2,341,865)	(3,013,949)	(3,641)	(3,017,590)
Incorporation of a subsidiary		–	–	–	–	–	–	–	–	350	350
Equity-settled share-based payments	31	–	–	–	–	–	–	76,368	76,368	–	76,368
Transfer to reserves		–	–	–	–	4,816	–	(4,816)	–	–	–
At 31 December 2016 and 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 year		**–**	**–**	**–**	**–**	**–**	**–**	**(1,915,101)**	**(1,915,101)**	**56**	**(1,915,045)**
Total other comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**429,127**	**–**	**429,127**	**3,345**	**432,472**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**429,127**	**(1,915,101)**	**(1,485,974)**	**3,401**	**(1,482,573)**
Disposal of a subsidiary/ deconsolidation of a deemed subsidiary		**–**	**–**	**(244)**	**–**	**(11,116)**	**–**	**11,360**	**–**	**–**	**–**
Deregistration of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(351)**	**(351)**
Equity-settled share-based payments	31	**–**	**–**	**–**	**–**	**–**	**–**	**4,714**	**4,714**	**–**	**4,714**
At 31 December 2017		**182,276**	**7,400,418**	**3,643**	**(70,363)**	**870,779**	**820,173**	**(1,345,226)**	**7,861,700**	**50,848**	**7,912,548**

The notes on pages 60 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Loss for the year		**(1,915,045)**	(2,342,270)
Adjustments for:			
Depreciation	8(c)	**362,851**	399,074
Amortisation of lease prepayments	8(c)	**63,257**	67,568
Amortisation of intangible assets	8(c)	**8,834**	8,916
Interest income		**(3,298)**	(7,263)
Finance costs		**349,999**	341,094
Impairment losses on property, plant and equipment	8(c)	**545,030**	947,509
Impairment losses on lease prepayments	8(c)	**129,461**	220,653
Impairment losses on trade and other receivables, net		**6,283**	34,639
Impairment losses on goodwill	8(c)	**–**	88,734
Impairment losses on assets held for sales	7	**–**	80,726
Loss/(gain) on disposal of subsidiaries/deconsolidation of a deemed subsidiary	7	**13,180**	(62,890)
Loss/(gain) on disposal of property, plant and equipment	7	**100,036**	(23,260)
Loss/(gain) on disposal of lease prepayments	7	**39,313**	(15,311)
Loss on disposal of other investment	7	**748**	–
Write-off of property, plant and equipment	7	**44,926**	–
Write-off of lease prepayments	7	**117,019**	–
Equity-settled share-based payments	31	**4,714**	76,368
Unrealised foreign exchange (gain)/loss		**(66,724)**	56,445
Income tax expense/(credit)		**9,973**	(10,764)
Operating loss before change in working capital		**(189,443)**	(140,032)
Change in inventories		**21,591**	191,767
Change in trade and other receivables		**(148,020)**	(129,318)
Change in trade and other payables		**311,419**	286,761
Cash (used in)/generated from operating activities		**(4,453)**	209,178
Finance costs paid		**(347,492)**	(307,696)
Income tax paid		**(3,198)**	(8,065)
Net cash used in operating activities		**(355,143)**	(106,583)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**99,545**	147,220
Proceeds from disposal of lease prepayments		**38,619**	33,758
Proceeds from disposal of other investment		**224**	–
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries/ deconsolidation of a deemed subsidiary	34(a)&(c)	**13,996**	66,713
Interest received		**3,298**	7,263
Net cash flow arising on acquisition of a subsidiary	34(b)	**–**	2,001
Acquisitions of property, plant and equipment		**(62,462)**	(137,653)
Changes in time deposits		**4,625**	5,302
Net cash generated from investing activities		**97,845**	124,604
Cash flows from financing activities			
Proceeds from bank and other loans		**678,428**	2,910,632
Repayments of short term financing notes and medium term notes		**–**	(1,748,819)
Repayments of bank and other loans		**(510,813)**	(1,197,877)
Capital element of finance lease rentals paid		**(457)**	(508)
Interest element of finance lease rentals paid		**(4,397)**	(4,935)
Changes in restricted bank deposits		**4,480**	(48,352)
Changes in pledged deposits		**(3,742)**	2,778
Net cash generated from/(used in) financing activities		**163,499**	(87,081)
Net decrease in cash and cash equivalents		**(93,799)**	(69,060)
Cash and cash equivalents at 1 January		**291,868**	401,011
Effect of exchange rate fluctuations on cash held		**20,143**	(40,083)
Cash and cash equivalents at 31 December	27	**218,212**	291,868

Significant non-cash item:

During the year ended 31 December 2017, certain acquisitions of property, plant and equipment of approximately $185,029,000 (2016: $181,683,000) were not yet settled and recorded as "payables for acquisitions of property, plant and equipment" in "trade and other payables" as at 31 December 2017.

During the year ended 31 December 2016, the consideration receivables arising from disposal of a subsidiary in the year ended 31 December 2014 of approximately $385,422,000 was regarded as the Group's settlement of acquisition of a subsidiary (note 34(b)).

The notes on pages 60 to 127 are an integral part of these consolidated financial statements.

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 address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The consolidated financial statements of the Company as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The Group is primarily involved in slaughtering, production and sales of chilled and frozen meat and processed meat products. The consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board" or the "Directors") on 20 March 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Going concern basis

(i) Uncertainties arising from the Incident

On 26 March 2015, the Company received notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board and a director of certain key operating subsidiaries of the Group, that a procuratorate in the People's Republic of China (the "PRC") had imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). Up to the date of approval of these consolidated financial statements, neither the Company nor any of its subsidiaries had received any update on the circumstances of this Incident or had any contact with Mr. Zhu.

Given that Mr. Zhu only occupies a non-executive role in the Company and the Group and was not involved in the daily management of the Group and the Group has not received any notice from any bank to accelerate repayment of loans for the reasons of the Incident, the Directors are of the view that the Incident has not posed any material adverse impact on the operation of the Group and the Group will be able to continue as a going concern for the foreseeable future so far as this matter is concerned.

2. BASIS OF PREPARATION (CONTINUED)

(b) Going concern basis (continued)

(ii) Other material uncertainties

During the year ended 31 December 2017, the Group's gross profit amounted to $723,369,000 (2016: $707,833,000). The Group recorded a net loss of $1,915,045,000 (2016: $2,342,270,000) and operating cash outflow of $355,143,000 (2016: $106,583,000) for the year ended 31 December 2017. As at 31 December 2017, the Group had net current liabilities of $7,911,964,000 (2016: $5,618,616,000). Its total bank and other loans and finance lease liabilities amounted to $7,564,235,000 (2016: $6,911,970,000), out of which $7,214,827,000 (2016: $6,309,352,000) is due within 12 months of that date. As further disclosed in note 28(i), as at 31 December 2017, the Group could not fulfil covenants imposed by banks of certain bank loans with an aggregate amount of $5,915,854,000 (2016: $3,792,684,000), of which $1,845,503,000 (2016: $776,052,000) were due on or before 31 December 2017. Besides, certain subsidiaries of the Group are also parties to various litigations (notes 28(iii) and 37(c)). In addition, the Group recognised the impairment losses with an aggregate amount of $602,890,000 (2016: $629,763,000) on property, plant and equipment and lease prepayments which are likely to be recovered through sales transaction rather than through continuing use in the operations of the Group for the year ended 31 December 2017. 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 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. The audit committee of the Company has no disagreement with the Directors on the above position and the going concern basis.

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

2. BASIS OF PREPARATION (CONTINUED)

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that the available-for-sale financial assets (see note 3(d)(ii)) are stated at fair value in the consolidated statement of financial position.

(d) Functional and presentation currency

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

(e) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 2(b), 2(f) and 4.

(f) Key sources of estimation uncertainty

Notes 31 and 36 contain information about the assumptions relating to the determination of fair value of share options granted and financial instruments. Other sources of estimation uncertainties are as follows:

Accounting estimates and judgements

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

The Group reviews its property, plant and equipment, lease prepayments, intangible assets and non-current prepayments for indications of impairment at each end of the reporting period according to accounting policies set out in note 3(l). The recoverable amount is estimated based on projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for assets which management considers are likely to be recoverable through continuing use or recent transaction prices of similar assets when they are available and depreciation replacement cost when appropriate for assets which management considers are likely to be recoverable through a sales transaction. If the estimation of recoverable amount is different, any impairment will impact the profit or loss of the Group.

2. BASIS OF PREPARATION (CONTINUED)

(f) Key sources of estimation uncertainty (continued)

Accounting estimates and judgements (continued)

(ii) Depreciation

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

(iii) Net realisable value of inventories

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

(iv) Taxation

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

(v) Vesting of share options

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

(vi) Litigation provision

The Group has been involved in several legal proceedings. The Group assessed the provision required or disclosed as contingent liabilities based on its legal assessment. Further details of the proceedings are disclosed in notes 28(iii) and 37(c). Further development of the proceedings may result in different assessments of the financial consequences in subsequent years.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by group entities, except as explained in note 3(a), which addresses changes in accounting policies.

(a) Change in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group and are relevant to the consolidated financial statements:

– Amendments to IAS 7 Disclosure initiative

– Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses

– Amendments to IFRS 12 Disclosure of interest in other entities

Impacts of the adoption of above amended IFRSs are discussed below:

Amendments to IAS 7 Disclosure initiative

The amendments to IAS 7 require an entity to make disclosures that aim to enable users of financial statements to evaluate changes in liabilities arising from financing activities. Reconciliations of various types of the Group's financing liabilities are disclosed in the consolidated financial statements. Other than such additional disclosures, the application of the amendments has not had any material effect on the consolidated financial statements.

Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

Amendments to IFRS 12 Disclosure of interest in other entities

The amendments clarifies that, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5 Non-current Assets held for Sale and Discontinued operations, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by IFRS 12 Disclosure of Interests in Other Entities. The Directors do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation

(i) Business combinations

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

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

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

(ii) Subsidiaries and non-controlling interests

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

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation (continued)

(ii) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see accounting policy (d)).

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

(iii) Joint operation

A joint operation is a joint arrangement in which the Group have rights to the assets and obligations for the liabilities relating to the arrangement. In respect of the accounting for a joint operation, the Group is required to recognise its own assets, liabilities and transactions, including its share of those incurred jointly.

(iv) Transactions eliminated on consolidation

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

(c) Foreign currency

(i) Foreign currency transactions

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

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

However, foreign currency differences arising from the translation of available-for-sale equity investments are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency (continued)

(ii) Foreign operations

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

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

(d) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separated asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

When the fair value of unlisted equity investment cannot be reliably measure because (a) the variability in the range of reasonable estimates is significant for the investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(ii) Non-derivative financial assets – measurement

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy (l)).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (l)) and foreign currency differences on available-for-sale debt instruments (see accounting policy (c)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) Share capital

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

(iv) Construction in progress

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

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

(f) Goodwill

Goodwill arises upon the acquisition of subsidiaries is initially recognised in accordance with accounting policy (b)(i). Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses (see accounting policy (l)).

(g) Investment properties

Investment properties are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost less accumulated depreciation and impairment losses (see accounting policy (l)).

Any gain or loss on disposal of the investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of ranged from 20 to 30 years. Depreciation methods, useful lives and residual values are reassessed at each end of the reporting period and adjusted if appropriate.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see accounting policy (l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Computer software with finite useful life is amortised from the date it is available for use and its estimated useful life is 5 years. Both the period and method of amortisation are reviewed annually.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

(j) Lease prepayments

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

(k) Inventories

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

(l) Impairment

(i) Non-derivative financial assets

Financial asset not classified at fair value through profit or loss, including an interest in an equity-accounted investee is assessed at each end of the reporting period to determine whether there is objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, the disappearance of an active market for a security or observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment (continued)

(i) Non-derivative financial assets (continued)

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity investment securities) at both asset and a collective level. All individually significant assets are individually assessed for an individual impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and make an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

Equity-accounted investee

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with accounting policy (l)(ii). An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment (continued)

(ii) Non-financial assets

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

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

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

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

(m) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

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

(iii) Termination benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

(iv) Equity-settled share-based payment transactions

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

(n) Provisions

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

(o) Revenue recognition

(i) Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Government grants

An unconditional government grant is recognised in profit or loss as other income when the grant becomes receivable.

Other government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(iii) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Lease payments

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(q) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised using the effective interest method.

Finance costs comprise interest expense on bank and other loans, bank charges and interest expense on lease obligation.

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(r) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no costs satisfy the criteria for the recognition of such costs as an asset. Research and development costs are therefore recognised as expenses in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax expense

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

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

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

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity or any member of a Group which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(1) that person's children and spouse or domestic partner;

(2) children of that person's spouse or domestic partner; and

(3) dependents of that person or that person's spouse or domestic partner.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Non-current 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 (except for certain assets as explained below), 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.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. MEASUREMENT OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

4. MEASUREMENT OF FAIR VALUES (CONTINUED)

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

5. OPERATING SEGMENTS

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

Chilled and frozen meat	:	Chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.
Processed meat products	:	The processed meat products segment manufactures and distributes processed meat products.

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

(a) Segment results

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

– Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

– Finance income and finance costs are not allocated as segment expenses.

– The measure used for reportable segment loss is adjusted loss before interests and taxes for the year.

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

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

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

5. OPERATING SEGMENTS (CONTINUED)

(a) Segment results (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**9,966,812**	14,610,918	**2,090,427**	2,091,185	**12,057,239**	16,702,103
Inter-segment revenue	**195,514**	132,432	**44,022**	14,300	**239,536**	146,732
Reportable segment revenue	**10,162,326**	14,743,350	**2,134,449**	2,105,485	**12,296,775**	16,848,835
Depreciation and amortisation	**(330,821)**	(366,334)	**(95,268)**	(97,540)	**(426,089)**	(463,874)
Impairment losses on property, plant and equipment and lease prepayments	**(530,203)**	(851,350)	**(144,288)**	(316,812)	**(674,491)**	(1,168,162)
Impairment losses on goodwill	**–**	(88,734)	**–**	–	**–**	(88,734)
(Loss)/gain on disposal of property, plant and equipment and lease payments	**(140,056)**	42,548	**707**	(12,860)	**(139,349)**	29,688
(Provision for)/reversal of impairment losses on trade and other receivables, net	**(7,267)**	(1,360)	**984**	(33,279)	**(6,283)**	(34,639)
Write-off of property, plant and equipment and lease prepayments	**(157,277)**	–	**(4,668)**	–	**(161,945)**	–
Government subsidies	**13,772**	29,733	**33,078**	5,883	**46,850**	35,616
Reportable segment loss before income tax	**(1,456,887)**	(1,281,034)	**(100,819)**	(659,579)	**(1,557,706)**	(1,940,613)
Income tax (expense)/credit	**(817)**	(6,766)	**(7,398)**	18,861	**(8,215)**	12,095

5. OPERATING SEGMENTS (CONTINUED)

(b) Reconciliations of reportable segment revenue and loss

	2017 $'000	2016 $'000
Revenue		
Total revenue of reportable segments	**12,296,775**	16,848,835
Elimination of inter-segment revenue	**(239,536)**	(146,732)
Consolidated revenue	**12,057,239**	16,702,103
Loss		
Total reportable segment loss before income tax	**(1,557,706)**	(1,940,613)
Elimination of inter-segment profit	**7,457**	2,716
	(1,550,249)	(1,937,897)
(Loss)/gain on disposal of subsidiaries/deconsolidation of a deemed subsidiary	**(13,180)**	62,890
Loss on disposal of other investment	**(748)**	–
Net finance costs	**(263,818)**	(404,109)
Income tax (expense)/credit	**(9,973)**	10,764
Unallocated head office and corporate expenses	**(77,077)**	(73,918)
Consolidated loss for the year	**(1,915,045)**	(2,342,270)

(c) Geographical information

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

(d) Information about major customers

During the years ended 31 December 2017 and 2016, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

6. REVENUE

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

7. OTHER NET (LOSS)/INCOME

	2017 $'000	2016 $'000
Government subsidies	**46,850**	35,616
Provision for losses on litigations (note 37(c)(ii))	**(173,823)**	(115,028)
(Loss)/gain on disposal of subsidiaries/deconsolidation of a deemed subsidiary (notes 34(a) & (c))	**(13,180)**	62,890
(Loss)/gain on disposal of lease prepayments (note 17)	**(39,313)**	15,311
(Loss)/gain on disposal of property, plant and equipment	**(100,036)**	23,260
Loss on disposal of other investment (note 24)	**(748)**	–
Write-off of property, plant and equipment (note 15)	**(44,926)**	–
Write-off of lease prepayments (note 17)	**(117,019)**	–
Impairment losses on assets held for sale (note 34(c))	**–**	(80,726)
Rental income	**33,592**	28,456
Sales of scrap	**1,577**	3,359
Sundry income	**36,236**	52,599
	(370,790)	25,737

8. LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	2017 $'000	2016 $'000
Interest on bank and other loans, medium term notes and short term financing notes	**346,676**	363,157
Interest on lease obligations	**4,397**	4,935
Less: Interest expense capitalised into property, plant and equipment under development*	**(1,890)**	(27,876)
	349,183	340,216
Bank charges	**816**	878
Net foreign exchange (gain)/loss	**(82,883)**	70,278
Interest income from bank deposits	**(3,298)**	(7,263)
	263,818	404,109

* The borrowing costs have been capitalised at a rate of 5.9% (2016: 5.5%) per annum.

8. LOSS BEFORE INCOME TAX (CONTINUED)

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

(b) Personnel expenses

	2017 $'000	2016 $'000
Salaries, wages and other benefits	**537,237**	551,507
Contributions to defined contribution pension schemes	**51,996**	55,569
Equity-settled share-based payments	**4,714**	76,368
	593,947	683,444

The Group participates in pension schemes organised by the PRC government whereby the Group is required to pay annual contributions at rates ranging from 14% to 20% (2016: 18% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2017.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% (2016: 5%) of the employees' relevant income, subject to a cap of monthly relevant income of $30,000 (2016: $30,000). Contributions to the scheme vest immediately.

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

8. LOSS BEFORE INCOME TAX (CONTINUED)

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

(c) Other items

	2017 $'000	2016 $'000
Cost of inventories#	**11,333,870**	15,994,270
Impairment losses on trade and other receivables (notes 25(b) & (d))	**25,126**	39,609
Reversal of impairment losses on trade receivables (note 25(b))	**(18,843)**	(4,970)
Impairment losses on property, plant and equipment^ (note 15)	**545,030**	947,509
Impairment losses on lease prepayments^ (note 17)	**129,461**	220,653
Impairment loss on goodwill^ (note 19)	**–**	88,734
Depreciation*	**362,851**	399,074
Operating lease charges in respect of properties	**9,534**	9,248
Amortisation of lease prepayments@	**63,257**	67,568
Amortisation of intangible assets (note 20)	**8,834**	8,916
Research and development expenses^ (other than amortisation costs)	**354**	664
Auditors' remuneration		
– audit services	**5,177**	6,635
– other services	**800**	1,300

Cost of inventories includes approximately $321,563,000 (2016: $372,846,000) relating to personnel expenses, depreciation, amortisation of lease prepayments, write down of inventories and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 8(b) for each of these types of expenses.

^ These items are included in "administrative and other operating expenses" in the consolidated statement of profit or loss.

* Depreciation is included in "cost of sales", "distribution expenses" and "administrative and other operating expenses" amounting to approximately $61,942,000 (2016: $76,765,000), $9,076,000 (2016: $11,319,000) and $291,833,000 (2016: $310,990,000) respectively in the consolidated statement of profit or loss.

@ Amortisation of lease prepayments is included in "cost of sales", "distribution expenses" and "administrative and other operating expenses" amounting to approximately $5,664,000 (2016: $6,456,000), $275,000 (2016: $361,000) and $57,318,000 (2016: $60,751,000) respectively in the consolidated statement of profit or loss..

9. INCOME TAX EXPENSE/(CREDIT)

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

	2017 $'000	2016 $'000
Current tax expense		
Current year	2,854	6,048
Under-provision in respect of prior years	256	3,086
	3,110	9,134
Deferred tax expense/(credit)		
Origination/(reversal) of temporary differences (note 22)	6,863	(19,898)
Income tax expense/(credit) in the consolidated statement of profit or loss	9,973	(10,764)

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

(a) Pursuant to the rules and regulations of Bermuda and the BVI, the Group is not subject to any income tax in Bermuda and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 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% during the years ended 31 December 2017 and 2016, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the years ended 31 December 2017 and 2016.

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

At 31 December 2017, temporary differences relating to the undistributed profits of subsidiaries amounted to $4,263,181,000 (2016: $4,699,411,000). Deferred tax liabilities of $213,159,000 (2016: $234,972,000) in respect of the undistributed profits of $4,263,181,000 (2016: $4,699,441,000) were not recognised as at 31 December 2017 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

In accordance with the accounting policy set out in note 3(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses arising in the PRC, which will be expired in 5 years, of $1,492,642,000 (2016: $1,333,631,000), cumulative tax losses arising in Hong Kong, which will be carried forward indefinitely and subject to the approval by the Hong Kong Inland Revenue Department, of $178,977,000 (2016: $118,992,000), the deductible temporary differences relating to property, plant and equipment of $150,769,000 (2016: $155,447,000) and the deductible temporary differences relating to trade and other receivables of $4,868,000 (2016: $35,151,000) due to the unpredictability of future taxable profit streams in the relevant tax jurisdiction.

(e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and subject to PRC corporate income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC corporate income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

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

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

	2017 $'000	2016 $'000
Loss before income tax	**(1,905,072)**	(2,353,034)
Income tax using the PRC enterprise income tax rate of 25% (2016: 25%)	**(476,268)**	(588,258)
Effect of tax rate differential	**255**	4,140
Non-taxable income	**(62,104)**	(44,278)
Non-deductible expenses	**100,218**	93,933
Under-provision in respect of prior years	**256**	3,086
Recognition of tax expense in relation to interest income from PRC subsidiaries	**171**	1,397
Effect of tax losses not recognised	**91,237**	104,519
Effect of temporary differences not recognised	**(9,858)**	27,770
Effect of utilisation of unrecognised tax losses in prior years	**–**	(6)
Effect of tax concessions	**366,066**	386,933
Income tax expense/(credit)	**9,973**	(10,764)

10. INCOME TAX (PAYABLE)/RECOVERABLE

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

	2017 $'000	2016 $'000
At beginning of the year	**(4,651)**	(3,166)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	**(2,854)**	(6,048)
Under-provision in respect of prior years	**(256)**	(3,086)
Acquisition of a subsidiary	**–**	(529)
PRC income tax and withholding tax paid	**3,219**	8,065
Effect of movements in exchange rates	**(147)**	113
At end of the year	**(4,689)**	(4,651)
Represented by:		
Income tax recoverable	**2,749**	2,590
Income tax payable	**(7,438)**	(7,241)
	(4,689)	(4,651)

11. DIRECTORS' EMOLUMENTS

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

	2017						
	Directors' fees	Salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Equity-settled share-based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Yu Zhangli	–	1,685	36	–	1,721	389	2,110
Li Shibao (Chief Executive Officer)	–	1,643	36	–	1,679	292	1,971
Sun Tiexin	–	1,382	36	–	1,418	201	1,619
Yao Guozhong	–	1,046	14	–	1,060	60	1,120
Yang Linwei	–	992	36	–	1,028	161	1,189
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	160	–	–	–	160	–	160
Miao Yelian	114	–	–	–	114	–	114
Total	527	6,748	158	–	7,433	1,103	8,536

11. DIRECTORS' EMOLUMENTS (CONTINUED)

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

	2016						
	Directors' fees	Salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Equity-settled share-based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Yu Zhangli	–	785	38	–	823	6,461	7,284
Ge Yuqi (resigned on 20 June 2016)	–	482	–	–	482	250	732
Li Shibao (Chief Executive Officer)	–	576	38	–	614	4,846	5,460
Sun Tiexin	–	572	38	–	610	3,338	3,948
Yao Guozhong (appointed on 20 June 2016)	–	311	8	–	319	1,002	1,321
Yang Linwei (appointed on 20 June 2016)	–	272	20	–	292	2,671	2,963
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	163	–	–	–	163	–	163
Miao Yelian	117	–	–	–	117	–	117
Total	533	2,998	142	–	3,673	18,568	22,241

Note: These represent the estimated value of the non-cash share options granted to the Directors under the Company's share option scheme. The value of these share options were measured according to the Group's accounting policies for equity-settled share-based payment transactions as set out in note 3(m)(iv). Details of the principal terms and number of options granted, are disclosed in note 31.

The remunerations of Yao Guozhong and Yang Linwei for the year ended 31 December 2016 only include their remunerations as the directors of the Company for the period from 20 June 2016 to 31 December 2016. Their remunerations in the capacity of general managers of various subsidiaries of the Company (have not yet been appointed as directors) for the period from 1 January 2016 to 19 June 2016, were not included in the disclosure above.

Yu Zhangli, Li Shibao, Sun Tiexin, Yao Guozhong and Yang Linwei have agreed to waive part of their director emoluments under the existing service agreement for the year ended 31 December 2016. No director waived any emoluments during the year ended 31 December 2017.

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

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments including three (2016: four) existing directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining two (2016: one) individual during the year ended 31 December 2017 are as follows:

	2017 $'000	2016 $'000
Salaries and other emoluments	**4,101**	2,537
Contributions to retirement benefit schemes	**36**	18
Equity-settled share-based payments	**201**	3,339
	4,338	5,894

The emoluments fell within the following bands:

	2017 Number of individuals	2016 Number of individuals
$1,000,001 – $1,500,000	**1**	–
$2,500,001 – $3,000,000	**1**	–
$5,500,001 – $6,000,000	**–**	1

For the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group and no other amounts were paid by the Group to the Directors, or the five highest paid individuals, as compensation for loss of office.

13. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2017 and 2016.

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2017 is based on the loss attributable to equity holders of the Company for the year of $1,915,101,000 (2016: $2,341,865,000) and the weighted average number of 1,822,756,000 (2016: 1,822,756,000) shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the years ended 31 December 2017 and 2016 because the potential ordinary shares outstanding were anti-dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

	Properties $'000	Machinery and equipment $'000	Transportation vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:						
At 1 January 2016	8,801,761	3,558,480	222,481	268,175	5,740,337	18,591,234
Additions	8,639	15,369	308	2,854	292,166	319,336
Arising from acquisition of a subsidiary (note 34 (b))	–	–	43	114	11,813	11,970
Transfers	9,843	3	–	216	(10,062)	–
Disposals	(98,742)	(41,845)	(139,858)	(9,292)	(35,292)	(325,029)
Disposed of through disposal of a subsidiary (note 34 (c))	(33,726)	–	–	(1,573)	–	(35,299)
Reclassification of assets held for sale (note 35)	(643)	(66)	(329)	(48)	(11,465)	(12,551)
Effect of movements in exchange rates	(547,575)	(246,367)	(5,309)	(16,538)	(365,340)	(1,181,129)
At 31 December 2016	8,139,557	3,285,574	77,336	243,908	5,622,157	17,368,532
At 1 January 2017	**8,139,557**	**3,285,574**	**77,336**	**243,908**	**5,622,157**	**17,368,532**
Additions	**34,201**	**30,357**	**1,687**	**5,680**	**175,566**	**247,491**
Transfers	**19,015**	**2,381**	**–**	**–**	**(21,396)**	**–**
Disposals/write off	**(153,095)**	**(95,357)**	**(12,593)**	**(6,609)**	**(227,212)**	**(494,866)**
Disposed of through disposal of a subsidiary/ deconsolidation of a deemed subsidiary (note 34 (a))	**(4,251)**	**(6,783)**	**(650)**	**(2,814)**	**–**	**(14,498)**
Effect of movements in exchange rates	**556,993**	**223,908**	**4,921**	**16,920**	**335,427**	**1,138,169**
At 31 December 2017	**8,592,420**	**3,440,080**	**70,701**	**257,085**	**5,884,542**	**18,244,828**
Accumulated depreciation and impairment:						
At 1 January 2016	1,685,788	1,405,973	124,855	147,629	570,773	3,935,018
Depreciation	190,536	187,601	8,748	12,189	–	399,074
Impairment losses	409,336	113,107	1,491	5,087	418,488	947,509
Disposals	(60,105)	(32,496)	(76,751)	(8,457)	–	(177,809)
Disposed of through disposal of a subsidiary (note 34 (c))	(754)	–	–	(1,145)	–	(1,899)
Reclassification of assets held for sale (note 35)	(86)	(16)	(168)	(42)	–	(312)
Effect of movements in exchange rates	(116,510)	(101,946)	(3,516)	(9,470)	(54,823)	(286,265)
At 31 December 2016	2,108,205	1,572,223	54,659	145,791	934,438	4,815,316
At 1 January 2017	**2,108,205**	**1,572,223**	**54,659**	**145,791**	**934,438**	**4,815,316**
Depreciation	**162,559**	**179,612**	**5,070**	**8,159**	**–**	**355,400**
Impairment losses	**170,879**	**24,927**	**–**	**–**	**349,224**	**545,030**
Disposals/write off	**(57,710)**	**(61,210)**	**(11,370)**	**(5,786)**	**(74,937)**	**(211,013)**
Disposed of through disposal of a subsidiary/ deconsolidation of a deemed subsidiary (note 34(a))	**(1,245)**	**(4,084)**	**(456)**	**(2,458)**	**–**	**(8,243)**
Effect of movements in exchange rates	**148,778**	**118,975**	**3,481**	**10,178**	**72,012**	**353,424**
At 31 December 2017	**2,531,466**	**1,830,443**	**51,384**	**155,884**	**1,280,737**	**5,849,914**
Carrying amounts:						
At 31 December 2017	**6,060,954**	**1,609,637**	**19,317**	**101,201**	**4,603,805**	**12,394,914**
At 31 December 2016	6,031,352	1,713,351	22,677	98,117	4,687,719	12,553,216

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $1,759,472,000 (2016: $1,644,207,000) at 31 December 2017 are yet to be obtained. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the properties, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

During the year ended 31 December 2017, certain property, plant and equipment of $44,926,000 (2016: $Nil) were written off and recorded in "other net (loss)/income" (see note 7) as mentioned in note 37(c)(ii).

Security

At 31 December 2017 and 2016, certain property, plant and equipment were pledged as security against bank loans (see note 28(ii)).

Leased property, plant and equipment

Pursuant to a reorganisation (the "Reorganisation") of the Group completed on 10 September 2005 to rationalise the group structure in preparation for the public listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange, certain property, plant and equipment owned by the entities under common control (collectively referred to as "Predecessor Entities") were not transferred to the Group but were leased to the Group under finance leases (see note 29) effected during the year ended 31 December 2005. The Predecessor Entities granted an option in favour of the Group to purchase the land use rights and properties subject to the relevant lease agreements at a consideration which is equal to the higher of:

(i) the fair market value at the time of exercise of the option; and

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

At 31 December 2017, the carrying amount of leased property, plant and equipment was $61,061,000 (2016: $69,746,000).

Impairment assessment

The Group resulted in operating loss in 2017 continuously. Management of the Company identified this as an impairment indicator and carried out an impairment review on the Group's non-current assets. In assessing the recoverable amounts, management expected that the business performance could be gradually improved during the projection period as a result of improving operating environment.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment (continued)

Management then updated the business plans of the Group based on its revised and updated assessment of the operating environment and as a consequence had identified additional production facilities whereby the management decided that the production activities would cease. Hence these additional items of property, plant and equipment and lease prepayments whose carrying values would likely to be recovered through sales rather than continuing use in operations of the Group were identified as at 31 December 2017. These assets were taken out from their CGUs to which they were belonged and written down to their recoverable amounts, which were measured based on their estimated fair value less costs of disposal. The valuation models used to estimate the fair values of these assets included the use of recent transaction prices of similar assets of similar age and conditions when such prices could be reliably obtained and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for percentage of completion (for construction in progress), age, physical deterioration as well as economic obsolescence. The fair values upon which recoverable amounts of these assets were based are categorised as a Level 3 measurement under the fair value hierarchy. Key unobservable inputs used included replacement cost, economic obsolescence, and physical deterioration. Key assumptions in determining economic obsolescence include utilisation rate (average of 23% (2016: 25%)), gross profit margin (average of 6% (2016: 5%)) and depreciation rate (17% (2016: 15%)) adopted in the valuation. An impairment loss on property, plant and equipment, lease prepayments and goodwill of $489,183,000, $113,707,000 and $Nil (2016: $492,641,000, $137,122,000 and $88,734,000) respectively was recognised in "administrative and other operating expenses" in respect of assets falling into this category. Any unfavourable change would lead to further impairment loss recognised in future financial years.

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

	At 31 December 2017		At 31 December 2016	
	CGUs in chilled and frozen meat segment	**CGU in processed meat products segment**	CGUs in chilled and frozen meat segment	CGU in processed meat products segment
Gross profit margin (average of next five years)	**6%**	**23%**	5%	25%
EBITDA margin (average of next five years)	**3%**	**9%**	3%	10%
Growth rate (average of next five years)	**6%-25%**	**14%**	10%-20%	19%
Discount rate	**17%**	**17%**	15%	15%

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment (continued)

Management determined the budgeted gross profit margin, EBITDA margin and growth rate based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Cash flows beyond the five-year period are extrapolated using growth rate of 0%, (2016: 0%) which does not exceed the long-term average growth rate for the business in which the CGU operates.

At 31 December 2017, the recoverable amounts of certain CGUs based on the estimated value-in-use calculation were lower than their carrying amounts, the carrying amount of non-current assets of these CGUs amounted to approximately $2.3 (2016: $8.0) billion. In view of the estimated value-in-use of these CGUs were lower than their carrying amount, the property, plant and equipment and lease prepayment relating to these CGUs were written down to their recoverable amounts, with impairment losses of $55,847,000 (2016: $454,868,000) and $15,754,000 (2016: $83,531,000) respectively recognised in “administrative and other operating expenses” for the year ended 31 December 2017. The audit committee of the Company has no disagreement with the management on the above position and the basis of the review on the impairment assessment.

16. INVESTMENT PROPERTIES

	2017	2016
	$’000	$’000
Cost:		
At 1 January	**210,110**	–
Acquired through acquisition of a subsidiary (note 34(b))	**–**	225,555
Additions	**659**	–
Disposals	**(338)**	–
Effect of movements in exchange rates	**14,741**	(15,445)
At 31 December	**225,172**	210,110
Accumulated depreciation:		
At 1 January	**6,014**	–
Charge for the year	**7,451**	6,277
Disposals	**(320)**	–
Effect of movements in exchange rates	**632**	(263)
At 31 December	**13,777**	6,014
Carrying amounts:		
At 31 December	**211,395**	204,096

The investment properties were acquired through acquisition of a subsidiary during the year ended 31 December 2016 (see note 34(b)). All of the investment properties of the Group are situated in the PRC. The Group leases out the 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.

16. INVESTMENT PROPERTIES (CONTINUED)

At 31 December 2017 and 2016, part of investment properties were pledged against bank loans (see note 28(ii)).

Fair value measurement of the investment properties:

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period, categorised into three-level fair value hierarchy as defined in IFRS13 "Fair Value Measurement"

	Fair value measurement categorised into significant unobservable inputs (Level 3)	
	2017	2016
	$'000	$'000
Recurring fair value measurement		
Investment properties	**232,852**	252,284

The fair value of investment properties is estimated by the Directors by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates. In estimating the fair value of the investment properties, the highest and best use of the properties are their current use.

During the year ended 31 December 2017, $11,319,000 (from the date of acquisition to 31 December 2016 (the "Period"): $11,905,000) was recognised as rental income in the consolidated statement of profit or loss.

During the year ended 31 December 2017, direct operating expenses (including repairs and maintenance) arising from the investment properties recognised in the consolidated statement of profit or loss of $7,983,000 (the Period: $6,640,000).

17. LEASE PREPAYMENTS

The lease prepayments represent cost of the land use rights in respect of land located in the PRC, on which the Group built its factory plant and buildings.

At 31 December 2017 and 2016, certain land use rights were pledged against bank loans (see note 28(ii)).

During the year ended 31 December 2017, following the business plans of the Group, lease prepayments with aggregate carrying amount of $77,932,000 (2016: $18,447,000) were disposed of at an aggregate consideration of $38,619,000 (2016: $33,758,000), resulting in an aggregate loss on disposal of lease prepayments amounted to $39,313,000 (2016: gain on $15,311,000) charged to the consolidated statement of profit or loss as "other net (loss)/income" (note 7). As disclosed in note 15, impairment losses on lease prepayments amounted to $129,461,000 (2016: $220,653,000) were recognised and recorded in "administrative and other operating expenses" (note 8(c)). Besides, lease prepayments amounted to $101,224,000 (2016: $Nil) were written off during the year, due to the preliminary judgment on the litigations initiated by municipal people's governments as mentioned in note 37(c)(ii) and $15,795,000 (2016: $Nil) were written off since the government retrieved certain lands from the Group during the year. Total write-off of lease prepayments amounted to $117,019,000 (2016: $Nil) was recognised and recorded in "other net (loss)/income" (note 7).

18. INVESTMENTS IN SUBSIDIARIES

Particulars of principal subsidiaries are set out in Appendix 1 on pages 126 to 127.

19. GOODWILL

	2017 $'000	2016 $'000
At 1 January	–	90,776
Impairment loss on goodwill	–	(88,734)
Effect of movements in exchange rates	–	(2,042)
At 31 December	–	–

At 31 December 2016, as the result of the continuously unfavourable chilled and frozen meat market circumstances and sustained operating loss of Shangqiu Tainhui Processing Company Limited* (商丘天暉肉類加工有限公司), the Group assessed the recoverable amounts of property, plant and equipment and lease prepayments together with the goodwill belonging to the CGU in the chilled and frozen meat segment as disclosed in note 15. As a result, the carrying amount of goodwill was written down to their recoverable amount of $Nil. An impairment loss of $88,734,000 was recognised in "administrative and other operating expenses" (note 8 (c)).

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

20. INTANGIBLE ASSETS

	2017 $'000	2016 $'000
Cost:		
At 1 January	42,713	45,604
Effect of movements in exchange rates	2,994	(2,891)
At 31 December	45,707	42,713
Accumulated amortisation:		
At 1 January	17,085	9,120
Charge for the year	8,834	8,916
Effect of movements in exchange rates	1,505	(951)
At 31 December	27,424	17,085
Carrying amount:		
At 31 December	18,283	25,628

Intangible assets represent computer software acquired by the Group amortisation charge of intangible assets was included in "administrative and other operating expenses" (note 8(c)).

21. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Non-current other receivables		
Value-added tax recoverable (note)	**873,151**	–
Non-current prepayments		
Prepayments for acquisitions of land use rights	**73,816**	130,234
Prepayments for acquisitions of property, plant and equipment	**167,762**	103,518
	241,578	233,752
	1,114,729	233,752

Note: Value-added tax recoverable is eligible for offset against future value-added tax payable with no time limit. As at 31 December 2017, based on the reassessment of the relevant facts and circumstances, the Directors expected that the utilisation of such amount of value-added tax recoverable will take more than 12 months from the reporting date and accordingly have classified this amount as non-current asset.

22. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at reporting dates are attributable to the following:

	Assets		Liabilities		Net	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Property, plant and equipment	**–**	16	**(6,860)**	–	**(6,860)**	16
Trade and other receivables	**–**	–	**(122)**	–	**(122)**	–
Total deferred tax liabilities	**–**	16	**(6,982)**	–	**(6,982)**	16

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

	At 1 January 2016 $'000	Recognised in profit or loss $'000	Exchange difference $'000	At 31 December 2016 $'000	**Recognised in profit or loss $'000**	**Exchange difference $'000**	**At 31 December 2017 $'000**
Property, plant and equipment	(21,451)	21,033	434	16	**(6,745)**	**(131)**	**(6,860)**
Trade and other receivables	1,414	(1,135)	(279)	–	**(118)**	**(4)**	**(122)**
Total	(20,037)	19,898	155	16	**(6,863)**	**(135)**	**(6,982)**

23. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2017	2016
	$'000	$'000
Raw materials	**267,349**	217,736
Work in progress	**82,875**	87,759
Finished goods	**313,509**	337,285
	663,733	642,780

At 31 December 2017, the Group wrote down the inventories of $2,234,000 to the net realisable value due to decrease in the prices of the meats in the PRC market and recorded in "cost of sales" in the consolidated statement of profit or loss for the year ended 31 December 2017.

At 31 December 2016, the reversal of write-down of inventories of $9,946,000 arose due to an increase in the estimated net realisable value due to increase in the price of the meats in the PRC market and recorded in "cost of sales" in the consolidated statement of profit or loss for the year ended 31 December 2016.

24. OTHER INVESTMENT

	2017	2016
	$'000	$'000
Available-for-sale financial asset, unlisted	**–**	939

During the year ended 31 December 2017, the Group disposed of all available-for-sale financial asset to an independent third party. The corresponding loss on disposal of other investment of $748,000 (2016: $Nil) was recognised in the "other net (loss)/income" (note 7).

The Directors considered that the available-for-sale financial asset does not have a quoted market price in an active market. The Directors are of the opinion that the fair value of the available-for-sale financial asset cannot be reliably measured at 31 December 2016, the available-for-sale financial asset is thus measured at cost.

25. TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Trade receivables	**460,011**	424,922
Less: Impairment	**(36,351)**	(30,374)
Trade receivables, net (note (a))	**423,660**	394,548
Bills receivable	**1,029**	22
Value-added tax recoverable	**1,297,411**	1,979,951
Deposits and prepayments	**136,534**	168,255
Others (note (d))	**121,670**	74,356
	1,980,304	2,617,132

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

At 31 December 2017 and 2016, certain trade receivables were pledged against bank loans (see note 28(ii)).

The Group's exposure to credit and currency risk related to trade and other receivables are disclosed in note 36.

(a) Ageing analysis

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

	2017 $'000	2016 $'000
Within 30 days	**174,607**	211,172
31 days to 90 days	**161,920**	106,553
91 days to 180 days	**57,794**	40,810
Over 180 days	**29,339**	36,013
	423,660	394,548

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

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account if the Group determined that recovery of the amount is remote.

The movements in the allowance for doubtful debts during the year, including specific components, are as follows:

	2017	2016
	$'000	$'000
At 1 January	**30,374**	25,829
Impairment losses recognised	**25,126**	11,258
Reversal of impairment losses on trade receivables	**(18,843)**	(4,970)
Effect of movements in exchange rate	**(306)**	(1,743)
At 31 December	**36,351**	30,374

At 31 December 2017, the Group's trade receivables of $36,351,000 (2016: $30,374,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the recoverability is remote. Consequently, specific allowances for doubtful debts of $36,351,000 (2016: $30,374,000) were recognised.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017	2016
	$'000	$'000
Neither past due nor impaired	**334,970**	314,913
Less than 1 month past due	**19,686**	14,127
1 to 3 months past due	**38,951**	27,730
Over 3 months past due	**30,053**	37,778
	88,690	79,635
	423,660	394,548

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Impairment of other receivables

	2017 $'000	2016 $'000
Other receivables	**150,740**	101,522
Less: Impairment	**(29,070)**	(27,166)
	121,670	74,356

At 31 December 2017, included in the Group's other receivables was the consideration receivables from independent third parties amounted to $30,492,000 (2016: $Nil), arising from disposal of certain property, plant and equipment and lease prepayments during the year.

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

	2017 $'000	2016 $'000
At 1 January	**27,166**	–
Impairment losses recognised	**–**	28,351
Effect of movements in exchange rate	**1,904**	(1,185)
At 31 December	**29,070**	27,166

The above provision for impairment losses of other receivables represents provision for individually impaired other receivables of $29,070,000 (2016: $27,166,000) with a carrying amount of $29,070,000 (2016: $27,166,000). The individually impaired receivables mainly relate to other receivables which the Directors consider that the chances of collection of the outstanding amounts are remote.

26. PLEDGED DEPOSITS

	2017 $'000	2016 $'000
Pledged deposits for utilities	**25**	4,356

27. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

	2017 $'000	2016 $'000
Cash at bank and on hand	**218,212**	291,868
Cash and cash equivalents in the consolidated statement of cash flows	**218,212**	291,868

27. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

Reconciliation of liabilities arising from financing activities

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

	Bank and other loans $'000 (note 28)	Finance leases liabilities $'000 (note 29)	Total $'000
At 1 January 2017	6,782,913	129,057	6,911,970
Changes from financing cash flows:			
Proceeds from bank and other loans	678,428	–	678,428
Repayments of bank and other loans	(510,813)	–	(510,813)
Capital element of finance lease rentals paid	–	(457)	(457)
Interest element of finance lease rentals paid	–	(4,397)	(4,397)
Total changes from financing cash flows	167,615	(4,854)	162,761
Exchange adjustment	481,345	3,762	485,107
Other changes:			
Finance charges on obligations under finance leases (note 8(a))	–	4,397	4,397
At 31 December 2017	7,431,873	132,362	7,564,235

28. BANK AND OTHER LOANS

The bank and other loans are repayable as follows:

	2017 $'000	2016 $'000
Bank loans		
– Within one year or on demand	**6,035,964**	5,135,070
– After one but within two years	**217,538**	352,773
– After two but within five years	**–**	121,230
Other loans		
– Within one year	**1,178,371**	1,173,840
Total loans	**7,431,873**	6,782,913
Less: Loans due within one year or on demand classified as current liabilities	**(7,214,335)**	(6,308,910)
Non-current loans	**217,538**	474,003

	2017 $'000	2016 $'000
Terms		
Unsecured bank loans denominated in RMB (notes (i) and (iii))		
– Variable interest rate at prevailing market rate	**70,574**	263,827
– Fixed interest rate from 4.35% to 6.53% (2016: 4.35% to 5.82%)	**1,804,101**	1,968,015
Secured bank loans denominated in RMB (notes (i), (ii) and (iii))		
– Variable interest rate at prevailing market rate	**2,164,837**	996,202
– Fixed interest rate from 4.35% to 5.23% (2016: 4.35% to 5.23%)	**2,213,990**	2,381,029
Unsecured other loans denominated in RMB		
– Fixed interest rate at 4.35% (2016: 4.35%)	**1,178,371**	1,173,840
	7,431,873	6,782,913

Notes:

(i) 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 31 December 2017, the Group could not fulfil covenants imposed by certain banks on certain loans with an aggregate amount of $5,915,854,000 (2016: $3,792,684,000). Included in this amount are (i) loans of an aggregate amount of $119,632,000 (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 $1,845,503,000 (2016: $776,052,000) which were due on or before 31 December 2017 but were not yet renewed at the end of the reporting period. The Group is negotiating with the banks to renew bank loans which have fallen due but are not yet renewed or repaid at the end of the reporting period. As at the date of approval of the consolidated financial statements, the aforesaid bank loans were not yet renewed and bank loans of $46,032,000 were repaid.

Further details of the Group's management of liquidity risk are set out in note 36(b).

28. BANK AND OTHER LOANS (CONTINUED)

Notes: (continued)

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

	2017 $'000	2016 $'000
Properties	**3,015,984**	2,177,929
Plants and equipment	**89,195**	13,985
Construction in progress	**376,660**	242,821
Lease prepayments	**1,521,048**	1,201,093
Investment properties	**147,491**	141,063
Trade receivables	**35,868**	26,317

Included in the secured bank loans at 31 December 2017, bank loans of $2,167,484,000 (2016: $1,117,943,000) were also guaranteed by related companies and secured by assets owned by related companies, including equity securities with market value of $659,050,000 (2016: $686,305,000), land use rights owned by a related companies with fair value of $116,462,000 (2016: $101,174,000) and trade receivables of $610,121,000 (2016: $570,151,000). These related companies were owned by Mr. Zhu. In addition, bank loans of $119,632,000 (2016: $111,794,000) were guaranteed by Mr. Zhu.

(iii) At 31 December 2017, there were outstanding litigations commenced by banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to repay the outstanding bank loans of $1,481,340,000 (2016: $314,349,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment of the Group with carrying value of $172,825,000 (2016: $356,225,000) have been frozen by the court in the PRC as of 31 December 2017, in addition to the freezing of restricted bank deposits of $46,618,000 (2016: $46,103,000) in relation to these litigations. The Group is negotiating with the banks to settle these litigations. Subsequent to 31 December 2017 and up to the date of this consolidated financial statements, included in the subsequent repayment of bank loans of $46,032,000 as mentioned in note (i) above, amounted to $10,045,000 were repayment of bank loans under litigations, and the corresponding frozen property, plant and equipment and restricted bank deposit of $49,753,000 and $36,731,000 respectively were released.

29. FINANCE LEASE LIABILITIES

Finance lease liabilities of the Group are payable to related companies (note 38(a)(ii)) as follows:

	2017			2016		
	Total minimum lease payments $'000	Interest expense relating to future periods $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Interest expense relating to future periods $'000	Present value of the minimum lease payments $'000
Within one year	**5,023**	**4,531**	**492**	4,694	4,252	442
After one but within two years	**5,023**	**4,511**	**512**	4,694	4,234	460
After two but within five years	**30,664**	**12,460**	**18,204**	14,083	12,584	1,499
More than five years	**150,975**	**37,821**	**113,154**	165,273	38,617	126,656
	186,662	**54,792**	**131,870**	184,050	55,435	128,615
Total finance lease obligations	**191,685**	**59,323**	**132,362**	188,744	59,687	129,057

30. TRADE AND OTHER PAYABLES

	2017	2016
	$'000	$'000
Trade payables	741,837	794,304
Receipts in advance	210,402	278,495
Deposits from customers	129,507	111,297
Salary and welfare payables	87,618	60,424
Value-added tax payable	7,726	5,020
Payables for acquisitions of property, plant and equipment	699,637	574,470
Provision for losses on litigations	297,819	110,218
Interest payables	542,785	219,129
Other payables and accruals	965,065	839,040
	3,682,396	2,992,397

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

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

	2017	2016
	$'000	$'000
Within 30 days	502,871	566,339
31 days to 90 days	122,676	76,561
91 days to 180 days	59,236	19,513
Over 180 days	57,054	131,891
	741,837	794,304

31. EQUITY-SETTLED SHARE-BASED PAYMENTS

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

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

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

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

The Directors approved to waive the performance-based condition set by the Company for the third and fourth tranche of 2013 March Options and 2013 June Options in order to provide incentives for the qualified employees. Expense of $4,714,000 (2016: $76,368,000) was recognised as cost of services received from the grantees for the year ended 31 December 2017.

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

	2017		2016	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at 1 January	**$5.07**	**58,100**	$5.32	68,806
Lapsed during the year	**$5.00**	**(2,350)**	$6.68	(10,706)
Outstanding at 31 December	**$5.07**	**55,750**	$5.07	58,100
Exercisable at 31 December	**$5.07**	**55,750**	$5.07	29,050

No share options were exercised during the years ended 31 December 2017 and 2016.

2013 March Options and 2013 June Options outstanding at 31 December 2017 had exercise price of $5.142 and $5.002 and the weighted average contractual lives of 5.23 (2016: 6.23) and 5.45 (2016: 6.45) years respectively.

32. SHARE CAPITAL

(a) Authorised and issued share capital

	2017 Number of ordinary shares '000	2017 Amount $'000	2016 Number of ordinary shares '000	2016 Amount $'000
Authorised:				
At 1 January and 31 December	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January and 31 December	**1,822,756**	**182,276**	1,822,756	182,276

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

Exercise period	Exercise price	2017 Number '000	2016 Number '000
31 December 2015 to 24 March 2023	$5.142	**13,650**	13,650
After the result announcement for the year ended 31 December 2016 to 24 March 2023	$5.142	**13,650**	13,650
After the result announcement for the year ended 31 December 2015 to 13 June 2023	$5.002	**14,225**	15,400
After the result announcement for the year ended 31 December 2016 to 13 June 2023	$5.002	**14,225**	15,400
		55,750	58,100

Further details of these options are set out in note 31 to the consolidated financial statements.

33. RESERVES AND DIVIDENDS

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

(a) The Company

	Share premium (Note 33(b))	Contributed surplus (Note 33(g))	Retained earnings	Total
	$'000	$'000	$'000	$'000
At 1 January 2016	7,400,418	297,480	43,529	7,741,427
Loss for the year	–	–	(19,201)	(19,201)
Equity-settled share-based payment	–	–	76,368	76,368
At 31 December 2016	7,400,418	297,480	100,696	7,798,594
At 1 January 2017	**7,400,418**	**297,480**	**100,696**	**7,798,594**
Loss for the year	**–**	**–**	**(10,175)**	**(10,175)**
Equity-settled share-based payment	**–**	**–**	**4,714**	**4,714**
At 31 December 2017	**7,400,418**	**297,480**	**95,235**	**7,793,133**

(b) Share premium

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

(c) Capital surplus

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

(d) Merger reserve

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

33. RESERVES AND DIVIDENDS (CONTINUED)

(e) PRC statutory reserves

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

(i) Statutory surplus reserve

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

(ii) Statutory general reserve

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

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

(f) Exchange reserve

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

(g) Contributed surplus

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

(h) Distributable reserves

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

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2017, the aggregate amount of reserves available for distribution to equity holders of the Company was $7,793,133,000 (2016: $7,798,594,000).

33. RESERVES AND DIVIDENDS (CONTINUED)

(i) Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: Nil).

(j) Capital management

The Board's capital management policies are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Certain measures have been taken by the Directors to mitigate the liquidity pressure as set out in note 2(b). The Board monitors the return on capital (defined by the Group as profit attributable to equity holders of the Company divided by total equity attributable to equity holders of the Company, excluding non-controlling interests) and the level of dividends to ordinary shareholders. In order to maintain the capital structure, the Company may also repurchase existing shares. The return on capital for the year ended 31 December 2017 was -24.4% (2016: -25.1%).

The Group is not subject to externally imposed capital requirement.

34. CHANGES IN GROUP STRUCTURE

(a) Disposal of a subsidiary/deconsolidation of a deemed subsidiary in 2017

In 2017, the Group disposed/deconsolidated the following subsidiary/deemed subsidiary:

(i) The Group disposed of its entire equity interest in a wholly-owned subsidiary in chilled and frozen meat segment at a total consideration of $14,954,000. A loss on disposal of the subsidiary amounting to $842,000 was recognised in "other net (loss)/income" during the year ended 31 December 2017.

(ii) In February 2017, the Group terminated the sub-contracting arrangement over a deemed subsidiary in chilled and frozen meat segment which resulted in a loss of control over this deemed subsidiary. A loss on deconsolidation of a deemed subsidiary amounting to $12,338,000 was recognised in "other net (loss)/income" during the year ended 31 December 2017.

34. CHANGES IN GROUP STRUCTURE (CONTINUED)

(a) Disposal of a subsidiary/deconsolidation of a deemed subsidiary in 2017 (continued)

	$'000
Net assets disposed of:	
Property, plant and equipment (note 15)	6,255
Inventories	2,700
Cash and cash equivalents	958
Trade and other receivables	67,246
Trade and other payables	(33,983)
Net assets disposed of	43,176
Exchange reserve realised on disposal	(15,042)
Loss on disposal of a subsidiary/deconsolidation of a deemed subsidiary (note 7)	(13,180)
	14,954
Satisfied by:	
Cash consideration	14,954
Less: Cash and cash equivalents	(958)
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary/ deconsolidation of a deemed subsidiary	13,996

(b) 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, 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 remaining cash consideration of $385,422,000 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 English translation of the company name is for reference only. The official name of this company is in Chinese.

34. CHANGES IN GROUP STRUCTURE (CONTINUED)

(b) Acquisition of a subsidiary in 2016 (continued)

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

	$'000
Net assets acquired:	
Property, plant and equipment (note 15)	11,970
Investment property (note 16)	225,555
Lease prepayments	198,002
Inventories	16
Trade and other receivables	5,076
Cash and cash equivalents	2,001
Trade and other payables	(57,198)
Total identifiable net assets acquired	385,422
Satisfied by:	
Receivables arising from the disposal of a subsidiary	385,422

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	$'000
Cash and cash equivalents acquired	2,001

The subsidiary contributed gain of $4,056,000 to the consolidated statement of profit or loss in 2016.

Had the business combination taken place at the beginning of the year, the loss attributed to the Group in 2016 would have been $1,085,000.

(c) Disposal of a subsidiary in 2016

The Group disposed of its entire equity interest of a wholly-owned subsidiary in chilled and frozen meat segment at a total consideration $66,713,000. A gain on disposal of a subsidiary amounting $62,890,000 was recognised during the year ended 31 December 2016. The gain on disposal of a subsidiary in included in "other net (loss)/income" in the consolidated statement of profit or loss (see note 7). The disposal had the following effect on the Group's assets and liabilities.

34. CHANGES IN GROUP STRUCTURE (CONTINUED)

(c) Disposal of a subsidiary in 2016 (continued)

	$'000
Net assets disposed of:	
Property, plant and equipment (note 15)	33,400
Lease prepayments	26,051
Other receivables	20,143
Net assets disposed of	79,594
Exchange reserve realised on disposal	4,955
Impairment losses on assets held for sale (note 7)	(80,726)
Gain on disposal of a subsidiary (note 7)	62,890
	66,713
Satisfied by:	
Cash consideration received and net inflow of cash and cash equivalents in respect of disposal of a subsidiary	66,713

35. ASSET HELD FOR SALE

In December 2016, management is committed to a plan to dispose of a wholly-owned subsidiary, Runyang Biotechnology (Lianyungang) Limited Company* (潤揚生物科技(連雲港)有限公司) to third party individuals. 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. The fair values on which the recoverable amounts are based on are categorised as a Level 3 measurement.

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

	$'000
Property, plant and equipment (note 15)	12,239
Cash and cash equivalents	272
Other receivables	7,036
Assets held for sale	19,547
Other payables	(7,330)
Liabilities held for sale	(7,330)
Total fair value less cost to sell of assets held for sale	12,217

During the year ended 31 December 2017, the disposal transaction was completed.

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

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

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

Risk management framework

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

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

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

(a) Credit risk

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

Trade and other receivables

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 39% (2016: 35%) of the trade receivables were due from the five largest customers of the Group, all of whom are companies which have good track record with the Group.

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

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

Credit risk on trade and other receivables has already been taken into account as trade and other receivables are shown in the consolidated statement of financial position net of impairment losses. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 25.

Cash and cash equivalents

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

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. As disclosed in note 2(b), certain measures have been taken by the Directors to mitigate the liquidity pressures faced by the Group.

The contractual maturities and contractual cash outflow of the finance lease liabilities are disclosed in note 29. The following are the contractual maturities at the end of the reporting period of bank and other loans of the Group based on lender's ability to demand earliest repayment, including estimated interest payments and excluding the impact of netting agreements:

31 December 2017

	Carrying amount $'000	Contractual undiscounted cash flows $'000	3 months or less or on demand $'000	3–6 months $'000	6–9 months $'000	9–12 months $'000	1–2 years $'000	2–5 years $'000
Bank and other loans	**7,431,873**	**7,990,296**	**7,712,326**	**3,060**	**3,299**	**50,881**	**220,730**	**–**

31 December 2016

	Carrying amount $'000	Contractual undiscounted cash flows $'000	3 months or less or on demand $'000	3–6 months $'000	6–9 months $'000	9–12 months $'000	1–2 years $'000	2–5 years $'000
Bank and other loans	6,782,913	6,957,286	3,939,275	1,367,865	175,490	925,125	433,902	115,629

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

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

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

The interest rates and terms of repayment of bank and other loans are disclosed in note 28.

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the end of the reporting period would have increased/decreased the Group's accumulated losses/retained earnings and increased loss after tax by approximately $16,766,000 (2016: $9,516,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The impact on the Group's loss after tax and accumulated losses/retained earnings is estimated as impact on interest expense in respect of the loan remaining outstanding as at the end of the reporting period of such a change in interest rate. The analysis is performed on the same basis for 2016.

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

(d) Foreign currency risk

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

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

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

	Exposure to foreign currencies (expressed in HKD)					
	2017			2016		
	Euro	**USD**	**RMB**	Euro	USD	RMB
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Other current assets	**2,338**	**243,272**	**784,352**	1,991	264,278	834,065
Other current liabilities	**(31,311)**	**(257,268)**	**–**	(29,423)	(269,523)	–
	(28,973)	**(13,996)**	**784,352**	(27,432)	(5,245)	834,065

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Foreign currency risk (continued)

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

At 31 December 2017, if the HKD had weakened/strengthened 5% against the RMB with all other variables held constant, the Group's loss after tax for the year would have been decreased/increased by approximately $32,747,000 (2016: $34,822,000).

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

(e) Fair value

Fair values versus carrying amounts

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

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

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

	2017			2016		
	Carrying amount $'000	**Fair value $'000**	**Fair value measurements categorised into Level 2 $'000**	Carrying amount $'000	Fair value $'000	Fair value measurements categorised into Level 2 $'000
Finance lease liabilities	**132,362**	**104,383**	**104,383**	129,057	102,886	102,886

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

	2017	2016
Finance lease liabilities	**4.72%**	4.68%

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

36. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Natural risk

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

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

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating leases

The Group's total future minimum lease payments under non-cancellable operating leases in respect of properties were payable as follows:

	2017	2016
	$'000	$'000
Within 1 year	**1,616**	611
After 1 year but within 5 years	**2,884**	1,381
Over 5 years	**684**	1,381
	5,184	3,373

The Group leased a number of properties under operating leases with option to renew upon the expiry of the existing lease agreements.

(b) Capital commitments

Capital commitments outstanding at 31 December 2017 in respect of property, plant and equipment not provided for in the consolidated financial statements were as follows:

	2017	2016
	$'000	$'000
Contracted for	**2,992,262**	4,402,233

37. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Contingent liabilities

(i) In addition to the litigations commenced by banks against subsidiaries of the Group as disclosed in note 28, there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fees, together with the late penalties, totaling approximately $248,531,000 (2016: $222,218,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group will likely be liable to pay a total of approximately $167,543,000 (2016: $222,218,000) ("Provision Amount") for the aforesaid construction fees and corresponding late penalties, which had been provided and included in "trade and other payables" as at 31 December 2017. During the year ended 31 December 2017, pursuant to the judgements made by the courts in the PRC in relation to certain of these litigations, the Group was ordered to make immediate repayment of construction fees payables of approximately $62,027,000 (2016: $32,280,000) and corresponding late penalties of approximately $27,499,000 (2016: $Nil). These amounts were included in the Provision Amount already and the settlement had not yet been made at the end of the reporting period. Up to the date of annual report, the remaining litigation claims with an aggregate amount of approximately $159,005,000 (2016: $189,938,000) are still in process, of which an aggregate amount of $78,017,000 (2016: $189,938,000) had been included in the Provision Amount as at 31 December 2017. In the opinion of the Directors, no further provision for litigation was required to be made for the year ended 31 December 2017.

(ii) During the year ended 31 December 2017, there were litigations initiated by municipal people's governments in the PRC claiming against certain subsidiaries and a related company of the Group in view of the suspension of the development in certain areas, for immediate cash repayment of approximately $173,823,000 (2016: $115,028,000) and return of certain property, plant and equipment and lease prepayments with carrying amounts approximate to $44,926,000 (2016: $Nil) and $101,224,000 (2016: $Nil) as at 31 December 2017, respectively. The Group recognised losses of $173,823,000 (2016: $115,028,000) as "provision for losses on litigations", $101,224,000 (2016: $Nil) as "write-off of lease prepayments" and $44,926,000 (2016: $Nil) as "write-off of property, plant and equipment" in "other net (loss)/income" in the consolidated statement of profit or loss for the year ended 31 December 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 management of the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 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 of the Group. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained with reasonable certainty at present, but the management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position or results of the Group.

38. RELATED PARTY TRANSACTIONS

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

(a) Significant related party transactions

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

	2017	2016
	$'000	$'000
Sales of raw materials to related companies	**3,175**	4,400
Sales of finished goods to related companies	**10,733**	12,014
Purchases of raw materials from related companies	**62,132**	90,570

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

Certain property, plant and equipment and land use rights owned by the Predecessor Entities were leased to the Group under finance leases (notes 15 and 29) and operating leases respectively. The rental paid or payable to the Predecessor Entities for the year ended 31 December 2017 amounted to $5,197,000 (2016: $5,826,000).

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

Certain Predecessor Entities made available their properties and land use rights with a total carrying value of $59,667,000 (2016: $141,071,000) as at 31 December 2017 to the Group. No rental is paid or payable by any of the companies in the Group.

(iv) Guarantee granted by related parties

As disclosed in note 28(ii) to the consolidated financial statements, certain bank loans of the Group were guaranteed by related parties or secured by assets of related parties.

(v) Loans from related companies

A related company provided a loan of $1,130,518,000 (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% (2016: 4.35%) per annum and repayable on demand (2016: repayment term of 12 months). Interest expenses on the loan amounting to $51,542,000 (2016: $33,048,000) was incurred for the year ended 31 December 2017.

During the year ended 31 December 2017, another related company provided a loan of $47,853,000 to a subsidiary of the Company for the settlement of certain payables. The loan is unsecured, interest bearing at 4.35% per annum and repayment term of 12 months. Interest expenses on the loan amounting to $78,000 for the year ended 31 December 2017.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related parties

	2017	2016
	$'000	$'000
Trade receivables due from related companies	**6,555**	4,976
Other receivables due from related companies	**4,999**	5,083

Amounts due from related parties are unsecured, interest free and are expected to be recovered within one year. There was no impairment made against these amounts at 31 December 2017 and 2016.

(c) Amounts due to related parties

	2017	2016
	$'000	$'000
Trade payables due to related companies	**120,844**	82,621
Other payables due to related companies	**184,981**	246,265
Other loans due to related companies (note 38(a)(v))	**1,178,371**	1,173,840

(i) Certain related companies settled certain payables on behalf of the Group during the year ended 31 December 2017 and 2016.

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

(d) Key management personnel remuneration

Remuneration for key management personnel, mainly representing the amounts paid to the Directors and a chief executive of the Company, was disclosed in note 11 to the consolidated financial statements.

39. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 $'000	2016 $'000
Non-current assets			
Investments in subsidiaries		**6,371,479**	6,361,081
Current assets			
Other receivables		**467**	505
Amounts due from subsidiaries		**1,579,491**	1,579,492
Cash and cash equivalents		**33,288**	48,959
		1,613,246	1,628,956
Current liabilities			
Other payables		**9,316**	9,166
Net current assets		**1,603,930**	1,619,790
Total assets less current liabilities		**7,975,409**	7,980,871
Net assets		**7,975,409**	7,980,871
Equity			
Share capital	32	**182,276**	182,276
Reserves	33	**7,793,133**	7,798,595
Total equity		**7,975,409**	7,980,871

40. SUBSEQUENT EVENTS

On 20 March 2018, the Board approved a capital expenditure plan for 2018 amounting to RMB100,000,000 (equivalent to approximately $119,632,000).

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these consolidated financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 15	Clarification to IFRS 15 Revenue Contracts with Customers[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[2]
Amendments to IAS 28 and IFRS 10	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
The amendments were original intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early application of the amendments continues to be permitted

IFRS 9 "Financial Instruments"

IFRS 9 has introduced new requirements for a) classification and measurement of financial assets, b) impairment of financial assets and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, IFRS 9 requires all recognised financial assets that are within the scope of IFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment. The Directors have performed a preliminary assessment and confirmed that the Group's financial assets as at 31 December 2017 currently measured at amortised cost will continue to be measured on the same basis upon the adoption of IFRS 9. Such an assessment is subject to change when the Directors perform a more detailed analysis.

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 9 "Financial Instruments" (continued)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The Group currently does not have any financial liabilities designated at fair value through profit or loss and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

With regard to impairment of financial assets, IFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under IAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. The management of the Group expects that the adoption of IFRS 9 is unlikely to result in significant impact on the consolidated financial statements.

With regard to the general hedge accounting requirements, IFRS 9 retains the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. The Group currently does not apply any hedge accounting and therefore this new requirement will not have any impact on the Group on adoption of IFR 9.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 15 "Revenue from Contracts with Customers" (continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. At contract inception, an entity evaluates whether it transfers the control to the customer over time and therefore revenue should be recognised over time, if not, then it transfers control at a point in time and revenue will be recognised at that single point in time.

Based on a preliminary assessment, the Group expects that revenue from sales of goods will continue to be recognised at a point in time. The Directors preliminary concluded that applying this standard is not expected to have any significant impact on the consolidated financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

IFRS 16 "Leases"

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by IAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas, under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, IFRS 16 requires extensive disclosures in the consolidated financial statements.

Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

Furthermore, IFRS 16 requires extensive disclosures in the consolidated financial statements. As at 31 December 2017, the Group has non-cancellable operating lease commitments of $5,184,000 as set out in note 37(a). The Group expects that the adoption of IFRS 16 is unlikely to result in significant impact on the Group's result but it is expected that certain portion of these commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

Except for the above, the management of the Group anticipates that the application of the other new and revised IFRSs will have no material impact on the consolidated financial statements of the Group in the future.

LIST OF PRINCIPAL SUBSIDIARIES

APPENDIX 1

The following list contains only the particulars of subsidiaries as at 31 December 2017 which principally affected the results, assets or liabilities of the Group.

Name of company (note (iv))	Place of establishment and operation	Registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Anhui Furun Meat Processing Co., Ltd (note (iii)) 安徽省福潤肉類加工有限公司	The PRC	RMB200,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Harbin Popular Food Co., Ltd. (note (ii)) 哈爾濱大眾肉聯食品有限公司	The PRC	USD50,000,000	–	93	Slaughtering, production and sales of chilled and frozen meat and processed meat products
Jiangsu Yurun Food Co., Ltd. (note (iii)) 江蘇雨潤肉食品有限公司	The PRC	RMB1,000,000,000	–	100	Production and sales of processed meat products
Jinan Wanrun Meat Processing Co., Ltd. (note (iii)) 濟南萬潤肉類加工有限公司	The PRC	RMB5,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Kaifeng Furun Meat Product Co., Ltd. (note (iii)) 開封福潤肉類食品有限公司	The PRC	RMB10,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Lianyungang Furun Food Co., Ltd. (note (i)) 連雲港福潤食品有限公司	The PRC	USD140,500,000	–	100	Slaughtering, production and sales of chilled and frozen meat and processed meat products
Maanshan Yurun Food Co., Ltd. (note (i)) 馬鞍山雨潤食品有限公司	The PRC	USD55,000,000	–	100	Production and sales of processed meat products
Nanjing Yurun Food Co., Ltd. (note (i)) 南京雨潤食品有限公司	The PRC	USD190,000,000	–	100	Production and sales of processed meat products

APPENDIX 1 (continued)

Name of company (note (iv))	**Place of establishment and operation**	**Registered capital**	**Attributable equity interest held by the Company**		**Principal activity**
			Direct	**Indirect**	
			%	%	
Suzhou Furun Meat Processing Co., Ltd. (note (iii)) 宿州福潤肉類加工有限公司	The PRC	RMB100,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Wuwei Tianxiang Meat Processing Co., Ltd. (note (iii)) 武威天祥肉類加工有限公司	The PRC	RMB60,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat

Notes:

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

All of these are controlled subsidiaries as defined under note 3(b)(ii) and have been consolidated into the consolidated financial statements.

FIVE-YEAR SUMMARY

	2013 $'000	2014 $'000	2015 $'000	2016 $'000	**2017** **$'000**
Assets and liabilities					
Non-current assets	20,581,555	20,584,777	17,998,267	15,611,992	**16,180,902**
Net current assets/(liabilities)	688,558	(1,821,046)	(4,741,774)	(5,618,616)	**(7,911,964)**
Total assets less current liabilities	21,270,113	18,763,731	13,256,493	9,993,376	**8,268,938**
Non-current liabilities	(5,258,799)	(2,816,419)	(924,863)	(602,618)	**(356,390)**
Net assets	16,011,314	15,947,312	12,331,630	9,390,758	**7,912,548**
Share capital	182,276	182,276	182,276	182,276	**182,276**
Reserves	15,767,735	15,709,968	12,098,265	9,160,684	**7,679,424**
Total equity attributable to equity holders of the Company	15,950,011	15,892,244	12,280,541	9,342,960	**7,861,700**
Non-controlling interests	61,303	55,068	51,089	47,798	**50,848**
Total equity	16,011,314	15,947,312	12,331,630	9,390,758	**7,912,548**
Operating results					
Revenue	21,440,039	19,157,889	20,164,864	16,702,103	**12,057,239**
Results from operating activities	262,268	165,581	(2,529,788)	(1,948,925)	**(1,641,254)**
Net finance costs	(154,267)	(232,716)	(416,909)	(404,109)	**(263,818)**
Share of losses of associates	(290)	–	–	–	**–**
Share of loss of a joint venture	(4,218)	(3,310)	(648)	–	**–**
Profit/(loss) before income tax	103,493	(70,445)	(2,947,345)	(2,353,034)	**(1,905,072)**
Income tax (expense)/credit	(64,059)	127,386	(29,857)	10,764	**(9,973)**
Profit/(loss) for the year	39,434	56,941	(2,977,202)	(2,342,270)	**(1,915,045)**
Attributable to:					
Equity holders of the Company	43,592	56,774	(2,976,405)	(2,341,865)	**(1,915,101)**
Non-controlling interests	(4,158)	167	(797)	(405)	**56**
Profit/(loss) for the year	39,434	56,941	(2,977,202)	(2,342,270)	**(1,915,045)**
Earnings/(loss) per share					
Basic ($)	0.024	0.031	(1.633)	(1.285)	**(1.051)**
Diluted ($)	0.024	0.031	(1.633)	(1.285)	**(1.051)**