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 2021

Contents

CORPORATE INFORMATION

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
Industrial and Commercial Bank of China Limited
Bank of Ningbo Co., Ltd.

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISORS

As to Hong Kong Law

Cleary Gottlieb Steen & Hamilton (Hong Kong)
Norton Rose Fulbright Hong Kong
Sidley Austin

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 2021 (the "Review Year").

BUSINESS REVIEW

During the Review Year, the global COVID-19 prevention and control situation remained severe, the mutated virus still spread rapidly in some regions. The global inflation remained high, and the economic situation was still complicated.

The hog breeding market gradually got out of the impact of African Swine Fever. With the further effectiveness of various policies and measures adopted by local governments in China to stabilize hog production and supply, and the production capacity of hogs in the newly added, renovated and expanded farms was released continuously, leading to a rapid recovery of hog production capacity and the market supply capacity has gradually improved. At the same time, driven by the high profit of hog breeding, there was a surplus of supply in the hog market. At the end of 2021, the live hogs inventory in China was 449 million heads, representing a year-on-year increase of 10.5%. The number of live hogs to be slaughtered in China was 671 million heads, a year-on-year increase of 27.4%. Under the situation of oversupply, the average price of live hogs in 2021 was generally in a downward trend, representing a decrease of 30.3% throughout the year.

During the Review Year, the Group actively participated in the Restructuring Plan (as defined in the section headed "Management Discussion and Analysis" in this annual report). The Restructuring Plan was approved by voting at the Creditors' Meeting on 28 January 2022, it was also approved and adjudicated effective by the Nanjing Intermediate Court on the same day. Since the Restructuring Plan has taken effect, the Group has been focusing on the production of products under the "Haroulian" family of brands.

Hadazhong, focused on the business of production of low temperature meat products ("LTMP"), has a long history of profound development and is one of the first batch of enterprises recognized as "China Time-honored Brands (中華老字號)" by the Ministry of Commerce of the PRC. It ranked among the "Top 50 Enterprises in Heilongjiang Province" and among the top 10 enterprises in the meat and food industry in Heilongjiang Province in 2006. At the same time, Hadazhong has also received numerous national honors and has been recognized as a national key leading enterprise in agricultural industrialization and a well-known trademark in China by the State Administration for Industry and Commerce. In addition, the red sausage production technique of Hadazhong has been recognized as Heilongjiang's Intangible Cultural Heritage and has been awarded the "Second Golden Award for Traditional Taste of Meat Products" by China Meat Association in 2015. Hadazhong offers comprehensive and diversified products, with more than ten different series of high quality LTMP and has received various international certifications such as ISO 9001, ISO 14001, ORSAS 18001 and ISO 22000. In 2020, the overall satisfaction rate of Harbin red sausage segment reached 91.02%, which indicates that the Haroulian brand is well received by the consumers. Hadazhong is primarily a specialty store-based company with focus on consumers in the Northeast China. In addition to meat products, Hadazhong is also engaged in the slaughtering business.

Thanks to the hard work and dedication of all our employees, the Group recorded revenue of HK$8.440 billion, profit attributable to the equity holders of the Company was HK$3.060 billion in 2021, loss arising from principal business was HK$416 million, representing a significant reduction in loss of 56.6% compared with last year.

The Board believes that, despite various challenges arising from uncertainties, by making concerted efforts, adopting multiple measures, and leveraging with its years of experiences and competitive edges in the food industry, the Group can seize opportunities and overcome obstacles to promote stable and sustainable business development.

PROSPECT

In 2021, against the backdrop of repeated COVID-19 outbreaks and the emergence and spread of the mutated new coronavirus, the global economy recovered fragilely. Under the normalization of epidemic prevention and control, China's economy has generally shown a good recovery trend and achieved a good start in the 14th Five-Year Plan. In 2022, as the fifth wave of the epidemic was gradually brought under control, under the accelerated construction of a new development pattern of "dual circulation", it is expected that China's economy will maintain the trend of seeking progress while maintaining stability, and promote the realization of high-quality economic development.

In the future, both processed meat operation and slaughtering operation will be the core business for the Group. In particular, processed meat operation, which serves external customers, represents the profit center of the Group, while slaughtering operation mainly supplies to the Group's processed meat production plants internally and represents the cost center of the Group. Hadazhong intends to enhance the capacity utilization through the following strategies: (i) improve and optimize product quality to drive sales volume recovery leveraging brand equity and strength; (ii) strive to develop convenience store channels and specialty channels to achieve growth in product turnover. Hadazhong has also vigorously developed e-commerce channels recently, the sales from e-commerce recorded an increase from 3% in 2016 to 20% in 2020; (iii) in terms of distribution model, it will focus on the promotion of the new model to the first and second tier cities in the Heilongjiang Province, and plan to conduct strategic cooperation through regional partners/franchisees in the next four years to rapidly expand the national market. In order to meet the growing demand for processed meat production products, the slaughtering output needs to be adjusted simultaneously and the utilization rate of slaughtering capacity needs to be further adjusted to maintain the same increase ratio as the growth in processed meat products business.

The Group's Restructuring Plan has reached its final stage and entered the stage of implementation and we believe the Group will be revitalized. With the implementation of the Restructuring Plan, the overall debt structure and debt maturities of the Group will be greatly optimized, financial expenses will be greatly reduced, and profitability is expected to continue to increase, bringing long-term sustainable returns to shareholders and society.

ACKNOWLEDGEMENT

On behalf of the Board, I would also like to take this opportunity to extend my gratitude to our shareholders, customers and business partners for their persistent support and trust in the Group. My gratitude also goes to our management team and staff. In the most difficult time of the Group, there are still a large number of veteran staff silently persevere, and there is still a steady stream of new employees who choose to join. They are willing to struggle with the Group side by side, accompanying the transformation and rebirth of Yurun Food. Finally, I would like to express my deepest gratitude to the Governments, courts, debt committees, creditors, administrators and partners at all levels for their support and assistance in the restructuring of the Group. With their help, Yurun Food can have the opportunity to write a new chapter in its development.

Zhu Yuan
Chairman
Hong Kong, 29 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

During the Review Year, the situation of COVID-19 prevention and control continued to improve, the world economy as a whole maintained the momentum of recovery, and China's economy also recovered steadily, production demand was gradually picking up, and economic development was moving forward steadily.

Hog breeding market has gradually stepped out of the impact of African Swine Fever. With the further effectiveness of various policies and measures to stabilize production and supply in the early stage, the production capacity of hogs in the newly added, renovated and expanded farms was released continuously, leading to a rapid recovery of hog production capacity. At the same time, driven by the high profit of hog breeding, there was a surplus of supply in the hog market. In 2021, the number of live hogs to be slaughtered in China was 671 million heads, a year-on-year increase of 27.4%.

In 2021, the slaughtering volume of large-scale designated slaughtering enterprises in the country was 265 million heads, a year-on-year increase of 62.9%, marking the highest slaughtering volume in recent 5 years. The national pork output was approximately 53 million tons, up 28.8%. The average price of pork throughout the year fell by 30.3% year-on-year.

During the Review Year, although China Yurun Food Group Limited ("Yurun Food" or "the Company") and its subsidiaries (collectively referred to as "the Group") were facing various unsteady factors, the management adopted an active and prudent strategy and still adhered to its belief that it will provide consumers with high-quality meat products in the turbulent and complex market environment.

BUSINESS REVIEW

During the Review Year, the Group heavily involved in the Restructuring process. Upon the deconsolidation of Restructuring Companies, the remaining core business of the Group is the production of processed meats under the "Haroulian" ("HRL") brand series. Hadazhong, focused on the business of production of low temperature meat products ("LTMP"), has a long history of profound development and is one of the first batch of enterprises recognized as "China Time-honored Brands (中華老字號)" by the Ministry of Commerce of the People's Republic of China (the "PRC"). It ranked among the "Top 50 Enterprises in Heilongjiang Province" and among the top 10 enterprises in the meat and food industry in Heilongjiang Province in 2006.

Hadazhong has also received numerous national honors and has been recognized as a national key leading enterprise in agricultural industrialization and a well-known trademark in China by the State Administration for Industry and Commerce. In addition, the red sausage production technique of Hadazhong has been recognized as Heilongjiang's Intangible Cultural Heritage and has been awarded the "Second Golden Award for Traditional Taste of Meat Products" by China Meat Association in 2015. Hadazhong offers comprehensive and diversified products, with more than ten different series of high quality LTMP and has received various international certifications.

Consolidated Restructuring Case of 44 Relevant Subsidiaries

References are made to (i) the announcements of the Company dated 17 November 2020, 23 February 2021, 30 April 2021, 25 May 2021, 27 May 2021, 27 August 2021, 4 January 2022 and 30 January 2022 in relation to the status of the Restructuring Case of 44 Companies (as defined in the announcements thereto); and (ii) the interim results announcement of the Company dated 31 August 2021 (the "Announcements"). Unless otherwise defined, terms used in this report shall have the same meanings as those defined in the Announcements.

As noted in the Announcements, a substantial consolidated restructuring process (the "Restructuring Plan") was commenced against the 44 Relevant Subsidiaries since 30 April 2021, and the Administrator took over of the 44 Relevant Subsidiaries on 25 May 2021 and the accounts of the 44 Relevant Subsidiaries and the 68 Non-Taken-over Subsidiaries (together the "Restructuring Companies") have been deconsolidated from the Group's consolidated accounts since 30 April 2021 ("Deconsolidation").

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 since 30 April 2021. These companies were companies with heavy liabilities, therefore resulting in recognition of approximately HK$3.491 billion gain on Deconsolidation during the Review Year, which is an 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 subsidiaries for May to December 2021 (the comparative figures are the amounts disclosed in the annual report for the twelve months ended 31 December 2020). For the consolidated statement of financial position as at 31 December 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 37 subsidiaries. The profit and loss, assets and liabilities items have significant variances compared with last year were mainly due to the change in scope of consolidation. The comparability of the financial figures were also impacted.

Summary of key components of the Restructuring Plan

The Restructuring Plan was approved by voting at the Creditors' Meeting on 28 January 2022, it was also approved and adjudicated effective by the Nanjing Intermediate Court on the same day. The key impact of the Restructuring Plan on the Group are summarized below:

– the Company has ceased to (directly or indirectly) own any legal or actual equity interests in the 44 Restructuring Companies and the 44 Restructuring Companies have become the subsidiaries of the New Platform

– the Group has provided security in respect of indebtedness of the 44 Restructuring Companies in the amount of approximately Renminbi ("RMB") 936 million. Upon the relevant creditors of Restructuring Case of 44 Companies realizing their rights as creditors during the implementation of the Restructuring Plan, the Group will no longer be liable for such contingent liabilities

– the Group has indebtedness in the amount of approximately RMB618 million, which was guaranteed by certain members of the 44 Restructuring Companies and subject to legal proceedings made by the creditors thereof. Such indebtedness and the legal proceedings relating thereto will be extinguished upon the relevant creditors of the 44 Restructuring Companies realizing their rights during the implementation of the Restructuring Plan; otherwise, such portion of the indebtedness (and such related legal proceedings) would not be automatically extinguished

– the Group's receivables owing by certain members of the 44 Restructuring Companies and 78 China YH Restructuring Companies in the aggregate amount of approximately RMB1,251 million will be converted to not more than 0.72% of shareholding in the New Platform

– since the Restructuring Plan has taken effect, the Group has been focusing on the production of products under the "Haroulian" family of brands. The "Haroulian" family of trademarks, which are crucial to remaining core business of the Group, have been transferred to the Group at nil consideration pursuant to the Restructuring Plan

Product Quality and Research & Development

Yurun Food has always attached great importance to product quality, and has adopted a strict internal quality control system in all processes from procurement, production, to sales and logistics. Yurun Food has established a corporate identity of food safety and high quality among consumers. Since its establishment, Yurun Food has been closely cooperating with the national and local quality supervision agencies at all levels for the sake of secure, reassuring, healthy and delicious meat foods.

Our "HRL" brand is a well-known trademark, and the Group also owns one China time-honored brand: "Popular Meat Packing". "HRL" is not only well known for its persistent quality, which is the only meat product enterprise in Heilongjiang Province that has passed ISO9001, ISO14001, ORSAS18001 and ISO22000 "Four in One" system certifications, but also successively won dozens of honors, including the National Quality Award of the PRC, the highest award of the first China Food Expo, and the traditional flavor award of meat quality evaluation by China Meat Association. At the 2021 China Meat Product Development Conference, "HRL" won the "Most Valuable Brand" award and the "Advanced Enterprise" award, fully proves the high recognition of the "HRL" brand by the market.

Sales and Distribution

Chilled pork and LTMP, the Group's products with high added values, remained the key business drivers of the Group during the Review Year. In 2021, sales of chilled pork of the Group was HK$6.107 billion (2020: HK$11.636 billion), decreased by 47.5% from last year, accounting for approximately 72% (2020: 76%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2020: 90%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.307 billion (2020: HK$1.818 billion), decreased by 28.2% from last year, accounting for approximately 15% (2020: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 74% (2020: 76%) of the total revenue of the downstream processed meat segment. The decrease in sales was mainly attributable to the change in scope of consolidation.

Production Facilities and Production Capacity

As at 31 December 2021, the annual production capacity of the Group's upstream slaughtering segment and downstream processed meat segment was approximately 3.35 million heads and 56,000 tons respectively (31 December 2020: 52.65 million heads and 312,000 tons respectively). The decrease in capacity was attributable to the change in scope of consolidation.

FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

The profit and loss, assets and liabilities items have significant variances compared with last year were mainly due to the change in scope of consolidation. The comparability of the financial figures were also impacted.

In 2021, the Group recorded revenue of HK$8.440 billion (2020: HK$15.213 billion), decreased by 44.5% from last year. The profit attributable to equity holders was HK$3.060 billion (2020: loss attributable to equity holders of HK$2.019 billion). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding the gain on Deconsolidation, 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$416 million (2020: HK$957 million), representing a reduction in loss of approximately 56.6% from same period last year. Basic and diluted earnings per share was HK$1.679 (2020: losses of HK$1.108).

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 Year, the average purchase price of hogs of the Group decreased by approximately 25.7% compared with 2020. With the gradual weakening of the impact of the epidemic, the supply of hogs has gradually stabilized, and the continuous decline in hog prices has benefited upstream business. However, due to the change in the scope of consolidation, the slaughtering volume decreased by approximately 43.0% to approximately 1.64 million heads compared with last year.

Affected by the drop in pork prices and changes in the scope of consolidation, the overall sales revenue of the upstream prior to inter-segment eliminations decreased by 47.3% to HK$6.810 billion (2020: HK$12.931 billion). Specifically, the revenue from chilled pork was HK$6.107 billion (2020: HK$11.636 billion), representing a decrease of 47.5% from last year, and accounted for approximately 72% (2020: 76%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (2020: 90%) of the upstream business total revenue. The sales of frozen pork amounted to HK$703 million (2020: HK$1.295 billion), down 45.7% compared with 2020, and representing approximately 10% (2020: 10%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products of the Group prior to inter-segment eliminations was HK$1.760 billion (2020: HK$2.394 billion), representing a decrease of 26.5% over last year.

Specifically, revenue of LTMP was HK$1.307 billion, representing a decrease of 28.2% from HK$1.818 billion of last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 74% (2020: 76%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$453 million (2020: HK$576 million), accounting for approximately 26% (2020: 24%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Pork prices have fallen sharply and the repeated outbreak of the COVID-19 had a certain impact on catering, consumer demand dropped, and market space has been compressed, resulting in shrinking of slaughter profits. The Group's gross profit decreased by 48.5% from HK$773 million in 2020 to HK$398 million in the Review Year. The overall gross profit margin decreased by 0.4 percentage point to 4.7% from 5.1% of last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.8% and -3.0% respectively (2020: 1.9% and -6.8% respectively). The overall gross profit margin of the upstream segment was 1.3%, representing an increase of 0.3 percentage point from 1.0% of last year.

In respect of the downstream business of processed meat products, gross profit margin of LTMP was 17.6%, representing a decrease of 10.9 percentage points from 28.5% of last year. The gross profit margin of HTMP decreased by 9.7 percentage points to 20.1% from 29.8% of last year. The overall gross profit margin of the downstream business was 18.3%, down 10.5 percentage points from 28.8% of last year.

Other Net Income

The Group recorded other net income of approximately HK$23 million (2020: HK$137 million). Other net income was mainly attributable to non-recurring incomes, including government subsidies and net gain/loss on disposal of a subsidiary, lease prepayments and property, plant and equipment and deducted the provision for losses on litigation. The decrease was mainly attributable to the reduction in gain on disposal of non-current assets and the increase of provision for losses on litigations during the Review Year.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$836 million, representing a decrease of 67.0% from HK$2.531 billion of last year and including the provision of HK$1.179 billion on impairment losses of non-current assets in 2020. Operating expenses excluding impairment losses decreased by 38.1% compared with last year, accounting for 9.9% (2020: 8.9%) of the Group's revenue. The decrease was mainly due to the change in scope of consolidation.

Results of Operating Activities

During the Review Year, operating profit of the Group was HK$3.076 billion (2020: loss of HK$1.621 billion).

Net Finance Costs

During the Review Year, net finance costs of the Group were approximately HK$35 million (2020: HK$367 million). The main reason for the significant decrease in net finance costs compared to last year was that the bank borrowings of companies that are subject to the consolidated restructuring ceased accruing interests according to relevant laws.

Income Tax

During the Review Year, the income tax expenses were approximately HK$11 million (2020: HK$24 million).

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 Year was HK$3.060 billion (2020: loss attributable to the equity holders of HK$2.019 billion). 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, 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$416 million (2020: HK$957 million), representing a reduction in loss of approximately 56.6% from last year.

FINANCIAL RESOURCES

As at 31 December 2021, the sum of the Group's cash and cash equivalents was approximately HK$80 million (31 December 2020: HK$308 million). Approximately 86% (31 December 2020: 96%) of the above mentioned financial resources was denominated in RMB, and approximately 10% (31 December 2020: 3%) was denominated in US Dollars ("USD"), while the remaining was denominated in other currencies.

As at 31 December 2021, the Group had outstanding bank and other borrowings due within 1 year of HK$544 million (31 December 2020: HK$6.997 billion). Please refer to paragraph headed "Breach of Loan Agreements" below for the details of breach of loan 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 31 December 2021, the Group's fixed-rate debt ratio was 82.5% (31 December 2020: 80.2%).

The net cash outflow of the Group during the Review Year was mainly due to the change in scope of consolidation. During the Review Year, the capital expenditure was HK$148 million (2020: HK$263 million) for the payment of construction in progress of those projects that have already commenced.

BREACH OF LOAN AGREEMENTS

As at 31 December 2021, the Group could not fulfil certain covenants imposed by the bank on the bank borrowings of HK$544 million (2020: HK$5.973 billion). All of these bank borrowings and the accrued interests of HK$237 million (2020: HK$1.549 billion) were overdue. As at 31 December 2021, certain bank borrowings were secured by trade receivables of HK$11 million and guaranteed by certain companies within the Restructuring Companies. The bank borrowings with corporate guarantee provided by certain companies within the Restructuring Companies has been incorporated as part of the consolidated restructuring. Upon the banks realising their rights as creditors, such as converting the debts owed to equity interests in the new platform, within six months from the date of approval of adjudicated effective by the court in the PRC on 28 January 2022. The bank borrowings would be settled as part of consolidated restructuring and the legal proceeding in relation to the bank borrowings would also be extinguished thereafter. If the banks do not realise their rights as creditors by converting the debts owed to equity interests in the new platform within the aforementioned time frame, the bank borrowings would not be automatically extinguished and the relevant legal proceedings would not be automatically discharged.

Up to the date of approval of these consolidated financial statements, the aforesaid bank borrowings were not yet renewed nor repaid.

The Group has closely communicated with the banks (which comprise of three stated-owned and national commercial banks in China) regarding the above matters to extend, renew and/or amend the term of the outstanding bank borrowings. 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. The Directors expect that the issue of overdue bank borrowings will be resolved after the completion of the consolidated restructuring.

ASSETS AND LIABILITIES

As at 31 December 2021, the total assets of the Group were HK$1.307 billion (31 December 2020: HK$9.156 billion). Its total liabilities as at 31 December 2021 were HK$1.776 billion (31 December 2020:HK$12.401 billion).

As at 31 December 2021, the property, plant and equipment of the Group amounted to HK$520 million (31 December 2020: HK$3.788 billion).

Lease prepayments as at 31 December 2021 amounted to HK$102 million (31 December 2020: HK$1.026 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.

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 2021, they amounted to HK$3 million (31 December 2020: HK$170 million) and HK$165 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 yet.

Despite the net liabilities position as at 31 December 2021, the situation has improved significantly after the Deconsolidation as compared with 31 December 2020. The Group had non-current assets of approximately HK$791 million to support its daily production and operations. 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, the Group will actively improve its operating profit according to the new business plan. With the improvement of the economic environment, the Directors are confident that the Group will return from net liabilities to net assets position.

As at 31 December 2021, net current liabilities of the Group were HK$1.193 billion (31 December 2020: HK$8.945 billion). Its current total bank and other borrowings amounted to HK$544 million (31 December 2020: HK$6.997 billion), while the cash and cash equivalents amounted to approximately HK$80 million (2020: HK$308 million). As mentioned above, although the Group failed to fulfil certain 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 renewal and waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements and to persuade the banks to realise their rights as creditors within the relevant time frame under the consolidated restructuring plan. We consider the negotiations have been relatively positive. 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 Year.

As at 31 December 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 approximately 42 times (31 December 2020: 2 times). As at 31 December 2021, after excluding cash in bank and restricted bank deposits, the net debt/net gearing ratio was approximately 36 times (31 December 2020: 2 times).

CHARGES ON ASSETS

As at 31 December 2021, certain trade receivables of the Group with a carrying amount of approximately HK$11 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).

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

Having considered the current operation and cash flow of the Group, the Board is more cautious on capital expenditure in 2022. It is currently expected that the preliminary approval of the plan to be approximately RMB 20 million . The amount will be used mainly for the construction in progress already commenced, regular maintenance of factories, upgrades and technical transformation of equipment. As at the date of this report, the relevant budgets and plans have not yet been finalized, and the Group has not identified any specified goals or plans at this stage.

Save as mentioned in the section headed "Consolidated Restructuring Case of 44 Relevant Subsidiaries", the Group did not hold any other significant investment nor had 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 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$544 million (31 December 2020: HK$2.306 billion). The Group is negotiating with the banks to resolve such litigations.

After the Deconsolidation and up to the date of this report, there were no other material contingent liabilities save for the 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 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 2021, the Group had approximately 1,500 (31 December 2020: approximately 10,400) employees in the PRC and Hong Kong in total. The decrease was due to Deconsolidation. During the Review Year, total staff cost was HK$416 million, accounting for 4.9% of the revenue of the Group (2020: HK$722 million, accounting for 4.7% 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 Year, 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.

RESPONSES FROM THE DIRECTORS REGARDING THE DISCLAIMER OF OPINION SET OUT IN THE INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

For details, please refer to the section headed "Going Concern" in the Corporate Governance Report.

EXECUTIVE DIRECTORS

Ms. Zhu Yuan, aged 35, 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. Ms. Zhu 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. Ms. Zhu has 9 years of working experience in management, human resources, finance analysis and investment. Ms. Zhu is the daughter of Mr. Zhu Yicai, a substantial shareholder of the Company.

Mr. Yang Linwei, aged 53, joined the Group in March 1996 and is a vice president of the Group. He has 26 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Hui, aged 53, 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 61, 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 63, has been an independent non-executive Director of the Company since August 2015. He is senior consultant of 南京聞新生物科技有限公司(Nanjing Wenxin Biological Technology Co. Ltd.) and senior scientific consultant of 江蘇丘陵地區鎮江農業科學研究所(Zhenjiang Institute of Agricultural Science in Hill Area of Jiangsu Province). 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 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 2021 to 31 December 2021 (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"), except for the following deviation:

Code provision C.2.1 of the CG Code provides that 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 include members who are experienced and technical individuals and of which more than half are independent non-executive directors. In the long run, the Company would source and appoint suitable individual to take up the role of Chief Executive Officer.

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 five Directors including, Zhu Yuan (Chairman and Chief Executive Officer) and Yang Linwei 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 17 of this annual report. All Directors as at the date of this annual report served throughout the Review Year.

The Board, led by its Chairman and the Chief Executive Officer, 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 and the Chief Executive Officer 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. Chairman of the Board committees will report to the Board on issues discussed and concluded at the respective committee meetings.

The Chairman and the Chief Executive Officer 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/her associate has a conflict of interest in a matter to be considered by the Board, he/she 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 and the Chief Executive Officer 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 Chairman and Chief Executive Officer. The Chairman and Chief Executive Officer, working with the executive management team, is responsible for the business operation of the Group, including implementation of the strategies adopted by the Board.

The Chairman of the Board and Chief Executive Officer is Zhu Yuan. She focuses on overall corporate development and high-level strategic directions of the Group, provides leadership to the Board and oversees the efficient functioning of the Board.

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 Code provision B.2.2 of the CG Code and the Bye-laws of the Company.

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

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

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

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

	Number of regular Board meetings*, Board committee meetings and annual general meeting attended/held during the Review Year				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Zhu Yuan *(Chairman and Chief Executive Officer)*	4/4	N/A	1/1	1/1	1/1
Yang Linwei	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Gao Hui	4/4	5/5	1/1	1/1	1/1
Chen Jianguo	4/4	5/5	1/1	1/1	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 or her 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 guidance 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 or she has a proper understanding of the Company's business as well as his or her 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 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* Zhu Yuan+	Chen Jianguo* *(Chairman)* Gao Hui* Zhu Yuan+
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, and terms of the executive Directors' service contracts	• 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 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 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 and the 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 implementation and effectiveness of the Board diversity policy on an annual basis, 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 five 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 Company have three independent non-executive Directors with different industry background, including accounting, legal and food engineering experience. Furthermore, our Directors are of a wide range of age, from 35 years old to 63 years old. With regards to gender diversity on the Board, The Company recognise the particular importance of gender diversity. Our Board currently comprises one female Director and four male Directors. The biographical details of the Board members are set out on page 17 of this annual report.

The Company will also ensure that there is gender diversity when recruiting staff at mid to senior level so that the Company will have a pipeline of female senior management and potential successors to our Board going forward. It is the Company's objective to maintain an appropriate balance of gender diversity with reference to the expectations of shareholders and international and local recommended best practices.

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
2021 annual audit	1,730
Non-audit services	
– review of interim report	1,100
– relevant works performed relating to consolidated restructuring (one-off special project)	3,000
Total	5,830

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 are concerned about 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 reasonable 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 RMB12.1 to RMB35.2 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.

The Group is in net liabilities position as at 31 December 2021 and there is a risk that the Group cannot meet its financial obligations as and when they fall due. The Group still had adequate non-current assets to support its daily production and operations. Directors believe that this net liabilities position has not materially impaired the Group's ability to continue its daily business operations.

Litigation risks

In the course of our business activities, the Group is exposed to various litigation risks, for details, please refer to the section "Contingent Liabilities" in "Management Discussion and Analysis".

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 relevant 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 COVID-19 pandemic, animal diseases or other epidemics may adversely affect our operations.

In 2021, the COVID-19 pandemic delivered a heavy blow to the overall retail market, causing temporary store shutdowns and disruptions of offline consumer activities. The outbreak of serious animal diseases, such as African Swine Fever, foot-and-mouth disease and blue ear pig disease, or other epidemics in China affecting animals or humans might also 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 materials 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 rearranging the sales of goods in different regions in the event of 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 and blood tests. When the hogs are slaughtered, batch inspection is implemented online. The slaughtering line does not accept hogs failing the on-line ELISA test or professional tests such as PCR. 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 received accreditation from the Quality Assessment Committee of the China Quality Inspection Association and obtained China Metrology Accreditation Certificate (CMA Certificate).

In order to assure food quality, all subsidiaries of the Group have implemented a three-step 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, links up the nearby procurement, production and sales locations to all processing plants and markets through the network of production base in the country. The temperature on each transportation vehicle is being equipped with temperature measurement and control instruments. 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 is being monitored 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 61 to 62 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, the Board reviewed the effectiveness of the Shareholders Communication Policy, including its objectives and implementation. The Board considered that the objectives of the Shareholders Communication Policy are reasonably and effectively implemented.

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 54, 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 4707, 47th 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 54, 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, including but not limited to:

- 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

Responses from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2021

Disagreement between the Directors and the Independent Auditor

BDO Limited (the "Auditor"), the independent auditor of the Company, stated in the Independent Auditor's Report (the "Independent Auditor's Report") set out in the 2021 Annual Report that they 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 their possible cumulative effects on the consolidated financial statements. For details, please refer to "Independent Auditor's Report".

As disclosed in note 3(b) to the consolidated financial statements of the Group for 2021, 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 2021 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 was unable to obtain sufficient supporting bases to assess the appropriateness and reasonableness of the use of the going concern assumption and thus unable to form an opinion of the basis. Although the Directors explained the situation to the Auditor, it is difficult for the Directors to provide such supporting evidences that the Auditor considers sufficient at this stage, in view of the differences in the weighting given to the Chinese political, legal and economic considerations.

The Company has been actively tackling the challenges from all aspects during the Review Year

The Directors considered that although the Group is facing various challenges, including loss on operation, breach of certain covenants of bank borrowings, litigations and others, the Directors and the management have been actively tackling these problems. Such efforts during the Review Year include, without limitation:

- Whilst the Group was not involved in formulating the Restructuring Plan, the Group was actively involved in and had, during the Review Year, been focusing on the restructuring process given the implication of the Restructuring Plan to the Group.

- Maintained regular communications with the banks regarding the outstanding bank borrowings whilst the Restructuring Plan was being formulated and before it was approved in the Creditor's Meeting and have obtained understanding with such banks that all parties hope that the Group can sustain normal operation, and the banks have also expressed that they will not take any radical actions against the Group.

- The Directors and the management actively enhanced profitability and controlled costs to reduce the burden on the Group, and such policies were effective during the Review Year. The measures including but not limited to (i) improve and optimize product quality; (ii) explore new sales channel, further develop e-commerce and restaurants channel; (iii) increase the production of high gross margin products such as high-end customized products; (iv) increase slaughtering volumes to decrease the unit fixed costs; and (v) optimize the mix of raw materials to decrease the production costs.

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. These Restructuring Companies were companies with heavy liabilities. Despite the banking facilities being overdue, based on regular communications with and feedback from the banks, the Directors and the management believe that the likelihood of demands from such banks for immediate repayment is not high. Therefore, the operation of the Group have not been significantly affected. Taking into account 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 2021.

Nonetheless, the disclaimer of opinion was not removed by the Auditor during the Review Year since the status of the outstanding bank loans remain the same and remain to be outstanding, the reason being that both the Company and the banks were involved in and were pre-occupied by the Restructuring during the Review Year, and since the details and the outcome of the Restructuring Plan were uncertain until after 28 January 2022 when the Restructuring Plan had been approved, therefore, the negotiation process to amend or refinance the outstanding bank loans could not formally commence between the Company and the banks during the Review Year.

Views of the Audit Committee and the Directors

With respect to the consolidated financial statements of the Group for the year ended 31 December 2021, the Audit Committee of the Company reviewed the relevant documents strictly 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.

Concrete plans to resolve the disagreement on the going concern basis with Auditor and the removal of disclaimer of opinion

As stated in note 3(b) to the consolidated financial statements and as disclosed above, the Directors and the management will continue to take all feasible measures in 2022, and make their best efforts to improve cash flows and keep improving the Group's business so as to resolve the disagreement with the Auditor as soon as possible, the measures that the Group plans to take before the year ended 31 December 2022 include the following:

(i) actively negotiating with banks for the renewal of terms of the outstanding banking facilities with principal amount of HK$544 million and accrued interest of HK$237 million through different means, such as, the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank borrowings, conclusive settlement of the bank borrowing as part of the consolidated restructuring, refinance such outstanding banking facilities on terms and conditions that is compatible with the business plan of the Group;

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

(iii) implement and strategise existing and new operation plans to enhance profitability and control costs and to generate adequate cash flows from operations, including but not limited to (a) improve and optimize product quality to drive sales volume recovery leveraging brand equity and strength; (b) explore new sales channel, further develop new retail systems such as e-commerce and restaurants channel; (c) in terms of distribution model, it will focus on the development of local supermarket systems, and plan to conduct strategic cooperation through regional partners/franchisees to rapidly expand the national market; (d) increase the production of high gross margin products such as high-end customized products, (e) upgrades production equipment to increase the production efficiency and decrease the production costs; and (f) decrease the stock level of minor ingredients and packaging materials etc in order to increase operating cash flows, with the intention for cash flow to return to a positive level after taking into account the repayment schedule of the outstanding banking facilities.

In view of the current economic environment of China and the impact of African Swine Fever and COVID-19, the Directors expect that there will be a delay on the effectiveness of the relevant measures. However, the Directors are confident that the Group is able to accelerate the execution of these relevant measures to resolve the disagreements with the Auditor once the domestic economic environment and the epidemic have improved, and the Restructuring Plan is gradually implemented.

The Directors believe that when the action plans mentioned above can be implemented as intended, the Group will be able to turn its operation from loss to profit and the Group will be able to obtain amendment or refinancing terms to the outstanding banking facilities that is compatible with the Group's business plan and budgets, the Group will generate sufficient cashflow to gradually maintain healthy and positive cash flows to repay bank borrowings, and the uncertainty of the Auditor on the going concern of the Group would be eliminated and the disclaimer of opinion would be removed then. In fact, the operation of the Group has been improving since 2015. In 2021, loss arising from principal business was only HK$416 million, representing a reduction in loss of 56.6% compared to 2020. The Directors have confidence that the Group has the ability to continue as a going concern.

Views of the Audit Committee and the Directors

The Board the Audit Committee have reviewed and provided their views on the proposed action plans, and are of the view that the above action plans, if implemented as intended, are sufficient for the Auditor's going concern of the Group to be eliminated and for the disclaimer of opinion to be removed.

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 2021 annual report, together with the report of the Directors and the consolidated financial statements of the Group for the year ended 31 December 2021.

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. There was no significant change in the nature of the Group's principal activities during the year except the Deconsolidation (details are set out in note 34 to the consolidated financial statements). 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 2021 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 63 to 139.

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 2021 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 16 respectively of this annual report. The discussion forms a part of this Report of the Directors.

Principal risks and uncertainties

In addition to the matters referred to in the Chairman's Statement and the Management Discussion and Analysis, the description of the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the laws of Hong Kong) can be found from pages 25 to 30 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.

Further details of the Group's environmental policies and performance will be disclosed in the Environmental, Social and Governance Report of the Company for the year ended 31 December 2021 to be published in due course.

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 2021, the Group had approximately 1,500 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 assist 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.

The Group actively recruits young and vibrant employees to serve the Group's new products and sales channels developed for the new generation consumer group. We focus on fostering colleagues with motivation and potential to allow them more room for development and promotion. We retain our talent for the Group's future needs.

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 31 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 year.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 32 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 67 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 140 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK$175,706,000.

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)*
Yang Linwei

Independent non-executive Directors

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

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

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors of the Company as at the date of this annual report are set out on page 17 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 2021 are set out in note 12 to the consolidated financial statements.

DIRECTORS' REMUNERATION POLICY

The Directors' remuneration are determined by the Company's board of Directors with reference to duties and responsibilities of the Directors and the performance and results of the Group. The Remuneration Committee was established for reviewing and determining the remuneration and compensation packages of the Directors and senior management of the Company. Details of the Remuneration Policy are set out on page 24 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Ms. Zhu Yuan, an executive Director of the Company, is the daughter of Mr. Zhu Yicai ("Mr. Zhu"), the controlling shareholder of the Group. As Mr. Zhu is a connected person of the Group, Ms. Zhu is therefore an associate of Mr. Zhu, who has a material interest in each of the continuing connected transactions as disclosed under the section headed "Continuing Connected Transactions" below. Since Ms. Zhu Yuan has a material interest in the relevant transactions, she has abstained from voting on the Board meeting approving such transactions.

Save for the above, 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 2021.

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 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 31 December 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.

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 2021	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 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
	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 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(p)(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 2021 are set out in the paragraph headed "Share Option Schemes" on pages 47 to 49 of this annual report and note 30 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 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 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 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.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 37 to the consolidated financial statements also constituted continuing connected transactions 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 13 December 2019, 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 2019, which was entered into by the Company and the Poultry Selling Entities on 20 December 2016. 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 with reference to such survey on information regarding local markets of the Group as conducted by the procurement and management departments of the Group, including comparison of quotations obtain from various suppliers, regular review of sourcing price of products, and corresponding adjustments, as and when appropriate, upon change in market price, 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 2020 and ending on 31 December 2022. Details of the Poultry Purchase Framework Agreement and additional information were disclosed in the Company's announcement dated 13 December 2019 and 10 January 2020 respectively. The annual caps of transaction amounts for the financial years ending 31 December 2020, 2021 and 2022 were/will be RMB50 million, RMB52.5 million and RMB55.2 million, respectively.

The aggregate purchase amount pursuant to the Poultry Purchase Framework Agreement during the year amounted to approximately RMB17,890,000 (equivalent to approximately HK$21,570,000).

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.

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

On 13 December 2019, 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 2019, which was entered into by the Company and the Pig Blood Products Purchasing Entities on 20 December 2016. 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, with reference to such survey on information regarding local markets 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 2020 and ending on 31 December 2022. Details of the Pig Blood Products Supply Framework Agreement and additional information were disclosed in the Company's announcement dated 13 December 2019 and 10 January 2020 respectively. The annual caps of transaction amounts for the financial years ending 31 December 2020, 2021 and 2022 were/will be RMB39.0 million, RMB46.8 million and RMB56 million, respectively.

The aggregate sales amount pursuant to the Pig Blood Products Supply Framework Agreement during the year amounted to approximately RMB1,880,000 (equivalent to approximately HK$2,260,000).

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.

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

On 18 December 2018, 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 "Hogs Purchase Framework Agreements") for the continual sourcing of hogs from the Selling Entities and/or their subsidiaries. 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 were be RMB45.94 million, RMB48.23 million and RMB50.64 million respectively.

The aggregate purchase amount pursuant to the Hogs Purchase Framework Agreements during the year amounted to approximately RMB15,960,000 (equivalent to approximately HK$19,240,000).

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

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

On 11 December 2020, 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 of three years, commencing on 1 January 2021 and ending on 31 December 2023. Details of the Carton Boxes Packaging Materials Purchase Framework Agreement were disclosed in the Company's announcement dated 11 December 2020. The annual caps of transaction amounts for the financial years ending 31 December 2021, 2022 and 2023 were/will be RMB14.20 million, RMB15.00 million and RMB15.80 million, respectively.

The aggregate purchase amount pursuant to the Purchase Framework Agreement during the year amounted to approximately RMB12,510,000 (equivalent to approximately HK$15,080,000).

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.

Products Consignment by Nanjing Emporium Group (as defined below)

On 13 January 2021, the Company entered into a products consignment agreement (the "Products Consignment Agreement") with 南京中央商場(集團)股份有限公司 (Nanjing Emporium (Group) Co. Ltd*), being entity incorporated in the PRC owned and/or controlled by Mr. Zhu and his associates, which is principally engaged in the department store retail business and real estate development business ("Nanjing Emporium Group"), Nanjing Emporium Group will sell 南京雨潤連鎖經營管理有限公司 (Nanjing Yurun Chain Management Co. Ltd*)'s products on the Group's behalf and the Group will pay Nanjing Emporium Group the consignment fee upon expiry of the agreement on 31 December 2020, which was entered into by the Company and Nanjing Emporium Group on 10 January 2020. Pursuant to the Products Consignment Agreement, the consignment fee payable to Nanjing Emporium Group shall be an amount representing approximately 20% of the sales amount of products sold by Nanjing Emporium Group. After deducting the consignment fee, the profit generated from the sale of products by the Group through this channel shall be no less than the profit generated from the sale of similar products by the Group to other independent third parties on normal commercial terms after arm's length negotiation during the relevant period. The Products Consignment Agreement has a term commencing on 13 January 2021 and ending on 31 December 2021. Details of the Products Consignment Agreement were disclosed in the Company's announcement dated 13 January 2021. The annual cap under the Products Consignment Agreement was RMB16 million. On 11 June 2021, 湖北雨潤肉類食品有限公司(Hubei Yurun Meat Products Company Limited) (a "New Consignor"), 南京雨潤連鎖經營管理有限公司(Nanjing Yurun Chain Management Co. Ltd*) and Nanjing Emporium Group entered into a supplemental agreement, which agreed to add the New Consignor as an additional consignor under the Products Consignment Agreement. Details of the addition of consignor were disclosed in the Company's announcement dated 11 June 2021.

The aggregate consignment fee pursuant to the Products Consignment Agreement during the year amounted to approximately RMB4,720,000 (equivalent to approximately HK$5,690,000).

Ms. Zhu Yuan, an executive Director of the Company, is also a director of Nanjing Emporium Group. 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. Nanjing Emporium Group, being entity owned and/or controlled by Mr. Zhu and his associates, is an associate of Mr. Zhu and is a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Products Consignment Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Products Consignment 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.

Purchase of beef products from the Beef Selling Entities (as defined below)

On 21 May 2020, the Company entered into the beef products purchase framework agreement (the "Beef Products Purchase Framework Agreement") with 蒙城宏健食品有限公司(Mengcheng Hongjian Food Co., Ltd*), being entity incorporated in the PRC and owned and/or controlled by Mr. Zhu and his associates, and principally engaged in meat processing, manufacturing and sales of beef products (together with its subsidiaries, the "Beef Products Selling Entities") for the sourcing of beef products from the Beef Products Selling Entities. Pursuant to the Beef Products Purchase Framework Agreement, the price for the sourcing of beef products shall be determined on an arm's length basis, and negotiated between the parties to the Beef Products 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 Beef Products Purchase Framework Agreement has a term commencing on 21 May 2020 and ending on 31 December 2022. Details of the Beef Products Purchase Framework Agreement were disclosed in the Company's announcement dated 21 May 2020. The annual caps for the financial years ending 31 December 2020, 2021 and 2022 were/will be RMB25 million, RMB40 million and RMB40 million, respectively.

The aggregate purchase amount pursuant to the Beef Products Purchase Framework Agreement during the year amounted to approximately RMB1,490,000 (equivalent to approximately HK$1,800,000).

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 Beef 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 Beef Products Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Beef Products 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.

Sales of packaging materials to Packaging Materials Purchasing Entities (as defined below)

On 11 December 2020, the Company entered into the packaging materials supply framework agreement (the "Packaging Materials Supply Framework Agreement") with Mr. Zhu (for and on behalf of 雨潤生物科技(東海)有限公司 (Yurun Biotechology (Tonghai) Company Limited*), 桐城市雨潤生物科技有限公司 (Tongcheng Yurun Biotechnology Company Limited*), 黑山雨潤生物蛋白製品有限公司 (Heishan Yurun Biological Protein Products Company Limited*), 蒙城宏健食品有限公司 (Mengcheng Hongjian Food Co., Limited*), 臨邑福潤禽業食品有限公司 (Linyi Furun Poultry Food Company Limited*), 赤峰利源肉類加工有限公司 (Chifeng Liyuan Meat Processing Company Limited*), 聊城市福潤禽業食品有限公司 (Liaocheng Furun Poultry Food Company Limited*) and Nanjing Emporium Group, being entities incorporated in the PRC owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of slaughtering and sales of poultry, meat processing, manufacturing and sales of beef products, biotechnology development and retail business) (the "Packaging Materials Purchasing Entities") for the supply of packaging materials to the Packaging Materials Purchasing Entities. Pursuant to the Packaging Materials Supply Framework Agreement, the sales price of the packaging materials under the Packaging Materials Supply Framework Agreement shall be determined on an arm's length basis, and negotiated between the buyer and the seller 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 Packaging Materials Supply Framework Agreement has a term of three years, commencing on 1 January 2021 and ending on 31 December 2023. Details of the Packaging Materials Supply Framework Agreement were disclosed in the Company's announcement dated 11 December 2020. The annual caps for the financial years ending 31 December 2021, 2022 and 2023 were/will be RMB11.70 million, RMB12.30 million and RMB12.90 million, respectively.

The aggregate sales amount pursuant to the Packaging Materials Supply Framework Agreement during the year amounted to approximately RMB1,500,000 (equivalent to approximately HK$1,810,000).

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 Packaging Materials Purchasing 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 Packaging Materials Supply Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Packaging Materials Supply 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", "Purchase of carton boxes packaging materials from the Selling Entity", "Products Consignment by Nanjing Emporium Group", "Purchase of beef products from the Beef Selling Entities" and "Sales of packaging materials to Packaging Materials Purchasing Entities" above constituted continuing connected transactions of the Group. The independent non-executive Directors have reviewed these continuing connected transactions and confirmed that the transactions have been entered into:

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

2. on normal commercial terms or better; and

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

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 51 to 59 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.

* *For identification purposes only*

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 the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules throughout the year except for a deviation in code provision C.2.1.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 18 to 38 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted 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 year.

CHANGE OF AUDITOR

On 3 December 2018, Moore Stephens CPA Limited 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 2021 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

Zhu Yuan
Chairman
Hong Kong, 29 March 2022

BDO

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To the Members of China Yurun Food Group Limited
(incorporated in Bermuda with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Yurun Food Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 63 to 139, which comprise the consolidated statement of financial position as at 31 December 2021, 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 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 aspects, 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, as at 31 December 2021, the Group had net current liabilities of $1,192,791,000. At 31 December 2021, the Group's current bank borrowings amounted to $544,288,000, while its cash and cash equivalents amounted to $79,751,000 only.

As at 31 December 2021, the bank borrowings amounted to $544,288,000 together with the accrued interest of $236,634,000 were overdue. In addition, as disclosed in notes 3(b), 27(i) and 27(iii) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to the abovementioned bank borrowings of $544,288,000 and the banks have commenced litigations against the Group to settle the outstanding balances. These events or conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern and it may not have sufficient financial resources to finance the Group's operations and to meet its financial obligations as and when they fall due.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, which are set out in note 3(b) to the consolidated financial statements.

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 measures 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 renewal of terms of the banking facilities, the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank borrowings; (ii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required; (iii) the successful outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 27(i) to the consolidated financial statements; and (iv) the Group is able to implement its operation plans to enhance profitability and control costs and to generate adequate cash flows from operations. 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.

We disclaimed the auditor opinion on the consolidated financial statements for the year ended 31 December 2020 ("2020 consolidated financial statements") relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2020 would affect the balances of these financial statements items as at 1 January 2021 and the corresponding movements, if any, during the year ended 31 December 2021. The balances as at 31 December 2020 and the amounts for the year then ended are presented as corresponding figures in the consolidation financial statements for the year ended 31 December 2021. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2021 also for the possible effect of the disclaimer of audit opinion on 2020 consolidated financial statements on the comparability of 2021 figures and 2020 figures in these consolidated financial statements.

DIRECTORS' RESPONSIBILITIES 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 directors are also responsible for overseeing the Group's financial reporting process. The audit committee assists the directors in discharging their responsibilities in this regard.

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

Our responsibility is to conduct an audit of the Group's 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. This report is made solely to you, as a body, 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 multiple 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, it is not possible for us to form 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, 29 March 2022

	Notes	2021 HK$'000	2020 HK$'000
Revenue	7	**8,440,202**	15,213,237
Cost of sales		**(8,041,746)**	(14,440,180)
Gross profit		**398,456**	773,057
Other net income	8	**22,640**	137,262
Distribution expenses		**(366,246)**	(562,607)
Administrative and other operating expenses		**(470,160)**	(1,968,629)
Gain on deconsolidation of subsidiaries	34	**3,491,306**	–
Results from operating activities		**3,075,996**	(1,620,917)
Finance income		**13,885**	63,648
Finance costs		**(48,536)**	(430,486)
Net finance costs	9(a)	**(34,651)**	(366,838)
Profit/(loss) before income tax	9(b)&(c)	**3,041,345**	(1,987,755)
Income tax expenses	10	**(10,838)**	(23,951)
Profit/(loss) for the year		**3,030,507**	(2,011,706)
Attributable to:			
Equity holders of the Company		**3,060,499**	(2,019,264)
Non-controlling interests		**(29,992)**	7,558
Profit/(loss) for the year		**3,030,507**	(2,011,706)
Earnings/(losses) per share			
Basic and diluted	15	**HK$1.679**	HK$(1.108)

The notes on pages 70 to 139 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 2021

	Notes	2021 HK$'000	2020 HK$'000
Profit/(loss) for the year		**3,030,507**	(2,011,706)
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		**50,653**	105,824
Foreign currency translation differences reclassified to profit or loss upon deconsolidation of subsidiaries	34	**(320,886)**	–
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary	33	**(19,534)**	(14,278)
		(289,767)	91,546
Total comprehensive income for the year		**2,740,740**	(1,920,160)
Attributable to:			
Equity holders of the Company		**2,770,620**	(1,931,498)
Non-controlling interests		**(29,880)**	11,338
Total comprehensive income for the year		**2,740,740**	(1,920,160)

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment	16	**519,916**	3,788,273
Investment properties	17	**–**	207,600
Lease prepayments	18	**101,851**	1,025,661
Intangible assets	20	**1,740**	59
Non-current prepayments and other receivables	21	**167,752**	776,483
		791,259	5,798,076
Current assets			
Inventories	23	**120,657**	610,585
Trade and other receivables	24	**314,116**	2,424,614
Income tax recoverable	11	**719**	2,341
Restricted bank deposits		**–**	13,316
Cash and cash equivalents	25	**79,751**	307,550
		515,243	3,358,406
Current liabilities			
Bank and other borrowings	27	**544,288**	6,997,149
Lease liabilities	28	**1,873**	2,059
Trade and other payables	29	**1,159,321**	5,291,928
Income tax payable	11	**2,552**	12,403
		1,708,034	12,303,539
Net current liabilities		**(1,192,791)**	(8,945,133)
Total assets less current liabilities		**(401,532)**	(3,147,057)

	Notes	2021 HK$'000	2020 HK$'000
Non-current liability			
Lease liabilities	28	**68,087**	97,500
NET LIABILITIES		**(469,619)**	(3,244,557)
EQUITY			
Share capital	31	**182,276**	182,276
Reserves		**(713,617)**	(3,484,237)
Total equity attributable to equity holders of the Company		**(531,341)**	(3,301,961)
Non-controlling interests		**61,722**	57,404
TOTAL EQUITY		**(469,619)**	(3,244,557)

Approved and authorised for issue by the board of directors on 29 March 2022.

Zhu Yuan
Director

Yang Linwei
Director

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Company									
	Share capital (Note 31(a)) $'000	Share premium (Note 32(b)) $'000	Capital surplus (Note 32(c)) $'000	Merger reserve (Note 32(d)) $'000	PRC statutory reserves (Note 32(e)) $'000	Exchange reserve (Note 32(f)) $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'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 year	–	–	–	–	–	–	(2,019,264)	(2,019,264)	7,558	(2,011,706)
Total other comprehensive income for the year	–	–	–	–	–	87,766	–	87,766	3,780	91,546
Total comprehensive income for the year	–	–	–	–	–	87,766	(2,019,264)	(1,931,498)	11,338	(1,920,160)
Disposal of a subsidiary (note 33)	–	–	(353)	–	(672)	–	1,025	–	(7,937)	(7,937)
Transfer to reserves	–	–	–	–	6,979	–	(6,979)	–	–	–
At 31 December 2020 and 1 December 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 year	**–**	**–**	**–**	**–**	**–**	**–**	**3,060,499**	**3,060,499**	**(29,992)**	**3,030,507**
Total other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(289,879)**	**–**	**(289,879)**	**112**	**(289,767)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(289,879)**	**3,060,499**	**2,770,620**	**(29,880)**	**2,740,740**
Release of reserve upon deconsolidation of subsidiaries (note 34)	**–**	**–**	**–**	**–**	**(777,983)**	**–**	**777,983**	**–**	**38,686**	**38,686**
Release of reserve upon disposal of a subsidiary (note 33)	**–**	**–**	**–**	**–**	**(755)**	**–**	**755**	**–**	**(4,488)**	**(4,488)**
At 31 December 2021	**182,276**	**7,400,418**	**3,290**	**(70,363)**	**91,397**	**85,185**	**(8,223,544)**	**(531,341)**	**61,722**	**(469,619)**

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Profit/(loss) for the year		**3,030,507**	(2,011,706)
Adjustments for:			
Depreciation	9(c)	**132,323**	301,015
Amortisation of intangible assets	9(c)	**312**	2
Interest income on bank deposits	9(a)	**(1,005)**	(3,390)
Finance costs		**48,536**	430,486
Gain on deconsolidation of subsidiaries	34	**(3,491,306)**	–
Impairment losses on property, plant and equipment	9(c)	**–**	805,609
Impairment losses on lease prepayments	9(c)	**–**	373,663
Impairment losses on trade receivables, net		**29,868**	104,731
(Gain)/loss on disposal of a subsidiary	8	**(43,867)**	37,772
Gain on disposal of property, plant and equipment	8	**(10,673)**	(27,302)
Loss/(gain) on disposal of right-of-use assets	8	**42,126**	(30,796)
Write-down of inventories	9(c)	**1,906**	4,529
Income tax expenses		**10,838**	23,951
Operating (loss)/profit before change in working capital		**(250,435)**	8,564
Change in inventories		**(119,280)**	466,831
Change in trade and other receivables		**(202,956)**	(508,098)
Change in trade and other payables		**525,115**	231,122
Cash (used in)/generated from operating activities		**(47,556)**	198,419
Finance costs paid		**(433)**	(676)
Income tax paid		**(15,237)**	(8,928)
Net cash (used in)/generated from operating activities		**(63,226)**	188,815

	Notes	2021 $'000	2020 $'000
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**116,884**	93,105
Proceeds from disposal of lease prepayments		**22,827**	60,709
Net cash outflow on disposal of a subsidiary	33	**(3,246)**	(219)
Net cash outflow on deconsolidation of subsidiaries	34	**(146,720)**	–
Interest received		**1,005**	3,390
Payments of lease prepayments		**(96)**	(2,331)
Acquisitions of property, plant and equipment		**(147,808)**	(261,979)
Acquisitions of investment property		**–**	(986)
Acquisitions of intangible assets		**–**	(61)
Net cash used in investing activities		**(157,154)**	(108,372)
Cash flows from financing activities			
Proceeds from other borrowings	26	**–**	78,767
Repayments of bank and other borrowings	26	**–**	(87,435)
Payments of lease liabilities	26	**(8,550)**	(3,088)
Changes in restricted bank deposits		**13,514**	24,419
Net cash generated from financing activities		**4,964**	12,663
Net (decrease)/increase in cash and cash equivalents		**(215,416)**	93,106
Cash and cash equivalents at 1 January		**307,550**	217,403
Effect of exchange rate fluctuations on cash held		**(12,383)**	(2,959)
Cash and cash equivalents at 31 December	25	**79,751**	307,550

The notes on pages 70 to 139 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 2021 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 29 March 2022.

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

(a) Adoption of new/revised IFRSs – effective 1 January 2021

Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39	Interests Rate Benchmark Reform – Phase 2

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

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

The following new or 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.

Amendments to IAS 16	Proceeds before Intended Use[1]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[1]
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRSs 2018-2020[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction[2]
IFRS 17	Insurance Contracts[2]
Amendments to IFRS10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to IFRS 16	Covid-19-Related Rent Concessions[3]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after 1 April 2021.
4 Effective for annual periods beginning on or after a date to be determined.

The Directors of the Group do not anticipate that the application of the above amendments in the future will have an impact on the consolidated 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

As at 31 December 2021, the Group had net current liabilities of $1,192,791,000 (2020: $8,945,133,000). At 31 December 2021, the Group's current bank and other borrowings amounted to $544,288,000 (2020: $6,997,149,000), while its cash and cash equivalents amounted to $79,751,000 (2020: $307,550,000) only.

As at 31 December 2021, the bank borrowings amounted to $544,288,000 (2020: $5,972,672,000) together with the accrued interest of $236,634,000 (2020:$1,549,388,000) were overdue. In addition, the Group could not fulfil certain bank covenants relating to the abovementioned bank borrowings of $544,288,000 (2020: 5,972,672,000) (note 27(i)) and the banks have commenced litigations against the Group to settle the outstanding balances (note 27(iii)).

These events or conditions may cast significant doubt about the Group's ability to continue as a going concern and it may not have sufficient financial resources to finance the Group's operations to meet its financial obligations as and when they fall due.

For the purpose of assessing going concern, the management have prepared a cash flow forecast covering a period of twelve months from the end of the reporting period with the following measures to mitigate the liquidity pressure and to improve its financial position taken into account:

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

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

(iii) The potential outcome on conclusive settlement of the bank borrowings as part of consolidated restructuring as disclosed in note 27(i) to the consolidated financial statements; and

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

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 notwithstanding that the above events or conditions indicate the existence of material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned above, 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.

(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 People's Republic of China ("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 (k)). 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 (i)).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (Continued)

(ii) Subsidiaries and non–controlling interests

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

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

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

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

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 (i)).

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less impairment losses (see accounting policy (k)), 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 (k)).

(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 (k)).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (Continued)

(iv) Construction in progress

Construction in progress is stated at cost less impairment losses (see accounting policy (k)). 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.

(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 (k)).

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 (k)).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leasing

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right–of–use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short–term leases and/or (ii) leases for which the underlying asset is of low–value. The Group has elected not to recognise right–of–use assets and lease liabilities for low–value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight–line basis over the lease term.

(i) Right–of–use asset

The right–of–use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right–of–use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right–of–use assets applying a cost model. Under the cost model, the Group measures the right–to–use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right–of–use asset that meets the definition of an investment property, they are carried at fair value and for right–of–use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under IAS 40 (see accounting policy (d)) and held for own use under IAS 16 (see accounting policy (c)) are carried at cost less accumulated depreciation and impairment losses. Other than the above right–of–use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right–of–use asset arising from the properties under tenancy agreements are carried at depreciated cost.

(ii) Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right–to–use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leasing (continued)

(ii) Lease liability (continued)

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iii) Accounting as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(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 (k)). 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.

(i) Financial Instruments

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments (continued)

(i) Financial assets (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments (continued)

(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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments (continued)

(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.

(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) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(ii) Non–financial assets

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

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

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

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

(l) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition (continued)

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition (continued)

(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.

(m) 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.

(n) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax expense (continued)

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.

(o) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Foreign currency (continued)

(ii) Foreign operations

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

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

(p) 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)

(q) Finance income and costs

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

Finance costs comprise interest expense on bank and other borrowings, 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 finance cost.

(r) 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)

(s) 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)

(t) 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 30 and 35(e) contain information about the assumptions relating to the determination of fair value of share options granted and financial instruments respectively. 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 the end of each reporting period according to accounting policies set out in note 4(k). 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.

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

(b) Key sources of estimation uncertainty (continued)

Accounting estimates and judgements (continued)

(vi) Provision for losses on litigations

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

(vii) ECLs on trade and other receivable

The Group recognises loss allowances for ECLs on trade and other receivables measured at amortised cost. 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.

(viii) Going concern assumption

These consolidated financial statements have been prepared on a going concern basis even though there were certain events or conditions as explained in note 3(b). In view of these circumstances, the Directors have been given consideration to the future liquidity and performance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures as stated in note 3(b) have been and are being taken to manage the Group's liquidity and to improve its financial positions.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned above, 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

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 Executive Officer, being the 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	:	The 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.

6. OPERATING SEGMENTS (CONTINUED)

(a) Segment results (continued)

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 expenses.

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 2021 and 2020 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2021	2020	**2021**	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**6,710,449**	12,827,575	**1,729,753**	2,385,662	**8,440,202**	15,213,237
Inter–segment revenue	**99,410**	103,220	**30,268**	8,403	**129,678**	111,623
Reportable segment revenue	**6,809,859**	12,930,795	**1,760,021**	2,394,065	**8,569,880**	15,324,860
Depreciation and amortisation	**(91,250)**	(236,877)	**(41,385)**	(64,140)	**(132,635)**	(301,017)
Impairment losses on property, plant and equipment and lease prepayments	**–**	(1,110,059)	**–**	(69,213)	**–**	(1,179,272)
(Loss)/gain on disposal of property, plant and equipment and lease prepayments	**(49,498)**	33,499	**18,045**	24,792	**(31,453)**	58,291
Impairment losses on trade receivables ,net	**(7,517)**	(22,403)	**(22,351)**	(82,328)	**(29,868)**	(104,731)
Government subsidies	**4,431**	39,653	**279**	670	**4,710**	40,323
Reportable segment (loss)/profit before income tax	**(258,788)**	(1,568,002)	**(178,633)**	3,587	**(437,421)**	(1,564,415)
Income tax expenses	**(897)**	(3,562)	**(9,941)**	(20,389)	**(10,838)**	(23,951)

6. OPERATING SEGMENTS (CONTINUED)

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

	2021 $'000	2020 $'000
Revenue		
Total revenue of reportable segments	**8,569,880**	15,324,860
Elimination of inter–segment revenue	**(129,678)**	(111,623)
Consolidated revenue	**8,440,202**	15,213,237
Profit/(loss)		
Total reportable segment loss before income tax	**(437,421)**	(1,564,415)
Elimination of inter–segment loss	**382**	1,358
	(437,039)	(1,563,057)
Gain on deconsolidation of subsidiaries (note 34)	**3,491,306**	–
Gain/(loss) on disposal of a subsidiary (note 33)	**43,867**	(37,772)
Net finance costs (note 9(a))	**(34,651)**	(366,838)
Income tax expenses	**(10,838)**	(23,951)
Unallocated head office and corporate expenses	**(22,138)**	(20,088)
Consolidated profit/(loss) for the year	**3,030,507**	(2,011,706)

(c) Geographical information

The Group's revenue and profit/(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 2021 and 2020, 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.

	2021	2020
	$'000	$'000
Sales of chilled and frozen meat, recognised at a point in time	**6,710,449**	12,827,575
Sales of processed meat products, recognised at a point in time	**1,729,753**	2,385,662
	8,440,202	15,213,237

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

	2021	2020
	$'000	$'000
Trade receivables (note 24)	**32,463**	454,738
Contract liabilities (note 29)	**31,223**	376,123

As at 31 December 2021, the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing contracts were $31,223,000 (2020: $376,123,000). These amounts represent 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.

8. OTHER NET INCOME

	2021	2020
	$'000	$'000
Government subsidies	**4,710**	40,323
Provision for losses on litigations (note ii)	**(45,266)**	(4,159)
Gain/(loss) on disposal of a subsidiary (note 33)	**43,867**	(37,772)
(Loss)/gain on disposal of right-of-use assets (note i)	**(42,126)**	30,796
Gain on disposal of property, plant and equipment	**10,673**	27,302
Rental income	**29,651**	68,259
Sales of scrap	**2,912**	1,534
Sundry income	**18,219**	10,979
	22,640	137,262

Note:

(i) (Loss)/gain on disposal of right-of-use assets represented the net of (i) loss on disposal of lease prepayments of $42,126,000 (2020: gain on disposal of $30,989,000) (note 18) and (ii) loss on disposal of investment properties of $Nil (2020: $193,000) (note 17).

(ii) During the year ended 31 December 2021, included in provision for losses on litigations were (i) 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, for immediate cash repayment of approximately $42,251,000 (2020: $4,159,000); and (ii) 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 of approximately $3,015,000 (2020: $Nil).

9. PROFIT/(LOSS) BEFORE INCOME TAX

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

(a) Net finance costs

	2021	2020
	$'000	$'000
Interest on bank and other borrowings	**41,268**	429,732
Interest on lease liabilities	**6,835**	78
	48,103	429,810
Bank charges	**433**	676
Net foreign exchange gain	**(12,880)**	(60,258)
Interest income from bank deposits	**(1,005)**	(3,390)
	34,651	366,838

(b) Personnel expenses (including directors' remunerations)

	2021	2020
	$'000	$'000
Salaries, wages and other benefits	**391,300**	717,563
Contributions to defined contribution pension schemes	**25,141**	4,406
	416,441	721,969

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% (2020: 14% to 20%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2021.

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% (2020: 5%) of the employees' relevant income, subject to a cap of monthly relevant income of $30,000 (2020: $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. PROFIT/(LOSS) BEFORE INCOME TAX (CONTINUED)

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

(c) Other items

	2021 $'000	2020 $'000
Cost of inventories#	**8,041,746**	14,440,180
Write-down of inventories	**1,906**	4,529
Impairment losses on trade receivables^ (note 24(b))	**29,868**	109,248
Reversal of impairment losses on trade receivables^ (note 24(b))	**–**	(4,517)
Impairment losses on property, plant and equipment^ (note 16)	**–**	805,609
Impairment losses on lease prepayments^ (note 18)	**–**	373,663
Depreciation*		
– Owned property, plant and equipment	**110,214**	231,329
– Right-of-use-assets included:		
– Investment properties (note 17)	**1,318**	8,281
– Properties	**4,421**	3,942
– Lease prepayments (note 18)	**16,370**	57,463
Short term lease expenses (note 28)	**–**	349
Interest on lease liabilities (note 28)	**6,835**	78
Amortisation of intangible assets^ (note 20)	**312**	2
Research and development expenses^ (other than amortisation costs)	**975**	1,190
Auditors' remuneration		
– audit services	**1,730**	5,400
– other services	**4,100**	1,100

Cost of inventories included approximately $233,986,000 (2020: $281,753,000) relating to personnel expenses, depreciation, amortisation of lease prepayments, write down of inventories and short term lease expense, which amount were 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 $52,754,000 (2020: $38,184,000), $3,924,000 (2020: $13,794,000) and $75,645,000 (2020:$249,037,000) respectively in the consolidated statement of profit or loss.

10. INCOME TAX EXPENSES

Income tax expenses in the consolidated statement of profit or loss represents:

	2021 $'000	2020 $'000
Current tax expense	10,350	13,982
Under–provision in respect of prior years	488	2,181
	10,838	16,163
Deferred tax expense (note 22)	–	7,788
Income tax expenses in the consolidated statement of profit or loss	10,838	23,951

(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 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 years ended 31 December 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 years ended 31 December 2021 and 2020.

(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 2021, temporary differences relating to the undistributed profits of subsidiaries amounted to $392,583,000 (2020: $2,201,710,000). Deferred tax liabilities of $19,629,000 (2020: $110,086,000) in respect of the undistributed profits of $392,583,000 (2020: $2,201,710,000) were not recognised as at 31 December 2021 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(n), 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 $429,479,000 (2020: $4,511,403,000), the deductible temporary differences relating to property, plant and equipment of $214,873,000 (2020: $2,345,045,000) and the deductible temporary differences relating to trade and other receivables of $4,838,000 (2020: $4,968,000) due to the unpredictability of future taxable profit streams in the relevant tax jurisdiction.

10. INCOME TAX EXPENSES (CONTINUED)

(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 expenses and accounting loss at applicable tax rate:

	2021	2020
	$'000	$'000
Profit/(loss) before income tax	**3,041,345**	(1,987,755)
Income tax using the PRC enterprise income tax rate of 25% (2020: 25%)	**760,337**	(496,939)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**11,455**	1,513
Non–taxable income	**(899,210)**	(91,222)
Non–deductible expenses	**72,204**	104,552
Under–provision in respect of prior years	**488**	2,181
Recognition of tax expense in relation to interest income from PRC subsidiaries	**25**	169
Effect of tax losses not recognised	**71,501**	226,247
Effect of temporary differences not recognised	**(96)**	243,380
Effect of utilisation of unrecognised tax losses in prior years	**–**	(102)
Effect of tax concessions	**(5,866)**	34,172
Income tax expenses	**10,838**	23,951

11. INCOME TAX RECOVERABLE/(PAYABLE)

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

	2021 $'000	2020 $'000
At beginning of the year	**(10,062)**	(2,827)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	**(10,350)**	(13,982)
Under–provision in respect of prior years	**(488)**	(2,181)
Deconsolidated of subsidiaries (note 34)	**4,005**	–
PRC income tax and withholding tax paid	**15,237**	8,928
Exchange adjustment	**(175)**	–
At end of the year	**(1,833)**	(10,062)
Represented by:		
Income tax recoverable	**719**	2,341
Income tax payable	**(2,552)**	(12,403)
	(1,833)	(10,062)

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:

	2021						
	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							
Zhu Yuan (Chief Executive Officer)	684	1,316	–	–	2,000	–	2,000
Yang Linwei	–	1,239	32	–	1,271	–	1,271
Independent non–executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	169	–	–	–	169	–	169
Miao Yelian	121	–	–	–	121	–	121
Total	1,227	2,555	32	–	3,814	–	3,814

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)

	2020						
	Directors' fees	Salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Equity-settled share-based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Zhu Yuan (Chief Executive Officer)	683	1,317	–	–	2,000	–	2,000
Yang Linwei	–	501	8	–	509	–	509
Yao Guozhong (resigned on 6 Jan 2020)	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	164	–	–	–	164	–	164
Miao Yelian	117	–	–	–	117	–	117
Total	1,217	1,818	8	–	3,043	–	3,043

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(p). Details of the principal terms and number of options granted, are disclosed in note 30.

Yang Linwei has agreed to waive part of his director emolument under the existing service agreement for the year ended 31 December 2020.

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 two (2020: one) existing directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the remaining three (2020: four) individuals during the year ended 31 December 2021 are as follows:

	2021	2020
	$'000	$'000
Salaries and other emoluments	**4,612**	7,087
Contributions to retirement benefit schemes	**54**	76
	4,666	7,163

The emoluments fell within the following bands:

	2021 Number of individuals	2020 Number of individuals
<$1,000,000	**1**	–
$1,000,001 – $1,500,000	**1**	2
$2,000,001 – $2,500,000	**1**	2

For the years ended 31 December 2021 and 2020, 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 2021 and 2020.

15. EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

The calculation of basic earnings/(losses) per share for the year ended 31 December 2021 is based on the profit attributable to equity holders of the Company for the year of $3,060,499,000 (2020: loss attributable to equity holders of the Company $2,019,264,000) and the weighted average number of 1,822,756,000 (2020: 1,822,756,000) shares in issue during the year.

(b) Diluted earnings/(losses) per share

Diluted earnings/(losses) per share equals to basic earnings/(losses) per share for the years ended 31 December 2021 and 2020 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 2020	8,423,978	3,149,983	60,706	387,460	4,164,153	16,186,280
Additions	12,663	37,420	668	10,644	179,930	241,325
Disposals	(173,141)	(127,001)	(7,926)	(16,608)	(54,151)	(378,827)
Transfers	8,144	–	–	–	(8,144)	–
Disposal of a subsidiary (note 33)	(54,101)	(19,602)	–	(1,265)	–	(74,968)
Effect of movements in exchange rates	409,857	133,612	4,860	14,157	356,729	919,215
At 31 December 2020 and 1 January 2021	8,627,400	3,174,412	58,308	394,388	4,638,517	16,893,025
Additions	**4,018**	**54,759**	**–**	**–**	**64,244**	**123,021**
Disposals	**–**	**(839)**	**(2,708)**	**(62,305)**	**(162,012)**	**(227,864)**
Transfers	**135,926**	**37,562**	**–**	**–**	**(173,488)**	**–**
Disposal of a subsidiary (note 33)	**(135,890)**	**(51,552)**	**(197)**	**(1,617)**	**(12,238)**	**(201,494)**
Deconsolidation of subsidiaries (note 34)	**(7,470,805)**	**(2,599,238)**	**(37,233)**	**(302,661)**	**(4,145,226)**	**(14,555,163)**
Effect of movements in exchange rates	**133,197**	**43,922**	**953**	**5,010**	**51,418**	**234,500**
At 31 December 2021	**1,293,846**	**659,026**	**19,123**	**32,815**	**261,215**	**2,266,025**
Accumulated depreciation and impairment:						
At 1 January 2020	6,491,547	2,667,319	58,697	319,329	2,515,193	12,052,085
Depreciation	110,166	122,580	1,753	772	–	235,271
Disposals	(144,672)	(124,240)	(10,471)	(16,617)	(17,024)	(313,024)
Impairment losses	531,828	199,786	535	4,752	68,708	805,609
Disposal of a subsidiary (note 33)	(47,336)	(18,800)	–	(1,190)	–	(67,326)
Effect of movements in exchange rates	189,228	84,020	4,547	6,430	107,912	392,137
At 31 December 2020 and 1 January 2021	7,130,761	2,930,665	55,061	313,476	2,674,789	13,104,752
Depreciation	**58,394**	**44,001**	**331**	**11,909**	**–**	**114,635**
Disposals	**–**	**(839)**	**(2,121)**	**(1,021)**	**(117,672)**	**(121,653)**
Transfers	**37,337**	**–**	**–**	**–**	**(37,337)**	**–**
Eliminated on disposal of a subsidiary (note 33)	**(119,072)**	**(51,552)**	**(197)**	**(1,312)**	**(8,562)**	**(180,695)**
Eliminated on deconsolidation of subsidiaries (note 34)	**(6,157,464)**	**(2,406,869)**	**(35,833)**	**(300,595)**	**(2,359,979)**	**(11,260,740)**
Effect of movements in exchange rates	**48,303**	**30,685**	**833**	**3,089**	**6,900**	**89,810**
At 31 December 2021	**998,259**	**546,091**	**18,074**	**25,546**	**158,139**	**1,746,109**
Carrying amounts:						
At 31 December 2021	**295,587**	**112,935**	**1,049**	**7,269**	**103,076**	**519,916**
At 31 December 2020	1,496,639	243,747	3,247	80,912	1,963,728	3,788,273

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $219,032,000 (2020: $2,004,611,000) at 31 December 2021 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 2021.

Security

At 31 December 2020, certain property, plant and equipment were pledged as security against bank borrowings (note 27(ii)).

Right-of-use assets

	2021	2020
	Properties	Properties
	$'000	$'000
At 1 January	**30,385**	31,774
Addition on new lease	**–**	2,830
Disposals	**–**	(2,344)
Depreciation	**(4,421)**	(3,942)
Effect of movement in exchange rates	**783**	2,067
At 31 December	**26,747**	30,385

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 (note 28) 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.

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment

Certain CGUs of the Group resulted in operating loss in 2021 continuously. The management of the Company identified this as an impairment indicator and carried out an impairment review on the CGUs' 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.

The 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 certain production facilities whereby the management decided that the production activities would cease. Hence these 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 2021. 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 15% (2020: 13%)) and depreciation rate (17% (2020: 19%)) adopted in the valuation. No impairment loss on property, plant and equipment and lease prepayments (2020: impairment loss of $725,915,000 and $345,702,000 respectively) was recognised in "administrative and other operating expenses" in respect of assets falling into this category for the year ended 31 December 2021. 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 2021		At 31 December 2020	
	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)	**2%**	**15%**	2%	13%
EBITDA margin (average of next five years)	**1%**	**5%**	1%	4%
Growth rate (average of next five years)	**3%**	**3%**	3%	3%
Discount rate	**17%**	**17%**	19%	19%

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment (continued)

The 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% (2020: 0%), which does not exceed the long–term average growth rate for the business in which the CGU operates.

At 31 December 2021, the recoverable amounts of the CGUs based on the estimate value-in-use calculation were higher than their carrying amounts, no impairment losses were recognised for the year ended 31 December 2021.

At 31 December 2020, in view of the estimated value–in–use of certain CGUs were lower than their carrying amounts, the property, plant and equipment and lease prepayment relating to these CGUs were written down to their recoverable amounts, with impairment losses of $79,694,000 and $27,961,000 respectively recognised in "administrative and other operating expenses" for the year ended 31 December 2020. 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

	2021	2020
	$'000	$'000
Cost:		
At 1 January	**241,902**	228,622
Additions	**–**	986
Disposals	**–**	(2,353)
Deconsolidation of subsidiaries (note 34)	**(244,370)**	–
Effect of movements in exchange rates	**2,468**	14,647
At 31 December	**–**	241,902
Accumulated depreciation:		
At 1 January	**34,302**	26,154
Charge for the year	**1,318**	8,281
Disposals	**–**	(2,160)
Eliminated on deconsolidation of subsidiaries (note 34)	**(35,976)**	–
Effect of movements in exchange rates	**356**	2,027
At 31 December	**–**	34,302
Carrying amounts:		
At 31 December	**–**	207,600

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 2020, the investment properties were pledged for the bank borrowings of the group (note 27(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)	
	2021	2020
	$'000	$'000
Recurring fair value measurement		
Investment properties	**–**	236,826

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.

Rental income of $10,702,000 (2020: $20,709,000) was recognised for the year ended 31 December 2021.

Direct operating expenses of $3,873,000 (2020: $8,602,000) related to the investment properties were recognised for the year ended 31 December 2021.

18. LEASE PREPAYMENTS

	2021 $'000	2020 $'000
At 1 January	**1,025,661**	1,353,200
Addition	**96**	2,331
Disposal	**(64,953)**	(29,720)
Depreciation	**(16,370)**	(57,463)
Impairment losses	**–**	(373,663)
Eliminated on disposal of a subsidiary (note 33)	**–**	(2,059)
Eliminated on deconsolidation of subsidiaries (note 34)	**(869,437)**	–
Exchange adjustment	**26,854**	133,035
At 31 December	**101,851**	1,025,661

The lease prepayments represent leasehold lands located in the PRC, on which the Group built its factory plant and buildings.

Loss on disposal of lease prepayments amounting to $42,126,000 (2020: gain of disposal of $30,989,000) was recognised under "other net income" (note 8) during the year ended 31 December 2021.

At 31 December 2020, certain lease prepayments were pledged for the bank borrowings of the Group (note 27(ii)).

Impairment loss of $373,663,000 on lease prepayments was recognised under "administrative and other operating expenses" (note 9 (c)) for the year ended 31 December 2020.

19. INVESTMENTS IN SUBSIDIARIES

Particulars of principal subsidiaries are set out in Appendix 1 on page 139.

20. INTANGIBLE ASSETS

	2021 $'000	2020 $'000
Cost:		
At 1 January	39,964	42,650
Additions	–	61
Disposal of a subsidiary	(500)	–
Deconsolidation of subsidiaries (note 34)	(35,506)	–
Effect of movements in exchange rates	1,663	(2,747)
At 31 December	5,621	39,964
Accumulated amortisation:		
At 1 January	39,905	42,650
Charge for the year	312	2
Eliminated on disposal of a subsidiary	(293)	–
Eliminated on deconsolidation of subsidiaries (note 34)	(35,446)	–
Effect of movements in exchange rates	(597)	(2,747)
At 31 December	3,881	39,905
Carrying amount:		
At 31 December	1,740	59

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

	2021 $'000	2020 $'000
Value–added tax recoverable (note)	164,846	606,676
Prepayments for acquisitions of property, plant and equipment	2,906	169,807
	167,752	776,483

Note: Value–added tax recoverable is eligible for offset against future value–added tax payable with no time limit. As at 31 December 2021, 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

Movements in deferred tax assets/liabilities during the year are as follows:

	At 1 January 2020 $'000	Charged to profit or loss $'000	At 31 December 2020 $'000	**Charged to profit or loss $'000**	**At 31 December 2021 $'000**
Property, plant and equipment	7,877	(7,877)	–	**–**	**–**
Trade and other receivables	(89)	89	–	**–**	**–**
	7,788	(7,788)	–	**–**	**–**

23. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2021 $'000	2020 $'000
Raw materials	**36,125**	191,385
Work in progress	**7,141**	97,420
Finished goods	**77,391**	321,780
	120,657	610,585

Write-down of inventories to their net realisable value amounting to $1,906,000 (2020: $4,529,000) was recognised under "cost of sales" in the consolidated statement of profit or loss for the year ended 31 December 2021.

24. TRADE AND OTHER RECEIVABLES

	2021 $'000	2020 $'000
Trade receivables	**32,463**	454,738
Less: ECLs (note (b))	**(6,729)**	(136,570)
Trade receivables, net (note (a))	**25,734**	318,168
Bills receivable	**202**	3,089
Value–added tax recoverable	**132,156**	1,390,767
Deposits and prepayments	**64,536**	547,956
Other receivables (note (c))	**91,488**	164,634
	314,116	2,424,614

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

At 31 December 2021 and 2020, certain trade receivables were pledged against bank borrowings (note 27(ii)).

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

(a) Ageing analysis

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

	2021 $'000	2020 $'000
Within 30 days	**19,118**	211,294
31 days to 90 days	**5,344**	78,481
91 days to 180 days	**1,189**	23,237
Over 180 days	**83**	5,156
	25,734	318,168

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.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables according to their past due dates:

	Gross carrying amount $'000	**Loss allowance $'000**	**Net carrying amount $'000**
As at 31 December 2021			
Within 30 days	**25,143**	**(2,309)**	**22,834**
31 days to 90 days	**3,441**	**(1,058)**	**2,383**
91 days to 180 days	**1,639**	**(1,122)**	**517**
Over 180 days	**2,240**	**(2,240)**	**–**
	32,463	**(6,729)**	**25,734**

	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
As at 31 December 2020			
Within 30 days	294,585	(28,738)	265,847
31 days to 90 days	56,066	(17,411)	38,655
91 days to 180 days	53,189	(39,523)	13,666
Over 180 days	50,898	(50,898)	–
	454,738	(136,570)	318,168

ECLs rates are based on historical loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade receivables.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables (Continued)

Movement in the loss allowance in respect of trade receivables during the year is as follow:

	2021	2020
	$'000	$'000
At 1 January	**136,570**	30,202
Impairment losses recognised	**29,868**	109,248
Reversal of impairment losses	**–**	(4,517)
Write-off upon deconsolidation of subsidiaries	**(159,709)**	–
Effect of movements in exchange rate	**–**	1,637
At 31 December	**6,729**	136,570

(c) Impairment of other receivables

	2021	2020
	$'000	$'000
Other receivables	**120,998**	193,303
Less: Impairment	**(29,510)**	(28,669)
	91,488	164,634

At 31 December 2021, included in the Group's other receivables was the consideration receivables from independent third parties amounted to $12,395,000 (2020: $28,874,000), arising from disposal of certain property, plant and equipment and lease prepayments and $66,200,000 (2020: $Nil), arising from disposal of a subsidiary (note 33) during the year.

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

	2021	2020
	$'000	$'000
At 1 January	**28,669**	26,934
Effect of movements in exchange rate	**841**	1,735
At 31 December	**29,510**	28,669

The above provision for impairment losses of other receivables represents provision for individually impaired other receivables of $29,510,000 (2020: $28,669,000) with a carrying amount of $29,510,000 (2020: $28,669,000). The individually impaired receivables mainly relate to other receivables which the Group consider that the chances of collection of the outstanding amounts are remote.

25. 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:

	2021 $'000	2020 $'000
RMB	**68,843**	296,340
United Stated dollars ("USD")	**8,297**	8,981
Euro dollars ("EUR")	**194**	209
Other currencies	**2,417**	2,020
	79,751	307,550

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately $68,843,000 (2020: approximately $296,340,000). RMB is not freely convertible into other currencies, however, under Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC. Exchanging RMB for other currencies is permitted through the banks that are authorised to conduct foreign exchange business.

26. 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 borrowings $'000 (note 27)	Lease liabilities $'000 (note 28)
At 1 January 2020	6,582,389	93,855
Changes from financing cash flows:		
Proceeds from other borrowings	78,767	–
Repayments of bank and other borrowings	(87,435)	–
Payments of lease liabilities	–	(3,088)
Total changes from financing cash flows	(8,668)	(3,088)
Exchange adjustment	423,428	5,884
Other changes:		
Additions on new lease	–	2,830
Interest on lease liabilities (note 9(a))	–	78
	–	2,908
At 31 December 2020	6,997,149	99,559
At 1 January 2021	**6,997,149**	**99,559**
Changes from financing cash flows:		
Payments of lease liabilities	**–**	**(8,550)**
Exchange adjustment	**252,256**	**2,273**
Other changes:		
Deconsolidation of subsidiaries (note 34)	**(6,705,117)**	**(30,157)**
Interest on lease liabilities (note 9(a))	**–**	**6,835**
	(6,705,117)	**(23,322)**
At 31 December 2021	**544,288**	**69,960**

27. BANK AND OTHER BORROWINGS

The bank and other borrowings are repayable as follows:

	2021 $'000	2020 $'000
Bank borrowings		
– Within one year or on demand	**544,288**	5,972,672
Other borrowings		
– Within one year	**–**	1,024,477
Total bank and other borrowings	**544,288**	6,997,149

	2021 $'000	2020 $'000
Terms		
Unsecured bank borrowings denominated in RMB (notes (i) and (iii))		
– Variable interest rate at prevailing market rate	**95,520**	209,345
– Fixed interest rate from 4.69% to 5.34% (2020: 4.35% to 5.62%)	**401,312**	1,689,113
Secured bank borrowings denominated in RMB (notes (i), (ii) and (iii))		
– Variable interest rate at prevailing market rate	**–**	1,173,297
– Fixed interest rate at 4.79% (2020: 4.35% to 5.23%)	**47,456**	2,900,917
Unsecured other borrowings denominated in RMB		
– Fixed interest rate (2020: 4.35%)	**–**	1,024,477
	544,288	6,997,149

Notes:

(i) As at 31 December 2021, the Group could not fulfil certain covenants imposed by the bank on the bank borrowings of $544,288,000 (2020: $5,972,672,000). All of these bank borrowings and the accrued interest of $236,634,000 (2020: $1,549,388,000) were overdue. As at 31 December 2021, certain bank borrowings were secured by trade receivables of $10,501,000 and guaranteed by certain companies within the Restructuring Companies. The bank borrowings with corporate guarantee provided by certain companies within the Restructuring Companies has been incorporated as part of the consolidated restructuring mentioned in note 34 to the consolidated financial statements. Upon the banks realising their rights as creditors, such as converting the debts owed to equity interests in the new platform, a company incorporated in the PRC for the consolidated restructuring, within 6 months that the count in the PRC adjudicating the consolidated restructuring plan effective on 28 January 2022, the bank borrowings would be settled as part of the consolidated restructuring and the legal proceedings in relation to the bank borrowings would also be extinguished thereafter. If the banks do not realise their rights as creditors by converting the debts owed to equity interests in the new platform within the aforementioned time frame, the bank borrowings would not be automatically extinguished and the relevant legal proceedings would not be automatically discharged.

Up to the date of approval of these consolidated financial statements, the aforesaid bank borrowings were not yet renewed nor repaid. Further details of the Group's management of liquidity risk are set out in note 35(b).

27. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (continued)

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

	2021 $'000	2020 $'000
Properties	–	665,891
Machinery and equipment	–	2,942
Construction in progress	–	123,029
Lease prepayments	–	491,170
Investment properties	–	207,600
Trade receivables	10,501	4,519

(iii) At 31 December 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 $544,288,000 (2020: $2,305,940,000) or to secure the repayment with assets of equivalent amounts immediately. The Group is negotiating with the banks to settle these litigations.

At 31 December 2020, the court in the PRC have ordered to freeze the restricted bank deposits of $13,316,000 and certain property, plant and equipment with carrying amounts of $136,290,000.

28. LEASES

Nature of leasing activities (in the capacity as lessee)

The group leases a number of properties in the jurisdictions from which it operates. The periodic rent is fixed over the lease term.

RIGHT–OF–USE ASSETS

The analysis of the net book value of right–of–use assets by class of underlying asset is as follows:

	2021 $'000	2020 $'000
Ownership interests in leasehold land (note 18), carried at amortised cost with remaining lease term of:		
– Between 10 and 50 years	101,851	1,025,661
Ownership interests in leasehold properties (note 16), carried at depreciated cost with remaining lease term of:		
– Between 10 and 50 years	25,411	28,105
Other properties leased for own use (note 16), carried at depreciated cost	1,336	2,280
Ownership interests in leasehold investment properties (note 17), carried at depreciated cost, with remaining lease term of:		
– Between 10 and 50 years	–	207,600

28. LEASES (CONTINUED)

LEASE LIABILITIES

	2021 Properties $'000	2020 Properties $'000
At 1 January	**99,559**	93,855
Additions	**–**	2,830
Interest expense	**6,835**	78
Payments of lease liabilities	**(8,550)**	(3,088)
Deconsolidation of subsidiaries (note 34)	**(30,157)**	–
Foreign exchange movements	**2,273**	5,884
At 31 December	**69,960**	99,559

Future lease payments are due as follows:

	2021		
	Minimum lease payments $'000	**Interest $'000**	**Present value of minimum lease payments $'000**
Within one year	**8,658**	**6,785**	**1,873**
After one but within two years	**2,970**	**2,227**	**743**
After two but within five years	**36,483**	**3,736**	**32,747**
More than five years	**39,115**	**4,518**	**34,597**
	78,568	**10,481**	**68,087**
	87,226	**17,266**	**69,960**

28. LEASES (CONTINUED)

LEASE LIABILITIES (CONTINUED)

	2020		
	Minimum lease payments $'000	Interest $'000	Present value of minimum lease payments $'000
Within one year	10,899	8,840	2,059
After one but within two years	20,965	1,990	18,975
After two but within five years	7,019	5,786	1,233
More than five years	85,130	7,838	77,292
	113,114	15,614	97,500
	124,013	24,454	99,559

The present value of future lease payments are analysed as:

	2021 **$'000**	2020 $'000
Current liabilities	**1,873**	2,059
Non–current liabilities	**68,087**	97,500
	69,960	99,559

	2021 **$'000**	2020 $'000
Short term lease expenses	**–**	349

29. TRADE AND OTHER PAYABLES

	2021 $'000	2020 $'000
Trade payables (note (i))	**117,991**	593,303
Deposits from customers	**9,681**	96,256
Contract liabilities (note (ii))	**31,223**	376,123
Salary and welfare payables	**13,648**	137,970
Value–added tax payable	**57,306**	48,806
Payables for acquisitions of property, plant and equipment	**24,076**	614,195
Provision for losses on litigations	**119,336**	141,596
Interest payables	**236,634**	1,743,886
Other payables and accruals	**549,426**	1,539,793
	1,159,321	5,291,928

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:

	2021 $'000	2020 $'000
Within 30 days	**59,345**	415,821
31 days to 90 days	**14,592**	53,119
91 days to 180 days	**38,135**	82,067
Over 180 days	**5,919**	42,296
	117,991	593,303

(ii) Contract liabilities:

	2021 $'000	2020 $'000
Contract liabilities arising from:		
Sale of goods	**31,223**	376,123

29. TRADE AND OTHER PAYABLES (CONTINUED)

Notes: (Continued)

(ii) Contract liabilities: (Continued)

Movements in contract liabilities are as follow:

	2021 $'000	2020 $'000
Balance as at 1 January	**376,123**	327,142
Decrease in contract liabilities as a result of recognition of revenue during the year	**(94,800)**	(329,756)
Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred or not yet accepted by the customers	**32,566**	356,189
Deconsolidation of subsidiaries	**(284,901)**	–
Disposal of a subsidiary	**(1,809)**	–
Exchange realignment	**4,044**	22,548
Balance as at 31 December	**31,223**	376,123

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.

All the contract liabilities as at 31 December 2020 were recognised as revenue during the year ended 31 December 2021. The Group expects that the contract liabilities as at 31 December 2021 will be recognised as revenue within a year or less.

30. 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. No cost of services received from the grantees was recognised for the years ended 31 December 2021 and 2020.

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

	2021		2020	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at 1 January	**5.05**	**21,550**	5.07	50,950
Lapsed during the year	**5.00**	**(5,275)**	5.08	(29,400)
Outstanding at 31 December	**5.06**	**16,275**	5.05	21,550
Exercisable at 31 December	**5.06**	**16,275**	5.05	21,550

No share options were exercised during the years ended 31 December 2021 and 2020.

2013 March Options and 2013 June Options outstanding at 31 December 2020 had exercise price of $5.142 and $5.002 and the weighted average contractual lives of 1.23 (2020: 2.23) and 1.45 (2020: 2.45) years respectively.

31. SHARE CAPITAL

(a) Authorised and issued share capital

	2021 Number of ordinary shares '000	2021 Amount $'000	2020 Number of ordinary shares '000	2020 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**	**2021 Number '000**	2020 Number '000
After the result announcement for the year ended 31 December 2015 to 24 March 2023	$5.142	**3,650**	3,650
After the result announcement for the year ended 31 December 2016 to 24 March 2023	$5.142	**3,650**	3,650
After the result announcement for the year ended 31 December 2015 to 13 June 2023	$5.002	**4,487**	7,125
After the result announcement for the year ended 31 December 2016 to 13 June 2023	$5.002	**4,488**	7,125
		16,275	21,550

Further details of these options are set out in note 30 to the consolidated financial statements.

32. 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 32(b)) $'000	Contributed surplus (note 32(g)) $'000	Accumulated losses $'000	Total $'000
At 1 January 2020	7,400,418	297,480	(7,379,224)	318,674
Loss for the year	–	–	(104,708)	(104,708)
At 31 December 2020	7,400,418	297,480	(7,483,932)	213,966
At 1 January 2021	**7,400,418**	**297,480**	**(7,483,932)**	**213,966**
Loss for the year	**–**	**–**	**(38,260)**	**(38,260)**
At 31 December 2021	**7,400,418**	**297,480**	**(7,522,192)**	**175,706**

(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.

32. 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 2021, the company had reserves available for distribution to equity holders of the Company amount to $175,706,000 (2020: $213,966,000).

(i) Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2021 (2020: Nil).

32. RESERVES AND DIVIDENDS (CONTINUED)

(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. There was capital deficiency of $531,341,000 at 31 December 2021, calculation of return on capital at 31 December 2021 was inappropriate. The Group is not subject to externally imposed capital requirement.

33. CHANGES IN GROUP STRUCTURE

(a) Disposal of a subsidiary

In November 2021, the Group has entered into equity transfer agreement with an independent third party company (the "Purchaser") to dispose of 90% of equity interests of a subsidiary under chilled and frozen meat segment at a consideration of $66,200,000. The net assets of the subsidiary at the date of disposal were as follows:

	$'000
Net assets disposed of:	
Property, plant and equipment	**20,799**
Intangible assets	**207**
Cash and cash equivalents	**3,246**
Inventories	**3,836**
Trade and other receivables	**34,617**
Trade and other payables	**(16,350)**
	46,355
Non-controlling interests	**(4,488)**
Exchange reserve reclassified to profit or loss upon disposal	**(19,534)**
Gain on disposal of a subsidiary (note 8)	**43,867**
Total consideration	**66,200**
Satisfied by:	
Consideration receivable (note 24(c))	**66,200**
Net cash outflow arising from the disposal	
cash and cash equivalents disposed of	**3,246**

33. CHANGES IN GROUP STRUCTURE (CONTINUED)

(b) Disposal of a subsidiary

In July 2020, the Group disposed 75% of equity interests of a subsidiary under chilled and frozen meat segment at Nil consideration. The net assets of the subsidiary at the date of disposal were as follows:

	$'000
Net assets disposed of:	
Property, plant and equipment	7,642
Lease prepayments	2,059
Cash and cash equivalents	219
Inventories	488
Trade and other receivables	49,958
Trade and other payables	(379)
	59,987
Non-controlling interests	(7,937)
Exchange reserve realised on disposal	(14,278)
Loss on disposal of a subsidiary (note 8)	37,772
Satisfied by:	
Net cash outflow arising on disposal:	
cash and cash equivalents disposed of	219

With reference to the annual reports of 2006 and 2017, the Group acquired 75% equity interests of the subsidiary at a cash consideration of $732,000 on 18 June 2006. In order to support regional economic development, the Group was rendered a bargain on acquisition which resulted in a negative goodwill of $39,059,000 for the year ended 31 December 2006. As there was not much improvement in the regional economic development, the Group agreed to disposal the subsidiary at Nil consideration.

34. GAIN ON DECONSOLIDATION OF SUBSIDIARIES

With effect from 30 April 2021, the consolidated restructuring of 44 direct or indirect owned subsidiaries (the "Relevant Subsidiaries") of the Group has been approved as a result of the civil ruling of the court in the PRC. Thereafter, the administrator appointed by the court (the "Administrator") commenced the taking over of the Relevant Subsidiaries, which entitled the Administrator to legal and actual control over the internal and external affairs of the Relevant Subsidiaries.

At 30 April 2021, the 44 Relevant Subsidiaries directly or indirectly, wholly or non-wholly owned another 68 companies. Notwithstanding that the Administrator did not directly take over the control of these 68 companies (the "Non-Taken-Over Subsidiaries"), the Directors of the Company consider that the Group has lost its control over the 44 Relevant Subsidiaries and the 68 Non-Taken-Over Subsidiaries (these 112 companies in total are collectively referred to as the "Restructuring Companies"), in view of the fact that the Non-Taken-Over Subsidiaries are considered as affairs of the Relevant Subsidiaries, the Group has lost its power over the Restructuring Companies as well as the exposure, or rights, to variable returns from involvement with the Restructuring Companies since the date of approval of the consolidated restructuring.

Accordingly, the financial statements of the Restructuring Companies have ceased to be consolidated in the consolidated financial statements of the Company with effect from 30 April 2021. The consolidated restructuring plan was approved at the creditors' meeting on 28 January 2022 and was adjudicated effective by the court in the PRC on the same date.

The net liabilities deconsolidated were as follows:

	Nanjing Yurun Group (note i) $'000	Others (note ii) $'000	Total $'000
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	86,063	
Inventories	410,113	204,111	
Trade and other receivables	2,136,641	291,729	
Income tax recoverable	950	1,161	
Cash and cash equivalents	138,096	8,624	
Bank and other borrowings	(5,248,081)	(1,457,036)	
Trade and other payables	(4,856,188)	(1,076,773)	
Income tax payable	(5,230)	(886)	
Lease liabilities	–	(30,157)	
Total net liabilities deconsolidated	(2,901,993)	(1,513,982)	(4,415,975)
Non-controlling interests disposed			(60,410)
Non-controlling interests arising from deconsolidation			99,096
Exchange reserve reclassified to profit or loss upon deconsolidation			(320,886)
Current accounts with deconsolidated subsidiaries			1,206,869
Gain on deconsolidation of subsidiaries			(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 (translated as Nanjing Yurun Food Co., Ltd.) and its subsidiaries.

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

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.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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, 46% (2020: 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.

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.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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 lease liabilities are disclosed in note 28. The following are the contractual maturities at the end of the reporting period of bank and other borrowings 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 2021

	Carrying amount $'000	Contractual undiscounted cash flows $'000	3 months or less or on demand $'000	3–6 months $'000	6–9 months $'000
Bank and other borrowings	**544,288**	**544,288**	**544,288**	**–**	**–**

31 December 2020

	Carrying amount $'000	Contractual undiscounted cash flows $'000	3 months or less or on demand $'000	3–6 months $'000	6–9 months $'000
Bank and other borrowings	6,997,149	7,220,802	7,197,454	20,823	2,525

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.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

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

The interest rates and terms of repayment of bank and other borrowings are disclosed in note 27.

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 $716,000 (2020: $10,370,000). 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 borrowing 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 2020.

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.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Foreign currency risk (Continued)

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)					
	2021			2020		
	EUR	**USD**	**RMB**	EUR	USD	RMB
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Other current assets	**194**	**42,211**	**2,064**	209	261,425	297,584
Other current liabilities	**–**	**–**	**–**	–	–	(22,944)
	194	**42,211**	**2,064**	209	261,425	274,640

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 2021, 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 $86,000 (2020: $11,466,000).

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

(e) Fair value

Fair values versus carrying amounts

The fair values of cash and cash equivalents, restricted bank deposit, trade and other receivables, trade and other payables, amounts due from/to related parties and short–term bank and other borrowings 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 borrowings approximate their fair values because the borrowing rates were similar to rates currently available for bank borrowings with similar terms and maturity.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value (Continued)

Fair values versus carrying amounts (Continued)

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:

	2021			2020		
	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
Lease liabilities	**69,960**	**69,960**	**69,960**	99,559	99,559	99,559

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:

	2021	2020
Lease liabilities	**3.30%**	3.70%

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) Capital commitments

Capital commitments outstanding at 31 December 2021 in respect of property, plant and equipment not provided for in the consolidated financial statements were as follows:

	2021 **$'000**	2020 $'000
Contracted for	**333,311**	2,880,129

(b) Contingent liabilities

In addition to the litigations commenced by banks against certain subsidiaries of the Group as disclosed in note 27, as at 31 December 2020, there were outstanding litigations commenced by several constructors against certain Restructuring Companies of the Group claiming construction fees, together with the late penalties, totalling 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. During the year ended 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 yet been made at 31 December 2020. The remaining litigation claims with an aggregate amount of approximately $144,714,000 were still in process, of which an aggregate amount of approximately $26,520,000 had been included in the Provision Amount as at 31 December 2020. In the opinion of the Directors, upon the deconsolidation of subsidiaries (note 34), no further provision for litigation was required to be made for the year ended 31 December 2021.

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 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.

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.

(a) Significant related party transactions

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

	2021	2020
	$'000	$'000
Sales of raw materials to related companies	**1,807**	2,684
Sales of finished goods to related companies	**2,265**	5,410
Purchases of raw materials from related companies	**55,890**	83,789
Purchases of finished goods from related companies	**1,799**	13,381

(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 leases (notes 16 and 28). The rental paid or payable to the Predecessor Entities for the year ended 31 December 2021 amounted to $1,332,000 (2020: $3,280,000).

(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 $28,707,000 (2020: $55,613,000) as at 31 December 2021 to the Group. No rental is paid or payable by any of the companies in the Group.

(iv) Products consignment

A subsidiary of the Company entered into the products consignment agreement with a related company, consignment fee expense of $5,690,000 (2020: $7,987,000) was paid for the year ended 31 December 2021. 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.

(v) Borrowings from related companies

At 31 December 2020, a related company provided an interest bearing borrowing of $1,024,477,000 to a subsidiary within Restructuring Companies for the settlement of certain payables. The borrowing was unsecured, interest bearing at 4.35% per annum and repayable on demand. Interest expenses of $42,146,000 were incurred for the year ended 31 December 2020.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related parties

	2021 $'000	2020 $'000
Trade receivables due from related companies	**5,607**	59,550
Other receivables due from related companies	**175**	38,055

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 2021 and 2020.

(c) Amounts due to related parties

	2021 $'000	2020 $'000
Trade payables due to related companies	**15,246**	53,039
Other payables due to related companies	**3,808**	9,909
Other borrowings due to related companies (note 37(a)(v))	**–**	1,024,477

(i) Certain related companies settled certain payables on behalf of the Group during the year ended 31 December 2021 and 2020.

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	2021 $'000	2020 $'000
Non–current assets			
Investments in subsidiaries		**408,212**	425,620
Current assets			
Other receivables		**527**	721
Cash and cash equivalents		**1,860**	1,033
		2,387	1,754
Current liabilities			
Amounts due to subsidiaries		**39,726**	18,742
Other payables		**12,891**	12,390
		52,617	31,132
Net current liabilities		**(50,230)**	(29,378)
Total assets less current liabilities		**357,982**	396,242
Net assets		**357,982**	396,242
Equity			
Share capital	31	**182,276**	182,276
Reserves	32	**175,706**	213,966
Total equity		**357,982**	396,242

39. SUBSEQUENT EVENTS

On 29 March 2022, the Board approved a capital expenditure plan for 2022 amounting to RMB20,000,000 (equivalent to approximately $24,462,000).

APPENDIX 1

The following list contains only the particulars of subsidiaries as at 31 December 2021 which principally affected the results, assets or liabilities of the Group.

Name of company (note (iii))	Place of establishment and operation	Registered capital	Attributable equity interest held by the Company		Principal activity
			Direct	Indirect	
			%	%	
Daye Longqing Meat Processing Co., Ltd. (note(ii)) 大冶隆慶肉類加工有限公司	The PRC	RMB140,000,000	–	80%	Slaughtering production and sales of chilled and frozed meet
Fuyang Yurun Meat Processing Co., Ltd. (note (i)) 阜陽雨潤肉類加工有限公司	The PRC	USD44,000,000	–	100%	Production and sales of proccessed meat prodcuts
Gansu Yurun Meat Processing Co., Ltd. (note(i)) 甘肅雨潤肉類加工有限公司	The PRC	USD1,000,000	–	100%	Production and sales of proccessed meat prodcuts
Guangzhou Yurun Meat Product Co., Ltd.(note(i)) 廣州雨潤肉類食品有限公司	The PRC	USD10,000,000	–	100%	Production and sales of proccessed meat prodcuts
Harbin Dazhong Roulian Food Co., Ltd. (note(ii)) 哈爾濱大眾肉聯食品有限公司	The PRC	USD50,000,000	–	99%	Slaughtering, production and sales of chilled and frozen meat and proccessed meat prodcuts
Shihezi Tianshi Meat Processing Co., Ltd. (note (ii)) 石河子市天石肉類加工有限公司	The PRC	RMB130,000,000	–	90%	Slaughtering production and sales of chilled and frozed meet
Shouyang Furun Meat Processing Co., Ltd.(note(ii)) 壽陽福潤肉類加工有限公司	The PRC	RMB50,000,000	–	48%	Slaughtering production and sales of chilled and frozed meet

Notes:

(i) These entities established in the PRC are wholly foreign owned enterprises.

(ii) These entities established in the PRC are domestic limited liability companies.

(iii) 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

	2017 $'000	2018 $'000	2019 $'000	2020 $'000	**2021** **$'000**
Assets and liabilities					
Non–current assets	16,180,902	10,886,706	6,535,628	5,798,076	**791,259**
Net current liabilities	(7,911,964)	(7,264,335)	(7,078,486)	(8,945,133)	**(1,192,791)**
Total assets less current liabilities	8,268,938	3,622,371	(542,858)	(3,147,057)	**(401,532)**
Non–current liabilities	(356,390)	(797,548)	(773,602)	(97,500)	**(68,087)**
Net assets/(liabilities)	7,912,548	2,824,823	(1,316,460)	(3,244,557)	**(469,619)**
Share capital	182,276	182,276	182,276	182,276	**182,276**
Reserves	7,679,424	2,591,819	(1,552,739)	(3,484,237)	**(713,617)**
Total equity attributable to equity holders of the Company	7,861,700	2,774,095	(1,370,463)	(3,301,961)	**(531,341)**
Non–controlling interests	50,848	50,728	54,003	57,404	**61,722**
Total equity	7,912,548	2,824,823	(1,316,460)	(3,244,557)	**(469,619)**
Operating results					
Revenue	12,057,239	12,650,595	15,224,976	15,213,237	**8,440,202**
Results from operating activities	(1,641,254)	(4,339,416)	(3,379,712)	(1,620,917)	**3,075,996**
Net finance costs	(263,818)	(427,780)	(550,605)	(366,838)	**(34,651)**
(Loss)/profit before income tax	(1,905,072)	(4,767,196)	(3,930,317)	(1,987,755)	**3,041,345**
Income tax expenses	(9,973)	10,317	(5,346)	(23,951)	**(10,838)**
(Loss)/profit for the year	(1,915,045)	(4,756,879)	(3,935,663)	(2,011,706)	**3,030,507**
Attributable to:					
Equity holders of the Company	(1,915,101)	(4,758,804)	(3,940,484)	(2,019,264)	**3,060,499**
Non–controlling interests	56	1,925	4,821	7,558	**(29,992)**
(Loss)/profit for the year	(1,915,045)	(4,756,879)	(3,935,663)	(2,011,706)	**3,030,507**
(Losses)/earnings per share					
Basic ($)	(1.051)	(2.611)	(2.162)	(1.108)	**1.679**
Diluted ($)	(1.051)	(2.611)	(2.162)	(1.108)	**1.679**