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

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

Interim Report 2021

Contents

BOARD OF DIRECTORS

Executive Directors

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

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
Zhu Yuan

NOMINATION COMMITTEE

Chen Jianguo *(Chairman)*
Gao Hui
Zhu Yuan

COMPANY SECRETARY

Lee Wing Sze, Rosa *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Zhu Yuan
Lee Wing Sze, Rosa

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Bank of China Limited
Agricultural Bank of China Limited
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
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Nanjing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central Plaza
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law

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

As to Bermuda Law

Conyers Dill & Pearman

STOCK CODE

1068

WEBSITE

www.yurun.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2021, as a result of the positive trend of global epidemic prevention, the world's economy maintained the recovery momentum. During the same period, China's economy continued to recover steadily, the domestic demand for production continued to rise, the expectations for market were favorable, and the economy registered a stable performance with good momentum for growth. According to the data published by the National Bureau of Statistics of China ("NBS"), when calculated at comparable prices, China's gross domestic product grew by 12.7% year-on-year to Renminbi ("RMB") 53,216.7 billion in the first half of 2021. The year-on-year increase of consumer price index ("CPI") was 0.5%, while that of the core CPI after deducting food and energy prices was 0.4%. The food and beverage market continued to return steadily to an uptrend. According to the latest data published by the NBS, in the first half of 2021, the revenue in the national food and beverage sector was RMB2,171.2 billion, representing a year-on-year increase of 48.6%.

During the six months ended 30 June 2021 (the "Review Period"), as the effectiveness of the previous policies and measures for steady production and supply protection was further demonstrated, the production capability of hogs in the newly added, reconstructed and expanded hog farms has improved continuously, leading to a rapid recovery of hog production capacity. According to the latest data published by the NBS, in the first half of 2021, the number of hogs slaughtered in China was 337.42 million, representing a year-on-year increase of 34.4%. The pork production was 27.15 million tons, representing an increase of 35.9%. The hog production capability continued to improve, and the number of hogs slaughtered and in stocks significantly increased year-on-year.

During the Review Period, China successively introduced the "Regional Prevention and Control Work Plan for African Swine Fever and Other Major Animal Diseases (Trial)" (《非洲豬瘟等重大動物疫病分區防控工作方案(試行)》), and "Improving the Government's Pork Reserve Adjustment Mechanism and Ensuring the Supply and Price Stability of Pork Market" (《完善政府豬肉儲備調節機制做好豬肉市場保供穩價工作預案》) policies, which are conductive to the balance of pork supply and sales. Pork supply and demand should be distributed within the region to stabilize the supply and price of pork. The Group will continue to leverage its core competitiveness in resources, strategies and branding to seize the opportunities amidst the challenges to ensure stable business development.

Despite the various uncertainties during the Review Period, the management of China Yurun Food Group Limited ("Yurun Food" or "the Company") and its subsidiaries (collectively referred to as "the Group") adopted a more active and prudent strategy and still adheres to its belief that it will provide consumers with high-quality meat products in the turbulent market environment.

BUSINESS REVIEW

During the Review Period, the average purchase price of hogs of the Group decreased by 27.3% from the same period last year. Since Chinese New Year, impacted by factors such as the recovery of hog production capacity, import of large amount of pork and the release of the pork from China's central reserves into the market, the pork supply in the market has increased significantly, the pork price in the wholesale market continued to fall nationwide. From the demand side, pork price has currently been close to a normal level, which may stimulate the end-user consumption to a certain extent. In addition, towards the end of the summer, the second half of the year is usually the peak time for consumption, which may have a certain boosting effect on the price of hogs. As one of the leaders in the sector, the Group focused on the main business operation in a prudent manner during the Review Period, continuously improved product portfolio and quality, so as to bring safe and reliable products to consumers.

In the future, we will continue to work diligently, move forward persistently and make best endeavor to overcome difficulties. To turn the Group into a new chapter, we will also seize opportunities arising from the increasing industry concentration, strive to gradually enhance business growth and tackle all the challenges and crises our Group is facing.

Product Quality and Research and Development

Yurun Food has always put product quality as its top priority, and has adopted a strict internal quality control system throughout all processes of procurement, production, sales and logistics. With its strict attitude towards quality control, Yurun Food has successfully established a positive corporate image of food safety and high quality in the minds of consumers.

The Group focuses on the research and development of mid-to-high-end products, the research and development team, consisting of a number of elites, continues to develop new products with market competitiveness, leading the new trend of meat consumption. The new products, highlighting freshness, deliciousness, nutritious and convenience, are well received by consumers.

In the future, the Group will continue to focus on the development of new products that will be welcomed by the market while ensuring high product quality to further enhance its market competitiveness and maintain its leading position in the industry.

Updates on the Consolidated Restructuring of the 44 Relevant Subsidiaries

Reference is made to the announcements of the Company dated 17 November 2020, 23 February 2021, 30 April 2021, 25 May 2021, 27 May 2021 and 27 August 2021 in relation to the Consolidated Restructuring of the 44 Relevant Subsidiaries (the "Announcements"). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Administrator appointed by the Court ("Administrator") has commenced the Consolidated Restructuring of the 44 Relevant Subsidiaries in accordance with the Enterprise Bankruptcy Law of the People's Republic of China (企業破產法) under the instruction and supervision of the Court. On 23 June 2021, the first creditors' meeting in relation to the Consolidated Restructuring of 44 Relevant Subsidiaries was held and the audit findings in relation to the debt were presented to the creditors in form of Proof of Debt (債權表) thereon. The creditors verified their rights over debt and the Administrator also requested the creditors to vote on the establishment of the creditors' committee and the rules of procedure thereof. A resolution in relation to the above matters has been passed thereon. The appointment of the Nanjing Gulou Sub-branch of the Bank of China Limited as the chairman of the creditors' meeting was recommended by the Administrator. The Court appointed the Nanjing Gulou Sub-branch of the Bank of China Limited to be the chairman of the creditors' meeting in relation to Consolidated Restructuring of the 44 Relevant Subsidiaries.

As disclosed in the Announcements, the 44 Relevant Subsidiaries of the Group had been included in the Consolidated Restructuring with effect from 30 April 2021 as a result of the ruling of the Court, thereafter, the Administrator commenced the taking over of the 44 Relevant Subsidiaries on 25 May 2021, the Company had lost the legal and actual management rights over the 44 Relevant Subsidiaries since 30 April 2021.

As at 30 April 2021, prior to the deconsolidation of accounts of the 44 Relevant Subsidiaries and the 68 Non-Taken-over Subsidiaries (collectively, the "Restructuring Companies") into the consolidated accounts of the Group ("Deconsolidation"), the overdue bank borrowings of the 44 Relevant Subsidiaries amounted to RMB4.581 billion and interest on such borrowings ceased to accrue interest since 16 November 2020 in accordance with the Enterprise Bankruptcy Law of the People's Republic of China (企業破產法). As at the date of this report, the Company and the 44 Relevant Subsidiaries are in continuous negotiation with the Administrator and creditors to evaluate various options, so as to formulate a Consolidated Restructuring plan for the 44 Relevant Subsidiaries based on the best interests of the creditors and the Company's stakeholders (including the treatment of the overdue bank borrowings of the 44 Relevant Subsidiaries). As at the date of this report, based on the Company's negotiation with the Administrator, all details of the Consolidated Restructuring plan have yet to be agreed between the creditors and other stakeholders of the 44 Relevant Subsidiaries. Therefore there is a high degree of uncertainty on the actual details of the Consolidated Restructuring plan and its impact on the financial position and business operations of the Group is yet to be determined. Further announcement(s) will be made by the Company as and when required under the Listing Rules to update the Shareholders and potential investors with the latest information on the progress of the Consolidated Restructuring, and its impact on the Group's financial position and business operations.

Deconsolidation of Restructuring Companies

Due to the Deconsolidation, the assets and liabilities of the Restructuring Companies were excluded from the consolidated financial statements of the Group on 30 April 2021. The Restructuring Companies were companies with heavy liabilities, therefore resulting in recognition of approximately HK$3.491 billion gain on deconsolidation of subsidiaries during the Review Period, which is a one-off and non-cash item.

The consolidated statement of profit or loss of the Group comprises of the figures of the Company and all of the subsidiaries (including Restructuring Companies) for the four months ended 30 April 2021 and the figures of the Company and the remaining 39 subsidiaries for May and June 2021 (the comparative figures are the amounts disclosed in the interim report for the six months ended 30 June 2020). For the consolidated statement of financial position as at 30 June 2021 (the comparative figures are the amounts disclosed in the 2020 annual report), it only comprises of the assets and liabilities for the Company and the remaining 39 subsidiaries. As the scope of consolidation changed, the profit and loss, assets and liabilities items have significant variances compared with same period last year. This will also affect the comparability of the financial figures.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP"), being the products with high added values, remained to be the key business drivers of the Group during the Review Period. In the first half of 2021, sales of chilled pork of the Group was HK$5.276 billion (first half of 2020: HK$5.642 billion), decreased by 6.5% from same period last year, accounting for approximately 72% (first half of 2020: 75%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (first half of 2020: 88%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.091 billion (first half of 2020: HK$943 million), increased by 15.7% from same period last year, accounting for about 15% (first half of 2020: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 76% (first half of 2020: 82%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

As at 30 June 2021, the annual production capacity of the Group's upstream slaughtering segment and downstream processed meat segment was approximately 7.35 million heads (31 December 2020: 52.65 million heads) and 61,000 tons (31 December 2020: 312,000 tons) respectively.

Financial Review and Key Performance Indicators

During the Review Period, the Group recorded revenue of HK$7.179 billion, representing a decrease of 4.7% from HK$7.536 billion of the same period last year. Profit attributable to the equity holders of the Company was HK$3.288 billion (first half of 2020: loss attributable to the equity holders of HK$408 million). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding the gain on deconsolidation of subsidiaries, government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for losses on litigations, was HK$216 million (first half of 2020: HK$322 million), representing a reduction in loss of approximately 33.0% from same period last year. Diluted profit per share was HK$1.804 (first half of 2020: loss of HK$0.224).

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

REVENUE

Chilled and Frozen Pork

During the Review Period, the average purchase price of hogs of the Group decreased significantly by approximately 27.3% compared with same period last year. With the gradual elimination of the impact of the COVID-19, hogs supply became more stable, coupled with the continued decline in hog price which is favourable to the upstream business. However, the change in scope of consolidation offset the impact and the slaughtering volume decreased by approximately 11.1% to approximately 1.29 million heads compared with same period last year.

As a result of the combined effect of the decrease in pork prices and the change in scope of consolidation, the overall sales revenue of the upstream business prior to inter-segment eliminations decreased by 8.9% to HK$5.856 billion (first half of 2020: HK$6.426 billion). Specifically, the revenue from chilled pork was HK$5.276 billion (first half of 2020: HK$5.642 billion), representing a decrease of 6.5% from same period last year, and accounted for approximately 72% (first half of 2020: 75%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (first half of 2020: 88%) of the upstream business total revenue. The sales of frozen pork amounted to HK$580 million (first half of 2020: HK$784 million), down 26.1% compared with same period last year, and representing approximately 10% (first half of 2020: 12%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Period, sales of processed meat products of the Group prior to inter-segment eliminations was HK$1.441 billion (first half of 2020: HK$1.152 billion), representing an increase of 25.1% over the same period last year.

Specifically, revenue of LTMP was HK$1.091 billion, representing an increase of 15.7% from HK$943 million of the same period last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 76% (first half of 2020: 82%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$350 million (first half of 2020: HK$209 million), accounting for approximately 24% (first half of 2020: 18%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by 12.8% from HK$444 million in the first half of 2020 to HK$387 million in the Review Period. The overall gross profit margin decreased by 0.5 percentage point to 5.4% from 5.9% of the same period last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.9% and 0.8% respectively (first half of 2020: 2.2% and -4.5% respectively). The overall gross profit margin of the upstream segment was 1.8%, representing an increase of 0.4 percentage point from 1.4% of same period last year due to the positive impact from the decrease in hogs price.

In respect of the downstream business of processed meat products, gross profit margin of LTMP was 18.0%, representing a decrease of 11.7 percentage points from 29.7% of the same period last year. The gross profit margin of HTMP decreased by 15.8 percentage points to 20.1% from 35.9% of the same period last year. The overall gross profit margin of the downstream business was 18.5%, down 12.4 percentage points from 30.9% of the same period last year.

Other Net Income

During the Review Period, the Group recorded other net income of HK$67 million (first half of 2020: HK$11 million). It was mainly attributable to non-recurring income, including government subsidies and gain on disposal of lease prepayments and property, plant and equipment.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$638 million, representing an increase of 7.2% from HK$595 million of the same period last year and including the provision of HK$37 million on impairment losses of non-current assets in the same period last year. Operating expenses excluding impairment losses represented an increase of 14.3% as compared to the same period last year and accounting for 8.9% (first half of 2020: 7.4%) of the Group's revenue. The increase in operating expenses was mainly due to the increase in advertising expenses, salary and wages for new employees. In addition, social security contribution by enterprises was waived under a government policy in 2020 so the social security expenses decreased in the same period last year. Such treatment is not applicable during the Review Period.

Results of Operating Activities

During the Review Period, operating profit of the Group was HK$3.308 billion (first half of 2020: loss of HK$139 million).

Net Finance Costs

During the Review Period, net finance costs of the Group were approximately HK$14 million, while they were HK$251 million in the same period last year. The significant decrease of net finance costs was mainly due to the cessation of the accrual of interests on the bank borrowings of the companies which are subject to the Consolidated Restructuring according to relevant laws.

Income Tax

During the Review Period, the income tax expenses were approximately HK$8 million, and they were HK$14 million in the same period last year.

Profit/(Loss) Attributable to the Equity Holders of the Company

Taking into account the above factors, profit attributable to the equity holders of the Company during the Review Period was HK$3.288 billion (first half of 2020: loss attributable to the equity holders of HK$408 million). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding one-off gain/loss such as the gain on deconsolidation of subsidiaries, government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for losses on litigations, was HK$216 million (first half of 2020: HK$322 million), representing a reduction in loss of approximately 33.0% from the same period last year.

FINANCIAL RESOURCES

As at 30 June 2021, the sum of the Group's cash balance and bank deposits was HK$95 million (31 December 2020: HK$308 million). Approximately 83% (31 December 2020: 96%) of the above-mentioned financial resources was denominated in RMB, and approximately 13% (31 December 2020: 3%) was denominated in US Dollars, while the remaining was denominated in other currencies.

As at 30 June 2021, the Group had outstanding bank and other borrowings of HK$535 million (31 December 2020: HK$6.997 billion) which are repayable within one year. Please refer to paragraph headed "Breach of Borrowings Agreements" below for the details of breach of borrowings agreements of bank borrowings of the Group.

All borrowings were denominated in RMB, which were the same with the borrowings as at 31 December 2020. As at 30 June 2021, the Group's fixed-rate debt ratio was 82.4% (31 December 2020: 80.2%).

The net cash outflow of the Group during the Review Period was mainly due to the change in scope of consolidation.

During the Review Period, the capital expenditure was HK$102 million (first half of 2020: HK$120 million) for the payment for construction in progress of those projects already commenced.

BREACH OF BORROWINGS AGREEMENTS

Certain bank borrowings facilities of the Group are subject to certain covenants on financial gearing and capital requirements as commonly required under lending arrangements with financial institutions. As at 30 June 2021, the Group could not fulfil the covenants in respect of bank borrowings with an aggregate amount of approximately HK$535 million (31 December 2020: HK$5.973 billion) and these bank borrowings were classified as current liabilities in the consolidated statement of financial position. Subsequent to 30 June 2021 and up to the date of this report, the aforesaid bank borrowings have not been renewed.

The Group has closely communicated with the banks regarding the above matters and the renewal of those matured bank borrowings. In the course of communication, the Group understood that the banks would 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 the banks for immediate repayment is not high and the above matters do not have significant impact on the operations of the Group. The Board expects the above matters can be resolved upon completion of the Consolidated Restructuring.

ASSETS AND LIABILITIES

As at 30 June 2021, the total assets of the Group were HK$1.342 billion (31 December 2020: HK$9.156 billion). Its total liabilities as at 30 June 2021 were HK$1.581 billion (31 December 2020: HK$12.401 billion).

As at 30 June 2021, the property, plant and equipment of the Group amounted to HK$530 million (31 December 2020: HK$3.788 billion).

Lease prepayments as at 30 June 2021 amounted to HK$141 million (31 December 2020: HK$1.026 billion). This represented the purchase cost of land use rights of the Group which was amortized on a straight-line basis over the respective period of the rights.

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 30 June 2021, they amounted to HK$4 million (31 December 2020: HK$170 million) and HK$164 million (31 December 2020: HK$607 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize.

Despite the net liabilities position as at 30 June 2021, the situation has improved significantly as compared with 31 December 2020 after the Deconsolidation of the subsidiaries under Consolidated Restructuring. In addition, the Group had non-current assets of approximately HK$841 million to support the daily production and operations of the Group. This net liabilities position has not materially impaired the Group's ability to continue its daily business operation. The Directors believe that upon the completion of the Consolidated Restructuring by leveraging the improvement in the economic environment and the management's proactive efforts to keep improving its operating profit based on the new business plans, we are confident that the Group will be able to be back to net assets position.

During the Review Period, the Group had net cash used in operating activities of HK$13 million (first half of 2020: net cash generated of HK$163 million). As at 30 June 2021, net current liabilities and net liabilities of the Group were HK$1.006 billion (31 December 2020: HK$8.945 billion) and HK$238 million (31 December 2020: HK$3.245 billion) respectively. Its current bank and other borrowings amounted to HK$535 million (31 December 2020: HK$6.997 billion). As mentioned above, although the Group failed to fulfil the contractual terms of bank borrowings and some subsidiaries of the Group are facing various litigations, the Group has been in active negotiations with banks on the renewal and waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of bank borrowings. The negotiations have been relatively optimistic. In addition, the Group will implement operating plans to increase profitability and control costs to generate sufficient operating cash flows. In view of these, the Directors believe that the Group has sufficient financial resources to finance operations and to meet financial obligations as and when they fall due within the next twelve months from the end of the Review Period.

As at 30 June 2021, the total debt/gearing ratio (total debt represented by the sum of bank and other borrowings divided by the sum of total debt and equity attributable to shareholders) of the Group was 261.8% (31 December 2020: 189.4%). As at 30 June 2021, after excluding cash in bank and restricted bank deposits, the net debt/gearing ratio was 215.2% (31 December 2020: 180.7%). The Board expects the above ratios will be improved upon completion of the Consolidated Restructuring.

CHARGES ON ASSETS

As at 30 June 2021, certain trade receivables of the Group with a carrying amount of approximately HK$5 million (31 December 2020: HK$5 million) were pledged against certain bank borrowings with a total amount of approximately HK$47 million (31 December 2020: HK$46 million). Registered capital of a subsidiary of the Group amounted to approximately HK$50 million were pledged against a bank borrowing of a company within the Restructuring Companies of approximately HK$336 million.

As at 31 December 2020, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$792 million, certain investment properties of the Group with a carrying amount of HK$208 million, and certain lease prepayments of the Group with a carrying amount of approximately HK$491 million were pledged against certain bank borrowings with a total amount of approximately HK$4.028 billion.

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

Save for the matters mentioned in the section headed "Updates on the Consolidated Restructuring of the 44 Relevant Subsidiaries", as at the date of this report, the Group has no plan to make any significant investment in or acquisition of capital assets. 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 Period.

CONTINGENT LIABILITIES

As at 30 June 2021, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group demanding them to repay the outstanding bank borrowings of approximately HK$441 million (31 December 2020: HK$2.306 billion) or otherwise assets of equivalent amount. The Group is negotiating with the banks to resolve such litigations. As at 31 December 2020, certain assets of the Group with a carrying amount of approximately HK$136 million were frozen by the courts in the PRC, including the restricted bank deposits of approximately HK$13 million. In addition, the Group provided a financial guarantee by means of pledging the registered capital of a subsidiary of the Group amounted to approximately HK$50 million provided to a company within the Restructuring Companies in respect of its bank borrowings amounted to approximately HK$336 million.

As at 31 December 2020, there were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming an aggregate construction fee together with the late penalties of approximately HK$193 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$75 million for the settlement of the aforesaid construction fee and penalties. Provision for such amounts has been made accordingly. Pursuant to the judgments, the Group was ordered to make an immediate payment of construction fee payables of approximately HK$46 million and the corresponding late penalties of approximately HK$2 million during 2020.

Upon the deconsolidation of subsidiaries and up to the date of this report, there were no other material contingent liabilities except mentioned above.

In respect of the progress of the above, the Company will make further announcements in due course in accordance with the requirements of 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 30 June 2021, the Group had approximately 1,400 (31 December 2020: approximately 10,400) employees in the PRC and Hong Kong in total. The decrease was due to Deconsolidation. During the Review Period, total staff cost was HK$352 million, accounting for 4.9% of the revenue of the Group (first half of 2020: HK$305 million, accounting for 4.0% of revenue).

The Group offers its employees competitive remuneration and other employee benefits, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offers performance-linked bonus and share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocates 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 minimizing the impact of production and business activities on the environment. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In the future, the Group aims at improving relevant measures to minimize waste generation and participating in environmental protection and sustainability plans, which are part of the Group's long-term environmental protection policy.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Review Period (first half of 2020: HK$Nil).

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

As at 30 June 2021, 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(Note)	Total	Approximate percentage of interest
Yang Linwei	Beneficial owner	–	2,000,000	2,000,000	0.11%

Note:

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

Save as disclosed above, as at 30 June 2021, 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.

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

As at 30 June 2021, 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 30 June 2021, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

SHARE OPTION SCHEMES

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

The detailed terms of the New Share Option Scheme were disclosed in the 2019 and 2020 annual reports of the Company. The Company had not granted any share option under the New Share Option Scheme since its adoption.

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

Name or category of participant	As at 1 January 2021	Granted during the Review Period	Exercised during the Review Period	Lapsed during the Review Period	As at 30 June 2021	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								
Yang Linwei	2,000,000	–	–	–	2,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
Subtotal	2,000,000(2)	–	–	–	2,000,000(2)			
Other employees (including ex-employees)								
In aggregate	5,300,000	–	–	–	5,300,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
In aggregate	14,250,000	–	–	(5,275,000)	8,975,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	19,550,000	–	–	(5,275,000)	14,275,000			
Total	21,550,000	–	–	(5,275,000)	16,275,000			

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 would be vested in the grantees in four equal tranches, i.e., 25% of the share options will be vested after the publication of the results of the financial years ended 2013, 2014, 2015 and 2016 respectively. The first tranche (25%) and second tranche (25%) of the share options had lapsed due to the performance targets of the Group and the individual grantees not having been achieved. For the third tranche (25%) and fourth tranche (25%) of the share options, the Board had approved to waive the performance-based condition set by the Company in order to provide incentives for the qualified employees.

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

(3) The closing prices of the shares of the Company immediately before the dates of grants (i.e. 22 March 2013 and 13 June 2013 respectively) were HK$5.17 and HK$4.83 respectively.

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

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

CORPORATE GOVERNANCE

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

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

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

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Review Period except for the matter disclosed below:

In compliance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Nonetheless, the Company appointed Ms. Zhu Yuan as both its chairman and chief executive officer on 28 March 2019. The Board believes that vesting the roles of the chairman and the chief executive officer in the same person would allow the Company to be more effective and efficient in developing business strategies and executing business plans, and is beneficial to the business prospects and management of the Group. The Board believes that the balance of power can be ensured by the composition of the Board which includes members who are experienced and technical individuals and of which more than half are independent non-executive Directors. In the long run, the Company will seek and appoint a suitable individual to take up the role of chief executive officer.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained 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 enquiries with all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the Review Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REVIEW PERIOD

There was no other important event affecting the Group since 30 June 2021 and up to the date of this interim report.

By Order of the Board
Zhu Yuan
Chairman and Chief Executive Officer

Hong Kong, 31 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2021	2020
	Notes	**$'000**	$'000
Revenue	4	**7,178,632**	7,536,316
Cost of sales		**(6,791,541)**	(7,092,161)
Gross profit		**387,091**	444,155
Other net income	6	**67,260**	11,369
Distribution expenses		**(328,602)**	(280,100)
Administrative and other operating expenses		**(308,901)**	(314,835)
Gain on deconsolidation of subsidiaries	17	**3,491,306**	–
Results from operating activities		**3,308,154**	(139,411)
Finance income		**7,778**	1,082
Finance costs		**(21,693)**	(252,288)
Net finance costs	7(a)	**(13,915)**	(251,206)
Profit/(loss) before income tax	7	**3,294,239**	(390,617)
Income tax expenses	8	**(7,559)**	(14,118)
Profit/(loss) for the period		**3,286,680**	(404,735)
Attributable to:			
Equity holders of the Company		**3,288,097**	(407,917)
Non-controlling interests		**(1,417)**	3,182
Profit/(loss) for the period		**3,286,680**	(404,735)
Profit/(loss) per share			
Basic	10(a)	**HK$1.804**	HK$(0.224)
Diluted	10(b)	**HK$1.804**	HK$(0.224)

The notes on pages 21 to 36 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2021	2020
	Notes	**$'000**	$'000
Profit/(loss) for the period		**3,286,680**	(404,735)
Other comprehensive income for the period (after tax and reclassification adjustments)	9		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**1,948**	(139,655)
Foreign currency translation reclassified to profit or loss upon deconsolidation of subsidiaries	17	**(320,886)**	–
		(318,938)	(139,655)
Total comprehensive income for the period		**2,967,742**	(544,390)
Attributable to:			
Equity holders of the Company		**2,971,278**	(546,508)
Non-controlling interests		**(3,536)**	2,118
Total comprehensive income for the period		**2,967,742**	(544,390)

The notes on pages 21 to 36 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021 – unaudited

(Expressed in Hong Kong dollars)

	Notes	30 June 2021 $'000	31 December 2020 $'000
Non-current assets			
Property, plant and equipment	11	**529,815**	3,788,273
Investment properties		**–**	207,600
Lease prepayments		**140,663**	1,025,661
Intangible assets		**2,450**	59
Non-current prepayments and other receivables		**168,292**	776,483
		841,220	5,798,076
Current assets			
Inventories	12	**121,959**	610,585
Trade and other receivables	13	**283,505**	2,424,614
Income tax recoverable		**718**	2,341
Restricted bank deposits		**–**	13,316
Cash and cash equivalents	14	**95,179**	307,550
		501,361	3,358,406
Current liabilities			
Bank and other borrowings		**535,032**	6,997,149
Lease liabilities		**2,130**	2,059
Trade and other payables	15	**967,929**	5,291,928
Income tax payable		**2,594**	12,403
		1,507,685	12,303,539
Net current liabilities		**(1,006,324)**	(8,945,133)
Total assets less current liabilities		**(165,104)**	(3,147,057)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

	30 June 2021 $'000	31 December 2020 $'000
Non-current liability		
Lease liabilities	**73,025**	97,500
NET LIABILITIES	**(238,129)**	(3,244,557)
EQUITY		
Share capital	**182,276**	182,276
Reserves	**(512,959)**	(3,484,237)
Total equity attributable to equity holders of the Company	**(330,683)**	(3,301,961)
Non-controlling interests	**92,554**	57,404
TOTAL EQUITY	**(238,129)**	(3,244,557)

Approved and authorised for issue by the board of directors on 31 August 2021.

Zhu Yuan
Director

Yang Linwei
Director

The notes on pages 21 to 36 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital surplus	Merger reserve	PRC statutory reserves	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2020	182,276	7,400,418	3,643	(70,363)	863,828	287,298	(10,037,563)	(1,370,463)	54,003	(1,316,460)
(Loss)/profit for the period	–	–	–	–	–	–	(407,917)	(407,917)	3,182	(404,735)
Total other comprehensive income for the period	–	–	–	–	–	(138,591)	–	(138,591)	(1,064)	(139,655)
Total comprehensive income for the period	–	–	–	–	–	(138,591)	(407,917)	(546,508)	2,118	(544,390)
Transfer from accumulated losses	–	–	–	–	4,753	–	(4,753)	–	–	–
At 30 June 2020	182,276	7,400,418	3,643	(70,363)	868,581	148,707	(10,450,233)	(1,916,971)	56,121	(1,860,850)
At 1 January 2021	**182,276**	**7,400,418**	**3,290**	**(70,363)**	**870,135**	**375,064**	**(12,062,781)**	**(3,301,961)**	**57,404**	**(3,244,557)**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**3,288,097**	**3,288,097**	**(1,417)**	**3,286,680**
Total other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(316,819)**	**–**	**(316,819)**	**(2,119)**	**(318,938)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(316,819)**	**3,288,097**	**2,971,278**	**(3,536)**	**2,967,742**
Deconsolidation of subsidiaries (note 17)	**–**	**–**	**–**	**–**	**(777,983)**	**–**	**777,983**	**–**	**38,686**	**38,686**
Transfer from accumulated losses	**–**	**–**	**–**	**–**	**15**	**–**	**(15)**	**–**	**–**	**–**
At 30 June 2021	**182,276**	**7,400,418**	**3,290**	**(70,363)**	**92,167**	**58,245**	**(7,996,716)**	**(330,683)**	**92,554**	**(238,129)**

The notes on pages 21 to 36 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2021	2020
	Note	**$'000**	$'000
Cash (used in)/generated from operations		**(957)**	172,650
Finance costs paid		**(206)**	(4,029)
Tax paid		**(11,843)**	(5,136)
Net cash (used in)/generated from operating activities		**(13,006)**	163,485
Investing activities			
Acquisition of property, plant and equipment		**(101,554)**	(119,651)
Proceeds from disposal of lease prepayments and property, plant and equipment		**25,938**	–
Net cash outflow arising on deconsolidation of subsidiaries		**(146,720)**	–
Other cash flow arising from investing activities		**(1,327)**	1,082
Net cash used in investing activities		**(223,663)**	(118,569)
Financing activities			
New borrowing from a related company		**–**	78,092
Other cash flow arising from financing activities		**12,944**	21,084
Net cash generated from financing activities		**12,944**	99,176
Net (decrease)/increase in cash and cash equivalents		**(223,725)**	144,092
Cash and cash equivalents at 1 January		**307,550**	217,403
Effect of exchange rate fluctuations on cash held		**11,354**	31,392
Cash and cash equivalents at 30 June	14	**95,179**	392,887

The notes on pages 21 to 36 form part of this interim financial report.

1. REPORTING ENTITY

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

The interim financial report of the Company as at and for the six months ended 30 June 2021 comprises the financial information of the Company and its subsidiaries (collectively referred to as the "Group").

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 31 August 2021.

The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2020 (the"2020 annual financial statement"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Except as described in note 3, the interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2020 are available from the Company's principal place of business in Hong Kong. The auditor has disclaimed an opinion on those financial statements in its report dated 24 March 2021.

With effect from 30 April 2021 as a result of the civil ruling of the court in the People's Republic of China (the "PRC"), 44 subsidiaries (the "Relevant Subsidiaries") of the Group had been included in the consolidated restructuring, thereafter, the administrator appointed by the court (the "Administrator") commenced the taking over of the Relevant Subsidiaries on 25 May 2021, which entitled the Administrator to legal and actual control over the internal and external affairs of the Relevant Subsidiaries. As a result, the Company had lost the legal and actual management rights over the Relevant Subsidiaries since then.

There are in total 68 subsidiaries (direct or indirect) of the Relevant Subsidiaries, all of which are not taken over by the Administrator (the "Non-Taken-over Subsidiaries"). In view of this, the accounts of the Relevant Subsidiaries and the Non-Taken-over Subsidiaries (together the "Restructuring Companies") ceased to be consolidated to the consolidated financial statements of the Group for the six months ended 30 June 2021 with effect from 30 April 2021. Details of the financial impact on the deconsolidation are disclosed in note 17.

In addition, there are in total 39 subsidiaries (direct or indirect) of the Company that are not subject to the consolidated restructuring. The operation and management of these subsidiaries are conducted as usual without any restrictions.

(Expressed in Hong Kong dollars)

2. BASIS OF PREPARATION (CONTINUED)

The Group had net cash used in operating activities of $13,006,000 for the six months ended 30 June 2021 and as at 30 June 2021, the Group had net current liabilities and net liabilities of $1,006,324,000 and $238,129,000 respectively. The current bank borrowings amounted to $535,032,000 as at 30 June 2021, while the Group maintained its cash and cash equivalents of $95,179,000 only. The Group could not fulfil certain bank covenants relating to the bank borrowings amounted to $535,032,000 as at 30 June 2021. These bank borrowings were presented as current liabilities in the consolidated statement of financial position. Included in these bank borrowings were $440,960,000 of which the banks have commenced litigations against the Group to repay the outstanding balances. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

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

(i) Actively negotiating with banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank borrowings; and

(ii) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operation.

By 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 condensed consolidated financial statements have been prepared on a going concern basis. The audit committee of the Company has no disagreement with the Directors on the above position and the going concern basis.

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

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new or revised IFRSs that are first effective for the current accounting period of the Group. Of these, the followings are relevant to the Group.

Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39	Interest Rate Benchmark Reform – Phase 2
Amendment to IFRS 16	Covid-19 - Related Rent Concessions beyond 30 June 2021

The application of the new or amended IFRSs did not have any significant impact on the Group's accounting policies.

4. REVENUE AND SEGMENT INFORMATION

(a) Segment results

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2021 and 2020 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2021	2020	**2021**	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**5,765,205**	6,386,622	**1,413,427**	1,149,694	**7,178,632**	7,536,316
Inter-segment revenue	**91,200**	39,577	**27,615**	1,928	**118,815**	41,505
Reportable segment revenue	**5,856,405**	6,426,199	**1,441,042**	1,151,622	**7,297,447**	7,577,821
Reportable segment results	**(132,510)**	(237,146)	**(34,215)**	106,889	**(166,725)**	(130,257)
Depreciation and amortisation	**(45,030)**	(101,828)	**(21,020)**	(10,450)	**(66,050)**	(112,278)
Impairment losses on trade receivables	**(5,878)**	(1,047)	**(22,903)**	(10,175)	**(28,781)**	(11,222)
Impairment losses on property, plant and equipment and lease prepayments	**–**	(37,112)	**–**	–	**–**	(37,112)
Government subsidies	**1,641**	1,268	**279**	1,976	**1,920**	3,244
Income tax expenses	**(897)**	(9,902)	**(6,662)**	(4,216)	**(7,559)**	(14,118)

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

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Revenue		
Total revenue from reportable segments	**7,297,447**	7,577,821
Elimination of inter-segment revenue	**(118,815)**	(41,505)
Consolidated revenue	**7,178,632**	7,536,316
Profit/(loss)		
Total reportable segment results before income tax	**(166,725)**	(130,257)
Elimination of inter-segment loss	**(5,324)**	(175)
	(172,049)	(130,432)
Gain on deconsolidation of subsidiaries	**3,491,306**	–
Net finance costs	**(13,915)**	(251,206)
Income tax expenses	**(7,559)**	(14,118)
Unallocated head office and corporate expenses	**(11,103)**	(8,979)
Consolidated profit/(loss) for the period	**3,286,680**	(404,735)

5. SEASONALITY OF OPERATIONS

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

6. OTHER NET INCOME

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Government subsidies	**1,920**	3,244
Provision for losses on litigations (notes)	**(3,000)**	(34,914)
Gain/(loss) on disposal of property, plant and equipment and lease prepayments	**7,625**	(1,927)
Rental income	**30,364**	30,028
Sales of scrap	**1,883**	623
Sundry income	**28,468**	14,315
	67,260	11,369

Notes:

During the six months ended 30 June 2021, in addition to the litigations commenced by the banks against the subsidiaries of the Group as disclosed in note 7(a), there was litigation initiated by a commercial competitor in the PRC claiming against a subsidiary of the Group in view of the economic losses due to trademark infringement. The Group recognised losses of $3,000,000 (six months ended 30 June 2020: $Nil).

During the six months ended 30 June 2020, there were litigations initiated by municipal people's governments in the PRC claiming against certain subsidiaries of the Group in view of the suspension of the development in certain areas. The Group recognised losses of $34,914,000.

7. PROFIT/(LOSS) BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Interest on bank and other borrowings	**21,438**	235,762
Interest on lease liabilities	**49**	3,712
Less: Interest expense capitalised into construction in progress	**–**	(2,596)
	21,487	236,878
Bank charges	**206**	260
Net foreign exchange (gain)/loss	**(6,145)**	15,150
Interest income from bank deposits	**(1,633)**	(1,082)
	13,915	251,206

Certain of the Group's bank borrowing facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 30 June 2021, the Group could not fulfil covenants imposed by banks on the bank borrowings with an aggregate amount of $535,032,000 (31 December 2020: $5,972,672,000). These bank borrowings were classified as current liabilities in the consolidated statement of financial position at the end of the reporting period. The Group is negotiating with the banks to renew the bank borrowing facilities at the end of the reporting period. Subsequent to 30 June 2021 and up to the date of this interim financial report, the aforesaid bank borrowing facilities are not yet renewed.

At 30 June 2021, there were outstanding litigations commenced by the banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to repay the outstanding bank borrowings of $440,960,000 (31 December 2020: $2,305,940,000) or to repay with assets of equivalent amount immediately. The Group is negotiating with the banks to settle these litigations.

At 31 December 2020, certain property, plant and equipment and bank deposits of the Group with carrying value of $136,290,000 and $13,316,000 respectively have been frozen by the courts in the PRC.

7. PROFIT/(LOSS) BEFORE INCOME TAX (CONTINUED)

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

(b) Personnel expenses

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Salaries, wages and other benefits	**333,863**	301,260
Contributions to defined contribution pension schemes	**18,417**	3,852
	352,280	305,112

(c) Other items

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Cost of inventories#	**6,791,541**	7,092,161
Write-down of inventories	**7,979**	–
Impairment losses on trade receivables	**28,781**	11,222
Impairment losses on property, plant and equipment and lease prepayments	**–**	37,112
Amortisation of lease prepayments	**8,176**	16,534
Amortisation of intangible assets	**544**	–
Depreciation of property, plant and equipment	**57,330**	95,744

Cost of inventories includes approximately $123,146,000 (six months ended 30 June 2020: $104,954,000) relating to personnel expenses, which the amount is also included in the above note 7(b).

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Current tax expense		
Current year	**7,125**	4,620
Under-provision in respect of prior year	**434**	1,710
	7,559	6,330
Deferred tax expense	**–**	7,788
Total income tax expenses	**7,559**	14,118

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

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2021 and 2020.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the six months ended 30 June 2021 and 2020, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the six months ended 30 June 2021 and 2020.

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

9. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any tax effect for the six months ended 30 June 2021 (six months ended 30 June 2020: $Nil).

10. PROFIT/(LOSS) PER SHARE

(a) Basic profit/(loss) per share

The calculation of basic profit/(loss) per share is based on the profit attributable to equity holders of the Company of $3,288,097,000 (loss attributable to equity holders of the Company for the six months ended 30 June 2020: $407,917,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2020: 1,822,756,000).

(b) Diluted profit/(loss) per share

Diluted profit/(loss) per share equals to basic profit/(loss) per share for the six months ended 30 June 2021 and 2020 because all potential ordinary shares outstanding were anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

The additions and disposals of items of property, plant and equipment during the six months ended 30 June 2021 and 2020 are as follows:

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Additions	**81,820**	125,752
Carrying value of assets deconsolidated of through deconsolidation of subsidiaries (note 17)	**3,294,423**	–
Carrying value of items disposed of	**54,393**	1,932

As at 30 June 2021, the Group assessed the recoverable amounts of certain assets which management considers are likely to be recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit ("CGU") to which these assets belong based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Management determined the budgeted gross profit 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.

During the six months ended 30 June 2021, no impairment loss (six months ended 30 June 2020: impairment losses of $27,630,000 and $9,482,000 respectively) in respect of property, plant and equipment and lease prepayments was recognised as the recoverable amounts of the CGUs is higher than its carrying amounts. 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.

12. INVENTORIES

	30 June 2021 $'000	31 December 2020 $'000
Raw materials	**68,106**	191,385
Work in progress	**4,161**	97,420
Finished goods	**49,692**	321,780
	121,959	610,585

At 30 June 2021, the Group wrote down the inventories of $7,979,000 (31 December 2020: $4,529,000) to the net realisable value due to decrease in the price of meat in PRC market and recorded in "cost of sales" in the consolidated statement of profit or loss for the six months ended 30 June 2021.

13. TRADE AND OTHER RECEIVABLES

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

	30 June 2021 $'000	31 December 2020 $'000
Trade receivables		
– Within 30 days	**12,649**	294,585
– 31 days to 90 days	**6,485**	56,066
– 91 days to 180 days	**6,332**	53,189
– Over 180 days	**2,662**	50,898
	28,128	454,738
Less: Expected credit losses	**(8,177)**	(136,570)
Total trade receivables, net	**19,951**	318,168
Bills receivables	**–**	3,089
Value-added tax ("VAT") recoverable	**122,981**	1,390,767
Deposits and prepayments	**134,607**	547,956
Other receivables	**5,966**	164,634
	283,505	2,424,614

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

14. CASH AND CASH EQUIVALENTS

	30 June 2021 $'000	31 December 2020 $'000
Renminbi ("RMB")	**79,473**	296,340
United States dollars ("USD")	**12,682**	8,981
Euro dollars ("EUR")	**209**	209
Other currencies	**2,815**	2,020
	95,179	307,550

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately $79,473,000 (31 December 2020: approximately $296,340,000). 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.

15. TRADE AND OTHER PAYABLES

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

	30 June 2021 $'000	31 December 2020 $'000
Trade payables		
– Within 30 days	**201,735**	415,821
– 31 days to 90 days	**26,418**	53,119
– 91 days to 180 days	**122,502**	82,067
– Over 180 days	**26,125**	42,296
Total trade payables	**376,780**	593,303
Deposits from customers	**9,427**	96,256
Contract liabilities	**16,876**	376,123
Salary and welfare payables	**26,509**	137,970
VAT payable	**53,958**	48,806
Payables for acquisitions of property, plant and equipment	**25,278**	614,195
Provision for losses on litigations	**75,148**	141,596
Interest payables	**212,842**	1,743,886
Other payables and accruals	**171,111**	1,539,793
	967,929	5,291,928

16. CAPITAL, RESERVES AND DIVIDENDS

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

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: $Nil).

(b) Equity settled share-based transactions

On 25 March 2013 and 14 June 2013, 59,600,000 share options ("2013 March Options") and 105,500,000 share options ("2013 June Options") were granted for $1 to qualified employees of the Group under the Company's employee share option scheme (no share options were granted during the six months ended 30 June 2020 and 2019). Each option gives the holder the right to subscribe for one ordinary share of the Company. The options granted are subject to a vesting scale in tranches of 25% each annum starting from 2014 after announcement of results for the previous year and achievement of performance-based vesting condition. The option shall lapse when the performance-based condition is not satisfied. 2013 March Options and 2013 June Options outstanding at 30 June 2020 had exercise price of $5.142 and $5.002 respectively.

During the six months ended 30 June 2021, no options were exercised (six months ended 30 June 2020: Nil) and 5,275,000 share options were lapsed (six months ended 30 June 2020: 29,400,000).

17. GAIN ON DECONSOLIDATION OF SUBSIDIARIES

As disclosed in note 2, the Restructuring Companies were not consolidated by the Group. The net (liabilities)/assets deconsolidated were as follow:

	Nanjing Yurun Group (note i) $'000	Others (note ii) $'000	Total $'000
Net (liabilities)/assets deconsolidated of:			
Property, plant and equipment	2,893,644	400,779	
Investment properties	208,394	–	
Lease prepayments	811,034	58,403	
Intangible assets	60	–	
Non-current prepayments and other receivables	608,574	92,255	
Inventories	410,113	204,111	
Trade and other receivables	2,136,641	285,537	
Income tax recoverable	950	1,161	
Cash and cash equivalents	138,096	8,624	
Bank and other borrowings	(5,248,081)	(1,457,036)	
Lease liabilities	–	(30,157)	
Trade and other payables	(4,856,188)	(1,076,773)	
Net amounts due (to)/from Restructuring Companies	(2,742,890)	2,742,890	
Income tax payable	(5,230)	(886)	
Total net (liabilities)/assets deconsolidated of	(5,644,883)	1,228,908	(4,415,975)
Non-controlling interests			(60,410)
Exchange reserve realised on deconsolidation			(320,886)
Net liabilities			(4,797,271)
Non-controlling interests arising on deconsolidation			99,096
Current accounts with Restructuring Companies			1,206,869
			(3,491,306)
Net cash outflow arising on deconsolidation of subsidiaries:			
Cash and cash equivalents deconsolidated of			146,720

Notes:

(i) Nanjing Yurun Group represents 南京雨潤食品有限公司 (transliteral as Nanjing Yurun Food Co., Ltd.) and its subsidiaries.

(ii) Others represent the remaining Restructuring Companies other than those included in Nanjing Yurun Group.

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2021 and 31 December 2020.

19. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	30 June 2021 $'000	31 December 2020 $'000
Contracted for	**332,595**	2,880,129

20. CONTINGENT LIABILITIES

Upon the deconsolidation of subsidiaries (note 17) and up to the date of this interim financial report, there was no material contingent liabilities except for a financial guarantee by means of pledging the registered capital of a subsidiary of the Group amounted to approximately $50,000,000 provided to a company within the Restructuring Companies in respect of its bank borrowings amounted to approximately $336,498,000.

During the year ended 31 December 2020, there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fees, together with the late penalties, totaling approximately $193,044,000. 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 $74,850,000 ("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 2020. 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 $46,330,000 and corresponding late penalties of approximately $2,000,000. These amounts were included in the Provision Amount already and the settlement had not yet been made as at 31 December 2020.

Other than the disclosure of note 2 and above, as at the end of the reporting period, the Group did not involve 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 30 June 2021, 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.

21. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2021 and 2020, in addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group had the following material related party transactions and balances:

(a) Significant related party transactions

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

	Six months ended 30 June	
	2021	2020
	$'000	$'000
Sales of raw materials to related companies (note 21(a)(iv))	**311**	390
Sales of finished goods to related companies (note 21(a)(iv))	**2,220**	2,986
Purchases of raw materials from related companies (note 21(a)(iv))	**46,828**	22,449
Purchases of finished goods from related parties (note 21(a)(iv))	**2,703**	–

(ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties (note 21(a)(iv)). The rental paid or payable to the related parties for the six months ended 30 June 2021 amounted to $1,846,000 (six months ended 30 June 2020: $1,607,000).

(iii) Certain related parties (note 21(a)(iv)) made available their properties and land use rights with a total carrying value of $55,700,000 (31 December 2020: $55,613,000) as at 30 June 2021 to the Group. No rental is paid or payable by any of the group companies.

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

(v) A subsidiary of the Company entered into the products consignment agreement with a related company, consignment fee expense of $5,663,000 was paid for the six months ended 30 June 2021 (six months ended 30 June 2020: $6,233,000). The related company is owned by Mr. Zhu. Ms. Zhu Yuan ("Ms. Zhu"), an executive director of the Company, is also a director of the related company.

(vi) As at 31 December 2020, certain bank borrowings of the Group were guaranteed by related parties or secured by assets of related parties.

21. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Amounts due from related parties

	30 June 2021 $'000	31 December 2020 $'000
Trade receivables due from related parties (note 21(a)(iv))	**30,375**	59,550
Other receivables due from related parties (note 21(a)(iv))	**–**	38,055

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

(c) Amounts due to related parties

	30 June 2021 $'000	31 December 2020 $'000
Trade payables due to related parties (note 21(a)(iv))	**1,316**	53,039
Other payables due to related parties (notes 21(a)(iv) and 21(c)(i))	**–**	9,909
Other borrowings due to related parties (note 21(c)(ii))	**–**	1,024,477

(i) Certain related companies settled certain payables on behalf of the Group for the six months ended 30 June 2020.

(ii) As at 31 December 2020, a subsidiary of the Company obtained other borrowings of $1,024,477,000 from related companies. The other borrowings were unsecured, interest bearing at 4.35% per annum and repayable on demand. Interest expenses of $20,954,000 were incurred for the six months ended 30 June 2020.

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

(d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2021 $'000	2020 $'000
Salaries and other emoluments	**1,267**	1,406
Contributions to retirement benefit schemes	**4**	2
	1,271	1,408