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 2018

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Zhu Yuan *(Chairman and Chief Executive Officer, appointment with effect from 28 March 2019)*
Yu Zhangli *(resignation with effect from 28 March 2019)*
Li Shibao *(resignation with effect from 28 March 2019)*
Sun Tiexin *(resignation with effect from 7 March 2019)*
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)*
Chen Jianguo
Yu Zhangli *(resignation with effect from 28 March 2019)*
Zhu Yuan *(appointment with effect from 28 March 2019)*

NOMINATION COMMITTEE

Chen Jianguo *(Chairman)*
Gao Hui
Yu Zhangli *(resignation with effect from 28 March 2019)*
Zhu Yuan *(appointment with effect from 28 March 2019)*

COMPANY SECRETARY

Lee Wing Sze, Rosa *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Yu Zhangli *(resignation with effect from 28 March 2019)*
Zhu Yuan *(appointment with effect from 28 March 2019)*
Lee Wing Sze, Rosa

AUDITOR

BDO 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

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5302, 53rd Floor
Central Plaza
18 Harbour Road, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

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 2018 (the "Review Year").

HIGHLIGHT OF THE YEAR

The auditor of the Company issued disclaimers of opinion on the financial statements of the Company for four consecutive years. The Board has been dedicated to resolving the disagreements with auditor on the impairment assessment of non-current assets and the going concern basis of accounting as soon as possible. Therefore, after conducting detailed and prudent evaluation and seeking advice from a professional valuer, the Group made substantial provision for impairment losses on non-current assets of approximately HK$3.914 billion during the Review Year (taking into account the impairments in the previous years, the provision for impairment losses of the Company amounted to approximately HK$7.123 billion in aggregate from 2015 to 2018). The disagreement with the auditor on impairment losses of non-current assets as at 31 December 2018 was therefore resolved.

The management has continued to conduct reviews from various aspects including strategic direction and business execution for any deficiency in the past few years. For this year, it has stepped up its efforts by implementing a series of measures for a turnaround from losses to profit. In the meantime, the management has also made proactive efforts in negotiating with banks on the renewal of loans that have fallen due, designated proficient individuals to liaise with banks, governments and contractors to settle a number of the existing litigations and accelerated asset optimisation by setting up an ad hoc group to increase cash flow of the Group. The determination of the Board and the management to safeguard the interests of all shareholders is unwavering. The disagreement with the auditor on the going concern basis of accounting should be resolved in 2019 without any delay.

BUSINESS REVIEW

During the Review Year, the hog market has experienced ups and downs. Affected by factors including costs, total production capacity, demand and outbreak of the African swine fever, the pork prices declined in early 2018 and followed by a slight rebound in the second half of the year, while different regions have seen different price changes. Uncertainties of the economic environment and pork market present both opportunities and challenges to the hog slaughtering and meat product processing industries.

CHAIRMAN'S STATEMENT

During the Review Year, the Chinese government continued to improve the management on the livestock and poultry slaughtering industry. In line with the emphasis of the national policies on reorganizing slaughterhouses, the Group strived to enhance the capabilities and qualities of the management and to ensure product quality and safety. These measures will further strengthen our development in the industry as well as consumer confidence in slaughtering on a larger scale and in enterprises engaging in meat product processing.

Against the complex and volatile market environment, the revenue of the Group amounted to HK$12.651 billion and the loss attributable to the equity holders of the Company was HK$4.759 billion in 2018, representing an increase of loss of HK$2.844 billion from the loss attributable to the equity holders of the Company of HK$1.915 billion in 2017. As aforementioned, the increase in total losses of the Group was mainly resulted from the substantial provision made for the impairment losses on assets of approximately HK$3.914 billion. Excluding non-operational items such as impairment loss, the 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 investments, write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets, provision for losses on litigations and other losses, was HK$648 million (2017: HK$881 million), representing a substantial reduction in loss of approximately 26.5% from the previous year.

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.

PROSPECT

Uncertainty will prevail in the industry in 2019 due to the impacts of the hog market and the African swine fever.

Challenged by various volatile factors, we believe 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 stabilise business operation and seek opportunities for breakthroughs to drive gradual business growth, so as to iron out the challenges and risks facing the Group and to open up a new phase in its business.

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 to the Group. 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, 27 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the Review Year, affected by external factors, the volatility of global economy was intensified, clouding the market with uncertainties. During the year, China's economic structure was further optimized and enhanced and the overall economy continued to grow steadily at a slower pace. As a major driver of economic growth, the Consumer Price Index increased by 2.1% in 2018. According to the data published by the National Bureau of Statistics, the gross domestic product (GDP) of China grew 6.6% in 2018, in line with the projected target of development. Revenue from the food and beverage sector maintained a sound and steady growth at 9.5%.

During the Review Year, China's meat market remained highly competitive. Affected by factors including costs, total production capacity, demand and the outbreak of the African swine fever, pork prices declined in early 2018, followed by a slight rebound in the second half of the year. In addition, due to the outbreak of the African swine fever which affected the deployment of hogs between provinces, different regions recorded different price changes. During the Review Year, the output of pork in China decreased by 0.9% to 54.04 million tons. Due to the uncertainties of the economic environment and pork market, the operation of the companies in the sector was affected to a certain extent.

During the Review Year, the Chinese government continued to improve the management on the livestock and poultry slaughtering industry with a view to enhancing the supervision of slaughtering and safeguarding product safety. According to the relevant requirements of the Notice of the General Office of the Ministry of Agriculture on Strengthening Management of Livestock & Poultry Slaughtering Industry in 2018, the focus shall be placed on promoting quality standard development of the livestock and poultry slaughtering industry, strengthening the supervision of the quality and safety of slaughtering, encouraging joint governance in the slaughtering industry, improving the management standard and facilitating the healthy growth of the livestock and poultry slaughtering industry. In addition, the Chinese government also emphasized environmental protection issues, including tightening the pollutant emission standards, aggravating dischargers' liabilities, optimizing the environmental protection credit ratings and imposing severe punishment etc. The Board believes that, with the government's efforts to step up favorable policies of eliminating unqualified slaughterhouses and the phasing out of small slaughterhouses under environmental laws and regulations which strengthen the competitive advantages of large-scale slaughterhouses, the Group will continue to capitalize on its core competitive edges on resources, strategies and brands and capture the opportunities arising therefrom to accelerate stable business development.

During the Review Year, due to the African swine fever outbreak, the government issued several notices and circulars to regulate the deployment of hogs and circulation of meat products, having great impact on the industry. Besides, various discussions with relevant parties are organized by the government to formulate proposals and work plans for regional control of the African swine fever, so as to maintain uniform management of animal diseases prevention in different regions, deployment of hogs and related products and optimisation of the industrial landscape.

In face of the uncertainties during the Review Year, the management of the Group adopted a more prudent strategy and continued to adhere to the Group's corporate philosophy of providing quality meat products to consumers amid the difficult market environment.

BUSINESS REVIEW

During the Review Year, the Group's average purchase cost of hog decreased by 18.0% as compared to that of the previous year. Hog prices dropped in mid-January, followed by a consecutive decline for five months and a slight rise in June. Affected by the outbreak of African swine fever in early August, hog prices in general plunged dramatically as compared to the previous year. In view of the industrial fluctuations and the epidemic, consumers have become more prudent in food safety. As one of the leading companies in the industry, the Group strengthened epidemic prevention and ensured product safety during this period in order to offer safe products to consumers. In the second half of the Review Year, the sales and gross margin of the Group were on upside.

The Group expected that the relevant national policy concerning African swine fever would have impact on the hog slaughtering industry, as well as the integration and development of the meat product industry, over a period of time. As a renowned meat products processing enterprise in China, Yurun Food has a competitive edge in nationwide presence with leading inspection and testing capabilities. These advantages will continue to generate positive effect on the operation of Yurun Food in the future.

Product Quality and Research and Development

As one of the leading industry players, Yurun Food has several products which 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)" and a China Time-honored Brand, "Popular Meat Packing(大眾肉聯)". These achievements are contributed by the philosophy "You trust because we care" that Yurun Food has been following throughout years in leading the industry through technical research and development and in ensuring product quality through advanced production processes and technologies.

Yurun Food ranked first in terms of combined market shares of chilled pork and low temperature meat products ("LTMP") in China, being the top player in the LTMP market for twenty years in a row and in the chilled pork market for seven consecutive years at the Press Conference of Product Sales Statistics of the PRC Market (中國市場商品銷售統計結果新聞發佈會) held in March 2018. The Group will continue to guarantee 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 to promote the Group's overall business development during the Review Year. In 2018, sales of chilled pork of the Group were HK$9.668 billion (2017: HK$9.275 billion), representing an increase of 4.2% over last year, accounting for approximately 75% (2017: 75%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2017: 91%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK$1.922 billion (2017: HK$1.914 billion), comparable to last year, accounting for approximately 15% (2017: 16%) of the total revenue of the Group prior to inter-segment eliminations and approximately 88% (2017: 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 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.

With respect to the upstream slaughtering, the annual production capacity of the Group was 52.65 million heads as at 31 December 2018, representing a year-on-year net decrease of 2.50 million heads.

As at 31 December 2018, the annual production capacity of the downstream processed meat segment was maintained at approximately 312,000 tons per year, same as that as at 31 December 2017.

FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

The Group reported revenue of HK$12.651 billion in 2018, representing an increase of 4.9% from HK$12.057 billion last year. During the Review Year, due to the provision of approximately HK$3.914 billion (2017: HK$674 million) made by the Group for impairment losses on non-current assets, the loss attributable to equity holders increased by HK$2.844 billion from HK$1.915 billion of the previous year to HK$4.759 billion. Basic and diluted loss per share was HK$2.611 (2017: HK$1.051).

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, losses on write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations, was HK$648 million (2017: HK$881 million), representing a significant reduction in loss of approximately 26.5% from 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

In view of the slow economic growth of China and the Group's operating pressure over the past few years, the Board performed impairment assessment on relevant non-current assets of the Group according to the requirement of the "International Accounting Standard (the "IAS") 36 – Impairment of Assets".

During the assessment process, in particular for the cash flow projection model which covers a five-year period, many assumptions on future performance were used, including but not limited to those on future sales volume, gross profit margin, expenses ratio and discount rate. 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 units with continuing operation and engaged an independent asset appraisal firm with professional qualification in the People's Republic of China ("PRC") (the "Valuer") to assess the assets. 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, the Directors and the management believed that the operation performance of the Group would improve gradually in the next five years. This had formed the basis and assumption of the cash flow projection model for the past few years. The Board believes that such calculation method fulfills the requirements of IAS 36. The former auditors, however, considered that the data and the assumptions adopted had not fully reflected the operational and financial challenges facing the Group. Therefore, no agreement on asset impairment was reached between the former auditors and the Board in past years.

The former auditors of the Company issued their disagreement on the impairment of non-current assets of the Company for four consecutive years. The Board has been dedicated to resolving the disagreements with the auditor on this issue. In order to assess the impairment of the non-current assets of the Group more prudently in accordance with the requirements of IAS 36 and to reach an agreement with the auditor, the Company raised the discount rate from 17% used in 2017 to 19% in 2018 to reflect the Group's exposure to risks. Other future assumptions (including but not limited to future sales, gross profit margin and expenses ratio, etc.) used in the cash flow projection model which covers a five-year period were reasonable and prudent assumptions agreed by the auditor. In addition, the Company also engaged the Valuer to conduct professional assessment on the non-current assets of the Group. Based on the above assessment and analysis, the Board and the management made a significant provision for impairment losses of approximately HK$3.914 billion (2017: HK$674 million) during the Review Year. Provision for impairment losses made from 2015 to 2018 amounted to approximately HK$7.123 billion in aggregate. Although the amount is significant but the impairment losses on non-current assets are accounting losses and non-cash item, and therefore have no effect on the cash flow of the Group's operation. After such provision for impairment losses, the disagreement between the Company and BDO Limited (the "Auditor"), the independent auditor of the Company on impairment losses was resolved as at 31 December 2018. After the aforesaid provision for impairment losses, the management expected that there will be no further significant impairment losses on those non-current assets in a short run as and when the operation of the Group improves continuously, unless the operating environment changes dramatically.

Although the Company reached a consensus with the Auditor on the impairment assessment for the non-current assets as at 31 December 2018, the Auditor considers that the amount of impairment losses on the non-current assets (as a profit and loss item) recognised for the year ended 31 December 2018 is overstated. The reason is the former auditor of the Company disagreed with the impairment assessment conducted by the Company and opined that the impairment losses recognised were understated and the carrying amounts of the non-current assets were overstated in the consolidated financial statements for the year ended 31 December 2017. In addition, due to the carrying amounts of the non-current assets as at 31 December 2017 and their impairment losses were misstated in the consolidated financial statements for the year ended 31 December 2017, these balances and amounts presented as corresponding figures in the consolidated financial statements are not comparable. On such basis, the Auditor has issued a qualified opinion on the impairment loss (being a profit and loss item) during the Review Year and the comparable figures for the year 2017.

Revenue

Chilled and Frozen Pork

The hog price in China has been declining since the first half of 2017. Despite a rebound in the second half of 2018, the average price for the year was still lower than that of last year generally. During the Review Year, the Group's average purchase price of hogs decreased by 18.0% compared to 2017. In response to the declining pork price, the management refined the strategies to increase the slaughtering volume. Due to this factor and coupled with the spread of African swine fever that boosted the sales of the Group, the slaughtering volume of the Group during the Review Year amounted to approximately 6.61 million heads, representing an increase of approximately 21.0% over last year. The increase in the slaughtering volume softened the impact of the declining pork price, resulting in a rise in the total revenue from the upstream business prior to inter-segment eliminations by 5.2% to HK$10.694 billion (2017: HK$10.162 billion). Among the total revenue, the sales of chilled pork increased by 4.2% to HK$9.668 billion (2017: HK$9.275 billion), accounting for approximately 75% (2017: 75%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (2017: 91%) of the total revenue of the upstream business. Sales of frozen pork increased by 15.7% from 2017 to HK$1.026 billion (2017: HK$887 million), accounting for approximately 10% (2017: 9%) 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 were HK$2.176 billion (2017: HK$2.134 billion), representing an increase of 2.0% over last year.

Specifically, revenue of LTMP was HK$1.922 billion, comparable to HK$1.914 billion of last year. LTMP remained as a key revenue driver of the processed meat business, accounting for approximately 88% (2017: 90%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$254 million (2017: HK$220 million), representing an increase of 15.3% over last year, accounting for approximately 12% (2017: 10%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group significantly increased by 33.5% from HK$723 million in 2017 to HK$966 million during the Review Year. Overall gross profit margin increased by 1.6 percentage points to 7.6% from 6.0% of the previous year. The Group adjusted its sales channels, where appropriate, to reduce sales through those with lower gross profit margins, following its profit enhancement strategy.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 5.2% and 1.0% respectively (2017: 3.4% and -3.3% respectively). The overall gross profit margin of the upstream segment was 4.8%, representing an increase of 1.9 percentage points from 2.9% of the previous year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 19.4%, representing a decrease of 0.5 percentage point from 19.9% of the previous year. Gross profit margin of HTMP was 30.0%, representing a significant increase of 6.6 percentage points from 23.4% over the previous year. The overall gross profit margin of the downstream segment was 20.7%, comparable to 20.3% of last year.

Other Net Loss

During the Review Year, other net loss of the Group was HK$64.30 million (2017: HK$371 million), representing a decrease of 82.7% over last year. Other net loss during the Review Year was mainly attributable to non-recurring losses, including provision for losses on litigations (please refer to the section headed "Contingent Liabilities" for details), 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$5.241 billion, representing an increase of HK$3.247 billion from HK$1.994 billion of the previous year. Such increase was mainly due to the substantial provision of impairment losses on non-current assets of approximately HK$3.914 billion (2017: HK$674 million), and increase in transportation expenses resulting from increasing sales. Operating expenses excluding impairment losses amounted to HK$1.327 billion (2017: HK$1.319 billion), representing 10.5% (2017: 10.9%) of the Group's revenue.

Results of Operating Activities

During the Review Year, operating loss of the Group was HK$4.339 billion (2017: HK$1.641 billion), representing an increase of HK$2.698 billion from the previous year.

Finance Costs

During the Review Year, net finance costs of the Group were HK$428 million (2017: HK$264 million), representing an increase of 62.1% over last year. The increase in net finance costs was mainly due to increase in interest expenses, and exchange losses of the Group arising from the depreciation of Renminbi ("RMB") during the Review Year.

Income Tax

Income tax credit for the Review Year was approximately HK$10.32 million, while that the income tax expenses of the previous year was approximately HK$9.97 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$4.759 billion (2017: HK$1.915 billion). Loss arising from the principal business, being loss attributable to equity holders excluding government subsidies, gains or losses on disposal of non-current assets, net foreign exchange gain/loss, impairment losses, provision for losses on litigations and other non-operating losses, was HK$648 million (2017: HK$881 million), representing a significant reduction in loss of approximately 26.5% from the previous year.

FINANCIAL RESOURCES

As at 31 December 2018, the Group's cash balance together with pledged deposits and restricted bank deposits were HK$264 million, representing a decrease of approximately HK$7 million from HK$271 million as at 31 December 2017. Approximately 91% (31 December 2017: 83%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or RMB, and approximately 8.5% (31 December 2017: 16%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 31 December 2018, the Group had outstanding bank and other loans of HK$7.059 billion, representing a decrease of HK$373 million from HK$7.432 billion as at 31 December 2017, of which bank and other loans of HK$6.356 billion (31 December 2017: HK$7.214 billion) are repayable within one year.

All borrowings were denominated in RMB, which were consistent with the borrowings as at 31 December 2017. As at 31 December 2018, the Group's fixed-rate debt ratio was 81.0% (31 December 2017: 69.9%).

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, the capital expenditure of the Group was HK$82.75 million (2017: HK$62 million) for the payment for construction in progress of those projects already commenced.

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 2018, the Group could not fulfil the covenants in respect of certain bank loans with an aggregate amount of approximately HK$5.002 billion (31 December 2017: HK$5.916 billion), of which (i) HK$115 million (31 December 2017: HK$120 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 the date of this report, the aforesaid bank loans were not renewed and bank loans of HK$3 million (31 December 2017: HK$46 million) were repaid.

The Group has maintained close communication 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 actions against the Group and all parties hoped 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 2018, the total assets and total liabilities of the Group were HK$13.676 billion (31 December 2017: HK$19.174 billion) and HK$10.851 billion (31 December 2017: HK$11.261 billion) respectively, representing a decrease of HK$5.498 billion and HK$410 million as compared with the total assets and liabilities as at 31 December 2017.

As at 31 December 2018, the property, plant and equipment of the Group amounted to HK$7.701 billion (31 December 2017: HK$12.395 billion), representing a decrease of HK$4.694 billion as compared with that as at 31 December 2017. Such decrease was mainly attributable to an impairment loss of approximately HK$3.585 billion (2017: HK$545 million) in respect of certain assets, disposal/write off of property, plant and equipment with a carrying amount of approximately HK$529 million (2017: HK$284 million) during the Review Year, and decrease of approximately HK$287 million (2017: increase of HK$785 million) in the carrying amount of property, plant and equipment as at 31 December 2018 due to movement in foreign exchange arising from depreciation of RMB during the Review Year.

Lease prepayments as at 31 December 2018 amounted to HK$1.852 billion (31 December 2017: HK$2.516 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. Lease prepayments decreased by HK$664 million as compared with the previous year mainly due to the impairment losses of approximately HK$329 million (2017: HK$129 million) and disposed/write-off of lease prepayments of approximately HK$93.38 million (2017: HK$83.25 million) recognised and the movement in foreign exchange arising from depreciation 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 2018, it amounted to HK$219 million (31 December 2017: HK$242 million) and HK$949 million (31 December 2017: HK$873 million) 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$4.757 billion (2017: HK$1.915 billion). As at 31 December 2018, net current liabilities of the Group were HK$7.264 billion (31 December 2017: HK$7.912 billion). Its total bank and other loans and finance lease liabilities amounted to HK$7.153 billion (31 December 2017: HK$7.564 billion), of which HK$6.356 billion (31 December 2017: HK$7.215 billion) is due within 12 months from that date. Although the Group failed to fulfil the terms of certain bank loans as mentioned above and some subsidiaries of the Group are facing various litigations, the Group has been in active discussion with the bank on the renewal issue and is optimistic during the course of discussion. The Directors believe that the bank loans due within a year can be renewed upon maturity. In addition, the Group will implement its operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations, and to improve cash flow by proactively taking measures to accelerate the recovery of outstanding receivables. 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 2018, equity attributable to equity holders of the Company was HK$2.774 billion in total, representing a decrease of HK$5.088 billion as compared with HK$7.862 billion as at 31 December 2017.

As at 31 December 2018, the total debt/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 72.1%, representing an increase of 23.1 percentage points from 49.0% as at 31 December 2017. As at 31 December 2018, after excluding cash in bank, pledged deposits and restricted bank deposits, the net debt/net gearing ratio was 69.4% (31 December 2017: 47.3%).

CHARGES ON ASSETS

As at 31 December 2018, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$2.615 billion (31 December 2017: HK$3.482 billion), certain investment properties of the Group with a carrying amount of HK$104 million (31 December 2017: HK$147 million), certain lease prepayments of the Group with a carrying amount of approximately HK$984 million (31 December 2017: HK$1.521 billion), and certain trade receivables of the Group with a carry amount of approximately HK$28 million (31 December 2017: HK$36 million) were pledged against certain bank loans with a total amount of approximately HK$3.949 billion (31 December 2017: HK$4.379 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 in 2019. The preliminary approved capital expenditure plan for 2019 is expected to be approximately RMB100 million, which will be used mainly for the construction in progress. As at the date of this report, such budget and plan are not yet finalised and the Group has not identified any particular target or opportunity at this stage.

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 2018, there were outstanding litigations initiated by certain 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$2.188 billion (31 December 2017: HK$1.481 billion) or otherwise assets of equivalent amount. As at 31 December 2018, certain assets of the Group with a carrying amount of approximately HK$520 million (31 December 2017: HK$173 million) were frozen by the courts in the PRC, including the restricted bank deposits of approximately HK$22 million (31 December 2017: HK$47 million). The Group is negotiating with the banks to resolve such litigations.

There were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming construction fees and the late penalties in an aggregate of approximately HK$327 million (31 December 2017: HK$249 million). However, based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group may be liable to pay approximately HK$191 million (31 December 2017: HK$168 million) for the settlement of the aforesaid construction fee and penalties. Provision for such amounts was made accordingly. Pursuant to the judgments, the Group was ordered to make an immediate payment of construction fee payables of approximately HK$95 million (31 December 2017: HK$62 million) and the corresponding late penalties of approximately HK$41 million (31 December 2017: HK$27 million). As of the date of this report, litigations regarding the remaining claims of approximately HK$191 million (31 December 2017: HK$159 million) are still in progress.

During the Review Year, there were outstanding litigations initiated by certain local governments in the PRC against certain subsidiaries and a related company of the Group demanding an immediate cash payment of approximately HK$131 million (31 December 2017: HK$174 million). The Group has made full provisions for the aforesaid claims.

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Other than purchases of certain equipment and materials and payment of certain professional fees in 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 2018, the Group had approximately 10,000 (31 December 2017: approximately 11,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$626 million, accounting for 5.0% of the revenue (2017: HK$594 million, accounting for 4.9% of the revenue) of the Group.

The Group offered its employees with remuneration and other employee benefits comparable to the market, 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 the 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 making the best effort to minimise the environmental impact of its 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.

RESPONSES FROM THE DIRECTORS REGARDING THE DISCLAIMER OF OPINION SET OUT IN THE INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Disagreement between the Directors and the independent auditor

The Auditor stated in the Independent Auditor's Report (the "Independent Auditor's Report) in this annual report that they are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate.

As disclosed in note 3, after taking into account of the Group's cash flow projections covering a period of twelve months from the end of the reporting period of the year ended 31 December 2018 prepared by the management, and assuming the success of the measures to mitigate the liquidity pressure and to improve financial position, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors consider the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. However, the Auditor considered the successful outcomes of the plans and measures mentioned in note 3 are subject to multiple uncertainties.

Except as mentioned above, the Company mentioned about the incident relating to Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder and the Honorary Chairman of the Company, a Senior Advisor to the Board and a director of certain key operating subsidiaries of the Group in the annual reports of the Company of previous years. As described in previous years, the Directors are of the view that the incident relating to Mr. Zhu did not have any material adverse impact on the operation of the Group. In addition, Mr. Zhu had returned home (for details, please refer to the announcement of the Company dated 22 January 2019). Therefore, the Directors are of the view that the incident relating to Mr. Zhu did not have any impact on the going concern of the Group.

The Company has been actively tackling the challenges from all aspects

The Directors considered that although the Group is facing various challenges, including loss on operation, breach of covenants of certain bank loans, increasing litigations, etc, the Directors and the management have been actively tackling these problems, including but not limited to:

- Actively negotiating with banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans and to obtain additional new financing and other source of funding as and when required: As disclosed in the announcements and the financial statements of the Company, the Group has been actively negotiating with banks to renew bank loans that have fallen due and other financing related issues. During the course of communication with the banks, the Group understands that all parties hope that the Group can maintain normal operation, and the banks have also expressed that they will not take any radical actions against the Group. Despite the overdue loans, the Directors and the management believe that the likelihood of demands from banks for immediate repayment is not high. Therefore, the operation of the Group would not be significantly affected. In fact, the Group has a record of renewing bank loans successfully. Thus, the Directors and the management believe that the Group is able to repay, renew or extend the bank loans and other liabilities when they fall due.

- Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations: During 2018, the Directors and the management actively implemented policies to improve profitability and to control costs to reduce the burden of the Group and such policies have been effective. In 2019, the Directors and the management will continue to implement the relevant policies to increase its operating cash flows.

- Taking measures to accelerate the collections of outstanding receivables: In 2019, the Directors and the management will continue their efforts and take various feasible measures to accelerate the collections of outstanding receivables.

Taking into account of the above situation, the Directors consider 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 31 December 2018.

The views of the Audit Committee and the Directors

With respect to the consolidated financial statements of the Group for the year ended 31 December 2018, the Audit Committee of the Company strictly reviewed the relevant documents and discussed the disagreement between the Directors and the Auditor on the position and view on going concern basis at the meetings of the Audit Committee. The Audit Committee and the Directors share the same position and view on the going concern basis.

To resolve the disagreement with the Auditor on the going concern basis

As mentioned above and disclosed in note 3, during 2019, the Directors and the management will continue to adopt all feasible measures and make the best endeavor to improve the cash flows and business operation, in order to resolve the disagreements with the Auditor as soon as possible.

- Improvements in net losses

  The Directors believe that when the Group is able to turn its operation from loss-making to profit-making and maintain healthy cash flows to repay bank loans, the uncertainty of the Auditor on the going concern of the Group could then be eliminated. In fact, the operation of the Group has improved in recent years. In 2018, loss arising from the principal business was HK$648 million, representing a significant reduction in loss of 26.5% from 2017, which reflects the management's ability to improve the operation.

EXECUTIVE DIRECTORS

Ms. Zhu Yuan, aged 32, has been appointed as an executive Director, the chairman of the Board, the chief executive officer, a member of both the Nomination Committee and Remuneration Committee and an authorised representative of the Company effective from 28 March 2019. She obtained a bachelor's degree of commerce in business economics and finance from The University of New South Wales and a master's degree of business administration from The University of Technology, Sydney. She has passed papers 1 and 6 in the Licensing Examination for Securities and Futures Intermediaries. Prior to joining the Group, Ms. Zhu has over six years of working experience in human resources, finance analysis and investment.

Mr. Yang Linwei, aged 50, 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 23 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 48, 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 16 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 50, 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 58, 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 60, 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.

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 2018 to 31 December 2018 (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 six Directors including, Zhu Yuan (Chairman), 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 19 of this annual report. With the exception of Zhu Yuan who was appointed as the chairman of the Board, the chief executive officer of the Company and an executive Director with effect from 28 March 2019, all Directors as at the date of this annual report served throughout the Review Year. Yu Zhangli resigned as an executive Director and the chairman of the Board, and Li Shibao resigned as an executive Director and the chief executive officer of the Company, both effective from 28 March 2019. Sun Tiexin resigned as an executive Director effective from 7 March 2019.

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.

During the Review Year, the Chairman of the Board was Yu Zhangli, and the Chief Executive Officer is Li Shibao. The positions of the Chairman of the Board and the Chief Executive Officer were 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.

During the Review Year, the members of the Board (including the Chairman and the Chief Executive Officer) did 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) (resigned on 28 March 2019)*	4/4	N/A	1/1	3/3	1/1
Li Shibao *(resigned on 28 March 2019)*	4/4	N/A	N/A	N/A	1/1
Sun Tiexin *(resigned on 7 March 2019)*	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	5/5	1/1	3/3	1/1
Chen Jianguo	4/4	5/5	1/1	3/3	1/1
Miao Yelian	4/4	5/5	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)* Chen Jianguo* Yu Zhangli+ *(resigned on 28 March 2019)* Zhu Yuan+ *(appointed on 28 March 2019)*	Chen Jianguo* *(Chairman)* Gao Hui* Yu Zhangli+ *(resigned on 28 March 2019)* Zhu Yuan+ *(appointed on 28 March 2019)*
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 former external auditor and the appointment of new 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 criteria include but are not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, in particular experience in the Group's industry, and recommendations from the management team and other knowledgeable individuals.

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

BOARD DIVERSITY POLICY

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

As at the date of this report, the Board comprises six Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service. The biographical details of the Board members are set out on page 19 of this annual report.

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
2018 annual audit	5,200
Non-audit services*	879
Total	6,079

* *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. During the Review Year, the Group's average purchase price of hogs fluctuated ranging from approximately RMB10.31 to RMB15.37 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 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 35 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, the State Administration of Market Regulation, and the Ministry of Ecology and Environment. These regulatory authorities have extensive discretion and authority to regulate the hog slaughtering and processed meat industries in China in many aspects, including, without limitation to, setting hygiene standards for production and quality standards for processed meat products. If the Group fails to comply with the standards set by the relevant regulatory authorities or such standards result in increase in our production costs and 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 53 to 55 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.

DIVIDEND POLICY

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

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

The shareholders of the Company may not expect any dividends under the following circumstances:

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

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

GOING CONCERN

The auditors of the Company have expressed a disclaimer of opinion on the consolidated financial statements of the Group due to the potential interaction of the multiple uncertainties relating to going concern and the significance of their possible cumulative effects, on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of the Independent Auditor's Report of this annual report. During the Review Year, the Company has undertaken a number of measures to resolve the disclaimer opinion. Further information on the Group's going concern can be found in note 3(b) to the consolidated financial statements and the paragraph headed "Responses from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2018" on pages 16 to 18 under the Management Discussion and Analysis of this annual report.

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 2018 annual report, together with the report of the Directors and the consolidated financial statements of the Group for the year ended 31 December 2018.

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 Review 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 2018 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 56 to 133.

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 2018 are set out in note 16 to the consolidated financial statements.

BUSINESS REVIEW

Review of business and performance

A business review of the Group, a discussion and analysis of the Group's performance and material factors underlying its results and financial position during the year and the outlook of the Group are set out in the Chairman's Statement and the Management Discussion and Analysis from pages 3 to 6 and pages 7 to 18 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 27 to 31 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 2018, the Group had approximately 10,000 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 39 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 60 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 134 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK$358,774,000.

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

Zhu Yuan [R/N] *(Chairman and Chief Executive Officer, appointment with effect from 28 March 2019)*
Yu Zhangli [R/N] *(Chairman, resigned as the Chairman and executive Director on 28 March 2019)*
Li Shibao *(Chief Executive Officer, resigned as the Chief Executive Director and Executive Director on 28 March 2019)*
Sun Tiexin *(resigned on 7 March 2019)*
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 86(2) of the Company's Bye-laws, Zhu Yuan will retire from office and, being eligible, offer herself for re-election at the forthcoming annual general meeting ("AGM"). In accordance with Bye-law 87 of the Company's Bye-laws, Chen Jianguo and Miao Yelian will retire from office by rotation and, being eligible, offer themselves for re-election at the 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 19 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 2018 are set out in note 12 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 2018.

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 2018, the number of issued ordinary shares of the Company was 1,822,755,650; and the interests and short positions of the Directors and the 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 [3]	Total	Approximate percentage of interest
Yu Zhangli [1]	Beneficial owner	89,000	5,000,000	5,089,000	0.28%
Li Shibao [1]	Beneficial owner	89,000	3,750,000	3,839,000	0.21%
Sun Tiexin [2]	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%

Notes:

(1) Yu Zhangli has resigned as an executive Director and the chairman of the Board, and Li Shibao resigned as an executive Director and the chief executive officer of the Company, both effective from 28 March 2019.

(2) Sun Tiexin has resigned as an executive Director effective from 7 March 2019.

(3) 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 2018, 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 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:

Name or category of participant	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2018	Exercise price per share[3] HK$	Date of grant (DD.MM.YYYY)	Option period[1] (DD.MM.YYYY)
	Number of shares which may be issued pursuant to the share options							
Directors								
Yu Zhangli (resigned on 28 March 2019)	5,000,000	–	–	–	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Li Shibao (resigned on 28 March 2019)	3,750,000	–	–	–	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Sun Tiexin (resigned on 7 March 2019)	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	–	–	(3,000,000)	10,300,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	28,450,000	–	–	(1,675,000)	26,775,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	41,750,000	–	–	(4,675,000)	37,075,000			
Total	55,750,000	–	–	(4,675,000)	51,075,000			

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 4(q)(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 2018 are set out in the paragraph headed "Share Option Schemes" on pages 43 to 45 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 2018, so far as is known to the Directors and the chief executive of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

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

Note:

These shares represent the shares of the Company held by Willie Holdings Limited ("Willie Holdings") as beneficial owner. Willie Holdings is owned as to 93.41% by 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 2018, 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 37 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 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 RMB48,120,000 (equivalent to approximately HK$56,853,000).

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 cap of transaction amount for the financial year ending 31 December 2017 was RMB9.60 million and for the financial years ending 31 December 2018 and 2019, the annual caps were revised to RMB20.00 million and RMB30.00 million respectively on 18 September 2018. Details of the revision of the existing annual cap of the Pig Blood Products Supply Framework Agreement were disclosed in the Company's announcement dated 18 September 2018.

The aggregate purchase amount pursuant to the Pig Blood Products Supply Framework Agreement during the year amounted to approximately RMB13,424,000 (equivalent to approximately HK$15,860,000).

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.

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

On 17 December 2015, the Company entered into the 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 "Purchase Framework Agreements"). Pursuant to the Purchase Framework Agreements, the Selling Entities have agreed to supply to the Group and the Group has agreed to purchase hogs, from time to time, for its production use. The Purchase Framework Agreements have a term of three years, commencing on 1 January 2016 and ending on 31 December 2018. Details of the 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 were RMB100 million, RMB105 million and RMB110 million respectively.

The aggregate purchase amount pursuant to the Purchase Framework Agreements during the year amounted to approximately RMB1,214,000 (equivalent to approximately HK$1,433,000).

The Purchase Framework Agreements expired on 31 December 2018. Prior to their expiration, on 18 December 2018, the Company entered into new purchase framework agreements with the Selling Entities respectively (collectively, the "Hogs Purchase Framework Agreements") for the continual sourcing of hogs from the Selling Entities and/or their subsidiaries upon expiry of the Purchase Framework Agreements on 31 December 2018. Pursuant to the Hogs Purchase Framework Agreements, the price for the sourcing of hogs shall be determined on an arm's length basis, and negotiated between the parties to the Hogs Purchase Framework Agreements 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 2019 and ending on 31 December 2021. Details of the Hogs Purchase Framework Agreements were disclosed in the Company's announcement dated 18 December 2018. The annual caps for the financial years ending 31 December 2019, 2020 and 2021 are RMB45.94 million, RMB48.23 million and RMB50.64 million respectively.

Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. The 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.

* *For identification purposes only*

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

On 26 October 2018, the Company entered into a carton boxes packaging materials purchase framework agreement (the "Carton Boxes Packaging Materials Purchase Framework Agreement") with 濉溪福潤禽類食品有限公司 (Suixi Furun Food Group Limited*), being entity incorporated in the PRC owned and/or controlled by Mr. Zhu and his associates, which is principally engaged in the business of slaughtering of poultry and manufacture and sales of packaging materials (the "Selling Entity"), for the purchases of carton boxes packaging materials from the Selling Entity. Pursuant to the Carton Boxes Packaging Materials Purchase Framework Agreement, the price for the sourcing of carton boxes packaging materials shall be determined on an arm's length basis, and negotiated between the parties to the Carton Boxes Packaging Materials Purchase Framework Agreement with reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Carton Boxes Packaging Materials Purchase Framework Agreement has a term commencing on 26 October 2018 and ending on 31 December 2020. Details of the Carton Boxes Packaging Materials Purchase Framework Agreement were disclosed in the Company's announcement dated 26 October 2018. The annual caps for the financial years ending 31 December 2018, 2019 and 2020 was/will be RMB4.5 million, RMB18.0 million and RMB21.6 million respectively.

The aggregate purchase amount pursuant to the Carton Boxes Packaging Materials Purchase Framework Agreement during the year amounted to approximately RMB2,868,000 (equivalent to approximately HK$3,389,000).

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 Entity, being entity owned and/or controlled by Mr. Zhu and his associates, is associate of Mr. Zhu and is 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 Carton Boxes Packaging Materials Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Carton Boxes Packaging Materials Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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", "Purchase of hogs from the Selling Entities" and "Purchase of carton boxes packaging materials from the Selling Entity" 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 47 to 50 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 37 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 20 to 36 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.

CHANGE OF AUDITOR

Following the resignation of 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. On 3 December 2018, Moore Stephens resigned as the auditor of the Company and BDO Limited ("BDO") 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 year ended 31 December 2018 were audited by BDO, whose term of office will retire at the close of the AGM. A resolution for the re-appointment of BDO as the auditor of the Company will be proposed at the AGM.

By Order of the Board

Yu Zhangli
Chairman
Hong Kong, 27 March 2019

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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 56 to 133, which comprise the consolidated statement of financial position as at 31 December 2018, 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 due to the potential interaction of the multiple uncertainties relating to going concern and the significance of their possible cumulative effects on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report. In all other 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

As described in note 3(b) to the consolidated financial statements, the Group incurred a net loss of HK$4,756,879,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of HK$7,264,335,000. Its current and non-current bank and other borrowings amounted to HK$6,355,546,000 and HK$703,678,000 as at 31 December 2018 respectively, while the Group maintained its cash and cash equivalents of HK$218,687,000 only. In addition, as disclosed in note 3(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$5,001,676,000 as at 31 December 2018. These bank loans balance was presented as the Group's current bank borrowings in the consolidated statement of financial position. Included in these bank loans were HK$2,187,878,000 of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2018 and up to date of this report, the courts in the PRC have ordered to freeze the Group's bank deposits of HK$22,043,000 and certain property, plant and equipment with carrying amount of HK$520,393,000. Details of these litigations are set out in note 28(iii) to the consolidated financial statements. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's plans and measure to mitigate its liquidity pressure and to improve its financial performance as set out in note 3(b) to the consolidated financial statements, including (i) the successful negotiation with banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans; (ii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required; (iii) the Group is able to implement its operation plans to enhance profitability and control costs and to generate adequate cash flows from operations; and (iv) taking active measures to expedite collection of outstanding receivables. The successful outcomes of the abovementioned plans and measures are subject to multiple uncertainties.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in note 3(b) to the consolidated financial statements, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

The predecessor auditor of the Company disclaimed their audit opinion on the consolidated financial statements for the year ended 31 December 2017 relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2017 would affect the balances of these financial statements items as at 1 January 2018 and the corresponding movements, if any, during the year ended 31 December 2018. The balances as at 31 December 2017 and amounts for the year then ended are presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2018. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2018 also for the possible effect of the disclaimer of audit opinion on 2017 consolidated financial statements on the comparability of 2018 figures and 2017 figures in 2018 consolidated financial statements.

Comparative figures and Impairment loss on certain non-financial assets recognised for the year

The directors of the Company have performed impairment assessment of the Group's non-financial assets as at 31 December 2017 according to International Accounting Standard 36 Impairment of Assets and recognised impairment losses accordingly. After the impairment losses, the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments ("the Non-financial Assets") as at 31 December 2017 amounted to HK$12,394,914,000, HK$2,441,581,000, HK$18,283,000 and HK$1,114,729,000 respectively. The predecessor auditor of the Company disagreed with the impairment assessment performed by the directors of the Company and the predecessor auditor opined that the impairment losses of HK$674,491,000 recognised in the consolidated financial statements for the year ended 31 December 2017 were understated and the carrying amounts of the Non-financial Assets were overstated. However, they were not able to quantify the amount misstated.

For the year ended 31 December 2018, impairment losses of HK$3,584,588,000 and HK$329,310,000 on the Group's property, plant and equipment and leased prepayments respectively are recognised and charged to the consolidated statement of profit or loss. Due to the carrying amounts of the Non-financial Assets as at 31 December 2017 were overstated, the amount of impairment losses on the Non-financial Assets recognised for the year ended 31 December 2018 is overcharged but we are not able to quantify the amount misstated. Also on the basis that the carrying amounts of the Non-financial Assets as at 31 December 2017 and their impairment losses were misstated in the consolidated financial statements for the year ended 31 December 2017, these balances and amounts presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2018 are not comparable to the current year end balances and amounts of depreciation charge, amortisation and impairment losses recognised for the year ended 31 December 2018.

In addition, as the Non-financial Assets as stated above were held by various subsidiaries of the Company, any further impairment losses on the Non-financial Assets found to be necessary would result in recognising impairment losses on the Company's investments in subsidiaries and amounts due from subsidiaries with carrying amount of HK$7,950,970,000 as at 31 December 2017 and increasing the Company's loss for the year ended 31 December 2017. Due to the carrying amounts of the Non-financial Assets as at 31 December 2017 were overstated and as a consequence the carrying amount of the Company's investments in subsidiaries and amounts due from subsidiaries as at 31 December 2017 was overstated in the note to the consolidated financial statements for the year ended 31 December 2017, these balances presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2018 are not comparable to the current year end balances.

OTHER MATTER

Had we not disclaimed our opinion, we would have issued a qualified opinion due to a material misstatement of the impairment loss on Non-financial Assets for the year ended 31 December 2018 and also on the basis that the carrying amount of Non-financial Assets as at 31 December 2017 and the impairment losses for the year then ended are not comparable to the current year end balances and amounts recognised for the year ended 31 December 2018.

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed a disclaimer of opinion on those statements on 20 March 2018.

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 International Financial Reporting Standards issued by the International Accounting Standards Board 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.

BDO Limited
Certified Public Accountants

Amy Yau Shuk Yuen
Practising Certificate Number: P06095

Hong Kong, 27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Revenue	7	**12,650,595**	12,057,239
Cost of sales		**(11,685,060)**	(11,333,870)
Gross profit		**965,535**	723,369
Other net loss	8	**(64,302)**	(370,790)
Distribution expenses		**(585,219)**	(568,975)
Administrative and other operating expenses		**(4,655,430)**	(1,424,858)
Results from operating activities		**(4,339,416)**	(1,641,254)
Finance income		**4,163**	3,298
Finance costs		**(431,943)**	(267,116)
Net finance costs	9(a)	**(427,780)**	(263,818)
Loss before income tax	9(b) & (c)	**(4,767,196)**	(1,905,072)
Income tax credit/(expense)	10	**10,317**	(9,973)
Loss for the year		**(4,756,879)**	(1,915,045)
Attributable to:			
Equity holders of the Company		**(4,758,804)**	(1,915,101)
Non-controlling interests		**1,925**	56
Loss for the year		**(4,756,879)**	(1,915,045)
Loss per share			
Basic and diluted	15	**$(2.611)**	$(1.051)

The notes on pages 63 to 133 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 2018

	Note	2018 $'000	2017 $'000
Loss for the year		**(4,756,879)**	(1,915,045)
Other comprehensive income for the year (after tax and reclassification adjustments)	14		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(339,092)**	447,514
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries/deconsolidation of a deemed subsidiary		**8,246**	(15,042)
		(330,846)	432,472
Total comprehensive income for the year		**(5,087,725)**	(1,482,573)
Attributable to:			
Equity holders of the Company		**(5,087,605)**	(1,485,974)
Non-controlling interests		**(120)**	3,401
Total comprehensive income for the year		**(5,087,725)**	(1,482,573)

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 $'000	2017 $'000
Non-current assets			
Property, plant and equipment	16	**7,700,791**	12,394,914
Investment properties	17	**213,562**	211,395
Lease prepayments	18	**1,787,051**	2,441,581
Intangible assets	20	**8,783**	18,283
Non-current prepayments and other receivables	21	**1,168,525**	1,114,729
Deferred tax assets	22	**7,994**	–
		10,886,706	16,180,902
Current assets			
Inventories	23	**705,379**	663,733
Current portion of lease prepayments	18	**64,883**	74,467
Trade and other receivables	24	**1,753,123**	1,980,304
Income tax recoverable	11	**1,755**	2,749
Restricted bank deposits		**45,496**	53,207
Pledged deposits	25	**–**	25
Cash and cash equivalents	26	**218,687**	218,212
		2,789,323	2,992,697
Current liabilities			
Bank and other loans	28	**6,355,546**	7,214,335
Finance lease liabilities	29	**410**	492
Trade and other payables	30	**3,693,322**	3,682,396
Income tax payable	11	**4,380**	7,438
		10,053,658	10,904,661
Net current liabilities		**(7,264,335)**	(7,911,964)
Total assets less current liabilities		**3,622,371**	8,268,938

	Notes	2018 $'000	2017 $'000
Non-current liabilities			
Bank loans	28	**703,678**	217,538
Finance lease liabilities	29	**93,664**	131,870
Deferred tax liabilities	22	**206**	6,982
		797,548	356,390
Net assets		**2,824,823**	7,912,548
Equity			
Share capital	32	**182,276**	182,276
Reserves		**2,591,819**	7,679,424
Total equity attributable to equity holders of the Company		**2,774,095**	7,861,700
Non-controlling interests		**50,728**	50,848
Total equity		**2,824,823**	7,912,548

Approved and authorised for issue by the board of directors on 27 March 2019.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		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 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 and at 1 January 2018		182,276	7,400,418	3,643	(70,363)	870,779	820,173	(1,345,226)	7,861,700	50,848	7,912,548
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(4,758,804)**	**(4,758,804)**	**1,925**	**(4,756,879)**
Total other comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(328,801)**	**–**	**(328,801)**	**(2,045)**	**(330,846)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(328,801)**	**(4,758,804)**	**(5,087,605)**	**(120)**	**(5,087,725)**
Transfer to reserves		**–**	**–**	**–**	**–**	**(6,951)**	**–**	**6,951**	**–**	**–**	**–**
At 31 December 2018		**182,276**	**7,400,418**	**3,643**	**(70,363)**	**863,828**	**491,372**	**(6,097,079)**	**2,774,095**	**50,728**	**2,824,823**

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Loss for the year		**(4,756,879)**	(1,915,045)
Adjustments for:			
Depreciation	9(c)	**387,614**	362,851
Amortisation of lease prepayments	9(c)	**67,078**	63,257
Amortisation of intangible assets	9(c)	**8,475**	8,834
Interest income	9(a)	**(4,163)**	(3,298)
Finance costs		**400,622**	349,999
Impairment losses on property, plant and equipment	9(c)	**3,584,588**	545,030
Impairment losses on lease prepayments	9(c)	**329,310**	129,461
(Reversal of)/provision for Impairment losses on trade and other receivables, net		**(9,740)**	6,283
(Gain)/loss on disposal of subsidiaries/deconsolidation of a deemed subsidiary	8	**(85,761)**	13,180
Loss on disposal of property, plant and equipment	8	**108,868**	100,036
Loss on disposal of lease prepayments	8	**18,203**	39,313
Gain on disposal of investment properties	8	**(5,494)**	–
Loss on disposal of other investment	8	**–**	748
Write-off of property, plant and equipment	8	**837**	44,926
Write-off of lease prepayments	8	**49,389**	117,019
Write-off of inventories		**4,637**	–
Equity-settled share-based payments	31	**–**	4,714
Unrealised foreign exchange gain		**–**	(66,724)
Income tax (credit)/expense		**(10,317)**	9,973
Operating profit/(loss) before change in working capital		**87,267**	(189,443)
Change in inventories		**(44,485)**	21,591
Change in trade and other receivables		**34,179**	(148,020)
Change in trade and other payables		**338,884**	311,419
Cash generated from/(used in) operating activities		**415,845**	(4,453)
Finance costs paid		**(403,189)**	(347,492)
Income tax paid		**(4,815)**	(3,198)
Net cash generated from/(used in) operating activities		**7,841**	(355,143)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**230,004**	99,545
Proceeds from disposal of lease prepayments		**1,887**	38,619
Proceeds from disposal of investment properties		**5,930**	–
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)&(b)	**6,092**	13,996
Interest received		**4,163**	3,298
Acquisitions of property, plant and equipment		**(82,752)**	(62,462)
Acquisitions of investment property		**(915)**	–
Changes in time deposits		**–**	4,625
Net cash generated from investing activities		**164,409**	97,845
Cash flows from financing activities			
Proceeds from bank and other loans		**127,380**	678,428
Repayments of bank and other loans		**(214,471)**	(510,813)
Capital element of finance lease rentals paid		**(34,024)**	(457)
Interest element of finance lease rentals paid		**(3,256)**	(4,397)
Changes in restricted bank deposits		**7,409**	4,480
Changes in pledged deposits		**24**	(3,742)
Net cash (used in)/generated from financing activities		**(116,938)**	163,499
Net increase/(decrease) in cash and cash equivalents		**55,312**	(93,799)
Cash and cash equivalents at 1 January		**218,212**	291,868
Effect of exchange rate fluctuations on cash held		**(54,837)**	20,143
Cash and cash equivalents at 31 December	26	**218,687**	218,212

Significant non-cash item:

During the year ended 31 December 2017, certain acquisitions of property, plant and equipment of approximately $185,029,000 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.

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

1. GENERAL

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The Group is primarily involved in slaughtering, production and sales of chilled and frozen meat and processed meat products. The consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board" or the "Directors") on 27 March 2019.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs – effective 1 January 2018

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to International Accounting Standard ("IAS") 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
Amendments to IAS 40	Transfers of Investment Property
IFRIC–Int 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 28, Investments in associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification. A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

IFRS 9 – Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

IFRS 9 – Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at 1 January 2018 under IAS 39	Carrying amount as at 1 January 2018 under IFRS 9
			$'000	$'000
Other loans and receivables	Loans and receivables	Amortised cost	1,556,644	1,556,644
Trade and other receivables	Loans and receivables	Amortised cost	423,660	423,660
Cash and cash equivalents	Loans and receivables	Amortised cost	218,212	218,212

The carrying amounts for all financial assets and financial liabilities of the Group as at 1 January 2018 have not been impacted significantly by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than IAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

IFRS 9 – Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs (continued)

For the Group's trade receivables, the Group has applied the simplified approach to recognise and measure lifetime ECLs. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows of each group receivables are estimated on the basis of historical credit loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets.

Impact of the ECL model

The adoption of the ECL model under IFRS 9 does not have material impact on the carrying amounts of the Group's financial assets as at 1 January 2018.

(iii) Hedging accounting

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

IFRS 9 – Financial Instruments (continued)

(iv) Transition (continued)

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaced IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time.

The Group's contracts with customers of the sale of chilled and frozen meat and processed meat products generally include one performance obligation. The Group has concluded that revenue from sale of chilled and frozen meat and processed meat products should be recognised at the point in time when control of the assets is transferred to the customer, generally on delivery of the chilled and frozen meat and processed meat products. Therefore, the adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

The adoption of IFRS15 does not have impact on the Group's retained profits as at 1 January 2018. As at 1 January 2018, advance from customers of $210,402,000 in respect of sales contracts previously included in other payables were reclassified to contract liabilities.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Product	Nature of the goods, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Meat production	Customers obtain control of the meat products when the goods are delivered and have been accepted. Revenue is thus recognised upon when the customers accepted the meat products. There is generally only one performance obligation. For credit sales, invoices are usually payable within 30 days to 90 days.	**Right of return** Under IAS 18, revenue for these contracts was 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.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Product	Nature of the goods, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Meat production	**Right of return** Some of the Group's contracts with customers from the sales of meat product provides customers a right of return when the products are in compliance with food safety standards, including exceeding the shelf life, deterioration, etc.	Under IFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. **Impact** The adoption of IFRS 15 does not have significant impact on the Group's financial statements as at 1 January 2018 and 31 December 2018 in relation to the right of return.
	Volume rebate Some of the Group's contracts with customers for the meat products provides customers a volume rebate if the customer purchase more than certain volume meat product within a specific period.	**Volume rebate** Under IAS 18, the Group estimated the expected volume rebates using the probability-weighted amount of rebates approach and recognised as a reduction of revenue as the sales are recognised. A provision of rebate will be recognised in trade and other payable. Under IFRS 15, volume rebates give rise to variable consideration. The Group apply the expected value method to estimate the variable consideration. A refund liability would be recognised based on the estimate of the expected to be paid to customer's volume-based rebated. **Impact** The adoption of IFRS 15 does not have significant impact on the Group's financial statements as at 1 January 2018 and 31 December 2018 in relation to the volume rebate.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(a) Adoption of new/revised IFRSs – effective 1 January 2018 (continued)

Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first year.

Amendments to IAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

IFRIC-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

(b) New/revised IFRSs that have been issued but are not yet effective

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

IFRS 16	Leases[1]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures[1]
Annual Improvements to IFRSs	Amendments to IFRS 3, Business Combinations[1]
2015-2017 Cycle Annual Improvements to IFRSs	Amendments to IFRS 11, Joint Arrangements[1]
2015-2017 Cycle Annual Improvements to IFRSs	Amendments to IAS 12, Income Taxes[1]
2015-2017 Cycle Annual Improvements to IFRSs	Amendments to IAS 23, Borrowing Costs[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2019

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) New/revised IFRSs that have been issued but are not yet effective (continued)

IFRS 16 – Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases "and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRIC-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) New/revised IFRSs that have been issued but are not yet effective (continued)

Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs, which collective term includes all applicable individual International Financial Reporting 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) Basis of measurement and Going concern assumption

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

Going concern basis

The Group incurred a net loss of $4,756,879,000 (2017: $1,915,045,000) for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of $7,264,335,000 (2017: $7,911,964,000). Its current and non-current bank and other loans amounted to $6,355,546,000 (2017: $7,214,335,000) and $703,678,000 (2017: $217,538,000) as at 31 December 2018 respectively, while the Group maintained its cash and cash equivalents of $218,687,000 (2017: $218,212,000) only. The Group could not fulfil certain bank covenants relating to certain bank loans amounted to $5,001,676,000 (2017: $5,915,854,000) as at 31 December 2018. These bank loans balance was presented as the Group's current bank loans in the consolidated statement of financial position. Included in these bank loans were $2,187,878,000 (2017: $1,481,340,000) of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2018 and up to date of this report, the courts in the PRC have ordered to freeze the Group's bank deposits of $22,043,000 (2017: $46,618,000) and certain property, plant and equipment with carrying amount of $520,393,000 (2017: $172,825,000). 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 for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans;

(ii) Actively negotiating with banks to obtain additional new financing and other source of funding as and when required;

(iii) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations; and

(iv) Taking active measures to expedite collections of outstanding receivables.

3. BASIS OF PREPARATION (CONTINUED)

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

Going concern basis (continued)

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 successful implementation of the above measures, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the 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 net realisable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

(c) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see accounting policy (a)(ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see accounting policy (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 (j)).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

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

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.

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 (j)).

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).

(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.

(b) Goodwill

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

(j) Financial Instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

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

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

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

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(i) Financial assets (continued)

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(ii) Financial liabilities (continued)

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

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

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

(iii) Effective interest method

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

(iv) Equity instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(v) Derecognition

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

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

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(j) Financial Instruments (accounting policies applied until 31 December 2017)

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 expired.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (accounting policies applied until 31 December 2017) (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 (p)(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade and other receivables. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Impairment (continued)

(i) Impairment loss on financial assets (continued)

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

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

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

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment (continued)

(ii) Non-financial assets (continued)

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) Revenue recognition

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (continued)

(i) Meat production

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

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

(ii) Other income

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

(n) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) 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.

(s) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions apply:

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

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Critical judgments in applying accounting policies

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

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

(b) Key sources of estimation uncertainty

Notes 31 and 35 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 4(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.

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

(b) 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 36(c). Further development of the proceedings may result in different assessments of the financial consequences in subsequent years.

6. OPERATING SEGMENTS

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's chief 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.

6. OPERATING SEGMENTS (CONTINUED)

(a) Segment results (continued)

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2018	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**10,482,226**	9,966,812	**2,168,369**	2,090,427	**12,650,595**	12,057,239
Inter-segment revenue	**212,196**	195,514	**7,805**	44,022	**220,001**	239,536
Reportable segment revenue	**10,694,422**	10,162,326	**2,176,174**	2,134,449	**12,870,596**	12,296,775
Depreciation and amortisation	**(357,005)**	(330,821)	**(106,146)**	(95,268)	**(463,151)**	(426,089)
Impairment losses on property, plant and equipment and lease prepayments	**(2,451,791)**	(530,203)	**(1,462,107)**	(144,288)	**(3,913,898)**	(674,491)
Loss on disposal of property, plant and equipment and lease payments	**(125,048)**	(140,056)	**(2,023)**	707	**(127,071)**	(139,349)
Reversal of/(provision for) impairment losses on trade and other receivables, net	**909**	(7,267)	**8,831**	984	**9,740**	(6,283)
Write-off of property, plant and equipment and lease prepayments	**(50,226)**	(157,277)	**–**	(4,668)	**(50,226)**	(161,945)
Government subsidies	**10,617**	13,772	**40,399**	33,078	**51,016**	46,850
Reportable segment loss before income tax	**(2,918,402)**	(1,456,887)	**(1,496,006)**	(100,819)	**(4,414,408)**	(1,557,706)
Income tax credit/(expense)	**(1,173)**	(817)	**11,490**	(7,398)	**10,317**	(8,215)

6. OPERATING SEGMENTS (CONTINUED)

(b) Reconciliations of reportable segment revenue and loss

	2018 $'000	2017 $'000
Revenue		
Total revenue of reportable segments	**12,870,596**	12,296,775
Elimination of inter-segment revenue	**(220,001)**	(239,536)
Consolidated revenue	**12,650,595**	12,057,239
Loss		
Total reportable segment loss before income tax	**(4,414,408)**	(1,557,706)
Elimination of inter-segment profit	**6,092**	7,457
	(4,408,316)	(1,550,249)
Gain/(loss) on disposal of subsidiaries/deconsolidation of a deemed subsidiary	**85,761**	(13,180)
Loss on disposal of other investment	**–**	(748)
Net finance costs	**(427,780)**	(263,818)
Income tax credit/(expense)	**10,317**	(9,973)
Unallocated head office and corporate expenses	**(16,861)**	(77,077)
Consolidated loss for the year	**(4,756,879)**	(1,915,045)

(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 2018 and 2017, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

7. REVENUE

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

	2018	2017
	$'000	$'000
Sales of chilled and frozen meat	10,482,226	9,966,812
Sales of processed meat products	2,168,369	2,090,427
	12,650,595	12,057,239

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

	31 December 2018	1 January 2018
	$'000	$'000
Trade receivables (note 24)	409,094	460,011
Contract liabilities (note 30)	246,029	210,402

The contract liabilities mainly relate to the advance consideration received from customers. $210,402,000 of the receipts in advance as of 1 January 2018 has been reclassified to contract liabilities and subsequently been recognised as revenue for the year ended 31 December 2018 from performance obligations satisfied during the financial year due to the goods have been transferred.

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is $246,029,000. This amount represents revenue expected to be recognised in the future from the existing sales contracts. The Group will recognise the expected revenue in future when or as the goods are transferred to the customers, which is expected to occur in the next 12 months.

The Group has applied the practical expedient to its sales contracts for meat production and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for meat production that had an original expected duration of one year or less.

8. OTHER NET LOSS

	2018 $'000	2017 $'000
Government subsidies	**51,016**	46,850
Provision for losses on litigations (note 36(c)(ii))	**(130,578)**	(173,823)
Gain/(loss) on disposal of subsidiaries/deconsolidation of a deemed subsidiary (note 34)	**85,761**	(13,180)
Loss on disposal of lease prepayments (note 18)	**(18,203)**	(39,313)
Loss on disposal of property, plant and equipment	**(108,868)**	(100,036)
Gain on disposal of investment properties	**5,494**	–
Loss on disposal of other investment	**–**	(748)
Write-off of property, plant and equipment (note 16)	**(837)**	(44,926)
Write-off of lease prepayments (note 18)	**(49,389)**	(117,019)
Rental income	**54,740**	33,592
Sales of scrap	**2,508**	1,577
Sundry income	**44,054**	36,236
	(64,302)	(370,790)

9. LOSS BEFORE INCOME TAX

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

(a) Net finance costs

	2018 $'000	2017 $'000
Interest on bank and other loans	**402,580**	346,676
Interest on lease obligations	**3,256**	4,397
Interest on government grant	**132**	–
Less: Interest expense capitalised into property, plant and equipment under development*	**(5,823)**	(1,890)
	400,145	349,183
Bank charges	**477**	816
Net foreign exchange loss/(gain)	**31,321**	(82,883)
Interest income from bank deposits	**(4,163)**	(3,298)
	427,780	263,818

* The borrowing costs have been capitalised at a rate of 6.3% (2017: 5.9%) per annum.

9. LOSS BEFORE INCOME TAX (CONTINUED)

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

(b) Personnel expenses

	2018	2017
	$'000	$'000
Salaries, wages and other benefits	574,299	537,237
Contributions to defined contribution pension schemes	51,934	51,996
Equity-settled share-based payments	–	4,714
	626,233	593,947

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% (2017: 14% to 20%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2018.

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% (2017: 5%) of the employees' relevant income, subject to a cap of monthly relevant income of $30,000(2017: $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.

9. LOSS BEFORE INCOME TAX (CONTINUED)

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

(c) Other items

	2018 $'000	2017 $'000
Cost of inventories#	**11,685,060**	11,333,870
Impairment losses on trade receivables (note 24(b))	**6,043**	25,126
Reversal of impairment losses on trade receivables (note 24(b))	**(15,783)**	(18,843)
Impairment losses on property, plant and equipment^ (note 16)	**3,584,588**	545,030
Impairment losses on lease prepayments^ (note 18)	**329,310**	129,461
Depreciation* (notes 16 & 17)	**387,614**	362,851
Operating lease charges in respect of properties	**12,443**	9,534
Amortisation of lease prepayments@	**67,078**	63,257
Amortisation of intangible assets (note 20)	**8,475**	8,834
Research and development expenses^ (other than amortisation costs)	**447**	354
Auditors' remuneration		
– audit services	**5,200**	5,177
– other services	**879**	800

Cost of inventories includes approximately $378,538,000 (2017: $321,563,000) 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 9(b) for each of these types of expenses.

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

* Depreciation included in "cost of sales", "distribution expenses" and "administrative and other operating expenses" amounting to approximately $66,327,000 (2017: $61,942,000), $10,671,000 (2017: $9,076,000) and $310,616,000 (2017: $291,833,000) 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 $693,000 (2017: $5,664,000), $Nil (2017: $275,000) and $66,385,000 (2017: $57,318,000) respectively in the consolidated statement of profit or loss.

10. INCOME TAX (CREDIT)/EXPENSE

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

	2018 $'000	2017 $'000
Current tax expense		
Current year	**2,064**	2,854
Under-provision in respect of prior years	**889**	256
	2,953	3,110
Deferred tax (credit)/expense		
(Reversal)/origination of temporary differences (note 22)	**(13,270)**	6,863
Income tax (credit)/expense in the consolidated statement of profit or loss	**(10,317)**	9,973

10. INCOME TAX (CREDIT)/EXPENSE (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 2018 and 2017.

(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 2018 and 2017, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the years ended 31 December 2018 and 2017.

(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 2018, temporary differences relating to the undistributed profits of subsidiaries amounted to $3,945,816,000 (2017: $4,263,181,000). Deferred tax liabilities of $197,291,000 (2017: $213,159,000) in respect of the undistributed profits of $3,945,816,000 (2017: $4,263,181,000) were not recognised as at 31 December 2018 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

In accordance with the accounting policy set out in note 4(o), 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 $1,091,066,000 (2017: $1,492,642,000), 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 $302,255,000 (2017: $178,977,000), the deductible temporary differences relating to property, plant and equipment of $2,517,532,000 (2017: $150,769,000) and the deductible temporary differences relating to trade and other receivables of $4,858,000 (2017: $4,868,000) 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.

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

	2018 **$'000**	2017 $'000
Loss before income tax	**4,767,196**	(1,905,072)
Income tax using the PRC enterprise income tax rate of 25% (2017: 25%)	**(1,191,799)**	(476,268)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,184**	255
Non-taxable income	**(83,097)**	(62,104)
Non-deductible expenses	**379,802**	100,218
Under-provision in respect of prior years	**889**	256
Recognition of tax expense in relation to interest income from PRC subsidiaries	**171**	171
Effect of tax losses not recognised	**790,234**	91,237
Effect of temporary differences not recognised	**(13,270)**	(9,858)
Effect of utilisation of unrecognised tax losses in prior years	**(2,108)**	–
Effect of tax concessions	**107,677**	366,066
Income tax (credit)/expense	**(10,317)**	9,973

11. INCOME TAX RECOVERABLE/(PAYABLE)

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

	2018 $'000	2017 $'000
At beginning of the year	**(4,689)**	(4,651)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	**(2,064)**	(2,854)
Under-provision in respect of prior years	**(889)**	(256)
PRC income tax and withholding tax paid	**4,815**	3,219
Effect of movements in exchange rates	**202**	(147)
At end of the year	**(2,625)**	(4,689)
Represented by:		
Income tax recoverable	**1,755**	2,749
Income tax payable	**(4,380)**	(7,438)
	(2,625)	(4,689)

12. DIRECTORS' EMOLUMENTS

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

	2018						
	Directors' fees $'000	Salaries, allowance and other benefits $'000	Contributions to retirement benefit schemes $'000	Bonus $'000	Sub-total $'000	Equity-settled share-based payments (Note) $'000	Total $'000
Executive directors							
Yu Zhangli	–	1,770	37	–	1,807	–	1,807
Li Shibao (Chief Executive Officer)	–	1,872	37	–	1,909	–	1,909
Sun Tiexin	–	1,431	37	–	1,468	–	1,468
Yao Guozhong	–	1,113	15	–	1,128	–	1,128
Yang Linwei	–	967	37	–	1,004	–	1,004
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	175	–	–	–	175	–	175
Miao Yelian	125	–	–	–	125	–	125
Total	553	7,153	163	–	7,869	–	7,869

12. DIRECTORS' EMOLUMENTS (CONTINUED)

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

	2017						
	Directors' fees	Salaries, allowance and other benefit	Contributions to retirement benefits 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

Note: These represent the estimated value of the non-cash share options granted to the Directors under the Company's share option scheme. The value of these share options were measured according to the Group's accounting policies for equity-settled share-based payment transactions as set out in note 4(q). Details of the principal terms and number of options granted, are disclosed in note 31.

No director waived any emoluments during the years ended 31 December 2018 and 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.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments included three (2017: three) existing directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the remaining two (2017: two) individuals during the year ended 31 December 2018 are as follows:

	2018	2017
	$'000	$'000
Salaries and other emoluments	**3,792**	4,101
Contributions to retirement benefit schemes	**36**	36
Equity-settled share-based payments	**–**	201
	3,828	4,338

The emoluments fell within the following bands:

	2018	2017
	Number of individuals	Number of individuals
$1,000,001 – $1,500,000	**1**	1
$2,000,001 – $2,500,000	**1**	1

For the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group and no other amounts were paid by the Group to the Directors, or the five highest paid individuals, as compensation for loss of office.

14. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2018 and 2017.

15. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2018 is based on the loss attributable to equity holders of the Company for the year of $4,758,804,000 (2017: $1,915,101,000) and the weighted average number of 1,822,756,000 (2017: 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 2018 and 2017 because the potential ordinary shares outstanding were anti-dilutive.

16. PROPERTY, PLANT AND EQUIPMENT

	Properties $'000	Machinery and equipment $'000	Transportation vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:						
At 1 January 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 (b))	(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
At 1 January 2018	**8,592,420**	**3,440,080**	**70,701**	**257,085**	**5,884,542**	**18,244,828**
Additions	**11,957**	**23,500**	**268**	**5,461**	**63,017**	**104,203**
Transfers to property,plant and equipment	**305,934**	**39,907**	**(8)**	**162,216**	**(508,049)**	**–**
Transfers to investment property (note 17)	**–**	**–**	**–**	**–**	**(18,498)**	**(18,498)**
Disposals/write off	**(110,446)**	**(93,245)**	**(2,773)**	**(16,672)**	**(307,769)**	**(530,905)**
Disposed of through disposal of a subsidiary (note 34 (a))	**–**	**(2,641)**	**(330)**	**(711)**	**(190,706)**	**(194,388)**
Effect of movements in exchange rates	**(329,678)**	**(130,850)**	**(2,380)**	**(12,825)**	**(152,782)**	**(628,515)**
At 31 December 2018	**8,470,187**	**3,276,751**	**65,478**	**394,554**	**4,769,755**	**16,976,725**
Accumulated depreciation and impairment:						
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)
Disposal of through disposal of a subsidiary/ deconsolidation of a deemed subsidiary (note 34(b))	(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
At 1 January 2018	**2,531,466**	**1,830,443**	**51,384**	**155,884**	**1,280,737**	**5,849,914**
Depreciation	**176,965**	**186,313**	**4,351**	**11,737**	**–**	**379,366**
Impairment losses	**1,970,216**	**368,495**	**4,018**	**107,473**	**1,134,386**	**3,584,588**
Disposals/write off	**(40,575)**	**(57,141)**	**(968)**	**(15,662)**	**(76,850)**	**(191,196)**
Disposed of through disposal of a subsidiary (note 34(a))	**–**	**(1,399)**	**(208)**	**(225)**	**(3,169)**	**(5,001)**
Effect of movements in exchange rates	**(119,012)**	**(104,693)**	**(1,964)**	**(6,847)**	**(109,221)**	**(341,737)**
At 31 December 2018	**4,519,060**	**2,222,018**	**56,613**	**252,360**	**2,225,883**	**9,275,934**
Carrying amounts:						
At 31 December 2018	**3,951,127**	**1,054,733**	**8,865**	**142,194**	**2,543,872**	**7,700,791**
At 31 December 2017	6,060,954	1,609,637	19,317	101,201	4,603,805	12,394,914

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $1,141,350,000 (2017: $1,759,472,000) at 31 December 2018 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 2018.

During the year ended 31 December 2018, certain property, plant and equipment of $837,000 (2017: $44,926,000) were written off and recorded in "other net loss" (note 8).

Security

At 31 December 2018 and 2017, certain property, plant and equipment were pledged as security against bank loans (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 (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 2018, the carrying amount of leased property, plant and equipment was $33,395,000 (2017: $61,061,000).

Impairment assessment

The Group resulted in operating loss in 2018 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.

16. 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 2018. 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 26% (2017: 23%)), gross profit margin (average of 6% (2017: 6%)) and depreciation rate (19% (2017: 17%)) adopted in the valuation. An impairment loss on property, plant and equipment and lease prepayments of $1,444,881,000 and $2,057,000 (2017: $489,183,000 and $113,707,000) 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 2018		At 31 December 2017	
	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%**	**26%**	6%	23%
EBITDA margin (average of next five years)	**2%**	**5%**	3%	9%
Growth rate (average of next five years)	**5%-15%**	**5%**	6%-25%	14%
Discount rate	**19%**	**19%**	17%	17%

16. 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%, (2017: 0%) which does not exceed the long-term average growth rate for the business in which the CGU operates.

At 31 December 2018, 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 $6.2 billion (2017: $2.3 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 $2,139,707,000 (2017: $55,847,000) and $327,253,000 (2017: $15,754,000) respectively recognised in "administrative and other operating expenses" for the year ended 31 December 2018. 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.

17. INVESTMENT PROPERTIES

	2018	2017
	$'000	$'000
Cost:		
At 1 January	**225,172**	210,110
Additions	**915**	659
Transferred from property, plant and equipment (note 16)	**18,498**	–
Disposals	**(1,333)**	(338)
Effect of movements in exchange rates	**(9,302)**	14,741
At 31 December	**233,950**	225,172
Accumulated depreciation:		
At 1 January	**13,777**	6,014
Charge for the year	**8,248**	7,451
Disposals	**(897)**	(320)
Effect of movements in exchange rates	**(740)**	632
At 31 December	**20,388**	13,777
Carrying amounts:		
At 31 December	**213,562**	211,395

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.

17. INVESTMENT PROPERTIES (CONTINUED)

At 31 December 2018 and 2017, part of investment properties were pledged against bank loans (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)	
	2018	2017
	$'000	$'000
Recurring fair value measurement		
Investment properties	**231,853**	232,852

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 2018, $13,916,000 (2017: $11,319,000) was recognised as rental income in the consolidated statement of profit or loss.

During the year ended 31 December 2018, direct operating expenses arising from the investment properties recognised in the consolidated statement of profit or loss of $8,503,000 (2017: $7,983,000).

18. 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 2018 and 2017, certain land use rights were pledged against bank loans (note 28(ii)).

During the year ended 31 December 2018, following the business plans of the Group, lease prepayments with aggregate carrying amount of $20,090,000 (2017: $77,932,000) were disposed of at an aggregate consideration of $1,887,000 (2017: $38,619,000), resulting in an aggregate loss on disposal of lease prepayments amounted to $18,203,000 (2017: $39,313,000) charged to the consolidated statement of profit or loss as "other net loss" (note 8). As disclosed in note 16, impairment losses on lease prepayments amounted to $329,310,000 (2017: $129,461,000) were recognised and recorded in "administrative and other operating expenses" (note 9(c)).

During the year ended 31 December 2018, lease prepayments amounted to $49,389,000 were written off, due to the preliminary judgment on the litigations initiated by municipal people's governments as mentioned in note 36(c)(ii) was recognised and recorded in "other net loss" (note 8).

18. LEASE PREPAYMENTS (CONTINUED)

During the year ended 31 December 2017, lease prepayments amounted to $101,224,000 were written off due to the preliminary judgement on the litigations initiated by municipal people's governments as mentioned in note 36(c)(ii) and $15,795,000 were written off since the government retrieved certain lands from the Group. Total write-off of lease prepayments amounted to $117,019,000 was recognised and recorded in "other net loss" (note 8).

19. INVESTMENTS IN SUBSIDIARIES

Particulars of principal subsidiaries are set out in Appendix 1 on pages 132 to 133.

20. INTANGIBLE ASSETS

	2018	2017
	$'000	$'000
Cost:		
At 1 January	**45,707**	42,713
Effect of movements in exchange rates	**(1,792)**	2,994
At 31 December	**43,915**	45,707
Accumulated amortisation:		
At 1 January	**27,424**	17,085
Charge for the year	**8,475**	8,834
Effect of movements in exchange rates	**(767)**	1,505
At 31 December	**35,132**	27,424
Carrying amount:		
At 31 December	**8,783**	18,283

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

21. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Non-current other receivables		
Value-added tax recoverable (note)	**949,456**	873,151
Non-current prepayments		
Prepayments for acquisitions of land use rights	**70,923**	73,816
Prepayments for acquisitions of property, plant and equipment	**148,146**	167,762
	219,069	241,578
	1,168,525	1,114,729

Note: Value-added tax recoverable is eligible for offset against future value-added tax payable with no time limit. As at 31 December 2018, 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	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Property, plant and equipment	**7,994**	–	**–**	(6,860)	**7,994**	(6,860)
Trade and other receivables	**–**	–	**(206)**	(122)	**(206)**	(122)
Total deferred tax assets/(liabilities)	**7,994**	–	**(206)**	(6,982)	**7,788**	(6,982)

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

	At 1 January 2017 $'000	Recognised in profit or loss $'000	Exchange difference $'000	At 31 December 2017 $'000	**Recognised in profit or loss $'000**	**Exchange difference $'000**	**At 31 December 2018 $'000**
Property, plant and equipment	16	(6,745)	(131)	(6,860)	**13,361**	**1,493**	**7,994**
Trade and other receivables	–	(118)	(4)	(122)	**(91)**	**7**	**(206)**
	16	(6,863)	(135)	(6,982)	**13,270**	**1,500**	**7,788**

23. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2018 $'000	2017 $'000
Raw materials	**290,163**	267,349
Work in progress	**94,841**	82,875
Finished goods	**320,375**	313,509
	705,379	663,733

During the year ended 31 December 2018, the Group wrote down inventories of $4,637,000 (2017: $2,234,000) to their 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.

24. TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Trade receivables	**409,094**	460,011
Less: Impairment (note (b))	**(25,350)**	(36,351)
Trade receivables, net (note (a))	**383,744**	423,660
Bills receivable	**1,437**	1,029
Value-added tax recoverable	**1,124,086**	1,297,411
Deposits and prepayments	**194,002**	136,534
Others (note (d))	**49,854**	121,670
	1,753,123	1,980,304

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

At 31 December 2018 and 2017, certain trade receivables were pledged against bank loans (note 28(ii)).

The Group's exposure to credit and currency risk related to trade and other receivables are disclosed in note 35.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

(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:

	2018 $'000	2017 $'000
Within 30 days	**235,300**	174,607
31 days to 90 days	**98,486**	161,920
91 days to 180 days	**49,958**	57,794
Over 180 days	**–**	29,339
	383,744	423,660

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.

(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:

	2018 $'000	2017 $'000
At 1 January	**36,351**	30,374
Impairment losses recognised	**6,043**	25,126
Reversal of impairment losses on trade receivables	**(15,783)**	(18,843)
Effect of movements in exchange rate	**(1,261)**	(306)
At 31 December	**25,350**	36,351

At 31 December 2018, the Group's trade receivables of $25,350,000 (2017: $36,351,000) 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 $25,350,000 (2017: $36,351,000) were recognised.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

(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:

	2018 **$'000**	2017 $'000
Neither past due nor impaired	**321,106**	334,970
Less than 1 month past due	**12,681**	19,686
1 to 3 months past due	**42,160**	38,951
Over 3 months past due	**7,797**	30,053
	62,638	88,690
	383,744	423,660

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.

(d) Impairment of other receivables

	2018 **$'000**	2017 $'000
Other receivables	**77,587**	150,740
Less: Impairment	**(27,733)**	(29,070)
	49,854	121,670

At 31 December 2018, included in the Group's other receivables was the consideration receivables from independent third parties amounted to $13,076,000 (2017: $30,492,000), arising from disposal of certain property, plant and equipment and lease prepayments during the year.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Impairment of other receivables (continued)

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

	2018	2017
	$'000	$'000
At 1 January	**29,070**	27,166
Effect of movements in exchange rate	**(1,337)**	1,904
At 31 December	**27,733**	29,070

The above provision for impairment losses of other receivables represents provision for individually impaired other receivables of $27,733,000 (2017: $29,070,000) with a carrying amount of $27,733,000 (2017: $29,070,000). The individually impaired receivables mainly relate to other receivables which the Directors consider that the chances of collection of the outstanding amounts are remote.

25. PLEDGED DEPOSITS

	2018	2017
	$'000	$'000
Pledged deposits for utilities	**–**	25

26. CASH AND CASH EQUIVALENTS

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

	2018	2017
	$'000	$'000
Renminbi ("RMB")	**188,266**	162,927
United Stated dollars ("USD")	**22,465**	44,544
Euro dollars ("EUR")	**209**	2,338

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately $188,266,000 (2017: approximately $162,927,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorized to conduct foreign exchange business.

27. OTHER CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

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

	Bank and other loans $'000 (note 28)	Finance leases liabilities $'000 (note 29)	Total $'000
At 1 January 2018	7,431,873	132,362	7,564,235
Changes from financing cash flows:			
Proceeds from bank and other loans	127,380	–	127,380
Repayments of bank and other loans	(214,471)	–	(214,471)
Capital element of finance lease rentals paid	–	(34,024)	(34,024)
Interest element of finance lease rentals paid	–	(3,256)	(3,256)
Total changes from financing cash flows	(87,091)	(37,280)	(124,371)
Exchange adjustment	(285,558)	(4,264)	(289,822)
Other changes:			
Finance charges on obligations under finance leases (note 9(a))	–	3,256	3,256
At 31 December 2018	7,059,224	94,074	7,153,298

28. BANK AND OTHER LOANS

The bank and other loans are repayable as follows:

	2018 $'000	2017 $'000
Bank loans		
– Within one year or on demand	**5,098,994**	6,035,964
– After one but within two years	**703,678**	217,538
Other loans		
– Within one year	**1,256,552**	1,178,371
Total loans	**7,059,224**	7,431,873
Less: Loans due within one year or on demand classified as current liabilities	**(6,355,546)**	(7,214,335)
Non-current loans	**703,678**	217,538

	2018 $'000	2017 $'000
Terms		
Unsecured bank loans denominated in RMB (notes (i) and (iii))		
– Variable interest rate at prevailing market rate	**202,712**	70,574
– Fixed interest rate from 4.35% to 6.16% (2017: 4.35% to 6.53%)	**1,650,836**	1,804,101
Secured bank loans denominated in RMB (notes (i), (ii) and (iii))		
– Variable interest rate at prevailing market rate	**1,136,150**	2,164,837
– Fixed interest rate from 4.57% to 5.50% (2017: 4.35% to 5.23%)	**2,812,974**	2,213,990
Unsecured other loans denominated in RMB		
– Fixed interest rate at 4.35% (2017: 4.35%)	**1,256,552**	1,178,371
	7,059,224	7,431,873

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 2018, the Group could not fulfil covenants imposed by banks on certain loans with an aggregate amount of $5,001,676,000 (2017: $5,915,854,000). Included in this amount, loans of an aggregate amount of $114,943,000 (2017: $119,632,000) which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position as at 31 December 2018. The Group is negotiating with the banks to renew bank loans 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 $3,009,000 were repaid.

Further details of the Group's management of liquidity risk are set out in note 35(b).

28. BANK AND OTHER LOANS (CONTINUED)

Notes: (continued)

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

	2018	2017
	$'000	$'000
Properties	**2,520,278**	3,015,984
Plants and equipment	**48,654**	89,195
Construction in progress	**46,453**	376,660
Lease prepayments	**984,328**	1,521,048
Investment properties	**104,439**	147,491
Trade receivables	**28,522**	35,868

Included in the secured bank loans at 31 December 2018, bank loans of $1,724,138,000 (2017: $2,167,484,000) were also guaranteed by related companies and secured by assets owned by related companies, including equity securities with market value of $227,500,000 (2017: $659,050,000), land use rights owned by a related companies with fair value of $788,784,000 (2017: $116,462,000) and trade receivables of $586,551,000 (2017: $610,121,000). These related companies were owned by Mr. Zhu. In addition, bank loans of $114,943,000 (2017: $119,632,000) were guaranteed by Mr. Zhu.

(iii) At 31 December 2018, 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 $2,187,878,000 (2017: $1,481,340,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment of the Group with carrying value of $520,393,000 (2017: $172,825,000) have been frozen by the court in the PRC as of 31 December 2018, in addition to the freezing of restricted bank deposits of $22,043,000 (2017: $46,618,000) in relation to these litigations. The Group is negotiating with the banks to settle these litigations. Subsequent to 31 December 2018 and up to the date of this consolidated financial statements, included in the subsequent repayment of bank loans of $684,000 were repayment of bank loans under litigations.

29. FINANCE LEASE LIABILITIES

Finance lease liabilities of the Group are payable to related companies (note 37(a)(ii)) as follows:

		2018			2017	
	Total minimum lease payments	**Interest expense relating to future periods**	**Present value of the minimum lease payments**	Total minimum lease payments	Interest expense relating to future periods	Present value of the minimum lease payments
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Within one year	**3,841**	**3,431**	**410**	5,023	4,531	492
After one but within two years	**3,841**	**3,414**	**427**	5,023	4,511	512
After two but within five years	**22,665**	**5,868**	**16,797**	30,664	12,460	18,204
More than five years	**98,027**	**21,587**	**76,440**	150,975	37,821	113,154
	124,533	**30,869**	**93,664**	186,662	54,792	131,870
Total finance lease obligations	**128,374**	**34,300**	**94,074**	191,685	59,323	132,362

30. TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Trade payables (note (i))	**598,463**	741,837
Receipts in advance	**–**	210,402
Deposits from customers	**126,799**	129,507
Contract liabilities (note (ii))	**246,029**	–
Salary and welfare payables	**78,398**	87,618
Value-added tax payable	**1,530**	7,726
Payables for acquisitions of property, plant and equipment	**614,335**	699,637
Provision for losses on litigations	**136,964**	297,819
Interest payables	**820,985**	542,785
Other payables and accruals	**1,069,819**	965,065
	3,693,322	3,682,396

Notes:

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

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

	2018 $'000	2017 $'000
Within 30 days	**429,363**	502,871
31 days to 90 days	**69,108**	122,676
91 days to 180 days	**27,599**	59,236
Over 180 days	**72,393**	57,054
	598,463	741,837

(ii) Contract liabilities:

	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Contract liabilities arising from:			
Sale of goods	**246,029**	**210,402**	–

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

Sale of goods

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

Movements in contract liabilities

	2018 $'000
Balance at 1 January	**210,402**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year (note 7)	**(210,402)**
Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred and not yet accepted by the customer	**246,029**
Balance at 31 December	**246,029**

The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of IFRS 15, amounts previously included as "Receipts in advance" (note 30) have been reclassified to "Contract liabilities".

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 $Nil (2017: $4,714,000) was recognised as cost of services received from the grantees for the year ended 31 December 2018.

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

	2018		2017	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at 1 January	**$5.07**	**55,750**	$5.07	58,100
Lapsed during the year	**$5.09**	**4,675**	$5.00	(2,350)
Outstanding at 31 December	**$5.07**	**51,075**	$5.07	55,750
Exercisable at 31 December	**$5.07**	**51,075**	$5.07	55,750

No share options were exercised during the years ended 31 December 2018 and 2017.

2013 March Options and 2013 June Options outstanding at 31 December 2018 had exercise price of $5.142 and $5.002 and the weighted average contractual lives of 4.23 (2017: 5.23) and 4.45 (2017: 5.45) years respectively.

32. SHARE CAPITAL

(a) Authorised and issued share capital

	2018 Number of ordinary shares '000	2018 Amount $'000	2017 Number of ordinary shares '000	2017 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	2018 Number '000	2017 Number '000
31 December 2015 to 24 March 2023	$5.142	**12,150**	13,650
After the result announcement for the year ended 31 December 2016 to 24 March 2023	$5.142	**12,150**	13,650
After the result announcement for the year ended 31 December 2015 to 13 June 2023	$5.002	**13,387**	14,225
After the result announcement for the year ended 31 December 2016 to 13 June 2023	$5.002	**13,388**	14,225
		51,075	55,750

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)) $'000	Contributed surplus (Note 33(g)) $'000	Retained earnings/ (accumulated losses) $'000	Total $'000
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
At 1 January 2018	**7,400,418**	**297,480**	**95,235**	**7,793,133**
Loss for the year	**-**	**-**	**(7,434,359)**	**(7,434,359)**
At 31 December 2018	**7,400,418**	**297,480**	**(7,339,124)**	**358,774**

(b) Share premium

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

(c) Capital surplus

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

(d) Merger reserve

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

(e) PRC statutory reserves

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

(i) Statutory surplus reserve

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

33. RESERVES AND DIVIDENDS (CONTINUED)

(e) PRC statutory reserves (CONTINUED)

(ii) Statutory general reserve

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

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

(f) Exchange reserve

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

(g) Contributed surplus

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

(h) Distributable reserves

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

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

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

At 31 December 2018, the aggregate amount of reserves available for distribution to equity holders of the Company was $358,774,000 (2017: $7,793,133,000).

(i) Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: 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 3(b). The Board monitors the return on capital (defined by the Group as profit attributable to equity holders of the Company divided by total equity attributable to equity holders of the Company, excluding non-controlling interests) and the level of dividends to ordinary shareholders. In order to maintain the capital structure, the Company may also repurchase existing shares. The return on capital for the year ended 31 December 2018 was -171.5% (2017: -24.4%).

The Group is not subject to externally imposed capital requirement.

34. CHANGES IN GROUP STRUCTURE

(a) Disposal of a subsidiary in 2018

The Group disposed of its entire equity interest in a wholly-owned subsidiary in chilled and frozen meat segment at a total consideration of $6,092,000. A gain on disposal of the subsidiary amounting to $85,761,000 was recognised in "other net loss" during the year ended 31 December 2018:

	$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	**189,387**
Lease prepayment	**33,539**
Inventories	**17**
Trade and other receivables	**30,925**
Trade and other payables	**(341,783)**
Net assets disposed of	**(87,915)**
Exchange reserve realised on disposal	**8,246**
Gain on disposal of a subsidiary (note 8)	**85,761**
	6,092
Satisfied by:	
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	**6,092**

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

(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" 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" during the year ended 31 December 2017.

	$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	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 8)	(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

35. 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, 38% (2017: 39%) of the trade receivables were due from the five largest customers of the Group, all of whom are companies which have good track record with the Group.

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

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

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 24.

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 3(b), certain measures have been taken by the Directors to mitigate the liquidity pressures faced by the Group.

The contractual maturities and contractual cash outflow of the 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 2018

	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	**7,059,224**	**7,119,420**	**6,101,220**	**59,795**	**221,781**	**7,597**	**729,027**	**–**

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	–

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

(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.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the end of the reporting period would have increased the Group's accumulated losses and loss for the year by approximately $10,041,000 (2017: $16,766,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The impact on the Group's loss after tax and accumulated losses is estimated as impact on interest expense in respect of the 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 2017.

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)					
	2018			2017		
	Euro	**USD**	**RMB**	Euro	USD	RMB
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Other current assets	**209**	**264,753**	**832,719**	2,338	243,272	784,352
Other current liabilities	**(345)**	**(22,715)**	**–**	(31,311)	(257,268)	–
	(136)	**242,038**	**832,719**	(28,973)	(13,996)	784,352

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 2018, if the HKD had weakened/strengthened 5% against the RMB with all other variables held constant, the Group's loss for the year would have been decreased/increased by approximately $33,309,000 (2017: $32,747,000).

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.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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:

	2018			2017		
	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	**94,074**	**88,585**	**88,585**	132,362	104,383	104,383

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:

	2018	2017
Finance lease liabilities	**4.33%**	4.72%

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

(f) Natural risk

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

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

36. 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:

	2018 $'000	2017 $'000
Within 1 year	**1,654**	1,616
After 1 year but within 5 years	**1,789**	2,884
Over 5 years	**709**	684
	4,152	5,184

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

36. COMMITMENTS AND CONTINGENT LIABILITIES

(b) Capital commitments

Capital commitments outstanding at 31 December 2018 in respect of property, plant and equipment not provided for in the consolidated financial statements were as follows:

	2018 $'000	2017 $'000
Contracted for	**2,983,281**	2,992,262

(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, totalling approximately $326,501,000 (2017: $248,531,000). 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 $190,682,000 (2017: $167,543,000) ("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 2018. During the year ended 31 December 2018, 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 $95,447,000 (2017: $62,027,000) and corresponding late penalties of approximately $40,532,000 (2017: $27,499,000). 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 $190,521,000 (2017: $159,005,000) are still in process, of which an aggregate amount of $54,703,000 (2017: $78,017,000) had been included in the Provision Amount as at 31 December 2018. In the opinion of the Directors, no further provision for litigation was required to be made for the year ended 31 December 2018.

(ii) During the year ended 31 December 2018, 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 $130,578,000 (2017: $173,823,000). The Group recognised losses of $130,578,000 (2017: $173,823,000) as "provision for losses on litigations in "other net loss" in the consolidated statement of profit or loss for the year ended 31 December 2018.

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 2018, 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.

37. 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.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions

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

	2018	2017
	$'000	$'000
Sales of raw materials to related companies	**6,139**	3,175
Sales of finished goods to related companies	**15,860**	10,733
Purchases of raw materials from related companies	**61,675**	62,132

(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 16 and 29) and operating leases respectively. The rental paid or payable to the Predecessor Entities for the year ended 31 December 2018 amounted to $3,976,000 (2017: $5,197,000).

(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 $56,007,000 (2017: $59,667,000) as at 31 December 2018 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 $1,086,207,000 (2017: $1,130,518,000) to a subsidiary of the Company for the settlement of certain payables. The loan is unsecured, interest bearing at 4.35% (2017: 4.35%) per annum and repayable on demand (2017: repayment on demand). Interest expenses on the loan amounting to $49,242,000 (2017: $51,542,000) was incurred for the year ended 31 December 2018.

During the year ended 31 December 2018, another related company provided a loan of $170,345,000 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 $4,894,000 (2017: $78,000) for the year ended 31 December 2018.

(b) Amounts due from related parties

	2018	2017
	$'000	$'000
Trade receivables due from related companies	**7,859**	6,555
Other receivables due from related companies	**17,692**	4,999

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 2018 and 2017.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Amounts due to related parties

	2018 $'000	2017 $'000
Trade payables due to related companies	**196,047**	120,844
Other payables due to related companies	**194,091**	184,981
Other loans due to related companies (note 37(a)(v))	**1,256,552**	1,178,371

(i) Certain related companies settled certain payables on behalf of the Group during the year ended 31 December 2018 and 2017.

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

(d) Key management personnel remuneration

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

38. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2018 $'000	2017 $'000
Non-current assets			
Investments in subsidiaries		**532,343**	6,371,479
Current assets			
Other receivables		**479**	467
Amounts due from subsidiaries		**–**	1,579,491
Cash and cash equivalents		**18,445**	33,288
		18,924	1,613,246
Current liabilities			
Other payables		**10,217**	9,316
Net current assets		**8,707**	1,603,930
Total assets less current liabilities		**541,050**	7,975,409
Net assets		**541,050**	7,975,409
Equity			
Share capital	32	**182,276**	182,276
Reserves	33	**358,774**	7,793,133
Total equity		**541,050**	7,975,409

39. SUBSEQUENT EVENTS

On 27 March 2019, the Board approved a capital expenditure plan for 2019 amounting to RMB100,000,000 (equivalent to approximately $119,632,000).

LIST OF PRINCIPAL SUBSIDIARIES

APPENDIX 1

The following list contains only the particulars of subsidiaries as at 31 December 2018 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**		**Principal activity**
			Direct	**Indirect**	
			%	%	
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
Hubei Yurun Meat Product Co., Ltd (note (iii)) 湖北雨潤肉類食品有限公司	The PRC	RMB85,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Jiangsu Yurun Food Co., Ltd. (note (iii)) 江蘇雨潤食品有限公司	The PRC	RMB100,000,000	–	100	Production and sales of processed meat products
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

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 4(a)(ii) and have been consolidated into the consolidated financial statements.

FIVE-YEAR SUMMARY

	2014 $'000	2015 $'000	2016 $'000	2017 $'000	**2018** **$'000**
Assets and liabilities					
Non-current assets	20,584,777	17,998,267	15,611,992	16,180,902	**10,886,706**
Net current liabilities	(1,821,046)	(4,741,774)	(5,618,616)	(7,911,964)	**(7,264,335)**
Total assets less current liabilities	18,763,731	13,256,493	9,993,376	8,268,938	**3,622,371**
Non-current liabilities	(2,816,419)	(924,863)	(602,618)	(356,390)	**(797,548)**
Net assets	15,947,312	12,331,630	9,390,758	7,912,548	**2,824,823**
Share capital	182,276	182,276	182,276	182,276	**182,276**
Reserves	15,709,968	12,098,265	9,160,684	7,679,424	**2,591,819**
Total equity attributable to equity holders of the Company	15,892,244	12,280,541	9,342,960	7,861,700	**2,774,095**
Non-controlling interests	55,068	51,089	47,798	50,848	**50,728**
Total equity	15,947,312	12,331,630	9,390,758	7,912,548	**2,824,823**
Operating results					
Revenue	19,157,889	20,164,864	16,702,103	12,057,239	**12,650,595**
Results from operating activities	165,581	(2,529,788)	(1,948,925)	(1,641,254)	**(4,339,416)**
Net finance costs	(232,716)	(416,909)	(404,109)	(263,818)	**(427,780)**
Share of loss of a joint venture	(3,310)	(648)	–	–	**–**
Loss before income tax	(70,445)	(2,947,345)	(2,353,034)	(1,905,072)	**(4,767,196)**
Income tax (expense)/credit	127,386	(29,857)	10,764	(9,973)	**10,317**
Profit/(loss) for the year	56,941	(2,977,202)	(2,342,270)	(1,915,045)	**(4,756,879)**
Attributable to:					
Equity holders of the Company	56,774	(2,976,405)	(2,341,865)	(1,915,101)	**(4,758,804)**
Non-controlling interests	167	(797)	(405)	56	**1,925**
Profit/(loss) for the year	56,941	(2,977,202)	(2,342,270)	(1,915,045)	**(4,756,879)**
Earnings/(loss) per share					
Basic ($)	0.031	(1.633)	(1.285)	(1.051)	**(2.611)**
Diluted ($)	0.031	(1.633)	(1.285)	(1.051)	**(2.611)**