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中國糧油控股有限公司
CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
Stock Code： 606

Focus on core business. Cultivate our brand value. Focus on core business. Cultivate our brand value.

聚焦主業
深耕品牌

2017 | Annual Report

2017
ANNUAL REPORT

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED

China Agri at a glance

Our core businesses

Oilseeds Processing Business

Market position

One of the largest vegetable oil and oilseed meals producers in China

Major products

Soybean oil, palm oil, rapeseed oil and oilseed meals

Major brands

Fortune（福临门）
Fuzhanggui（福掌柜）
Sihai（四海）
Xiyingying（喜盈盈）
Guhua（谷花）

Rice Processing and Trading Business

Market position

China's leading supplier of packaged rice and largest rice exporter and importer

Major products

Rice

Major brands

Fortune（福临门）
Jinying（金盈）
Five Lakes（五湖）
Golden Terra（金地）
Xin（薪）
Donghai Mingzhu（东海明珠）

Wheat Processing Business

Market position

One of the largest wheat processors in China

Major products

Flour, noodles and bread

Major brands

Fortune（福临门）
Xiangxue（香雪）

Brewing Materials Business

Market position

A leading brewing materials supplier in China

Major products

Malt

This document may contain certain forward-looking statements with respect to the financial position, results of operations and business of the Company. These forward-looking statements represent our current expectations or beliefs concerning future events and involve known and unknown risks and uncertainties which would cause actual results, performance or events to differ materially from those expressed or implied in such statements. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

Contents

Corporate Information

Directors

Chairman of the Board and Executive Director
DONG Wei

Executive Directors
WANG Qingrong
(Managing Director)
YANG Hong

Non-executive Directors
JIA Peng
MENG Qingguo

Independent Non-executive Directors
LAM Wai Hon, Ambrose
Patrick Vincent VIZZONE
ONG Teck Chye

Audit Committee

LAM Wai Hon, Ambrose (Chairman)
Patrick Vincent VIZZONE
ONG Teck Chye
JIA Peng

Remuneration Committee

Patrick Vincent VIZZONE (Chairman)
LAM Wai Hon, Ambrose
ONG Teck Chye
MENG Qingguo

Nomination Committee

DONG Wei (Chairman)
LAM Wai Hon, Ambrose
Patrick Vincent VIZZONE
ONG Teck Chye

Executive Committee

WANG Qingrong (Chairman)
DONG Wei
YANG Hong

Qualified Accountant

CHAN Ka Lai, Vanessa

Company Secretary

LOOK Pui Fan

Auditor

Ernst & Young
Certified Public Accountants

Legal Advisor

Herbert Smith Freehills LLP

Registered Office

31st Floor, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Share Registrar and Transfer Office

Tricor Progressive Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Agricultural Bank of China Limited
Agricultural Development Bank of China
Australia and New Zealand Banking Group Limited
Banco Santander, S.A.
Bank of China Limited
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Deutsche Bank
Industrial and Commercial Bank of China Limited
Rabobank International (Hong Kong Branch)
Societe Generale Corporate and Investment Banking
The Sumitomo Trust & Banking Company Limited

Investor Relations

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Company Website

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Stock Code

606

Financial Highlights

For the year ended 31 December 2017

	Unit	2017	2016 (Restated)	Increase/ (Decrease)
Revenue from continuing operations:	HK$ million	**87,856.1**	78,049.4	13%
– Oilseeds processing	HK$ million	**56,232.4**	50,434.2	11%
– Rice processing and trading	HK$ million	**12,465.1**	9,195.7	36%
– Wheat processing	HK$ million	**10,563.6**	8,945.8	18%
– Brewing materials	HK$ million	**2,374.2**	2,684.5	(12%)
– Corporate and others	HK$ million	**6,220.8**	6,789.2	(8%)
Revenue from a discontinued operation:				
– Biochemical and biofuel	HK$ million	**11,325.0**	11,113.1	2%
Profit before tax from continuing operations	HK$ million	**1,862.5**	1,233.2	51%
Operating profit from continuing operations (segment results)	HK$ million	**2,165.3**	1,521.4	42%
Operating profit before depreciation and amortisation from continuing operations	HK$ million	**3,200.6**	2,556.9	25%
Operating margin from continuing operations	%	**2.5**	1.9	N/A
Profit attributable to owners of the Company:	HK$ million	**3,042.3**	1,419.1	114%
– Continuing operations	HK$ million	**1,297.7**	975.7	33%
– Discontinued operation	HK$ million	**1,744.6**	443.4	293%
Earnings per share:				
Basic – For the profit of the year	HK cents	**57.95**	27.03	114%
Basic – For the profit from continuing operations	HK cents	**24.72**	18.59	33%
Diluted – For the profit of the year	HK cents	**57.87**	27.03	114%
Diluted – For the profit from continuing operations	HK cents	**24.68**	18.59	33%
Dividends per share for the year:				
– Interim dividend	HK cents	**4.00**	–	N/A
– Proposed final dividend	HK cents	**0.90**	5.40	(83%)
– Proposed special dividend	HK cents	**20.00**	–	N/A
Total assets	HK$ million	**67,336.7**	72,126.0	(7%)
Equity attributable to owners of the Company	HK$ million	**29,855.2**	26,249.3	14%
Closing price per share at year-end	HK$	**3.42**	3.03	13%
Market capitalisation at year-end	HK$ million	**17,954.6**	15,907.1	13%
Net asset value per share at year-end	HK$	**5.69**	5.00	14%
Net gearing ratio at year-end	%	**28.8**	59.2	N/A

Capacity Distribution

- Oilseeds processing
- Rice processing and trading
- Wheat processing
- Brewing materials

2017 Capacity

unit: metric ton '000

Oilseeds Processing

Crushing Capacity	**12,930**
Jiangsu	3,600
Shandong	2,280
Guangxi	1,755
Guangdong	1,620
Tianjin	1,200
Hubei	900
Liaoning	600
Anhui	375
Jiangxi	300
Xinjiang	300
Refining Capacity	**4,880**
Jiangsu	1,110
Tianjin	720
Guangdong	720
Shandong	660
Guangxi	420
Hubei	360
Jiangxi	360
Anhui	180
Chongqing	180
Xinjiang	90
Liaoning	80

Rice Processing and Trading

Rice Processing Capacity	**4,080**
Heilongjiang	1,000
Liaoning	650
Jiangsu	420
Jiangxi	400
Jilin	350
Hubei	350
Anhui	300
Hunan	300
Ningxia	110
Sichuan	100
Guangdong	100

2017 Capacity

unit: metric ton '000

Wheat Processing

Wheat Processing Capacity	**3,691**
Henan	1,320
Zhejiang	600
Hebei	460
Liaoning	400
Jiangsu	321
Sichuan	240
Fujian	180
Shandong	170
Noodle Production Capacity	**219.3**
Henan	78
Liaoning	45
Shandong	22.5
Hebei	19.8
Zhejiang	18
Jiangsu	18
Sichuan	18
Bakery Production Capacity	**1.98**
Beijing	1.98

Brewing Materials

Malt Production Capacity	**740**
Liaoning	360
Jiangsu	300
Inner Mongolia	80

Chairman's Statement

In 2017, the global economic recovery deepened as growth picked up. Developed economies maintained solid growth, while emerging markets and developing economies continued to rebound. By promoting supply-side structural reform, China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. Consumption upgrade and transformation continued as one of the main drivers. Against this backdrop, China saw growing consumer demand for grain and edible oil products. Further market-oriented reforms of the domestic grain pricing mechanism led to an acceleration of industry consolidation. The reforms are creating multiple opportunities for large companies.

During the year of 2017, China Agri-Industries Holdings Limited ("China Agri" or the "Company") developed new strategic goal of "Focusing on rice, flour and edible oil products, with the aim of repositioning itself as the leading integrated player for the grains and edible oil processing and branded consumer business" in order to capture the industry's development trend of upgrading. To achieve this objective, the Company adjusted business portfolio. By completing the acquisition of consumer-pack edible oil business and the disposal of biochemical and biofuel business, we have streamlined the oilseeds processing value chain and shifted the focus to core businesses. The Company has entered into a new phase of development.

During this crucial year of strategic transformation, our complete corporate governance system continued its efficient operation. Our directors serve the Company with dedication and the management has defined responsibilities. The Company is committed to upholding and observing the value of timely, transparent and effective disclosures to shareholders. We adhere to a strict code of business ethics, and our corporate governance structure has been endorsed by shareholders. The efforts on sound corporate governance also contributed to the successful approvals of our business portfolio adjustments and created a solid foundation for sustainable development. By taking business performance for the year of 2017, financial situation and future expansion plan into consideration, the Board of the Company has recommended the payment of final dividend and special dividend for the completion of disposal of biochemical and biofuel business, totaling of 20.9 HK cents per share.

On 8 January 2018, there was a change in composition of the Board. I was appointed as a Chairman of the Board and Mr. Wang Qingrong became the Managing Director. On behalf of the Board, I would like to express my sincere gratitude to Mr. Yu Xubo and Mr. Shi Bo for their outstanding contributions on operations and development of the Company. On behalf of Mr. Wang Qingrong, we appreciate the Board for entrusting us with this responsibility. The Board will apply our knowledge and experience to safeguard the overall interests of the Company and its shareholders, as we look ahead to new achievements.

In the new era of high quality economic development, China will continue the commitment to the general principle of "making progress while working to keep performance stable". By further deepening supply-side structural reform, the government will provide a solid environment for corporate growth and operation. Meanwhile, we also foresee huge growth potential in consumer markets reflected by sustained sales growth of online shopping and retails in rural areas. As the minimum wheat purchase price reduced for the first time due to the progress of market-oriented reforms in the grain pricing mechanism, cost pressures could be eased for processors, providing better conditions for launching high value-added products, satisfying changing customer needs and promoting industry development.

Regarding the new starting point, China Agri will invest in core grains and edible oil businesses to strengthen production capacity and cultivate the branded products in 2018. By further streamlining and coordinating the integrated value chains, the Company will benefit from greater synergies and better operational efficiency. With the organic growth driven by lean management system, China Agri will keep striving for improved business scale, profitability and operation quality, adding business value and financial returns for shareholders.

DONG Wei
Chairman
Hong Kong, 28 March 2018

Management Discussion and Analysis

Business Review

Financial Review

Corporate Sustainability and Risk Factors

Business Review

China's economy rebounded in 2017 with 6.9% growth of gross domestic product. As the major driver, the emerging demands of diversified and updated products kept promoting the long-term sustainable growth. Retail spending on grain and edible oil products grew steadily, creating potential markets for enterprises. Total retail sales of grain, oil, and associated consumer goods increased by 10.2% year-on-year to RMB1.53 trillion. With the rapid consumption upgrade and continued industry consolidation, China's agricultural processing sector enjoyed the improved business environment and more reasonable level of profit margin.

As an industry leading player, China Agri has shifted its strategic goal to focusing on core businesses and brand cultivation, and achieved major progress to capture the market opportunities arising from consumption upgrade. During the year, China Agri completed the RMB1,050 million acquisition of the consumer-pack edible oil business[1], obtaining the rights to use the "Fortune" （福临门）brand of consumer-pack edible oil in China with its approximately 550,000 points-of-sales across the country. The acquisition will help the Company expand its presence across the edible oil value chain and strengthen its capability in branded business competition. The other major development completed in 2017 was the disposal of biochemical and biofuel business. The one-off gain (after tax) recorded in the year was HK$1,010.7 million, which will support further expansion of core edible oil and grains businesses.

During the year under review, all business segments of the Company maintained positive momentum. Sales volume of major products further grew year-on-year to record level, increasing capacity utilisation rate notably. Total sales volume was 24,816,000 metric tons, a 7.3% increase from 2016. The Group posted year-on-year revenue growth of 11.2% to HK$99,181.1 million, in which HK$87,856.1 million was from the continuing operations and HK$11,325.0 million was from the discontinued operation. In terms of business operation, China Agri conducted product innovations and further refined the management system to improve profitability of products. The Company recorded profit attributable to owners of the Company of HK$3,042.3 million for 2017, jumped by 114.4% year-on-year to a record high.

[1] *Total sales of edible oil in consumer packaging in 2017 were 990,000 metric tons. China Agri completed the acquisition of sales and distribution business of packaged edible oil products on 14 September 2017, and started to consolidate the sales volume and financial data thereafter.*

BUSINESS REVIEW

Continuing Operations

Oilseeds Processing Business

In 2017, the international soybean prices saw more narrow fluctuation range compared with last year with gradual decline on the back of ample supply in the first half year, and moderate volatility in the second half year. With the improved business climate led by restored competition and steady growing consumption, domestic oilseed processing industry witnessed higher capacity utilisation rates and relative satisfactory level of crushing margin during the year.

In the context of consumption upgrade, the Company further developed into branded oil business to capture the market trend. By acquiring the consumer-pack edible oils business, oilseeds processing segment integrated the value chain and further enhanced business competence and profitability. In terms of management, China Agri launched a three-tiered system with clear allocation of responsibilities among headquarters, regions and factories to strengthen business capability, and introduced new delegation to spur the enthusiasm of front-line business teams. Oilseeds processing business has stepped into a new stage of development. In term of operation, oilseeds processing business applied the mature risk management system to maintain stability. The professional team locked in profit margin by making procurement at appropriate timing to reduce raw material costs. Increased business scale and operational efficiency boosted business performance.

In terms of market expansion, the Company focused on specific kinds of high value-added vegetable oil products, such as sunflower oil, non-GMO soybean oil and rapeseed oil. With our crushing plants locate in domestic material production area and coastal region, the Company is able to purchase feedstock from domestic and international markets, meeting customer demand and increasing sales volume. Taking advantage of R&D capability, the Company launched a new product "Fortune Nutritious Cooking Oil" (福臨門營養家食用調和油) and implemented all-round marketing and sales campaigns. This was the first core product introduced since the integration of "Fortune" (福临门) brand sales and distribution business. Product packaging clearly displays ingredient ratios and nutrition facts, meeting consumer demand for safe and healthy foods, which will help to promote the Company's new edible oil brand business and overall development of the industry. For oilseed meals, sales volume grew year-on-year for both of distributors and animal feed producers. With good demand arising from high level of profitability of downstream pig breeding industry, the Company increased sales and improved customer service to gain market share. Profit margin was supported by the pricing technique and sales strategy adjustments.

During the year under review, sales of oilseed meals and vegetable oils were 8,337,000 metric tons and 4,153,000 metric tons, increased by 5.9% and 9.6% year-on-year respectively, leading to higher capacity utilisation rate. Revenue increased by 11.5% year-on-year to HK$56,232.4 million. Operating profit was HK$1,177.8 million, an increase of 12.6% year-on-year.

Rice Processing and Trading Business

In 2017, an abundant domestic rice supply helped to ease cost pressures with a slight decrease in the minimum purchase price for rice. Consolidation accelerated in the rice processing industry, with large processors increasing their market share and processing capabilities. Average selling price and overall profitability improved in the rice processing industry, reflecting the trend in rising customer spending and consumption upgrade.

As the core strategic business of rice processing and trading segment, the Company continuous marketing and channel promotion of branded rice products have achieved great success. The share of "Fortune"（福临门）high-end brand products has increased against the entire product portfolio, driving sales volume and gross profit margin of branded rice. Short marketing videos of "Fortune"（福临门）rice were launched on five major e-commerce platforms including Jingdong, Tmall, and Sunning. Interactive marketing campaigns like raffles were also conducted on social media platforms such as WeChat and Weibo to enhance brand influence. China Agri sponsored CCTV's "Eating at Home"（回家吃飯）and "Countryside Dating"（鄉約）shows which provided strong support for brand visibility. The sponsorship of the ninth BRICS Summit associated our brand with the image of contributing to national economy and people's livelihood. In sales channel development and marketing, the Company has increased the number of points-of-sales and penetrated into new markets. Traditional channel has also been further activated by special holiday promotions to boost profitability.

In terms of international trading, the Company took the advantage of long-term business experience and continued to expand the range of export varieties as well as its global market footprint. It maintained its traditional market while developing new business partners and innovative business models. Export sales volume in the Company's international business increased significantly year-on-year, leading to improved average capacity utilisation and boosting year-on-year performance.

During the year under review, total sales volume of rice processing and trading business increased 40.0% year-on-year to 2,614,000 metric tons. The proportion of "Fortune"（福临门）products sales continued to rise, further optimising sales structure. Revenue grew by 35.6% to HK$12,465.1 million. Operating profit was HK$509.3 million, a notable increase over last year.

BUSINESS REVIEW

Wheat Processing Business

In 2017, the domestic wheat price was relatively strong with even higher price for high quality wheat material. Processors with simple business model suffered from the rising costs and were unable to meet demands for product diversification and upgrade. The trend of consolidation in the wheat processing industry continued, and large-scale, group-based processors increasingly predominate.

As the strategic plan balancing development and profitability, the Company's wheat processing business started adding resources to secure the best grain supplies to meet consumer demand for high value-added products. A variety of approaches including acquisition, new plant establishment and operation lease may be used to strengthen the geographic footprint in main production region of quality material and major market areas, securing competitive advantage in the stage of industry consolidation.

In terms of operation, the Company leveraged integrated business model and refined management to maintain the product quality and ease cost pressure, maintaining a leading position in special-purpose flour business. With the stable sales and profits generated from specialty flour business, the segment continued promoting the transformation toward branded and consumer business. Aiming at small and medium-sized supermarkets, the Company used established rice sales channels for cross-selling of branded flour and noodle products to gain market share in townships and counties. Marketing measures like online promotions, TV commercials and offline roadshows in residential complexes are undertaken to increase visibility and brand recognition of packaged flour products. The Company saw a sustainable year-on-year increase in the sales volume of flour products, enhancing market leading position.

During the year under review, sales volume of flour products in the Company's wheat processing business increased by 14.8% year-on-year to 2,513,000 metric tons. Capacity utilisation rate increased substantially. Sales volume of noodle products remained relatively flat at 122,000 metric tons. Total revenue was HK$10,563.6 million, an increase of 18.1% year-on-year. Operating profit increased by 5.1% year-on-year to HK$158.0 million.

Brewing Materials Business

In 2017, China's beer market matured and ended a three-year period of negative growth. Competition intensified in the malt industry, as new factories came on-stream with additional capacity. Globally, barley supply was tight with decreased output in main production area and increased demand for feed barley, leading to higher raw material costs.

The Company's brewing material business leveraged the advantage in procurement and supply chain management to improve the service for key strategic customers, meeting the consumption demand of premium and export products to widen margin. In the meanwhile, the Company react proactively to the consumption upgrade of beer market. China Agri developed high-end special new kind of malts for dark and special flavour beer, satisfying customers and gaining market share.

In 2017, the sales volume of malt for the Company's brewing materials business was 678,000 metric tons, a slight decrease from last year's record high. Revenue decreased by 11.6% to HK$2,374.2 million. Operating profit was HK$289.6 million, dropped by 2.2% year-on-year.

BUSINESS REVIEW

Discontinued Operation

Biochemical and Biofuel Business

In 2017, corn price decreased year-on-year as a result of abundant domestic supply and destocking policies of temporary reserve, which eased cost pressures. Meanwhile, overall performance of the industry also improved as a result of temporary processing subsidies. A new round of investment and expansion emerged due to the introduction of incentive policies for corn processing, such as the Ethanol Production and Promotion Plan for Biofuels for Vehicular Use（關於擴大生物燃料乙醇生產和推廣使用車用乙醇汽油的實施方案）. As a result, there may be an increase in concentration and competition in the industry.

The biochemical and biofuel business used its competitive advantages including its production footprint in major raw materials areas to control low-cost grain supplies and generate processing subsidies, improving overall profitability.

The discontinued operation sold 1,146,000 metric tons of starch, 881,000 metric tons of sweeteners and 446,000 metric tons of fuel ethanol. Total revenue rose slightly to HK$11,325.0 million. With the HK$1,010.7 million one-off gain (after tax) from the disposal, net profit was HK$1,758.9 million.

China Agri completed the disposal of its biochemical and biofuel business on 27 December 2017. Relevant disposal targets has ceased to be the Company's subsidiaries which were classified as a discontinued operation in the financial statements.

Outlook

Looking ahead to 2018, China's economy will be driven towards the stage of high-quality development by consumption upgrade and supply-side structural reform, creating better business climate and new opportunities for agricultural products processing sector. Consumption ratio of packaged products of grains, edible oils, and foodstuffs will remain growth. Market-oriented reform of the grains pricing mechanism will keep progressing. These two trends will jointly reinforce the competitive advantages of brand-based, large-scale enterprises, and will accelerate industry consolidation, leading to a new era of development for industry leaders.

According to the new development strategy, China Agri has already completed and enhanced the integrated value chain of edible oil and grains businesses. Resources have been generated from assets restructure to further develop core rice, flour and edible oil businesses. The Company will further expand production capacity and scale of branded business, enhancing the supply and sales capability of high value-added products to meet market trend. The ultimate goal is to grow the Company's core businesses and to improve market position.

In terms of business operation, pressure on domestic grain costs are likely to ease with further progress of market-oriented reform, as well as an abundant supply of global oilseeds. But the Company will still face the challenges of intensifying competition and inherent market price volatility. China Agri will continue ensuring stable operation and use our competitive advantage in the integrated value chain to mitigate the impact of market volatility risk. By transitioning towards branded business and increasing the sales proportion of high value-added products, we will keep striving for sustainable profitability under the new business structure.

Financial Review

Overview of Financial Results for the Year Ended 31 December 2017

Revenue from Continuing Operations

	2017 HK$ million	2016 HK$ million (Restated)
Business units of continuing operations:		
Oilseeds processing	**56,232.4**	50,434.2
Rice processing and trading	**12,465.1**	9,195.7
Wheat processing	**10,563.6**	8,945.8
Brewing materials	**2,374.2**	2,684.5
Corporate and others	**6,220.8**	6,789.2
	87,856.1	78,049.4

During 2017, the sales volume of major products of the Group grew at a high level through continuous efforts of market development and collaboration between operation and sales. As a result, total revenue from continuing operations for the year increased 12.6% from a year earlier to HK$87,856.1 million.

Gross Profit and Gross Profit Margin

The Group proactively expanded the business scale to raise production capacity and deeply propelled detail-oriented management to consolidate and raise profitability of its products during the year, resulting in the overall gross profit of the Group for the year ended 31 December 2017 rose 30.0% to HK$6,379.5 million and the gross profit margin up 1.0 percentage point to 7.3% as compared with last year (restated).

Selling and Distribution Expenses

During the year, selling and distribution expenses were HK$2,857.9 million (2016: (restated) HK$2,182.1 million) which accounted for 3.3% (2016: (restated) 2.8%) of the total revenue from continuing operations of the Group. The rise in expenses was mainly attributable to higher logistics costs from increased sales volume and larger brand advertising and promotion expenses for the development of small-packaged branding business.

Administrative Expenses

For the year ended 31 December 2017, administrative expenses were HK$1,795.2 million, up 10.3% year-on-year. The increased expenses was mainly due to higher employees' compensation as well as larger research and development costs arising from exploring new technology, new products and new production processes.

Finance Costs

In 2017, the average loan size of the Group remained at a similar level as last year. Finance costs were HK$630.6 million (2016: (restated) HK$635.7 million) for the year. Both the overall finance costs and net gearing ratio were declined as a result of the Group's continuous optimisation of debt structure and partial repayment of loans. An analysis of the finance costs by category is as follows:

	2017 HK$ million	2016 HK$ million (Restated)
Interest on:		
Bank loans	**548.8**	514.6
Loans from fellow subsidiaries	**38.0**	32.5
Loans from an intermediate holding company	**8.9**	–
Loans from the ultimate holding company	**37.3**	90.4
Total interest expenses on financial liabilities not at fair value through profit or loss	**633.0**	637.5
Less: Interest capitalised	**(2.4)**	(1.8)
	630.6	635.7

Profit Attributable to Owners of the Company

For the year ended 31 December 2017, the sales volume of the Company's major products grew rapidly and the advantages of large business scale reflected through strengthened professional operations, active market development and increased production capacity. On this basis, the Company seized the market opportunities of rising consumption demand to actively innovate and develop new products as well as to implement detail-oriented management on business operations so as to continuously consolidate and enhance products' profitability. During the year, the Group recorded remarkable growth in operating performance. In particular, the profit attributable to owners of the Company from continuing operations were HK$1,297.7 million, a surge of 33.0% from HK$975.7 million as restated in 2016.

Final Dividend and Special Dividend

The Board of Directors recommended a final dividend for the year ended 31 December 2017 of 0.9 HK cents (2016: 5.4 HK cents) per share and a special dividend of 20.0 HK cents (2016: Nil) per share, amounting to HK$47.2 million (2016: HK$283.5 million) and HK$1,050.0 million (2016: Nil) respectively. Subject to shareholders approving these recommendations at the forthcoming annual general meeting, the final dividend and special dividend will be paid on or around 20 July 2018 to the shareholders whose name appear on the register of members of the Company on 12 June 2018.

FINANCIAL REVIEW

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

On 25 May 2017, COFCO Fortune Holdings Limited (the "Purchaser"), the Company's wholly-owned subsidiary, entered into an agreement with COFCO Food Sales & Distribution Co., Ltd. (the "Vendor"), a wholly-owned subsidiary of China Foods Limited, pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell the entire equity interests of COFCO Fortune Foods Sales & Distribution Co., Ltd. (the "Target Company"). The consideration for the acquisition was RMB1,050 million which were paid by cash. The Target Company is primarily engaged in the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning and grains). The Target Company markets its products mainly under the "Fortune" （福临门） brand (under a license from COFCO Corporation). This agreement and the transactions contemplated thereunder were approved by the Company's independent shareholders on 7 July 2017 and the acquisition was completed on 14 September 2017. On completion date, the Target Company became a wholly-owned subsidiary of the Company. Please refer to the Company's announcements dated 25 May 2017, 7 July 2017 and 14 September 2017 for details.

On 8 September 2017, (i) Full Extent Group Limited ("Full Extent"), a wholly-owned subsidiary of the Company, entered into the equity transfer agreement with COFCO Feed Co., Ltd. ("COFCO Feed"), pursuant to which COFCO Feed has agreed to purchase and Full Extent has agreed to sell 100% equity interests in COFCO Feed Holdings Limited ("Feed Holdings") at a consideration of RMB7,248,783 which were paid by way of cash in Hong Kong dollars; (ii) Full Extent entered into the loan transfer agreement with COFCO Feed, pursuant to which COFCO Feed has agreed to accept and Full Extent has agreed to assign the loan owed by Feed Holdings at a consideration of RMB207,196,600 which were paid by way of cash in Hong Kong dollars; and (iii) COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("COFCO East Ocean"), a non-wholly-owned subsidiary of the Company, entered into the equity transfer agreement with COFCO Feed, pursuant to which COFCO Feed has agreed to purchase and COFCO East Ocean has agreed to sell 32% equity interests in COFCO Feed (Dongtai) Co., Ltd. ("Dongtai") at a consideration of RMB28,554,617 which were paid by way of cash in Renminbi. The above agreements in respect of the equity and loan transfers constitute an integral part of the transaction leading to the disposal of Feed Holdings and its subsidiaries at a total consideration of RMB243,000,000. On 22 December 2017, the disposal of Feed Holdings was completed. Feed Holdings and its subsidiaries (including Dongtai) ceased to be the subsidiaries of the Company. On 29 January 2018, the remaining 32% equity transfer of Dongtai was completed and the Company ceased to hold any equity interests in Dongtai. Please refer to the Company's announcement dated 8 September 2017 for details.

On 23 October 2017, Full Extent entered into the sale and purchase agreement and the loan assignment deed with COFCO Bio-chemical Investment Co., Ltd. (the "Acquirer"), a wholly-owned subsidiary of COFCO Corporation, in relation to the disposal of COFCO Biochemical Holdings Limited and COFCO Biofuel Holdings Limited (the "Bios Companies") at a total consideration of HK$8,579 million. Pursuant to the above agreements, Full Extent has agreed to (i) sell its 100% equity interests in the Bios Companies at a consideration of HK$5,219 million and (ii) assign the loans owed to it by the Bios Companies at a consideration of HK$3,360 million. Upon completion of the above transactions, each of the Bios Companies and their subsidiaries ceased to be a subsidiary of the Company and became subsidiaries of the Acquirer. The core business of the Company would no longer include the biochemical and biofuel business (the "Bios Business"). In light of such, on 23 October 2017, COFCO Corporation, COFCO (Hong Kong) Limited and the Company entered into the supplement deed to amend the non-competition deed dated 16 February 2007 (the "2007 Non-competition Deed"). Pursuant to which, the Bios Business shall be excluded from the scope of restricted business and the option granted by COFCO Corporation to acquire its interests in COFCO Biochemical (Anhui) Co., Ltd. shall be removed from the scope of the retained interests under the 2007 Non-competition Deed upon completion of the above transactions. The above transactions were approved by the Company's independent shareholders on 15 December 2017 and the relevant equity transfer and loan assignment were completed on 27 December 2017. Please refer to the Company's announcements dated 23 October 2017, 15 December 2017 and 27 December 2017 for details.

Save as disclosed above, the Group did not have any other significant investments held nor any material acquisitions and disposals of subsidiaries during the year.

Working Capital and Financial Policy

The Group closely monitors the liquidity of funding and the availability of financial resources to ensure that cash inflows generated from operating activities together with undrawn banking facilities are sufficient to meet the demands required for day-to-day operations, loan repayments, capital expenditure and potential business expansion opportunities. During the year, the Group's operations were financed primarily by the accumulated surplus and bank borrowings.

The Group adheres to a prudent and stable financial policy and commits to developing new external funding channels, strengthening fund-raising capability and ensuring liquidity of funding. Internally, the Group aims to raise turnover rate and generate more operating cash flows by reducing the liquid funding on inventories and trade receivables as well as pursuing a centralised cash management on surplus funding. Besides, the Company has adjusted the debt structure and actively used hedging tools to avert foreign exchange risk exposure on the foreign loans.

The Group entered into the financial services agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) for the purpose of achieving more efficient deployment and application of funds within the Group so as to reduce the average borrowing costs and better facilitate intra-Group settlement services. During the year, the Group enhanced the liquidity of funds, reduced finance costs and effectively monitored the use of funds through this treasury platform.

Cash and Bank Deposits

The cash and bank deposits (including restricted cash at bank) of the Group were HK$10,571.8 million as at 31 December 2017 (31 December 2016: HK$7,658.6 million). During the year, the Group recorded net cash inflows from operations of approximately HK$695.8 million (2016: HK$1,584.5 million). These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank Loans and Other Borrowings

The total interest-bearing bank loans and other borrowings amounted to HK$19,181.2 million (31 December 2016: HK$23,190.2 million) as at 31 December 2017. The borrowings were mainly used for the daily operation and business expansion of the Group. These loans are repayable within the following periods:

	31 December 2017 HK$ million	31 December 2016 HK$ million
Within one year or on demand	**19,007.0**	21,593.8
In the second to fifth years, inclusive	**108.4**	1,512.6
Beyond five years	**65.8**	83.8
	19,181.2	23,190.2

The interest-bearing bank loans carried annual interest rates ranging between 1.53% and 4.90% (31 December 2016: between 0.83% and 8.30%). Other borrowings carried annual interest rates ranging between 1.08% and 4.35% (31 December 2016: between 1.08% and 3.92%). These interest-bearing bank loans and other borrowings were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

FINANCIAL REVIEW

As at 31 December 2017, the Group has pledged assets, including property, plant and equipment and land use rights, with an aggregate carrying value of HK$163.1 million (31 December 2016: HK$345.1 million) to secure bank loans and banking facilities.

The Group had no unutilised committed banking facilities as at 31 December 2017 and 31 December 2016. The Group will continue to obtain financing on an unsecured basis whenever possible and supplement such borrowings with secured financing.

Financial Ratios

The Group's financial ratios at 31 December 2017 and 31 December 2016 are set out below:

	31 December 2017	31 December 2016
Net gearing ratio (the ratio of net debts to equity attributable to owners of the Company)	**28.8%**	59.2%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.38**	1.11
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.67**	0.65

Net debt represents the Group's total interest-bearing bank loans and other borrowings less cash and cash equivalents and restricted cash at bank. Therefore, net debt of the Group was HK$8,609.4 million at 31 December 2017 (31 December 2016: HK$15,531.6 million). Net gearing ratio declined mainly due to the completion of one-off disposal of biochemical and biofuel business and the partial repayment of loans during the year.

Capital Expenditures

The total capital expenditures of the Group's continuing operations for the year ended 31 December 2017 are tabulated below:

	2017 HK$ million	2016 HK$ million (Restated)
Business units of continuing operations:		
Oilseeds processing	**1,397.1**	659.5
Rice processing and trading	**176.0**	211.7
Wheat processing	**114.9**	101.2
Brewing materials	**115.9**	77.9
Corporate and others	**36.8**	43.6
	1,840.7	1,093.9

Capital Commitments

Capital commitments contracted but not provided for in the Group's consolidated financial statements as at 31 December 2017 are set out below. These commitments are to be financed by loans and working capital of the Group.

	31 December 2017 HK$ million	31 December 2016 HK$ million
Contracted, but not provided for:		
Property, plant and equipment	**247.7**	598.8

HUMAN RESOURCES

The Group employed 18,307 (31 December 2016: 27,413) staff as at 31 December 2017. The drop in number of staff was mainly attributable to the disposal of biochemical and biofuel business during the year. The Group's employees are remunerated based on job nature, individual performance and market trends with built-in merit components. Total remuneration (excluding directors' and chief executive's remuneration) for the year ended 31 December 2017 amounted to approximately HK$1,939.9 million (2016: (restated) HK$1,688.7 million). Employees in Hong Kong receive retirement benefits, mostly in form of a Mandatory Provident Fund entitlement, and a similar benefit scheme is offered to employees in Mainland China. Of the total remuneration, pension scheme contributions amounted to HK$176.4 million (2016: (restated) HK$157.1 million) for the year.

The Company adopted a share option scheme on 12 January 2007 to attract, retain and motivate senior management personnel and key employees, and provide eligible participants with an opportunity to acquire equity interests in the Company that would encourage them to work towards enhancing the value of the Company and its shares. The share option scheme of the Company expired on 21 March 2017. As at 31 December 2017, there were approximately 149,991,000 outstanding share options granted, which are exercisable in accordance with the terms of the expired share option scheme.

Besides, the Group also encourages employee participation in continuing training programmes, seminars and e-learning courses, through which will enhance their career development and technical skills for tapping individual potentials.

Corporate Sustainability and Risk Factors

Corporate Sustainability

China Agri upholds the development philosophy of "Being loyal to National Welfare and Creating Benefits for People's Livelihood" and incorporates social responsibility into our corporate strategies and culture, while creating benefits for its shareholders and investors, as well as fulfilling its responsibilities as a good corporate to employees, consumers, the environment and communities. We also pay great attention to the value of people in the course of our business operations. With the contributions made on environmental protection, consumer rights and social welfare, we build our corporate reputation, as well as winning the confidence, trust and satisfaction of investors, consumers, and employees.

In 2017, China Agri continued to uphold the concept of the "RESPONSIBILITY TREE". Six key words – faithfulness, integrity, sincerity, virtue, benevolence, and morality – represent six CSR sectors and their corresponding stakeholders. This system is the guiding framework for long-term reference and implementation of our social responsibility practices, which will be summarised, assessed, and improved regularly.

Below are the highlights of the China Agri's programs completed for sustainability and corporate social responsibility in 2017. For more information, please download the full 2017 Corporate Social Responsibility Report from our website at www.chinaagri.com.

Value Creation: In 2017, China Agri continued to deepen the professional operation, promote fine management, strengthen risk control, boost brand building, and guide the sustainable business development to seek constant improvement in business scale, profitability and operational quality and thereby create more value and return for shareholders.

Social Development: A company is the source of fulfilling social responsibility and creating benefit, which plays a key role to the rapid development of social economy. In 2017, China Agri further developed to ensure market supply and food safety; promoted the development of agriculture, farmers and countryside; drove industry development, better serving the society.

Cooperation and Mutual Benefit: China Agri has always valued the cooperation with key customer, supplier and distributors, creating mutual benefits for these business partners. A customer-oriented business system has been established to identify, gain, serve and maintain clients from the perspective of the entire industry chain. With the strategic "win-win" cooperation with industry leading players, the Company is able to further promote business reputation and market position, gaining market share and customer loyalty.

Environmental Protection: China Agri has actively responded to the national call by attaching great importance to environmental responsibilities of corporations. Abiding by the development concept of "green industrial chain, low-carbon quality products", the Company made great efforts in environmental protection, comprehensively tapped the potential of energy conservation and emissions reduction in all segments, exploring the new development path of low input, low consumption, low emissions and high yield.

In 2017, China Agri has reduced the consumption of energy and water resources as well as pollutant emissions by promoting environment-friendly production, resource recycling and other measures, realising sound economic returns and social benefits. By fulfilling the social responsibility, the Company promoted sustainable development of its own as well.

Care for Employees: Employees are the most precious resource and wealth for an enterprise, which are also an important basis for the further development. China Agri always concerns the self-realisation of employees. Through creating transparent corporate culture, the Company is committed to help every employee achieve their personal development.

China Agri adheres to the "People First" management philosophy and "Employees First" corporate culture. The Company established a law-based, harmonious and efficient employment system, protecting the rights and interests of our workers. We attach great importance to our employees' value realisation, providing them with multiple development platforms. The Company always pays attention to occupational safety and health as well as conducts multiple recreational activities for employees.

Charitable Work: Communities are like soil on which a company relies for existence and development, and the healthy development of the society cannot be realised without every "corporate citizen" getting involved. China Agri always pays attention to the combination of its economic benefits and social benefits. Making use of own capability, the Company gives back to the society through public activities covering multiple sectors. In 2017, China Agri made external donations by complying with relevant rules and regulations, and participated charitable projects regarding disaster relief, poverty alleviation, physically challenged, and impoverished students.

Risk Factors

Management keeps close watch over potential risk factors in order to maintain stable operation. The three tier risk management system identifies, monitors and manages risks, with participation by the Business Segments, functional department and Audit Department. By analysing and evaluating the indicators of our Key Risk Indicator System, the Company focused on ten main risks – price volatility risk, foreign exchange risk, production safety risk, food safety risk, environmental risk, credit risk, policy risk, inventory risk, legal risk and liquidity risk.

Our business depends on a stable and adequate supply of raw materials which are subject to price volatility. Raw materials prices may be affected by external factors, including climate and environmental conditions, commodity market prices, currency fluctuation and government policy changes. To mitigate the risk that may arise from the volatility of raw material price, China Agri established comprehensive risk control system to control the relevant exposure. Risk Control Department keeps monitoring the key risk indicators and reports to relevant management according to our hierarchical risk-warning mechanism, taking actions timely and effectively to mitigate possible risks.

CORPORATE SUSTAINABILITY AND RISK FACTORS

Among the major bulk commodity inputs, majority of soybean and barley are imported by the Company. The procurement costs are paid in foreign currency, which may cause foreign exchange risk between the Renminbi and the currency in which the goods are priced. In this respect, currency forward contracts and other instruments are used for hedging. The Company also set up exposure limits and regularly review and report the compliance for proper risk management.

Another source of risk inherent to the business model is from the production process from the Company's large-scale processing operations. Since some of the production process involves chemical substance, improper operations may trigger health and safety problems and affect production. The Company has established standard operating procedures for occupational safety and health throughout the production process. With regularly training and emergency drilling, the employees developed a deeper understanding of the potential risk, control measures and their duties in emergency contingency plan.

In addition, the Company's main products are grain and oil products as well as food materials, which are closely related to consumer health. Any product-related complaints and claims may have an adverse impact on our business and reputation. Thus, the Company has put in place various risk management programmes according to characteristics of different value chains. Food safety risk can be prevented through a whole process control program involving risk identification, assessment, warning and etc.

With the large number of production plants, any possible unstable production, lack of facilities or excessive emissions may pollute the environment, resulting in economic loss, administrative penalty or reputation damage. The Company has strictly complied with the environment protection and energy conservation regulations issued by central and local administrations. Besides the continuing regular monitoring, irregular and unannounced inspections on water and gas emissions are also conducted to prevent the environmental risk.

Products of the Company are mainly sold through distributors and directly sales channels. Some of domestic materials are bought with advance payments to suppliers. There is possibility of bad debts from prepayments and credit sales if the suppliers or customers failed to fulfil the constructional obligation. The Company has established credit rating system and credit approval process to monitor the transactions with customers and suppliers with high-risk or in the black-list. With the supervision system covers pre-, during- and post-transaction phases, credit risk is prevented proactively.

Since most of the Company's business assets are located in China and majority of revenues are generated from China, political and economic policy changes implemented by the Chinese government will have a significant impact on the Company's business operation and performance. By timely gathering relevant policies issued by central and local administrations, the Company is able to analyse and share the information internally among managements, and provides instructions for subsidiaries to ensure the compliance.

As a leading food producer in China, the Company will hold certain level of inventory for stable operation. Since some inventory may be stored in rented facilities from third-party, management shortcomings like incomplete management system, lack of supervision and unclear rights in goods may cause inventory loss, stolen, misappropriation and damage. For preventing the inventory risk, proper inventory management measures have been regulated and undertaken. Inventory movements and monthly counting are conducted carefully. Storage environment has been controlled strictly. Storage monitoring must meet the rules' requirement. And professional training for storekeepers will be provided for rented facilities.

To manage the legal risk, the Company has standardised the management procedures and form of contracts in production and operation. Authorisation and process for legal disputes and cases are also regulated. In the evaluation of management, some relevant factors like timeliness of case reporting, number of new case and number of cases cleared are included in as consideration, reducing the frequency of cases and the corresponding losses.

By constantly monitoring the net gearing ratio and monthly analysing cash flow, the Company effectively prevent the risk of failure to repay debt due to lack of liquidity.

Bearing such risks in mind, the Company has established a comprehensive risk management system to ensure operational stability. For more details, please refer to the risk management and internal control section under the corporate governance report of this annual report.

As to the key business partners, there is not any significantly negative impact on the Company's operation due to the change of customers and suppliers during the year. For products sale, direct selling and distribution network are the two main models for the Company. Our key customers which are industry leaders and famous enterprises have cooperated with China Agri for a long time and established a stable business relationship. On the procurement side, the Company directly purchases feedstock from farmers as well as through upper stream suppliers. Based on our footprints in major grain production regions in China, the Company takes advantages of direct sourcing to compete with our peers. With the long-term business partnership with suppliers, the material supply generally is secured.

As a food producer with majority of assets located in China, the laws and regulations that are relevant to operation include Food Safety Law of the PRC（中華人民共和國食品安全法）, Work Safety Law of the PRC（中華人民共和國安全生產法）, Measures for the Administration of Food Production Licensing（食品生產許可管理辦法）, Agricultural Products Quality Safety Law of the PRC（中華人民共和國農產品品質安全法）, Administrative Provisions on the Filing of Export Food Manufacturers（出口食品生產企業備案管理規定）, Regulations on the Administration of Permits for the Production of Industrial Products（工業產品生產授權管理條例）, Standardisation Law of the PRC（中華人民共和國標準化法）, Regulations on the Administration of Grain Circulation（糧食流通管理條例）, Measures for the Administration of the Examination and Approval of Grain Purchase（糧食收購資格審核管理辦法）, Measures for the Safety Review of New Food Raw Materials（新食品原料安全性審查管理辦法）, Foreign Trade Law of the PRC（中華人民共和國對外貿易法）, Environmental Protection Law of the PRC（中華人民共和國環境保護法）, Water Pollution Prevention and Control Law of the PRC（中華人民共和國水污染防治法）, the PRC Law for the Prevention and Treatment of Air Pollution（中華人民共和國大氣污染防治法）, Regulations the PRC on Foreign Exchange Administration（中華人民共和國外匯管理條例）, Provisions on Guiding the Orientation of Foreign Investment（指導外商投資方向規定）, and Provisions on M&A of a Domestic Enterprise by Foreign Investors（關於外國投資者併購境內企業的規定）. Edible oil, grain and food producing and processing company should comply with the general regulations and laws as listed above. Foreign company should comply with the general regulations and industrial policies when engaging investments in China. In 2017, the Company strictly obeyed the relevant laws and regulations in our production, operation and investment.

Five-Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated and reclassified as appropriate, is set out below:

	2017 HK$'000	2016 HK$'000 (Restated)	2015 HK$'000 (Restated)	2014 HK$'000 (Restated)	2013 HK$'000 (Restated)
RESULTS					
REVENUE FROM CONTINUING OPERATIONS	**87,856,153**	78,049,407	69,012,241	77,908,905	79,551,448
PROFIT/(LOSS) FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**2,289,093**	1,643,145	366,181	(532,502)	1,960,058
Finance costs	**(630,649)**	(635,672)	(520,319)	(513,895)	(445,295)
Share of profits and losses of associates	**204,007**	225,719	157,204	(83,394)	81,451
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**1,862,451**	1,233,192	3,066	(1,129,791)	1,596,214
Income tax expense	**(243,849)**	(142,119)	(290,574)	(163,534)	(359,294)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**1,618,602**	1,091,073	(287,508)	(1,293,325)	1,236,920
DISCONTINUED OPERATION					
Profit/(Loss) for the year from a discontinued operation	**1,758,880**	440,764	(89,787)	644,743	582,061
PROFIT/(LOSS) FOR THE YEAR	**3,377,482**	1,531,837	(377,295)	(648,582)	1,818,981
Attributable to:					
Owners of the Company	**3,042,323**	1,419,145	(332,730)	(775,403)	1,568,453
Non-controlling interests	**335,159**	112,692	(44,565)	126,821	250,528
	3,377,482	1,531,837	(377,295)	(648,582)	1,818,981
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**67,336,717**	72,126,000	67,253,511	78,561,321	82,769,284
TOTAL LIABILITIES	**(33,057,923)**	(41,813,681)	(36,700,275)	(46,139,547)	(50,036,828)
NON-CONTROLLING INTERESTS	**(4,423,582)**	(4,062,974)	(4,228,593)	(4,346,644)	(3,749,753)
	29,855,212	26,249,345	26,324,643	28,075,130	28,982,703

Corporate Governance Report

The Company recognises the importance of corporate transparency and accountability. The Board is committed to achieving a high standard of corporate governance practices and procedures and striving for a transparent and accountable management framework on enhancing the interests of shareholders. The corporate principles of the Company emphasise on upholding sound ethics and integrity in all aspects of its businesses, and on ensuring that affairs are conducted in accordance with the applicable laws and regulations.

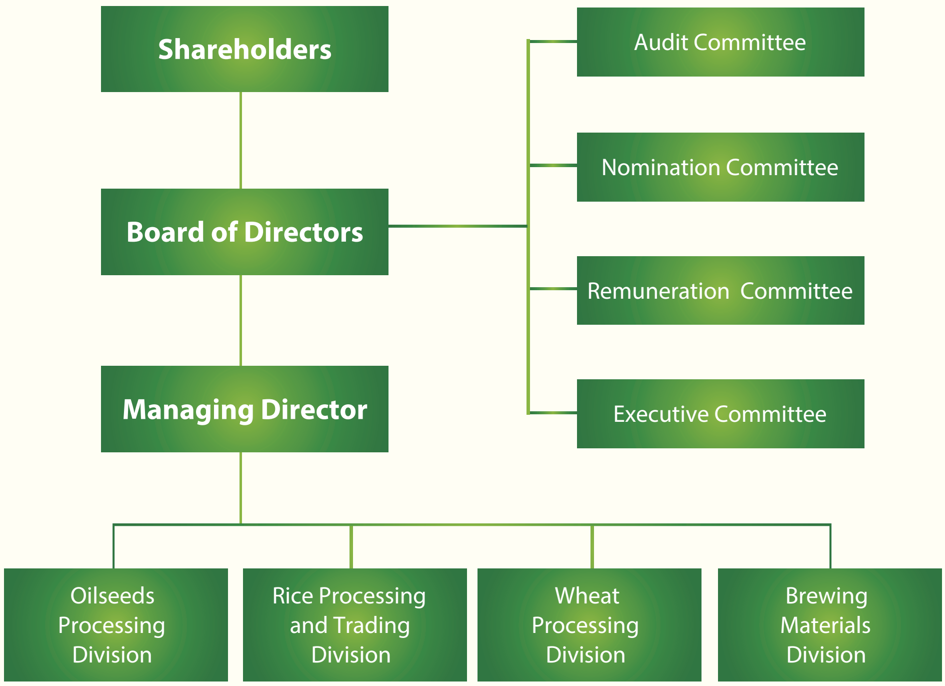
During the year ended 31 December 2017, the Company has complied with all code provisions and, where appropriate, the applicable recommended best practices set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Code of Conduct Regarding Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding directors' securities transactions. Having made specific enquiries to all members of the Board, they confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2017 in relation to their securities dealings, if any.

The Company has also adopted a code of conduct regarding employees' securities transactions on terms no less exacting than the applicable standards set out in the Model Code (the "Employees Model Code"). Relevant employees who may possess inside information related to the Group and its activities are required to observe the Employees Model Code in relation to dealings in securities of the Company. During the year, the Company has not received any non-compliance report from any of such employees.

Governance Structure



CORPORATE GOVERNANCE REPORT

The Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performances. It is mindful of the need to uphold the corporate governance principles set out in the Company's Code of Practice for the Board and responsible for performing corporate governance duties of the Company, including the duties specified in code provision D.3.1 of the Corporate Governance Code, and has established the Code on Communication of Inside Information and Confidential Information to ensure proper dissemination and/or safeguard of the information (the said Code is available on the Company's website). The management is delegated with the authority and responsibility by the Board for the management of the Group. In addition, the Board has established various Board committees and delegated responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") (together, the "Board Committees") and the executive committee (the "Executive Committee"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference. Further details of these committees are set out on pages 31 to 34.

In accordance with the articles of association of the Company, resolutions of the Board may be passed by written resolutions or at meetings. During the year, the Board held ten meetings (including four regular Board meetings and six independent non-executive directors' meetings) to consider, among other things, the interim and annual results of the Group, annual financial budget, changes in the composition of the Board and its committees, acquisition, disposal, continuing connected transactions, and matters relating to risk management, internal control and corporate governance. The table below shows the directors during the year and their attendance at the Board meetings:

		Board	
Name		Regular meetings	Meetings of independent non-executive directors
Chairman and Executive Director			
CHI Jingtao	(resigned on 6 January 2017)	0/0^Δ	N/A
Chairman and Non-executive Director			
YU Xubo*		4/4	N/A
Executive Directors			
GU Lifeng	(resigned on 6 January 2017)	0/0^Δ	N/A
DONG Wei	(appointed on 6 January 2017)	4/4	N/A
YANG Hong	(appointed on 29 March 2017)	1/2^Δ	N/A
SHI Bo*		4/4	N/A
Non-executive Directors			
MA Wangjun	(resigned on 6 January 2017)	0/0^Δ	N/A
LI Jian	(appointed on 6 January 2017 and then resigned on 30 August 2017)	2/3^Δ	N/A
JIA Peng	(appointed on 6 January 2017)	4/4	N/A
MENG Qingguo	(appointed on 30 August 2017)	1/1^Δ	N/A
Independent Non-executive Directors			
LAM Wai Hon, Ambrose		4/4	6/6
Patrick Vincent VIZZONE		4/4	6/6
ONG Teck Chye		4/4	6/6

* *resigned from the Board on 8 January 2018*

Δ *entitlement to attend*

The Company adopts the practice of holding regular Board meetings at least four times a year. Notice of each meeting is sent to the Board members at least fourteen days prior to a regular Board meeting, and they may request for inclusion of matters in the agenda of the meetings. For ad hoc Board meetings, reasonable notices are given.

It is the practice of the Company to record in sufficient detail of the matters considered and decisions reached, including concerns raised or dissenting views expressed, in the meetings of the Board/Board Committees. Draft and final versions of minutes of the Board and/or Board Committees (as the case may be) are sent to the directors, on average within 2 weeks after the date of the respective meeting, for their comments and records respectively.

All Board members have access to the advice and services of the company secretary. Minute books of the Company (including minutes of the Board Committees' meetings) are kept by the company secretary and are open for inspection during office hours on reasonable notice by the Board members.

If necessary, the Board members also have access to external professional advice at the Company's expense.

The Board, having reviewed the work implemented and executed during the year and collected opinions of the senior management during the course of review, considers that it has effectively discharged its responsibilities and maintained the interests of the shareholders and the Company.

There were three shareholders' meetings in 2017. The directors (Mr. Yu Xubo, Mr. Dong Wei, Ms. Yang Hong, Mr. Shi Bo, Mr. Lam Wai Hon, Ambrose, Mr. Patrick Vincent Vizzone and Mr. Ong Teck Chye) together with the management and independent auditor's representatives attended the annual general meeting held on 2 June 2017. Mr. Yu, Mr. Dong, Mr. Shi, Mr. Lam, Mr. Vizzone and Mr. Ong also attended the extraordinary general meetings held on 7 July 2017 and 15 December 2017.

Chairman and Managing Director

The roles of the chairman and the managing director/deputy managing director are clearly defined to ensure their respective independence. Set out below are the chairman of the Board and the chief executive officer (or managing director, in the case of the Company) during the year and up to the date of this report:

Period	Chairman	Managing Director/ Deputy Managing Director
Until 6 January 2017	CHI Jingtao	GU Lifeng
From 6 January 2017 until 8 January 2018	YU Xubo	DONG Wei
From 8 January 2018	DONG Wei	WANG Qingrong

The chairman takes lead in formulating the overall strategies and policies of the Group, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of directors to the Board's activities and constructive relations between executive and non-executive directors. The chairman also ensures that a system of effective communication with shareholders of the Company and receipt by the directors of adequate and complete information is in place.

The managing director/deputy managing director, as the chairman of the Executive Committee, supported by other Board members and the senior management, is responsible for the daily business operations and management of the Group. He is accountable to the Board for the implementation of the Group's overall strategies as well as co-ordination of overall business operations.

CORPORATE GOVERNANCE REPORT

Board Composition

At present, the Board consists of eight members: three executive directors, two non-executive directors and three independent non-executive directors. They bring complementary skills, knowledge, experience and perspectives to the governance of the Company.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has satisfied the requirement under Rule 3.10A of the Listing Rules for the Board to have at least one-third of its members comprising independent non-executive directors. The Company has received annual written confirmations from every independent non-executive director confirming their independence in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that they are independent within the definition of the Listing Rules.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies, internal control and policies and make independent judgment on issues relating to the Group. They will take lead where potential conflicts of interest arise. The independent non-executive directors also represented the majority in all three of the Nomination Committee, the Remuneration Committee and the Audit Committee to ensure sufficient independence in the Board's decision making process.

Appointment, Re-election and Removal

Each of the directors has a specific term of appointment for three years.

Pursuant to article 106 of the articles of association of the Company, at every annual general meeting, one-third of the directors or, if their number is not a multiple of three, then the number nearest to and at least one-third shall retire from office by rotation at least once every three years. Further, pursuant to article 111 of the articles of association of the Company, a newly appointed director shall retire at the next following general meeting. The retiring director shall be eligible for re-election. The Company considers that sufficient measures have been taken to ensure that the Company's practices in appointment of directors are no less stringent than those set out in the Corporate Governance Code.

Therefore, pursuant to articles 106 and 111, Mr. Dong Wei, Mr. Wang Qingrong, Mr. Jia Peng and Mr. Patrick Vincent Vizzone will retire and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting of the Company. To enable shareholders of the Company to make an informed decision on the re-election of directors, their biographies are set out in this annual report under the section "Directors and Senior Management Profile", which demonstrates a diversity of skills, expertise, experience and qualifications among the Board members.

Directors' Training

The Company ensures that every newly appointed director has a proper understanding of the operations and businesses of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal and other regulatory requirements and the business and governance policies of the Company. The Company sponsors directors to attend professional development seminars where necessary. In addition, the Company's legal adviser would provide training (including any update) on the Listing Rules and regulatory requirements (if required) to the Board. A summary of training received by the directors during the year according to the records provided by them is set out below.

Name		Attending briefings, seminars or conferences, or reading materials relevant to the director's duties and responsibilities
Chairman and Executive Director		
CHI Jingtao	(resigned on 6 January 2017)	
Chairman and Non-executive Director		
YU Xubo*		✓
Executive Directors		
GU Lifeng	(resigned on 6 January 2017)	
DONG Wei	(appointed on 6 January 2017)	✓
YANG Hong	(appointed on 29 March 2017)	✓
SHI Bo*		✓
Non-executive Directors		
MA Wangjun	(resigned on 6 January 2017)	
LI Jian	(appointed on 6 January 2017 and then resigned on 30 August 2017)	✓
JIA Peng	(appointed on 6 January 2017)	✓
MENG Qingguo	(appointed on 30 August 2017)	✓
Independent Non-executive Directors		
LAM Wai Hon, Ambrose		✓
Patrick Vincent VIZZONE		✓
ONG Teck Chye		✓

* *resigned from the Board on 8 January 2018*

CORPORATE GOVERNANCE REPORT

Board Committees

Nomination Committee

The Nomination Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the Corporate Governance Code. It is primarily responsible for the procedures of nominating and appointing appropriate person to be a director, either to fill a casual vacancy or as an addition to the Board. The terms of reference of the Nomination Committee are available in writing upon request to the company secretary and on the Company's website. The Nomination Committee is chaired by the chairman of the Board and comprises a majority of independent non-executive directors. At present, the Nomination Committee comprises Mr. Dong Wei (the chairman of the Board) as the chairman of the Nomination Committee, Mr. Lam Wai Hon, Ambrose, Mr. Patrick Vincent Vizzone and Mr. Ong Teck Chye. All are independent non-executive directors, except for its chairman.

The Nomination Committee held three meetings in 2017. The table below shows its members during the year and their attendance at the Nomination Committee meetings:

Name	No. of meetings held	No. of meetings attended	Attendance rate
CHI Jingtao* *(Chairman)*	1[Δ]	1	100%
Yu Xubo* *(Chairman)*	2[Δ]	2	100%
LAM Wai Hon, Ambrose	3	3	100%
Patrick Vincent VIZZONE	3	3	100%
ONG Teck Chye	3	3	100%

* *Mr. Yu Xubo was appointed Chairman of the Board on 6 January 2017, when Mr. Chi Jingtao left the Board. Mr. Dong Wei succeeded Mr. Yu on 8 January 2018.*

Δ *entitlement to attend*

During the year, the work of the Nomination Committee included consideration of: recommendation to the Board of proposed candidates for appointment to the Board; composition of the Board and the Board committees, including the appropriate balance of skills, knowledge and experience; review of the retirement of directors by rotation; and review of the progress in achieving diversity on the Board.

In carrying out its responsibilities, the Nomination Committee is guided by its specific terms of reference and the established nomination procedures and criteria, including the Board Diversity Policy adopted on 28 August 2013 and the procedures for proposing a person for election as a director adopted on 28 March 2012 (both documents are available on the Company's website). The Company aims to build and maintain diversity on the Board. In identifying and nominating suitable candidates for appointment to the Board, the Company will consider candidates on merit, having due regard to the benefits of all aspects of diversity including, but not limited to, mix of skills, experience, industry background, gender and thinking styles. In reviewing the Board composition, the Company will consider the appropriate range and balance of expertise, experience, skills and diversity required for the Board to fulfill its duties.

During the year, the Nomination Committee reviewed the range of existing diversity and considered nominations taking into account the Board Diversity Policy. In 2018, the Nomination Committee will continue to support the Board on the nomination/appointment process and ensure that directors will continue to be selected on the basis of the objective criteria as set out in the Board Diversity Policy.

The current composition of the Board is set out on page 1 of this annual report. The executive directors were appointed based on their qualifications and experience in relation to the Group's businesses. The non-executive directors were appointed based on their qualifications and experience within COFCO Corporation and its subsidiaries. The independent non-executive directors were appointed based on their professional qualifications and experience in their respective areas.

Remuneration Committee

The Remuneration Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the Corporate Governance Code. Its primary role is to make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management. The terms of reference of the Remuneration Committee are available in writing upon request to the company secretary and on the Company's website. The Remuneration Committee comprises a majority of independent non-executive directors and is chaired by an independent non-executive director. At present, the Remuneration Committee comprises Mr. Patrick Vincent Vizzone as the chairman of the Remuneration Committee, Mr. Lam Wai Hon, Ambrose, Mr. Ong Teck Chye and Mr. Meng Qingguo. All are independent non-executive directors, except for Mr. Meng.

The Remuneration Committee is delegated with authority and responsibility to determine the remuneration packages of individual executive directors and senior management. It may consult with the chairman and the managing director of the Company regarding proposals for the remuneration of other executive directors. The remuneration of non-executive directors is determined by the Remuneration Committee or, on its recommendation, by the Board. Where necessary, the Remuneration Committee may seek professional advice of an external expert at the Company's expenses.

The remuneration of the executive directors is determined by the Remuneration Committee having considered the internal policy, qualifications, experience, performance and market comparisons. With respect to non-executive directors, the remuneration of independent non-executive directors is determined by their participation in the Board and the Board Committees, while the remuneration of other non-executive directors is determined by taking into consideration the policy that designated person will not be paid director's fee.

The Remuneration Committee held two meetings in 2017. The table below shows its members during the year and their attendance at the Remuneration Committee meetings:

Name	**No. of meetings held**	**No. of meetings attended**	**Attendance rate**
Patrick Vincent VIZZONE *(Chairman)*	2	2	100%
MA Wangjun*	0$^{\Delta}$	0	N/A
LAM Wai Hon, Ambrose	2	2	100%
ONG Teck Chye	2	2	100%
LI Jian*	2	1	50%
MENG Qingguo*	0$^{\Delta}$	0	N/A

* *Mr. Li Jian was appointed member of the Remuneration Committee on 6 January 2017, when Mr. Ma Wangjun left the Board. Mr. Meng Qingguo succeeded Mr. Li on 30 August 2017.*

$^{\Delta}$ *entitlement to attend*

CORPORATE GOVERNANCE REPORT

During the year, the work of the Remuneration Committee included consideration of: the remuneration of the executive directors and senior management; fee-benchmarking; and review of the Company's performance assessment system.

During the year, three individuals were classified as senior management (excluding the Company's directors). For the year ended 31 December 2017, the remuneration of all of such senior management fell in the range of HK$2,000,001 – HK$3,000,000. Such amount includes equity-settled share option expenses and pension scheme contributions. Details of the remuneration of the Company's directors for the year ended 31 December 2017 are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee was established on 16 February 2007 with specific written terms of reference which clearly deal with its authority and duties. In October 2015, its terms of reference were amended to address the responsibilities in oversight of risk management system. The most recent amendment to its terms of reference was made on 28 March 2018 whereby a new corporate governance guidance has been adopted requiring the Audit Committee to make recommendations to the Board on the appropriateness and timing of rotation of the external auditor, and to consider the appropriateness of change of the external auditor no longer than 3 years from the appointment. The terms of reference of the Audit Committee are available in writing upon request to the company secretary and on the Company's website. At present, the Audit Committee comprises Mr. Lam Wai Hon, Ambrose as the chairman of the Audit Committee, Mr. Patrick Vincent Vizzone, Mr. Ong Teck Chye and Mr. Jia Peng. All are independent non-executive directors, except for Mr. Jia. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee has possessed the appropriate professional and accounting qualifications.

During the year, the Audit Committee held three meetings with the external auditor and/or the senior management of the Company to review and discuss, among other things, the financial reporting and audit planning, internal audit plan and work reports, major areas of risk, internal control and the financial results of the Group. The table below shows its members during the year and their attendance at the Audit Committee meetings:

Name	**No. of meetings held**	**No. of meetings attended**	**Attendance rate**
LAM Wai Hon, Ambrose *(Chairman)*	3	3	100%
Patrick Vincent VIZZONE	3	3	100%
MA Wangjun*	0$^{\Delta}$	0	N/A
ONG Teck Chye	3	3	100%
JIA Peng*	3	3	100%

* *Mr. Jia Peng was appointed member of the Audit Committee on 6 January 2017, when Mr. Ma Wangjun left the Board.*

$^{\Delta}$ *entitlement to attend*

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. In the meantime, it is the management's duty to ensure the Company maintains an adequate amount of qualified and experienced staff for its accounting and financial reporting function. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and may make recommendations to the Board to take appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, external auditor and senior management, as may be appropriate in discharging its functions. It has been supported by Audit Department, which reported to the Audit Committee internal audit findings on a quarterly basis and annual assessment on the effectiveness of risk management and internal control systems in 2017. Please refer to pages 35 to 38 for further details about our risk management and internal control.

Executive Committee

The Executive Committee was established on 27 February 2009 with specific written terms of reference. Currently, the Executive Committee comprises three members, namely Mr. Wang Qingrong (the managing director of the Company) as the chairman of the Executive Committee, Mr. Dong Wei and Ms. Yang Hong.

Under its terms of reference, the primary responsibility of the Executive Committee is to deal with and supervise the day-to-day business operations, management and administration of the Company.

Auditor's Remuneration

During the year under review, the remunerations paid or payable to Ernst & Young in respect of its audit services and non-audit services are approximately HK$4.7 million and HK$3.7 million, respectively. The non-audit services included compliance services of approximately HK$3.0 million and taxation services of approximately HK$0.7 million.

Accountability and Audit

The directors of the Company acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting principles in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management. After appropriate enquires, the directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The Company's operating results for the year ended 31 December 2017 were reviewed by the management during the annual management meeting. The general managers of all business units and functional departments of the Company had attended the meeting and the managing director presented the Company's overall and divisional operating results during the meeting. Variations from the budget and from the previous year's results were reviewed and analysed. In this review process, the management identified the effects of the key risk factors that affected the Company's businesses during the year and consolidated them with their expectations of the business performance they accumulated during their daily management of the businesses to form a basis for comparison and verification of the details of the reported operating results for the year.

Based on the results of the above management review and the business risks identification, an overall business strategy of the Company for the coming year was also developed during this annual management meeting. To ensure the achievement of the goals and objectives set for the coming year, this overall business strategy also includes plan for continuing risks assessment and the development of the necessary internal control procedures.

The Company has announced its annual results for the year ended 31 December 2017 on 28 March 2018. An independent auditor's report can be found on pages 59 to 63 of this annual report.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control

The Company recognises continuous improvement of risk management and internal control systems is the key to sustainable business and long-term growth of an organisation. The objectives of establishing our risk management and internal control systems are: to control the risks which may hamper the achievement of our strategic and operational goals within a level acceptable to our management through reasonable, standardised and scientific management processes; to ensure compliance with the relevant laws and regulations of the state and of the relevant authorities; to ensure the proper implementation of key measures in achieving the Company's strategic goals; to enhance our operational efficiency; and to minimise the uncertainty in achieving our strategic goals.

As for corporate governance, the Company is well-structured with a clear division of responsibilities among the management. The Board is responsible for maintaining effective risk management and internal control systems and reviewing their effectiveness on a regular basis. The management have created and sustained an honest and trustworthy corporate culture, and establish and continuously refine the risk management and internal control systems under the Board supervision.

The Company identified, controlled and responded to risks by setting up three lines of defense. As the first line of defense, frontline business segments in operating units identified and assessed the business risk and formulated risk contingency measures; while as the second line of defense, risk management departments such as Risk Control Department, Finance Department, Production and Quality Safety Management Department, Legal Department assist business segments in operating units in enhancing the risk management and control measures and monitor the effectiveness of risk management and control measures adopted by operational management. As the third line of defense, Audit Department independently and objectively evaluates the effectiveness of risk management and internal control systems and reports directly to the Board and senior management.

Risk Management

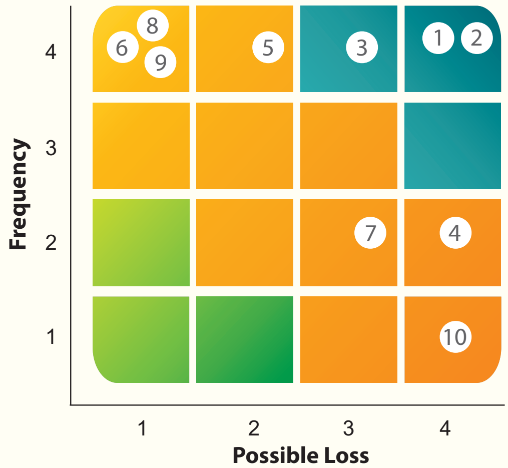
The Company has built its risk management system according to the COSO framework. In order to apply the philosophy of risk management at all levels, we implement the risk management work to the Company and all the subsidiaries, covering various risks we encounter during the process of operation and management, and we implement intensive management against critical risks therein.

The Company clarifies its development targets, identifies significant risks and determines business operation plan and development strategies annually by way of strategy and budgeting meetings. Our senior management convenes the general managers meetings on a regular basis to review matters of significance to corporate strategies, policies and overall situation. Operating analysis meetings for analysing the implementation of operation plans and budgeting, risk control, production management and marketing management are convened regularly by relevant functional departments and business units. The Company proactively implements benchmarking, seeks the best practice by way of benchmarking and continues to improve on such basis in order to enhance its own management standard and integrated competitiveness.

A system for monitoring Key Risk Indicators (KRI) has been set up. Information on risks is collected and assessed on an ongoing basis. Risk alerts, tracking and management are done and analysis reports are issued, based on identified information on risks. Audit Department works with each business unit and functional departments regularly to carry out amendments to Key Risk Indicators (KRI) in order to optimise the directions and strength of control.

The Company developed comprehensive risk monitoring and control measures specifically for the significant risk areas identified. Audit Department, as the third line of defense, performs constant monitoring and assessment on risk management and control measures in order to verify positive and necessary risk management measures undertaken by the Company so that the risk management system remains effective in operation.

Risk Analysis Dashboard



1. Price volatility risk
2. Foreign exchange risk
3. Production safety risk
4. Food safety risk
5. Environmental risk
6. Credit risk
7. Policy risk
8. Inventory risk
9. Legal risk
10. Liquidity risk

According to the "frequency" and "possible loss" matrix, the Company identified price volatility risk, foreign exchange risk and production safety risk as critical risks; and food safety risk, environmental risk, credit risk, policy risk, inventory risk, legal risk and liquidity risk as medium risks.

Internal Control

The Company has established corresponding internal control policies and programs for every major business activity, ranging from sales, procurement, fund management, human resources, asset management, production facility projects, production management, financial reporting and contract management, etc. The system requires our employees to perform their respective duties in strictly compliance with their working criteria. Standardised operation would be realised through enhancement in staff expertise training so as to minimise various risks incurred in business process.

The development and continual enhancement of an internal control self-assessment system is one of the most effective tools to promote the continuous enhancement of internal controls in the Company and is also for satisfying the requirements under "Basic Standards for Enterprises' Internal Control", jointly issued by the five ministries/commissions including the Ministry of Finance of China and the China Securities Regulatory Commission, and the related guidelines and relevant regulations.

CORPORATE GOVERNANCE REPORT

The Company has completed development of the framework of internal control and self-assessment system, and formulated "Administrative measures for internal control and self-assessment of China Agri-Industries Holdings Limited (Provisional)". Also, the system was optimised and improved in light of the findings from internal control and review during the course of system development. All functional departments, business units and profit centres investigated control weaknesses and rectified them promptly while implementing self-assessment and evaluation with respect to their own workflows regularly every year.

The Company's Audit Department is led by the general manager of Audit Department and has recruited professionals to enrich the team.

Audit Department's primary responsibilities include:

- assist the Audit Committee in its review of the Company's overall system of internal controls;
- perform reviews on the design and the proper implementation of policies, procedures and controls of all major business units and functional departments;
- perform reviews on the compliance status on rules and regulations that are relevant to the Company's businesses;
- perform efficiency and compliance reviews on major investment and construction projects; and
- perform special reviews on areas of concern identified by the Audit Committee or the management.

An annual internal audit plan is prepared by Audit Department based on a risk-based auditing approach. The approach focuses on the internal controls of material transactions and operations of major business units and functional departments. The annual internal audit plan is reviewed and approved by the Audit Committee at the beginning of each year.

In 2017, Audit Department continuously implemented various audit items, such as performance audit and specific internal control audit, to assess the operation mode and management condition of the business units and profit centres. Audit Department keeps track on and facilitates the rectification made by the audited units on a regular basis focusing on various risks and management bottlenecks identified during the auditing process, which effectively enhances the continuous improvement of risk management and internal control systems. The general manager of Audit Department reports directly to the Audit Committee and the management at regular intervals, and attends Audit Committee and Board meetings.

In addition to the review of the Company's internal control activities, Audit Department is also responsible for providing recommendations to the Board on the continuing development of other aspects of the Company's internal control framework, including the risk management process, information and communication system and management monitoring process.

The Board assesses the appropriateness of the risk management and internal control systems by considering reviews performed by the Audit Committee, the management, as well as both internal and external auditor with the understanding that such system is an ongoing process to identify, evaluate and manage significant risks faced by the Group. The system of the Group has been in place and was functioning effectively for the year under review and the process is regularly reviewed.

Whistle-blowing Policy

A whistle-blowing policy was set up by the Company to ensure inappropriate business practices and behaviors are properly reported and handled. The policy includes the set up of an electronic reporting mail box. Follow up review will be performed by Discipline Inspection and Supervision Department. Procedures and controls are in place to ensure the informant's identity is kept confidential.

Shareholders' Rights

The Company is committed in engaging constructive communication with its shareholders through a variety of channels, including through its corporate communications, website, general meetings and investor relations activities. Shareholders who wish to put enquiries to the Board may send communications to: The Board of Directors c/o Company Secretary, by post to the registered office of the Company. All communications will be forwarded to the Board or the individual directors on a regular basis.

Every shareholder has a right to make their views known through voting at a general meeting. The annual general meeting (the "AGM") will be held on 1 June 2018. The AGM provides shareholders the opportunity to communicate with the Board on a wide range of issues relating to the affairs of the Company. Shareholders who wish to attend and vote may request to be entered into the register of members by its closure for the AGM. A corporate shareholder may participate by its authorised representative. Subject to applicable laws and regulations, qualified shareholders may exercise their rights to request circulation of resolution for the AGM. Shareholders holding at least 2.5% of the total voting rights of all shareholders, or at least 50 shareholders, who have a right to vote on the resolution at the AGM, may submit a written request to the Company. The circulation request must identify the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution, and must be authenticated by the requisitionists and sent to the Company's registered office in hard copy for the attention of the company secretary (which must be received by the Company at least 7 days before the relevant meeting). If the requisition is to propose nomination of a person other than a director of the Company for election as a director at the AGM, that person's consent to be elected and biographical details as required by Rule 13.51(2) of the Listing Rules should also be provided. Upon verification that the requisition is proper and in order, the company secretary will propose the Board to include the resolution on the agenda for the AGM.

Only persons with proper authority have the right to requisition for and convene a general meeting. According to applicable laws and regulations, shareholders holding at least 5% of the total voting rights of all the shareholders having a right to vote at a general meeting of the Company may request to call a general meeting. The request must state general nature of the business to be dealt with at the meeting, and may include the proposed resolution. The requisition must be authenticated by the requisitionists and deposited at the registered office of the Company for the attention of the company secretary. Upon verification that the requisition is proper and in order, the company secretary will propose the Board to convene the relevant general meeting within 21 days from the date of the deposit of the requisition call a meeting to be held within a further period of 28 days.

Shareholders desiring to request circulation of resolution for a general meeting should send the request to the Company in due time before the meeting. If the matter to be considered requires a special notice, the proposed resolution must be given to the Company not less than 28 days before the general meeting at which it is moved. The Company will, in accordance with its obligations under the applicable laws and regulations, provide necessary information either in a supplementary circular or by way of an announcement and, if necessary, adjourn the relevant general meeting for informing all shareholders.

CORPORATE GOVERNANCE REPORT

Investor Relations

Investor relations has always been an important pillar of the Company's corporate governance. It provides two-way communication between management and the investors, and continually updates the market on the Company's latest business developments in a timely manner. The investor relations also regularly provides management with market feedback and opinions from the investment community to improve the governance and operations of the Company.

The Company has maintained the high quality information disclosure and investors communication in 2017. It used a variety of investor relations activities to address investor concerns in a timely manner, including regular one-on-one meetings, conference calls and luncheons with both current and potential shareholders and analysts. In its analyst presentations and investors luncheon following the release of its results, the Company's management provided detail and colour on financial performance and business strategies. The Company's annual general meeting and other events provided opportunities to communicate face-to-face with minority shareholders, reflecting management's commitment to full and fair disclosure to all shareholders.

The high quality communication with shareholders ensured the transparency of our corporation governance, building good interactive relationship with investment community. On 7 July 2017 and 15 December 2017, the Company was granted approvals by independent shareholders at the extraordinary general meetings to acquire the sales and distribution business of branded oil products and dispose biochemical and biofuel business. The Company will focus on core business after the disposal. As a new stream of income, the acquisition will further expand our business portfolio into downstream branded sector and support the sustainable development of the Company.

The Company reviewed its shareholder structure regularly, monitoring changes in the shareholder base. As of 31 January 2018, public shareholders from all over the world accounted for about 42% of total issued shares based on the information available to the Company. As a constituent of Hang Seng Composite LargeCap & MidCap Index, China Agri was honoured to be selected as one of the eligible stocks for "Shanghai/Shenzhen – HK Stock Connection" in the first batch. The steady growing interests and shareholding from mainland further expand the range our potential investors, helping maintain the diversity and balance of shareholding base.

Moreover, China Agri is a constituent of several key benchmark indices, including the Hang Seng Composite Index, the Hang Seng Stock Connect Hong Kong Index Series, the Hang Seng Global Composite Index, the Hang Seng Composite Industry Indexes, the Hang Seng Composite Size Indexes, the Hang Seng Consumer Goods & Services Index, the Hang Seng Corporate Sustainability Benchmark Index and the MSCI Emerging Markets Small Cap Index.

The Company's business is covered by several investment banks and financial institutions. For a complete list of analysts, please visit the Company's website at www.chinaagri.com.

Directors and Senior Management Profile

Board of Directors

as at 28 March 2018

Top Row (left to right): Mr. JIA Peng, Mr. WANG Qingrong, Mr. DONG Wei, Ms. YANG Hong, Mr. MENG Qingguo

Bottom Row (left to right): Mr. Patrick Vincent VIZZONE, Mr. LAM Wai Hon, Ambrose, Mr. ONG Teck Chye

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Chairman of the Board & Executive Director

Mr. DONG Wei, aged 46, the chairman of the Board, was appointed as an executive director of the Company in January 2017. He has been a vice president of the Company since October 2016 and was the deputy managing director. Mr. Dong joined COFCO Corporation and/or its subsidiaries ("COFCO Group") in August 1993 and served several positions in COFCO Group, including the general manager of COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd., the general manager of Xinjiang region management office of the oilseeds processing division, the general manager of COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd., assistant to the general manager and deputy general manager of the oilseeds processing division. He is a director of certain subsidiaries of the Company. Mr. Dong received a Bachelor of Arts degree from Jilin University, and obtained a Doctorate degree in Economics from Dongbei University of Finance and Economics.

Executive Directors

Mr. WANG Qingrong, aged 56, was appointed as an executive director and the managing director of the Company in January 2018. He joined COFCO Group in October 2016 and served as deputy general manager of COFCO Trading Limited, deputy general manager of the Company's oilseeds processing division and general manager of COFCO Fortune Foods Sales & Distribution Co., Ltd. Prior to that, Mr. Wang was the general manager of Tianjin City Hongqi Oils Plant（天津市紅旗油廠）, deputy general manager of Tianjin Oils (Group) Limited（天津市油脂（集團）有限公司）, president of Tianjin Grain & Oil Wholesale Trade Market of China（中國天津糧油批發交易市場）, deputy general manager of Sinograin Oils Corporation and general manager of Guangzhou branch of China Grain Reserves Corporation. Mr. Wang graduated from the Institute of Industrial Economics of Chinese Academy of Social Sciences and obtained a master's degree in corporate management.

Ms. YANG Hong, aged 54, was appointed as an executive director of the Company in March 2017. She is a vice president of the Company, taking charge of the grains business. Ms. Yang joined COFCO Group in 1989 and held various positions at COFCO Group. She has been a senior industry executive of COFCO Group since February 2013. Ms. Yang has more than 20 years' experience in rice import and export business. She has been the general manager of the rice processing and trading division since the Company was listed, and is responsible for optimising its rice processing footprints in China's main paddy growing provinces and building brand awareness for rice products. She is a director of certain subsidiaries of the Company. Ms. Yang holds a Bachelor's degree in Economics from University of International Business and Economics in Beijing and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

Non-executive Directors

Mr. JIA Peng, aged 57, was appointed as a non-executive director of the Company in January 2017. Mr. Jia joined China National Native Produce & Animal By-products Import & Export Corporation (now a subsidiary of COFCO Corporation) and/or its subsidiaries (the "CHINA TUHSU") in 1993 and served several positions in CHINA TUHSU, including the general manager of Sunry Afrique International, the deputy general manager of China Feeding Stuffs Import and Export Corporation, the general manager of China Tuhsu Yunnan Tea Import & Export Corporation, the general manager and chairman of the board of Yunnan Zhongcha Tea Industry Co., Ltd., the deputy general manager and general manager of China Tea Co., Ltd., and assistant to the general manager of China National Native Produce & Animal By-products Import & Export Corporation. Mr. Jia received a Bachelor of Arts degree from Anhui University. He ceased to be a director of COFCO Property (Group) Co., Ltd. (a company listed on Shenzhen Stock Exchange) and a non-executive director of Joy City Property Limited (a company listed in Hong Kong) on 5 March 2018 and 8 March 2018, respectively.

Mr. MENG Qingguo, aged 58, professoriate senior engineer, was appointed as a non-executive director of the Company in August 2017. He joined COFCO Group in 2015, and served as deputy general manager of China Huafu Trade & Development Group Corp. and senior management of COFCO Engineering & Technology Co., Ltd. Prior to that, Mr. Meng served as deputy general manager of Design House III of the Design Institute under the Commerce Department of the People's Republic of China（商業部設計院第三設計室）(which ceased to exist under the State Council), general manager of Xinhui Refrigeration and Air-conditioning Equipment Co., Ltd.（欣輝製冷空調設備有限公司）, and dean of Internal Trade Engineering Design & Research Institute. Mr. Meng graduated from Heilongjiang Institute of Commerce（黑龍江商學院）and obtained a bachelor's degree in engineering.

Independent Non-executive Directors

Mr. LAM Wai Hon, Ambrose, aged 64, was appointed as an independent non-executive director of the Company in January 2007. Mr. Lam joined Able Capital Partners Limited in November 2017 and currently serves as its Chairman and Managing Partner. Between April 2011 and October 2017, he was the Chief Executive Officer of Investec Capital Asia Limited (formerly known as Access Capital Limited of which Mr. Lam was a director and the co-founder prior to its acquisition by Investec Bank PLC in April 2011) and latterly the Country Head of China & Hong Kong of the Investec Group. Prior to establishing Access Capital Limited in 2000, Mr. Lam was the managing director and head of Investment Banking for Greater China of Deutsche Bank AG (Hong Kong). He was also the managing director and head of Investment Banking for Greater China of the Bankers Trust Company, and the managing director of Yuanta Securities (Hong Kong) Company Limited. Mr. Lam started his investment banking career with Kleinwort Benson Group in London in 1984 before joining Standard Chartered Asia Limited in Hong Kong where he held the position of managing director in corporate finance. He is currently an independent non-executive director of Genting Hong Kong Limited (a company listed in Hong Kong). Mr. Lam is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (Honours) degree in Economics & Accounting from University of Newcastle Upon Tyne in England.

Mr. Patrick Vincent VIZZONE, aged 46, was appointed as an independent non-executive director of the Company in June 2007. Mr. Vizzone has 25 years of experience in agribusiness and corporate and investment banking. Mr. Vizzone is currently the Head of Food, Beverage & Agribusiness, International, Institutional Banking, at Australia and New Zealand Banking Group Limited. Prior to that, he held regional leadership roles with National Australia Bank (Head of Institutional Banking, Asia and Head of Food & Agribusiness, Asia), Rabobank Asia (Head of Food & Agribusiness, Asia and Head of Food & Agribusiness Advisory & Research, Asia) and The General Electric Company (Strategic Marketing & New Product Introductions Leader, GE Capital Asia Pacific). Before engaging in his banking career, he was a founding Director and Deputy General Manager at Shanghai Asia-Pacific International Vegetable Co. (SAPIV) and as a cofounder of China Green Concepts. Mr. Vizzone is a Fellow of the Hong Kong Institute of Directors and Member of the Australian Institute of Directors. He also serves as the Chair of the Global Development Committee and past Chair of the Global Strategy Task Force of the Produce Marketing Association. Mr. Vizzone is also a member of the Advisory Board of AgFunder Inc. Mr. Vizzone holds a Bachelor's degree in History and Political Science from Monash University, Australia and a Master of Business Administration degree in Finance from Manchester Business School, the United Kingdom.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. ONG Teck Chye, aged 63, was appointed as an independent non-executive director of the Company in February 2015. Mr. Ong holds an honours degree in Sociology from University of Singapore (currently known as National University of Singapore). Currently, Mr. Ong is General Manager, Agri Division and Global Head of Operations of R1 International Pte Ltd., a subsidiary of China Hainan Rubber Industry Group Co., Ltd. He had been the China country Agri-Business head from 2011 to 2014 and the head of international trading and marketing division from 2007 to 2011 of Golden Agri-Resources Ltd. He was the head of the Singapore petroleum trading division of Noble Group Limited (Hong Kong) from 2004 to 2006. Mr. Ong served as the department head of Marubeni International Petroleum Company Singapore Pte Ltd from 2001 to 2004. From 1980 to 2001, Mr. Ong held various trading positions in Cargill Singapore and Geneva, including the senior manager of structured trade finance department of Cargill Singapore. He has over 30 years' trading experience.

Senior Management

Mr. CHANG Muping, aged 52, has been a vice president of the Company since March 2014, taking charge of commodity risk management of the Company. He previously worked in the Ministry of Commerce Information Centre and futures department of CADTIC（中國農業發展信托投資公司）. He joined COFCO Group in August 1996 and held various positions at COFCO Group, including manager of COFCO Futures Co., Ltd.（中糧期貨有限公司）. He was assistant to general manager and deputy general manager of the oilseeds processing division of the Company and the general manager of risk control department of the Company. Mr. Chang holds a Bachelor's degree in Engineering and a Master's degree in Engineering from Huazhong University of Science and Technology.

Ms. HUA Jian, aged 44, has been a vice president of the Company since October 2016 and the general manager of the brewing materials division of the Company since September 2013. Ms. Hua joined COFCO Group in July 1996 and held various positions in COFCO Group, including deputy general manager of Top Glory (Australia) Pty Ltd., assistant to general manager and deputy general manager of the brewing materials division of the Company. Ms. Hua holds a Bachelor of Arts degree from East China Normal University and a Master's degree in Economics from the University of International Business and Economics.

Report of the Directors

The directors of the Company present their report for the year ended 31 December 2017.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise production, processing and distribution of agricultural products and related businesses. During the year, the Company disposed all its biochemical and biofuel business (except for a small workshop situated within the Chengdu Industrial Park) through disposal of COFCO Biochemical Holdings Limited and COFCO Biofuel Holdings Limited (the "Disposal"). The Disposal was completed on 27 December 2017 and hence the principal activities of the Group are oilseeds processing, rice processing and trading, wheat processing and brewing materials but biochemical and biofuel business is no longer included. Other than that, there had been no significant changes in the Group's operations during the year.

Further discussion and analysis of these activities, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the management discussion and analysis section set out on pages 7 to 24 of this annual report. This discussion forms part of the directors' report.

Results and Dividends

The results of the Group for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 64 to 171.

An interim dividend of 4.0 HK cents per share (2016: Nil) was paid on 31 October 2017. The directors of the Company now recommend the payment of a final dividend of 0.9 HK cents per share (2016: 5.4 HK cents) and use a portion of the proceeds of the Disposal to distribute a special dividend of 20.0 HK cents per share (2016: Nil). Subject to shareholders approving this recommendation at the forthcoming annual general meeting, the proposed dividends will be paid on or around 20 July 2018 to the shareholders whose names appear on the register of members of the Company on 12 June 2018. As disclosed in the Company's announcement made on 9 June 2013, the Company received the approvals of State Administration of Taxation of the People's Republic of China which confirmed that (i) the Company is regarded as a Chinese Resident Enterprise; and (ii) relevant enterprise income tax policies shall be applicable to the Company starting from 1 January 2013. Thus, the Company will withhold 10% enterprise income tax when the dividends are distributed to non-resident enterprise shareholders.

Summary Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 25 of this annual report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Shares Issued

There were no changes in the number of issued shares of the Company during the year. Details of the Company's share capital during the year are set out in note 28 to the financial statements.

REPORT OF THE DIRECTORS

Convertible Securities, Options, Warrants or Similar Rights

Save as the share option scheme of the Company, there is no conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted by the Company or any of its subsidiaries during the year or subsisted at the end of the year. Save as disclosed in this annual report, no equity-linked agreements were entered into by the Company, or existed during the year.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Share Option Scheme

The Company had a share option scheme (the "Scheme"), which was conditionally adopted on 12 January 2007 and became effective upon listing of the Company's shares on 21 March 2007. Pursuant to the terms of the Scheme, it is valid and effective for 10 years until 20 March 2017, after which period no further share options will be offered but in all other respects the provisions of the Scheme shall remain in full force and effect. Details of the Scheme are as follows:

1. The purpose of the Scheme is to attract, retain and motivate senior management personnel and key employees of the Group, and provide eligible participants with an opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

2. Pursuant to, and subject to, the terms and conditions stipulated in the Scheme, the Board may in its discretion grant share options to persons selected from: (i) any executive or non-executive directors of any members of the Group; (ii) any senior executives, key technical staff, professional staff, managers or employees of any members of the Group; or (iii) any other individuals as may be proposed by the Board. No independent non-executive director of the Company shall be granted an option.

3. The maximum number of shares which may be issued upon exercise of all options granted under the Scheme and all other share option schemes of the Company (if any) shall not in aggregate exceed 10% of the number of shares in issue on the date on which dealings in the shares first commenced on the Stock Exchange of Hong Kong, i.e. 348,922,935 shares. The Company may renew the 10% limit at any time subject to prior shareholders' approval, provided that the limit as renewed shall not exceed 10% of the number of shares in issue as at the date of the relevant approval. The Scheme has expired and no further share options will be offered.

4. The total number of shares issued and to be issued upon exercise of the options granted to any grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval with such grantee and his close associates (or his associates if such grantee is a connected person) abstaining from voting.

5. The option period shall be such period determined by the Board and notified to the grantee but shall not exceed a period of 7 years commencing on the date of acceptance of the option and expiring on the last date of such 7-year period, subject to the provisions for early termination thereof contained in the Scheme.

6. An option must be held for a minimum period of 2 years from the date on which it was granted before it can be exercised. In addition, an option shall be subject to the following vesting schedule (except the share options granted on 4 December 2015):

Periods	**Percentage of an option which may be exercised**
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	20%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	40%
Upon and after the fourth anniversary of the grant but no later than the fifth anniversary of the grant	60%
Upon and after the fifth anniversary of the grant but no later than the sixth anniversary of the grant	80%
Upon and after the sixth anniversary of the grant but no later than the seventh anniversary of the grant	100%

The following vesting schedule is applicable to the share options granted on 4 December 2015:

Periods	**Percentage of an option which may be exercised**
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	33%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	66%
Upon and after the fourth anniversary of the grant but no later than the fifth anniversary of the grant	100%

7. The offer of the grant of an option may be accepted within 28 days from the date of offer. The grantee is required to pay HK$1.00 as consideration for the grant of an option upon acceptance of the granted option.

8. The exercise price of a share in the Company shall be such price determined by the Board and notified to the grantee but shall be at least the higher of:

   (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong on the date of offer;

   (ii) the average closing prices of the shares as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong for the five business days immediately preceding the date of offer; or

   (iii) HK$0.1, the nominal value of the share immediately before the commencement date of section 135 of the Companies Ordinance, Chapter 622 of the Laws of Hong Kong.

REPORT OF THE DIRECTORS

Details of the movements in the share options during the year ended 31 December 2017 are set out below.

1. *Share options granted on 31 March 2011*

Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	Number of share options: At 1 January 2017	Exercised	Lapsed	At 31 December 2017
(A) Directors								
YU Xubo	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	127,200	–	–	127,200
(resigned w.e.f.			31-3-2014	31-3-2014 to 30-3-2018	127,200	–	–	127,200
8-1-2018)			31-3-2015	31-3-2015 to 30-3-2018	127,200	–	–	127,200
			31-3-2016	31-3-2016 to 30-3-2018	127,200	–	–	127,200
			31-3-2017	31-3-2017 to 30-3-2018	127,200	–	–	127,200
					636,000	–	–	636,000
DONG Wei	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	61,400	–	–	61,400
			31-3-2014	31-3-2014 to 30-3-2018	61,400	–	–	61,400
			31-3-2015	31-3-2015 to 30-3-2018	61,400	–	–	61,400
			31-3-2016	31-3-2016 to 30-3-2018	61,400	–	–	61,400
			31-3-2017	31-3-2017 to 30-3-2018	61,400	–	–	61,400
					307,000	–	–	307,000
YANG Hong	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	106,000	–	–	106,000
			31-3-2014	31-3-2014 to 30-3-2018	106,000	–	–	106,000
			31-3-2015	31-3-2015 to 30-3-2018	106,000	–	–	106,000
			31-3-2016	31-3-2016 to 30-3-2018	106,000	–	–	106,000
			31-3-2017	31-3-2017 to 30-3-2018	106,000	–	–	106,000
					530,000	–	–	530,000
SHI Bo	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	106,000	–	–	106,000
(resigned w.e.f.			31-3-2014	31-3-2014 to 30-3-2018	106,000	–	–	106,000
8-1-2018)			31-3-2015	31-3-2015 to 30-3-2018	106,000	–	–	106,000
			31-3-2016	31-3-2016 to 30-3-2018	106,000	–	–	106,000
			31-3-2017	31-3-2017 to 30-3-2018	106,000	–	–	106,000
					530,000	–	–	530,000
(B) Employees	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	8,004,400	–	169,600	7,834,800
			31-3-2014	31-3-2014 to 30-3-2018	8,004,400	–	169,600	7,834,800
			31-3-2015	31-3-2015 to 30-3-2018	8,004,400	–	169,600	7,834,800
			31-3-2016	31-3-2016 to 30-3-2018	8,004,400	–	169,600	7,834,800
			31-3-2017	31-3-2017 to 30-3-2018	7,887,800	–	53,000	7,834,800
					39,905,400	–	731,400	39,174,000
(C) Others	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	116,600	–	116,600	–
(Former			31-3-2014	31-3-2014 to 30-3-2018	116,600	–	116,600	–
Non-executive			31-3-2015	31-3-2015 to 30-3-2018	116,600	–	116,600	–
Director)			31-3-2016	31-3-2016 to 30-3-2018	116,600	–	116,600	–
			31-3-2017	31-3-2017 to 30-3-2018	116,600	–	116,600	–
					583,000	–	583,000	–
	Total				42,491,400	–	1,314,400	41,177,000

2. *Share options granted on 4 December 2015*

Category of participants	Date of grant (dd-mm-yyyy)	Exercise price per share (HK$)	Vesting date (dd-mm-yyyy)	Exercise period (dd-mm-yyyy)	Number of share options: At 1 January 2017	Exercised	Lapsed	At 31 December 2017
(A) Directors								
DONG Wei	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	293,700	–	–	293,700
			4-12-2018	4-12-2018 to 3-12-2020	293,700	–	–	293,700
			4-12-2019	4-12-2019 to 3-12-2020	302,600	–	–	302,600
					890,000	–	–	890,000
YANG Hong	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	379,500	–	–	379,500
			4-12-2018	4-12-2018 to 3-12-2020	379,500	–	–	379,500
			4-12-2019	4-12-2019 to 3-12-2020	391,000	–	–	391,000
					1,150,000	–	–	1,150,000
SHI Bo	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	379,500	–	–	379,500
(resigned w.e.f.			4-12-2018	4-12-2018 to 3-12-2020	379,500	–	–	379,500
8-1-2018)			4-12-2019	4-12-2019 to 3-12-2020	391,000	–	–	391,000
					1,150,000	–	–	1,150,000
(B) Employees	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	42,438,000	–	1,402,500	41,035,500
			4-12-2018	4-12-2018 to 3-12-2020	42,438,000	–	10,626,000	31,812,000
			4-12-2019	4-12-2019 to 3-12-2020	43,724,000	–	10,948,000	32,776,000
					128,600,000	–	22,976,500	105,623,500
	Total				131,790,000	–	22,976,500	108,813,500

Notes:

1. *The share option scheme of the Company was conditionally adopted on 12 January 2007 and became effective upon listing of the Company's shares on 21 March 2007. The scheme has a life of 10 years but the share options granted prior to the expiry of the scheme shall continue to be valid and exercisable in accordance with provisions of the scheme.*

2. *All outstanding share options granted under the share option scheme on 31 March 2011 lapsed automatically on 31 March 2018 due to expiry of the option period.*

Additional information in relation to the Scheme is set out in note 29 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 44 to the financial statements and in the consolidated statement of changes in equity on page 68, respectively.

Distributable Reserves

As at 31 December 2017, the Company's reserves available for distribution amounted to approximately HK$4,617.5 million. In addition, the amount of HK$9,246.7 million previously included in the Company's share premium account may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

Major Customers and Suppliers

In the year under review, no sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for over 30% of the total sales for the year and of the total purchases for the year, respectively.

Apart from the continuing connected transactions with COFCO Corporation, the controlling shareholder, and its subsidiaries (other than the Group) as disclosed in the section "Connected Transactions" below, none of the Company's directors, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in the five largest customers or five largest suppliers of the Group.

Directors

The directors of the Company during the year and up to the date of this report were:

YU Xubo	(resigned on 8 January 2018)
CHI Jingtao	(resigned on 6 January 2017)
MA Wangjun	(resigned on 6 January 2017)
GU Lifeng	(resigned on 6 January 2017)
DONG Wei	(appointed on 6 January 2017)
WANG Qingrong	(appointed on 8 January 2018)
YANG Hong	(appointed on 29 March 2017)
SHI Bo	(resigned on 8 January 2018)
LI Jian	(appointed on 6 January 2017 and then resigned on 30 August 2017)
JIA Peng	(appointed on 6 January 2017)
MENG Qingguo	(appointed on 30 August 2017)
LAM Wai Hon, Ambrose	
Patrick Vincent VIZZONE	
ONG Teck Chye	

The full list of the names of the directors of the Company's subsidiaries during the year and up to the date of this report can be found on the Company's website at www.chinaagri.com under the category "Investor Relations".

In accordance with articles 106 and 111 of the articles of association of the Company, Mr. Dong Wei, Mr. Wang Qingrong, Mr. Jia Peng and Mr. Patrick Vincent Vizzone will retire and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 40 to 43 of this annual report.

Directors' Remuneration

Details of the directors' fees for the year are set out in note 8 to the financial statements. Other emoluments are determined by the Remuneration Committee pursuant to internal policies, the articles of association of the Company with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Transaction, Arrangement or Contract

None of the Company's director or his connected entity had a material interest, either directly or indirectly, in any transactions, arrangements and contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

Arrangement to Purchase Shares or Debentures

Other than the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Management Contract

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Permitted Indemnity Provision

The articles of association of the Company provides that each director and other officer of the Company shall be entitled to be indemnified by the Company against all losses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto. The Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the directors and officers of the Company and its subsidiaries.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2017, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (together, "Discloseable Interests"), were as follows:

Interests in Shares and Underlying Shares of the Company

Name	Capacity	Number of shares held in long position	Number of underlying shares held in long position(Note 1)	Percentage(Note 2)
YU Xubo(Note 3)	Beneficial owner and interest of spouse(Note 4)	235,364	636,000	0.02%
DONG Wei	Beneficial owner	–	1,197,000	0.02%
YANG Hong	Beneficial owner	136,500	1,680,000	0.03%
SHI Bo(Note 3)	Beneficial owner	48,000	1,680,000	0.03%
Patrick Vincent VIZZONE	Beneficial owner	100,000	–	0.00%

REPORT OF THE DIRECTORS

Notes:

1. *These underlying shares are share options granted pursuant to the share option scheme of the Company, particulars of which are set out in the section "Share Option Scheme" above.*
2. *The percentage of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2017, being 5,249,880,788 shares.*
3. *The director concerned ceased to be a director of the Company on 8 January 2018.*
4. *235,364 shares were owned by the spouse of the director concerned.*

Interests in Underlying Shares of Associated Corporation

Name	Name of associated corporation	Capacity	Number of shares held in long position	Percentage(Note 1)
YANG Hong	Joy City Property Limited	Beneficial owner	10,000	0.00%

Note:

1. *The percentage of interests is calculated based on the total number of ordinary shares of Joy City Property Limited in issue as at 31 December 2017, being 14,231,124,858 shares.*

Save as disclosed above, as at 31 December 2017, none of the directors, chief executive or their respective close associates had any other Discloseable Interests.

Substantial Shareholders' Interests in the Shares of the Company

As at 31 December 2017, the following persons had an interest or short position in the shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO:

Name	Capacity	Number of shares held(Note 1)	Percentage(Note 2)
Wide Smart Holdings Limited	Beneficial owner	2,681,315,430	51.07%
COFCO (Hong Kong) Limited	Beneficial owner	364,790,827	6.95%
	Interest of controlled corporation(Note 3)	2,681,315,430	51.07%
COFCO Corporation	Interest of controlled corporations(Note 4)	3,046,106,257	58.02%

Notes:

1. *Long positions in the shares of the Company.*
2. *The percentage of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2017, being 5,249,880,788 shares.*
3. *These shares were beneficially owned by Wide Smart Holdings Limited, a company wholly-owned by COFCO (Hong Kong) Limited.*
4. *These shares were held by Wide Smart Holdings Limited and COFCO (Hong Kong) Limited, a company wholly-owned by COFCO Corporation.*

Save as disclosed above, as at 31 December 2017, so far as was known to the directors, no other persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange of Hong Kong under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register kept by the Company under section 336 of the SFO.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares was held by the public as at the date of this report.

Connected Transactions

During the year, the Group conducted the following transactions with certain connected persons of the Company. These transactions constituted connected transactions or continuing connected transactions and are subject to reporting requirements under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

1. *COFCO Mutual Supply Agreement*

1.1 2014 COFCO Mutual Supply Agreement

The Company and COFCO Corporation ("COFCO") entered into an agreement on 13 November 2014 (the "2014 COFCO Mutual Supply Agreement") to regulate the relationship between COFCO and its associates (including China Foods Limited, COFCO Agri Limited etc., but excluding the Group) (collectively, "COFCO Group") and the Group in respect of the mutual supply of raw materials, products, finance, logistics, agency and other related services. The 2014 COFCO Mutual Supply Agreement was for a term of three years from 1 January 2015 to 31 December 2017.

During the year, the aggregate value of raw materials, products, finance, logistics, agency and other related services supplied by COFCO Group to the Group including oil and oilseeds, rice, wheat, raw materials and products of biochemistry and biofuel, brewing materials, feed, packaging materials, services and others was approximately RMB33,896.71 million, while the aggregate value of products and services supplied by the Group to COFCO Group including oil and oilseeds, rice, raw materials and products of biochemistry and biofuel, brewing materials, feed, wheat, services and others was approximately RMB14,203.39 million.

According to the Listing Rules, COFCO is the controlling shareholder of the Company and thus each of the members of COFCO Group is a connected person of the Company.

1.2 2017 COFCO Mutual Supply Agreement

Before the expiry of the 2014 COFCO Mutual Supply Agreement, the Company entered into a new agreement with COFCO on 25 October 2017 (the "2017 COFCO Mutual Supply Agreement") for mutual supply of raw materials, products, finance, ancillary products, logistics, agency, leasing and other services. The 2017 COFCO Mutual Supply Agreement is for a term commencing from 1 January 2018 to 31 December 2020. The annual caps for the 2017 COFCO Mutual Supply Agreement are set out in the Company's circular dated 21 November 2017, and such annual caps were approved by the independent shareholders at the Company's extraordinary general meeting held on 15 December 2017.

REPORT OF THE DIRECTORS

2. Wilmar Mutual Supply Agreement

2.1 2014 Wilmar Mutual Supply Agreement

The Company and Wilmar International Limited ("Wilmar International") entered into an agreement on 13 November 2014 (the "2014 Wilmar Mutual Supply Agreement"), pursuant to which Wilmar International and its subsidiaries ("Wilmar International Group") and the Group would mutually supply raw materials, products, logistics and other related services. The term of the 2014 Wilmar Mutual Supply Agreement was three years from 1 January 2015 to 31 December 2017.

During the year, the aggregate value of the products and services supplied by Wilmar International Group to the Group was approximately RMB179.69 million, and the aggregate value of the products and services supplied by the Group to Wilmar International Group was approximately RMB66.88 million.

According to the Listing Rules, Wilmar International is an associate of a substantial shareholder of certain subsidiaries of the Company and thus Wilmar International Group is a connected person of the Company.

2.2 2017 Wilmar Mutual Supply Agreement

Before the expiry of the 2014 Wilmar Mutual Supply Agreement, the Company and Wilmar International entered into a new agreement on 25 October 2017 (the "2017 Wilmar Mutual Supply Agreement"), pursuant to which, Wilmar International Group and the Group will mutually supply raw materials, products, logistics and other related services. The 2017 Wilmar Mutual Supply Agreement is for a term commencing from 1 January 2018 to 31 December 2020. The annual caps for the 2017 Wilmar Mutual Supply Agreement are set out in the Company's announcement dated 25 October 2017.

3. 2016 Financial Services Agreement

In consideration of the treasury management of the Company taking into account the business development plans and financial needs of the Group, as well as the benefit of the Company and its shareholders as a whole, the Company, COFCO Finance Co., Ltd. ("COFCO Finance") and COFCO Agri-Industries Management Co., Ltd. (the "Management Company") entered into the 2016 Financial Services Agreement on 8 December 2016 for a term of two years commencing from 1 January 2017 to 31 December 2018, whereby relevant members of the Group (including the Management Company) maintained RMB depositary accounts with COFCO Finance which advanced entrustment loans to the Management Company. In turn, the Management Company advanced such fund to certain of the Company's subsidiaries which were in need of fund. COFCO Finance charged handling fee for the entrustment loan service provided, but the deposit services were provided on a free-of-charge basis.

During the year, the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance was approximately RMB620.00 million.

According to the Listing Rules, COFCO Finance is a connected person of the Company by virtue of its being an indirectly wholly-owned subsidiary of COFCO.

4. *Acquisition*

4.1 Acquisition

On 25 May 2017, COFCO Fortune Holdings Limited (as purchaser, which is a wholly-owned subsidiary of the Company) entered into the equity transfer agreement with COFCO Food Sales & Distribution Co., Ltd. (as vendor, which is a wholly-owned subsidiary of China Foods Limited, a subsidiary of COFCO) to acquire the entire equity interests in COFCO Fortune Foods Sales & Distribution Co., Ltd. for extension of the Group's activities downstream into consumer-pack edible oil and other kitchen food business. The consideration for the acquisition was RMB1,050 million in cash, paid in three installments. The acquisition was completed on 14 September 2017. Accordingly, the non-competition undertaking dated 25 May 2017 issued by China Foods Limited (the "Non-competition Undertaking") in favour of the Company also took effect from 14 September 2017. Details of the Non-competition Undertaking can be found in the section "Non-competition Undertakings" below.

According to the Listing Rules, COFCO Food Sales & Distribution Co., Ltd. is a connected person of the Company by virtue of its being an associate of COFCO.

4.2 Post-acquisition sugar supply transactions

Upon completion of the aforesaid acquisition on 14 September 2017, COFCO Fortune Foods Sales & Distribution Co., Ltd. entered into the sugar supply agreement with COFCO to regulate the supply of sugar by COFCO Group to it from 14 September 2017 to 31 December 2017. During the period, the aggregate value of sugar supplied by COFCO Group to it was approximately RMB12.63 million.

5. *Disposals*

5.1 Disposal of feed business

On 8 September 2017, (i) Full Extent Group Limited (as vendor/assignor, which is a wholly-owned subsidiary of the Company) entered into the equity transfer agreement to sell the entire equity interests in COFCO Feed Holdings Limited and the loan transfer agreement to assign the loan owed by COFCO Feed Holdings Limited for a consideration of RMB7,248,783 and RMB207,196,600 respectively, by way of cash in Hong Kong dollars; and (ii) COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. (as vendor, which is a non-wholly-owned subsidiary of the Company) entered into the equity transfer agreement to sell its 32% equity interests in COFCO Feed (Dongtai) Co., Ltd. for cash consideration of RMB28,554,617. The counterparty of the aforesaid agreements is COFCO Feed Co., Ltd. (as purchaser/assignee) which is a connected person of the Company by virtue of its being a wholly-owned subsidiary of COFCO.

The aforesaid agreements relate to the disposal of feed business, at a total consideration of RMB243,000,000. The completion of the aforesaid item (i) and item (ii) agreements took place on 22 December 2017 and 29 January 2018, respectively.

Besides, on 8 September 2017, China Agri-Industries Limited (a wholly-owned subsidiary of the Company) and COFCO Feed Co., Ltd. entered into the cooperation framework agreement. Pursuant to which, both parties have agreed that (i) subordinate companies/branches of COFCO Feed Co., Ltd. can enter into specific lease agreements directly with relevant subsidiaries of China Agri-Industries Limited to lease some of the their assets including land, factories, equipment, office buildings and dormitories (the "Feed-related Assets"); and (ii) upon the Feed-related

REPORT OF THE DIRECTORS

Assets becoming separable both from legal and technical perspectives and in the event it intends to dispose of the Feed-related Assets, (a) COFCO Feed Co., Ltd. shall have the right of first refusal to acquire on terms no less favourable than third party offers, and (b) China Agri-Industries Limited shall have the put option to sell the Feed-related Assets to COFCO Feed Co., Ltd. on price which will be based on the then prevailing reasonable market value.

5.2 *Disposal of biochemical and biofuel business*

On 23 October 2017, Full Extent Group Limited (as vendor/assignor, a wholly-owned subsidiary of the Company) entered into the sale and purchase agreement to sell the entire equity interests in COFCO Biochemical Holdings Limited and COFCO Biofuel Holdings Limited and the loan assignment deed to assign the loans owed to it by COFCO Biochemical Holdings Limited and COFCO Biofuel Holdings Limited at cash consideration of HK$5,219 million and HK$3,360 million respectively. The counterparty of the aforesaid agreements is COFCO Bio-chemical Investment Co., Ltd. (as purchaser/assignee) which is a connected person of the Company by virtue of its being a wholly-owned subsidiary of COFCO.

The aforesaid agreements constitute an integral part of the transaction leading to the disposal of the Company's biochemical and biofuel business (except for a small workshop situated within the Chengdu Industrial Park) at a total consideration of HK$8,579 million. The completion of the aforesaid agreements took place on 27 December 2017. Accordingly, the supplemental deed made among COFCO, COFCO (Hong Kong) Limited and the Company dated 23 October 2017 (the "2017 Non-competition Deed") to amend the non-completion deed dated 16 February 2007 also took effect from 27 December 2017. Details of the 2017 Non-competition Deed can be found in the section "Non-competition Undertakings" below.

Related party transactions as disclosed in note 37 to the financial statements included continuing connected transactions with COFCO Group and Wilmar International Group. The Company has complied with the disclosure requirements for the these continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

Annual Review of Continuing Connected Transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in items 1.1, 2.1, 3 and 4.2 above (the "CCTs") and have confirmed that the CCTs have been entered into: in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The annual caps for the CCTs have not been exceeded.

Ernst & Young, the Company's auditor, were engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 *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. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions for the year ended 31 December 2017 disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong.

Non-competition Undertakings

1. Undertakings by COFCO and COFCO (Hong Kong) Limited

COFCO, COFCO (Hong Kong) Limited ("COFCO (HK)") and the Company executed a non-competition deed on 16 February 2007 (the "2007 Non-competition Deed"), pursuant to which, COFCO and COFCO (HK) have granted to the Company options to acquire all or part of the prescribed retained interests which compete or may compete with the Company's businesses held by COFCO (the "Retained Business"), on the basis of a valuation to be conducted by an independent valuer, subject to any relevant laws and applicable rules, relevant authorities' approvals and existing third party pre-emptive rights (if any). Under the 2007 Non-competition Deed, if COFCO or COFCO (HK) intends to transfer, sell, lease, license or dispose to any third party any direct or indirect interest in any of such Retained Business, then the Company has pre-emptive rights to purchase any Retained Business on terms no less favourable than those offered to such third party. Furthermore, if any new business of the Company is offered to COFCO and/or COFCO (HK) which would potentially compete with the business of the Company, COFCO and/or COFCO (HK) shall refer the new business opportunity to the Company upon terms and conditions which are not less favourable than those offered to each of them. If such offer is not accepted by the Company in writing within 30 days of its receiving of the written notice of the new business opportunity, COFCO and/or COFCO (HK) shall be entitled to accept the new business opportunity upon terms and conditions that are not more favourable than those offered to the Company.

The 2017 Non-competition Deed became effective from 27 December 2017 and hence the biochemical and biofuel business were excluded from the original scope of "Restricted Business" under the 2007 Non-competition Deed and the COFCO Biochemical Option (as described below) was removed from the scope of the Retained Business.

1.1 COFCO Biochemical Option

The option for the Company to acquire from COFCO interests in COFCO Biochemical (Anhui) Co., Ltd. (the "COFCO Biochemical Option") was for an initial term of five years starting from 3 April 2007 and extended twice, both for three years. The COFCO Biochemical Option ceased in effect from 27 December 2017.

1.2 COFCO Agri Option

The option for the Company to acquire from COFCO (HK) certain competing business of COFCO Agri Limited in China (the "COFCO Agri Option") is for a term of five years commencing from 14 October 2014. On 19 December 2017, the Company announced that, having taken into account the principal factors and considerations set out in the announcement, all independent non-executive directors decided that it was not in the interests of the Company and its shareholders as a whole to make a definitive decision whether or not to exercise the COFCO Agri Option.

1.3 Chinatex Option

The option for the Company to acquire from COFCO certain competing business in Chinatex Corporation Limited and its subsidiaries in China (the "Chinatex Option") became effective on 14 December 2017. On 19 December 2017, the Company announced that, having taken into account the principal factors and considerations set out in the announcement, all independent non-executive directors decided that it was not in the interests of the Company and its shareholders as a whole to make a definitive decision whether or not to exercise the Chinatex Option.

The independent non-executive directors will continue to review the COFCO Agri Option and the Chinatex Option at least annually and to disclose their decision and its reasons by way of announcement.

REPORT OF THE DIRECTORS

2. *Undertakings by China Foods Limited*

Pursuant to the Non-competition Undertaking dated 25 May 2017 issued by China Foods Limited, it undertakes that:

(i) China Foods Limited and its subsidiaries shall not in any form directly or indirectly engage in or participate in business which may compete with the principal business of COFCO Fortune Foods Sales & Distribution Co., Ltd.;

(ii) China Foods Limited and its subsidiaries shall not directly or indirectly hold, own or hold through a third party to hold any equity interest, shares, options or other investment interests in any enterprise which may compete with COFCO Fortune Foods Sales & Distribution Co., Ltd.'s principal business;

(iii) in the event that China Foods Limited has any significant future investment (i.e. more than 10% in the capital, both in paid up capital or convertible into capital) into companies that engages in business competing with COFCO Fortune Foods Sales & Distribution Co., Ltd.'s principal business, China Foods Limited shall, subject to the relevant laws and regulatory requirement, offer the Company to acquire such investment at the appraised value of such investment as determined by an independent third party valuer recognised by both parties.

For the purpose of the Non-competition Undertaking, the principal business of COFCO Fortune Foods Sales & Distribution Co., Ltd. refers to its sales, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning and grains).

Corporate Governance

The Company is committed in developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 26 to 39.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$4.7 million.

Review by the Audit Committee

The Audit Committee has reviewed with the auditor of the Company the consolidated financial statements for the year ended 31 December 2017 and has also discussed auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2017 have been audited by Ernst & Young, who will retire at the forthcoming annual general meeting.

On behalf of the Board

DONG Wei
Chairman

Hong Kong, 28 March 2018

Audited Financial Statements

For the year ended 31 December 2017

Independent Auditor's Report

EY 安永

To the members of China Agri-Industries Holdings Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Agri-Industries Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 171, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of 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.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Assessment of inventories provision and provision on non-cancellable purchase contracts of raw materials	
With the volatility of commodity price, management performed impairment test on soybean, soybean oil, soybean meal, etc. and non-cancellable purchase contracts of raw materials which are entered into by the Group to procure inventories at the end of each reporting period. Inventories are measured at the lower of cost and net realisable value. Provision is recorded when the net realisable value for certain inventories are lower than their costs. Net realisable value is calculated based on the estimated selling prices less any estimated costs to be incurred to completion and disposal. Provision on non-cancellable purchase contracts of raw materials is recognised on the excess of estimated unavoidable costs of meeting the obligation under the contracts over the economic benefits expected to be received. Estimations such as estimated selling prices were applied in the provision assessment on inventories and non-cancellable purchase contracts of raw materials. Relevant disclosures are included in notes 2.4, 3, 6 and 20 to the financial statements.	The audit procedures we performed on management's assessment of inventories provision and provision for non-cancellable purchase contracts of raw materials included: • We evaluated the management's assessment method through making inquiry with management about the assumptions and data source of key inputs used in the management's assessment; • We checked the arithmetical accuracy of the calculations of the provision assessment; • We checked the key inputs such as estimated selling prices against its sources as well as by reference to external industry information; and • We examined the historical and external industry information to evaluate the key inputs used by management.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill As at 31 December 2017, the Group had goodwill of approximately HK$1,382,735,000 arising from acquisitions of subsidiaries which is subject to annual impairment test. Impairment provision is required when the recoverable amounts of the cash generating units ("CGUs") to which the goodwill is allocated are lower than the respective carrying values of the respective CGUs. The calculation of the recoverable amounts of these CGUs involves significant management estimations, subjective assumptions and judgements, such as forecasted cash flows, future commodity prices, discount rates, future production levels and operating costs, and may vary given the high volatility of commodity prices and the volatile economic environment. The accounting policies and underlying assumptions are included in notes 2.4, 3 and 16 to the financial statements.	The audit procedures we performed on the goodwill impairment testing included: • We reviewed the forecasted cash flows through making enquiry with management and by reference to the historical performance and business plans of the relevant CGUs. We took into account of the accuracy of the previous forecasts and external industry analysis; • We involved our internal valuation specialists to assist us in assessing the methodologies, the arithmetical accuracy of the calculations of the assessment and certain significant assumptions used in the impairment testing, specifically the future commodity prices, assumed production levels and discount rates adopted, including consideration of the risk of management bias; and • We assessed the adequacy of disclosures in relation to the Group's goodwill impairment test.
Deferred tax assets recognition Deferred tax assets of approximately HK$568,236,000 were recognised as at 31 December 2017 by the Group to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised in future. Management judgements and estimations are required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The accounting policies and disclosures are included in notes 2.4, 3, and 27 to the financial statements.	The audit procedures we performed on the recognition of deferred tax assets included: • We evaluated the respective entities' tax positions and obtained from management a projection of the future taxable profits which was used to substantiate the recognition of the deferred tax assets; • We checked the calculation of the deferred tax assets and, assessed with management on their projection of the future taxable profits which would allow the respective entities to utilise these deductible temporary differences and/or tax losses; • We evaluated the management's assumptions and estimates in relation to the likelihood of generating future taxable profits to support the recognition of deferred tax assets with reference to forecast taxable profits and consistency of these forecasts with the Group's historical performances as well as its budget and business plans; and • We also assessed the tenure of the tax losses which could be brought forward in order to be utilised by these projected taxable profits.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operation, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	4, 5	**87,856,153**	78,049,407
Cost of sales	6	**(81,476,703)**	(73,140,355)
Gross profit		**6,379,450**	4,909,052
Other income and gains	5	**1,014,340**	782,317
Selling and distribution expenses		**(2,857,852)**	(2,182,099)
Administrative expenses		**(1,795,200)**	(1,627,502)
Other expenses		**(451,645)**	(238,623)
Finance costs	7	**(630,649)**	(635,672)
Share of profits and losses of associates		**204,007**	225,719
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**1,862,451**	1,233,192
Income tax expense	10	**(243,849)**	(142,119)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**1,618,602**	1,091,073
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	11	**1,758,880**	440,764
PROFIT FOR THE YEAR		**3,377,482**	1,531,837
Attributable to:			
Owners of the Company		**3,042,323**	1,419,145
Non-controlling interests		**335,159**	112,692
		3,377,482	1,531,837
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
– For profit for the year		**57.95 HK cents**	27.03 HK cents
– For profit from continuing operations		**24.72 HK cents**	18.59 HK cents
Diluted			
– For profit for the year		**57.87 HK cents**	27.03 HK cents
– For profit from continuing operations		**24.68 HK cents**	18.59 HK cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR		**3,377,482**	1,531,837
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,014,246**	(1,808,254)
Reclassification adjustments for foreign operations disposed of during the year	11, 32	**(695,446)**	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**1,318,800**	(1,808,254)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**1,318,800**	(1,808,254)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**4,696,282**	(276,417)
Attributable to:			
Owners of the Company		**4,062,500**	(119,126)
Non-controlling interests		**633,782**	(157,291)
		4,696,282	(276,417)

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**16,752,112**	21,790,257
Prepaid land premiums	15	**2,037,602**	2,494,003
Deposits for purchases of items of property, plant and equipment		**34,817**	50,375
Goodwill	16	**1,382,735**	1,073,220
Investments in associates	17	**2,106,847**	2,436,737
Available-for-sale investments	18	**30,536**	25,622
Intangible assets	19	**640,592**	57,254
Deferred tax assets	27	**568,236**	648,984
Total non-current assets		**23,553,477**	28,576,452
CURRENT ASSETS			
Inventories	20	**22,630,782**	17,886,990
Accounts and bills receivables	21	**3,138,320**	2,902,576
Prepayments, deposits and other receivables	41	**4,555,367**	4,390,597
Other receivables due from Sinograin	22	**520,425**	7,472,001
Derivative financial instruments	23	**376,607**	266,476
Due from fellow subsidiaries	37	**1,681,502**	2,457,992
Due from related companies	37	**30,016**	21,547
Due from the ultimate holding company	37	**41,294**	82,746
Due from non-controlling shareholders of subsidiaries	37	**5,873**	36,193
Due from associates	17	**215,049**	338,513
Tax recoverable		**16,208**	35,271
Restricted cash at bank	24	**–**	72,665
Cash and cash equivalents	24	**10,571,797**	7,585,981
Total current assets		**43,783,240**	43,549,548
CURRENT LIABILITIES			
Accounts and bills payables	25	**4,149,625**	3,307,508
Other payables and accruals	41	**6,261,660**	5,013,664
Derivative financial instruments	23	**238,381**	149,178
Interest-bearing bank and other borrowings	26	**19,007,057**	21,593,809
Bank borrowings due to ADBC	22	**522,820**	7,452,314
Due to fellow subsidiaries	37	**631,906**	1,114,654
Due to the ultimate holding company	37	**280,817**	286,156
Due to related companies	37	**6,612**	12,266
Due to non-controlling shareholders of subsidiaries	37	**31,014**	51,391
Due to associates	17	**23,816**	36,085
Tax payable		**552,985**	117,824
Deferred income		**29,951**	57,505
Total current liabilities		**31,736,644**	39,192,354

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NET CURRENT ASSETS		**12,046,596**	4,357,194
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,600,073**	32,933,646
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**174,181**	1,596,416
Due to non-controlling shareholders of subsidiaries	37	**202,644**	197,171
Deferred income		**648,400**	719,877
Deferred tax liabilities	27	**271,089**	83,998
Other non-current liabilities		**24,965**	23,865
Total non-current liabilities		**1,321,279**	2,621,327
Net assets		**34,278,794**	30,312,319
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	**9,771,664**	9,771,664
Other reserves	30	**20,083,548**	16,477,681
		29,855,212	26,249,345
Non-controlling interests		**4,423,582**	4,062,974
Total equity		**34,278,794**	30,312,319

DONG Wei
Director

WANG Qingrong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Note	Attributable to owners of the Company								
		Share capital HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		9,771,664	4,894,041	165,804	1,296,312	1,892,157	8,304,665	26,324,643	4,228,593	30,553,236
Total comprehensive income/(loss) for the year		–	–	–	–	(1,538,271)	1,419,145	(119,126)	(157,291)	(276,417)
Transfer from retained profits		–	–	–	73,380	–	(73,380)	–	–	–
Acquisition of non-controlling interests		–	81	–	–	–	–	81	(98)	(17)
Equity-settled share option arrangements	29	–	–	43,747	–	–	–	43,747	–	43,747
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	(8,230)	(8,230)
At 31 December 2016		9,771,664	4,894,122*	209,551*	1,369,692*	353,886*	9,650,430*	26,249,345	4,062,974	30,312,319

	Notes	Attributable to owners of the Company								
		Share capital HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		**9,771,664**	**4,894,122***	**209,551***	**1,369,692***	**353,886***	**9,650,430***	**26,249,345**	**4,062,974**	**30,312,319**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**1,020,177**	**3,042,323**	**4,062,500**	**633,782**	**4,696,282**
Transfer from retained profits		**-**	**-**	**-**	**149,687**	**-**	**(149,687)**	**-**	**-**	**-**
Disposal of subsidiaries	11	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(264,933)**	**(264,933)**
Equity-settled share option arrangements	29	**-**	**-**	**36,856**	**-**	**-**	**-**	**36,856**	**-**	**36,856**
Dividend declared		**-**	**-**	**-**	**-**	**-**	**(493,489)**	**(493,489)**	**-**	**(493,489)**
Dividends paid to non-controlling shareholders of subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,241)**	**(8,241)**
At 31 December 2017		**9,771,664**	**4,894,122***	**246,407***	**1,519,379***	**1,374,063***	**12,049,577***	**29,855,212**	**4,423,582**	**34,278,794**

* *These reserve accounts comprise the consolidated other reserves of HK$20,083,548,000 (31 December 2016: HK$16,477,681,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**1,862,451**	1,233,192
From a discontinued operation		**2,470,381**	551,572
Adjustments for:			
Finance costs	7, 11	**715,233**	721,343
Provision for inventories		**489,646**	170,811
Provision for loss on non-cancellable purchase commitments	6	**366,675**	104,587
Impairment/(reversal of impairment) of receivables		**(2,842)**	55,203
Depreciation and amortisation		**1,512,528**	1,521,911
Losses on disposal of intangible assets	6	**2,442**	–
Losses on disposal of items of property, plant and equipment		**12,968**	26,591
Impairment of items of property, plant and equipment		**58,674**	26,027
Recognition of prepaid land premiums		**65,241**	64,292
Share of profits of associates		**(299,586)**	(296,036)
Interest income		**(125,084)**	(122,841)
Unrealised gains on derivative financial instruments		**(133,213)**	(123,370)
Government grants		**(756,842)**	(707,027)
Gain on disposal of subsidiaries	11, 32	**(1,528,252)**	–
Equity-settled share option expense	29	**36,856**	43,747
		4,747,276	3,270,002
Increase in inventories		**(5,003,348)**	(3,046,028)
Decrease/(increase) in accounts and bills receivables		**(207,099)**	312,288
Decrease/(increase) in prepayments, deposits and other receivables		**322,894**	(828,281)
Increase in amounts due from fellow subsidiaries		**(2,947,162)**	(691,827)
Increase in amounts due from associates		**(23,648)**	(14,368)
Increase in amounts due from related companies		**(87,458)**	(8,038)
Decrease/(increase) in derivative financial instruments and other financial products		**123,585**	(18,561)
Decrease/(increase) in an amount due from the ultimate holding company		**45,653**	(84,867)

	Notes	2017 HK$'000	2016 HK$'000
Decrease in amounts due from non-controlling shareholders of subsidiaries		**4,502**	7,924
Increase/(decrease) in accounts and bills payables		**1,939,518**	(21,945)
Increase/(decrease) in other payables and accruals		**(3,063)**	2,011,171
Increase in amounts due to fellow subsidiaries		**2,101,516**	562,389
Increase in an amount due to the ultimate holding company		**33,998**	152,327
Decrease in amounts due to related companies		**(37,340)**	(31,751)
Decrease in amounts due to associates		**(14,298)**	(1,445)
Decrease in amounts due to non-controlling shareholders of subsidiaries		**(7,445)**	(8,494)
Government grants received		**654,134**	611,427
Cash generated from operations		**1,642,215**	2,171,923
Interest received		**125,084**	122,841
Interest paid		**(715,233)**	(721,343)
Income tax refund/(paid)		**(356,313)**	11,104
Net cash flows from operating activities		**695,753**	1,584,525
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in restricted cash at bank		**66,859**	77,245
Acquisition of a subsidiary	31	**(1,206,029)**	–
Disposal of a discontinued operation	11	**7,806,235**	–
Disposal of subsidiaries	32	**202,718**	–
Dividends from associates		**135,113**	41,755
Proceeds from disposal of items of property, plant and equipment and intangible assets		**16,922**	41,745
Purchases of items of property, plant and equipment		**(1,815,548)**	(1,424,487)
Additions to prepaid land premiums	15	**(2,734)**	(7,877)
Receipts of government grants		**16,277**	18,471
Additions to intangible assets	19	**(51)**	–
Decrease/(increase) in loans to associates		**180,001**	(21,827)
Net cash flows from/(used in) investing activities		**5,399,763**	(1,274,975)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**59,904,258**	64,800,282
New other loans		**1,906,966**	10,904,510
Repayments of bank loans		**(57,468,755)**	(65,123,898)
Repayments of other loans		**(6,791,311)**	(8,802,536)
Decrease/(increase) in amounts related to agency purchase of grains		**22,667**	(142,867)
Increase/(decrease) in amounts due to non-controlling shareholders of subsidiaries		**15,296**	(2,310)
Dividend paid		**(493,489)**	–
Increase/(decrease) in cash from discounting bank letter of credit		**(453,009)**	452,520
Interest paid		**(2,793)**	(2,234)
Net cash flows from/(used in) financing activities		**(3,360,170)**	2,083,467
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,735,346**	2,393,017
Cash and cash equivalents at beginning of year		**7,585,981**	5,439,436
Effect of foreign exchange rate changes, net		**250,470**	(246,472)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,571,797**	7,585,981
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**3,966,684**	6,597,640
Non-pledged time deposits with original maturity of less than three months when acquired	24	**6,605,113**	988,341
		10,571,797	7,585,981

Notes to the Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION

China Agri-Industries Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 31st Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was involved in the following principal activities:

- oilseeds processing;
- production and sale of biochemical and biofuel products;
- processing and trading of rice;
- wheat processing; and
- production and sale of brewing materials.

The Company is a subsidiary of COFCO (Hong Kong) Limited, a company incorporated in Hong Kong. In the opinion of the directors, the ultimate holding company of the Company is COFCO Corporation ("COFCO"), which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

On 27 December 2017, the disposal of the subsidiaries engaged in the production and sale of biochemical and biofuel products ("Biochemical and Biofuel Subsidiaries") was completed. The results of the Biochemical and Biofuel Subsidiaries for the period from 1 January 2017 to 27 December 2017 was presented as a discontinued operation in the consolidated financial statements and the last year comparatives were re-presented accordingly. Please refer to note 11 for more details.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group losses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs and HKASs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 *included in Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs and HKASs has had a significant financial effect on these financial statements. Disclosure has been made in note 45 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]

1 *Effective for annual periods beginning on or after 1 January 2018*

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

3 *No mandatory effective date yet determined but available for adoption*

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains or losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables and other receivables. The HKFRS 9 are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the modified retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15 and is of opinion that other than more presentation and disclosure requirements, HKFRS 15 will not have significant impact on the amounts of revenue recognised in the respective reporting periods.

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 33 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$122,916,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to proportionate a share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combinations, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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 employees of either 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 the key management personnel of the entity (or of a parent of the entity); and
- (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 parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprise its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%
Machinery and equipment	4.5% – 18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patent and licences

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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 marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets 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 as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net change in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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 repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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 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 designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as commodity future contracts and foreign currency forward contracts, to hedge its inventory price risk and foreign currency risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

The fair value of foreign currency forward contracts is determined using the forward rates quoted by the Group's bankers at the end of the reporting period. The fair value of commodity futures contracts is measured using quoted market prices.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand, cash at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. Provision on the onerous contracts is recognised in the consolidated statement of profit or loss accordingly.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) storage income, on a time proportion basis over the lease terms;

(c) income from the rendering of services, in the period in which the services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(e) compensation income, when the right to receive payment has been established; and

(f) tax refunds, when the acknowledgement of refunds from the tax bureau has been received.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the Group using the Black-Scholes-Merton and Binominal option pricing models, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the reward are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by either the relevant authorities or the local municipal governments of the provinces in Mainland China in which the Group's subsidiaries are located. The Group is required to contribute to the central pension scheme in respect of its employees in Mainland China and these costs are charged to the statement of profit or loss as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Additional Corporate Income Tax arising from the distribution of dividends

The Group's determination as to whether to accrue additional tax liabilities arising from the distributions of dividends from certain subsidiaries incorporated outside Mainland China, which are regarded as non-Chinese resident enterprises, to its holding companies, which are regarded as Chinese resident enterprises, is subject to the timing of the payment of the dividends and the additional tax liabilities that would be payable according to the relevant tax jurisdictions. Based on the aforesaid tax jurisdictions and the dividend distribution plan of these non-Chinese resident enterprises incorporated outside Mainland China, management are of the opinion that no additional deferred tax liabilities need to be provided at current stage. Further details are given in note 27 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK$1,382,735,000 (2016: HK$1,073,220,000). Further details are given in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was HK$286,859,000 (2016: HK$432,107,000). Further details are given in note 27 to the financial statements.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 2.4 to the financial statements. The recoverable amount of the property, plant and equipment is the greater of the fair value less costs to sell and value in use, the calculations of which involve the use of estimates. Net impairment of Group's property, plant and equipment, including the discontinued operation, of HK$58,674,000 (2016: HK$26,027,000) was recognised in the consolidated statement of profit or loss for the year. The carrying amount of property, plant and equipment as at 31 December 2017 was HK$16,752,112,000 (2016: HK$21,790,257,000).

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of accounts and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying values of accounts and other receivables and the amount of impairment/write-back of impairment in the periods in which such estimates have been changed. Net reversal of impairment of Group's receivables, including the discontinued operation, of HK$2,842,000 was recognised in the consolidated statement of profit or loss for the year (2016: net impairment of HK$55,203,000). The aggregate carrying amount of accounts and bills receivables, and prepayments, deposits and other receivables as at 31 December 2017 was HK$7,693,687,000 (2016: HK$7,293,173,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of inventories

Impairment of inventories is made based on the assessment of net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Significant management judgements and estimates are required in the estimates. Where the actual outcome or expectation in future is different from the original estimates, the differences will impact on the carrying values of inventories and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed. Impairment of Group's inventories, including the discontinued operation, of HK$489,646,000 (2016: HK$170,811,000) was recognised in the consolidated statement of profit or loss for the year. The aggregate carrying amount of inventories at 31 December 2017 was HK$22,630,782,000 (2016: HK$17,886,990,000).

Provision on onerous contracts

Provision on onerous contracts is recognised based on the estimates of the unavoidable costs of meeting the obligation under the purchase contracts and the economic benefits expected to be received under them. Significant management judgements are required in the estimates. Where the actual outcome or expectation in future is different from the original estimates, these differences will impact on the provision and the profit or loss in the periods in which these estimates have been changed. Provision on onerous contracts, including the discontinued operation, of HK$366,675,000 (2016: HK$104,587,000) was recognised in the consolidated statement of profit or loss for the year.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When such data from binding sales transaction in an arm's length transaction is not available, management calculates the fair value less costs to sell based on current available best estimation. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

(a) the oilseeds processing segment engages in the extraction, refining and trading of edible oil and related products;

(b) the rice processing and trading segment engages in the processing and trading of rice;

(c) the wheat processing segment engages in the production and sale of flour products and related products;

(d) the brewing materials segment engages in the processing and trading of malt; and

(e) the corporate and others segment comprises the Group's feed processing business and corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's profit/loss before tax from continuing operations except that interest income, finance costs and share of profits and losses of associates are managed on a group basis and are not allocated to reportable operating segments.

Segment assets exclude deferred tax assets, tax recoverable, restricted cash at bank, cash and cash equivalents and investments in associates as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Information about a major customer

During the years ended 31 December 2017 and 31 December 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Geographical information

As the Group's major operations and customers are located in Mainland China, no further geographical segment information is provided.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	56,232,382	12,465,067	10,563,641	2,374,229	6,220,834	–	87,856,153
Intersegment sales	420,660	9,829	11,494	9,337	134,997	(586,317)	–
Other revenue	553,229	218,047	42,424	39,168	84,080	(46,432)	890,516
Segment results	1,177,798	509,348	158,024	289,596	31,419	(916)	2,165,269
Interest income							123,824
Finance costs							(630,649)
Share of profits and losses of associates							204,007
Profit before tax from continuing operations							1,862,451
Income tax expense							(243,849)
Profit for the year from continuing operations							1,618,602
Other segment information:							
Depreciation and amortisation#	594,281	182,707	98,151	80,791	79,357	–	1,035,287
Impairment losses recognised/(reversed) in the consolidated statement of profit or loss	(9,620)	(2,272)	3,036	–	7,027	–	(1,829)
Capital expenditure*	1,397,128	175,984	114,890	115,876	36,845	–	1,840,723

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016 (Restated)

	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	50,434,259	9,195,684	8,945,764	2,684,519	6,789,181	–	78,049,407
Intersegment sales	707,963	12,644	37,367	13,103	189,833	(960,910)	–
Other revenue	475,986	206,298	32,999	14,186	14,573	(83,426)	660,616
Segment results	1,046,371	190,706	150,331	296,200	(177,923)	15,759	1,521,444
Interest income							121,701
Finance costs							(635,672)
Share of profits and losses of associates							225,719
Profit before tax from continuing operations							1,233,192
Income tax expense							(142,119)
Profit for the year from continuing operations							1,091,073
Other segment information:							
Depreciation and amortisation#	604,190	177,335	98,359	78,548	77,056	–	1,035,488
Impairment losses recognised in the consolidated statement of profit or loss	4,540	526	459	–	3,142	–	8,667
Capital expenditure*	659,504	211,749	101,173	77,903	43,641	–	1,093,970

\# *Depreciation and amortisation consists of depreciation of property, plant and equipment, recognition of prepaid land premiums and amortisation of intangible assets.*

* *Capital expenditure consists of additions to property, plant and equipment, prepaid land premiums and intangible assets including assets from the acquisition of subsidiaries.*

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2017

	Oilseeds processing HK$'000	Biochemical and biofuel HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Assets and liabilities								
Segment assets	**34,768,729**	**–**	**11,702,091**	**4,177,850**	**3,449,082**	**13,971,548**	**(13,995,671)**	**54,073,629**
Corporate and other unallocated assets								**13,263,088**
Total assets								**67,336,717**
Segment liabilities	**17,173,425**	**–**	**5,685,821**	**2,067,629**	**802,578**	**1,318,829**	**(13,995,671)**	**13,052,611**
Corporate and other unallocated liabilities								**20,005,312**
Total liabilities								**33,057,923**

31 December 2016

	Oilseeds processing HK$'000	Biochemical and biofuel HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Assets and liabilities								
Segment assets	28,450,659	18,049,684	8,012,806	3,414,343	2,795,797	16,569,443	(15,946,370)	61,346,362
Corporate and other unallocated assets								10,779,638
Total assets								72,126,000
Segment liabilities	12,629,603	12,165,445	4,751,861	1,914,935	832,868	2,073,292	(15,946,370)	18,421,634
Corporate and other unallocated liabilities								23,392,047
Total liabilities								41,813,681

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of the Group's other income and gains from continuing operations is as follows:

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Other income			
Interest income		**123,824**	121,701
Government grants*		**123,769**	218,437
Storage income from agency purchase	22	**19,342**	26,478
Logistics service and storage income		**104,027**	63,841
Compensation income		**2,392**	2,450
Tax refunds		**32,693**	8,829
Others		**56,909**	38,884
		462,956	480,620
Gains			
Gains on disposal of raw materials, by-products and scrap items		**51,158**	38,182
Realised and unrealised fair value gains on foreign currency forward contracts, net		**–**	191,452
Gain on foreign exchange, net		**451,073**	–
Gain on disposal of subsidiaries	32	**29,630**	–
Others		**19,523**	72,063
		551,384	301,697
		1,014,340	782,317

* *Various government grants have been received by the Group in certain provinces in Mainland China, which are available for industries or locations in which the Company's subsidiaries operate. During the year, subsidies of HK$598,777,000 (2016: HK$446,918,000) were granted to certain subsidiaries of the Group based on the quantities of corn and paddy purchased and processed in certain provinces in Mainland China, within a designated duration, of which none (2016: HK$48,679,000) was from continuing operations. The remaining government grants mainly related to discretionary awards granted by local governments to certain subsidiaries of the Group to award their contributions to the industry or to the local development. There are no unfulfilled conditions or contingencies relating to these grants.*

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Cost of inventories sold or services provided		**82,131,349**	72,438,956
Provision for inventories		**481,875**	149,783
Provision for loss on non-cancellable purchase commitments*		**366,675**	104,587
Realised and unrealised fair value losses/(gains) of commodity futures contracts, net	23	**(1,954,735)**	759,310
Fair value losses/(gains) on foreign currency forward contracts for hedging purpose, net	23	**451,539**	(312,281)
Cost of sales		**81,476,703**	73,140,355
Auditor's remuneration		**4,706**	4,661
Depreciation		**970,936**	980,088
Amortisation of intangible assets		**14,032**	4,134
Minimum lease payments under operating leases		**32,932**	55,184
Recognition of prepaid land premiums		**50,319**	51,266
Employee benefit expenses (excluding directors' and chief executive's remuneration in note 8):			
Wages and salaries		**1,939,931**	1,688,735
Pension scheme contributions***		**176,358**	157,070
Equity-settled share option expenses		**36,008**	42,377
		2,152,297	1,888,182
Loss/(gain) on foreign exchange, net**		**(451,073)**	209,111
Realised and unrealised fair value losses/(gains) on foreign currency forward contracts, net	23	**417,771**	(191,452)
Losses on disposal of items of property, plant and equipment		**11,190**	6,743
Losses on disposal of items of intangible assets		**2,442**	–
Impairment of items of property, plant and equipment		**1,246**	4,429
Impairment of accounts receivables		**600**	676
Impairment/(reversal of impairment) of prepayment and other receivables		**(3,675)**	3,562

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (continued)

* *It is the Group's usual practice to enter into purchase commitments of raw materials with delivery of raw materials at a specified future date. As at 31 December 2017, the Group had certain non-cancellable purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects that the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received under it. The expected loss arising from the aforesaid Purchase Contracts of HK$366,675,000 (2016: HK$104,587,000) is estimated with reference to the expected selling prices of the corresponding products, and a provision thereon has been made in the consolidated statement of profit or loss for the year ended 31 December 2017. The directors of the Company consider that these losses are resulted from the Group's ordinary course of business.*

** *The net loss on foreign exchange is included in "other expenses" in the consolidated statement of profit or loss.*

*** *At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).*

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2017 HK$'000	**2016 HK$'000** (Restated)
Interest on:		
Bank loans	**548,838**	514,557
Loans from fellow subsidiaries	**37,979**	32,524
Loans from an intermediate holding company	**8,864**	–
Loans from the ultimate holding company	**37,374**	90,386
Total interest expenses on financial liabilities not at fair value through profit or loss	**633,055**	637,467
Less: Interest capitalised	**(2,406)**	(1,795)
	630,649	635,672

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees:		
Independent non-executive directors	**1,320**	1,005
Executive directors and non-executive directors	**–**	226
	1,320	1,231
Other emoluments:		
Salaries, allowances and benefits in kind	**2,339**	4,307
Discretionary bonuses	**15,088**	–
Equity-settled share option expenses	**848**	1,370
Pension scheme contributions	**854**	244
	19,129	5,921
	20,449	7,152

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of the share options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above directors' and chief executive's remuneration disclosures.

No directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company was a party during the year.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 HK$'000	2016 HK$'000
Mr. Lam Wai Hon, Ambrose	**440**	335
Mr. Patrick Vincent Vizzone	**440**	335
Mr. Ong Teck Chye	**440**	335
	1,320	1,005

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and chief executive

	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Executive directors:					
Mr. Gu Lifeng@	19	4,864	4	5	4,892
Mr. Dong Wei ^	937	3,641	246	308	5,132
Ms. Yang Hong^^	630	2,717	249	233	3,829
Mr. Shi Bo@@@	753	3,866	327	308	5,254
	2,339	15,088	826	854	19,107
Non-executive directors:					
Mr. Yu Xubo##	–	–	22	–	22
Mr. Jia Peng^^^	–	–	–	–	–
Mr. Li Jian@@	–	–	–	–	–
Mr. Meng Qingguo***	–	–	–	–	–
	–	–	22	–	22
	2,339	15,088	848	854	19,129

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and chief executive (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016					
Executive directors:					
Mr. Chi Jingtao*	–	2,145	–	106	2,251
Mr. Yue Guojun#	–	438	425	18	881
Mr. Gu Lifeng@	–	898	216	66	1,180
Mr. Shi Bo@@@	–	826	402	54	1,282
	–	4,307	1,043	244	5,594
Non-executive directors:					
Mr. Ning Gaoning**	26	–	112	–	138
Mr. Yu Xubo##	133	–	112	–	245
Mr. Ma Wangjun###	67	–	103	–	170
	226	–	327	–	553
	226	4,307	1,370	244	6,147

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and chief executive (continued)

* *Mr. Chi Jingtao resigned as an executive director of the Company and ceased to be the chairman of the board of directors both with effect from 6 January 2017.*

** *Mr. Ning Gaoning resigned as a non-executive director of the Company with effect from 16 February 2016.*

*** *Mr. Meng Qingguo was appointed as a non-executive director of the Company with effect from 30 August 2017.*

Mr. Yue Guojun resigned as an executive director and managing director of the Company with effect from 20 April 2016.

Mr. Yu Xubo was appointed as the chairman of the board of directors of the Company on 6 January 2017. Mr. Yu resigned as a non-executive director of the Company and ceased to be the chairman of the board of directors both with effect from 8 January 2018.

Mr. Ma Wangjun resigned as a non-executive director of the Company with effect from 6 January 2017.

^ *Mr. Dong Wei was appointed as an executive director and deputy managing director of the Company with effect from 6 January 2017. Mr. Dong was appointed as the chairman of the board of directors of the Company and ceased to be deputy managing director on 8 January 2018.*

^^ *Ms. Yang Hong was appointed as an executive director of the Company with effect from 29 March 2017.*

^^^ *Mr. Jia Peng was appointed as a non-executive director of the Company with effect from 6 January 2017.*

@ *Mr. Gu Lifeng was appointed as an executive director and deputy managing director of the Company with effect from 20 April 2016. Mr. Gu resigned as an executive director and deputy managing director of the Company on 6 January 2017.*

@@ *Mr. Li Jian was appointed as a non-executive director of the Company with effect from 6 January 2017. Mr. Li resigned as a non-executive director of the Company on 30 August 2017.*

@@@ *Mr. Shi Bo resigned as an executive director of the Company with effect from 8 January 2018.*

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2016: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2017 HK$'000	**2016 HK$'000**
Salaries, allowances and benefits in kind	**581**	1,575
Discretionary bonuses	**1,461**	668
Equity-settled share option expenses	**280**	768
Pension scheme contributions	**308**	109
	2,630	3,120

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	**2016**
HK$1,000,000 to HK$1,500,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–
	1	2

In prior years, share options were granted to the non-director and non-chief executive, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of the share options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above non-director and non-chief executive, highest paid employees' remuneration disclosures.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Pursuant to the approvals issued by the State Administration of Taxation of the PRC during 2013, the Company and certain of its subsidiaries incorporated out of Mainland China are regarded as Chinese resident enterprises, and the relevant enterprise income tax policies of PRC are applicable to the Company and these subsidiaries commencing from 1 January 2013.

	2017 HK$'000	**2016 HK$'000**
Current – Hong Kong		
Charge for the year	**1,718**	215
Overprovision in prior years	**(64)**	(143)
Current – Mainland China		
Charge for the year	**126,759**	45,634
Underprovision/(overprovision) in prior years	**9,049**	(908)
Deferred tax	**106,387**	97,321
Total tax charge for the year from continuing operations	**243,849**	142,119
Total tax charge for the year from a discontinued operation	**711,501**	110,808
Total tax charge for the year	**955,350**	252,927

10. INCOME TAX EXPENSE (continued)

A reconciliation of the tax charge applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2017	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax from continuing operations	(82,587)		1,945,038		1,862,451	
Profit before tax from a discontinued operation	–		2,470,381		2,470,381	
	(82,587)		4,415,419		4,332,832	
Tax at the statutory tax rate	(13,627)	16.5	1,103,855	25.0	1,090,228	25.2
Profits or losses not subject to tax due to concession*	–	–	(131,640)	(3.0)	(131,640)	(3.0)
Effect of withholding tax at 8.5% on the distributed profits of the Group's HK subsidiaries	–	–	17,016	0.4	17,016	0.4
Profits attributable to associates	(23,160)	28.0	(39,865)	(0.9)	(63,025)	(1.5)
Income not subject to tax	(9,454)	11.4	(3,472)	(0.1)	(12,926)	(0.3)
Expenses not deductible for tax	7,708	(9.3)	125,900	2.9	133,608	3.1
Adjustment in respect of current tax of previous periods	(64)	0.1	30,140	0.7	30,076	0.7
Tax losses utilised during the year	–	–	(255,857)	(5.8)	(255,857)	(5.9)
Tax losses not recognised	–	–	147,870	3.3	147,870	3.4
Tax charge/(credit) at the Group's effective rate	(38,597)	46.7	993,947	22.5	955,350	22.0
Tax charge/(credit) from continuing operations at the Group's effective rate	(38,597)	46.7	282,446	14.5	243,849	13.1
Tax charge from a discontinued operation at the Group's effective rate	–	–	711,501	28.8	711,501	28.8

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

10. INCOME TAX EXPENSE (continued)

2016	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax from continuing operations	176,196		1,056,996		1,233,192	
Profit before tax from a discontinued operation	–		551,572		551,572	
	176,196		1,608,568		1,784,764	
Tax at the statutory tax rate	29,072	16.5	402,142	25.0	431,214	24.2
Profits or losses not subject to tax due to concession*	–	–	(94,152)	(5.9)	(94,152)	(5.3)
Profits attributable to associates	(18,303)	(10.4)	(46,277)	(2.9)	(64,580)	(3.6)
Income not subject to tax	(12,108)	(6.9)	(4,121)	(0.3)	(16,229)	(0.9)
Expenses not deductible for tax	7,429	4.2	19,204	1.2	26,633	1.5
Adjustment in respect of current tax of previous periods	(147)	(0.1)	(4,247)	(0.3)	(4,394)	(0.2)
Tax losses utilised during the year	–	–	(99,107)	(6.2)	(99,107)	(5.6)
Tax losses not recognised	–	–	73,542	4.6	73,542	4.1
Tax charge at the Group's effective rate	5,943	3.4	246,984	15.4	252,927	14.2
Tax charge from continuing operations at the Group's effective rate	5,943	3.4	136,176	12.9	142,119	11.5
Tax charge from a discontinued operation at the Group's effective rate	–	–	110,808	20.1	110,808	20.1

* *PRC corporate income tax ("CIT") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to CIT rate of 25%. However, certain subsidiaries of the Group are qualified as high technology enterprises hence are granted a preferential CIT rate of 15%. Besides, certain subsidiaries are also granted income tax exemption on the profits or losses generated from the processing of certain agricultural products.*

The share of tax attributable to associates amounting to HK$51,569,000 (2016: HK$61,404,000), of which HK$19,882,000 (2016: HK$37,630,000) was from continuing operations and was included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DISCONTINUED OPERATION

On 23 October 2017, Full Extent Group Limited ("Full Extent"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement and the loan assignment deed (the "Agreements") with COFCO Bio-chemical Investment Co., Ltd., a wholly-owned subsidiary of COFCO. Pursuant to the Agreements, Full Extent has agreed to dispose COFCO Biochemical Holdings Limited, COFCO Biofuel Holdings Limited and their subsidiaries ("the Biochemical and Biofuel Subsidiaries") at a total consideration of HK$8,579,341,000. Under the Agreements, Full Extent shall sell its 100% equity interests in the Biochemical and Biofuel Subsidiaries at a cash consideration of HK$5,219,226,000 and assign the loans owed to it by the Biochemical and Biofuel Subsidiaries at a cash consideration of HK$3,360,115,000.

The disposal of the Biochemical and Biofuel Subsidiaries was approved by the independent shareholders of the Company on 15 December 2017 and the above transaction was completed on 27 December 2017. Following the completion of the disposal, Biochemical and Biofuel Subsidiaries were classified as a discontinued operation, and the biochemical and biofuel segment is no longer included in the note for operating segment information.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

11. DISCONTINUED OPERATION (continued)

The net assets of Biochemical and Biofuel Subsidiaries as at the completion date of disposal were as below:

	Notes	HK$'000
Property, plant and equipment	14	6,730,343
Prepaid land premiums		519,637
Deposits for purchases of items of property, plant and equipment		12,891
Goodwill	16	412,518
Investments in associates		604,006
Available-for-sale investments		246
Intangible assets	19	22,751
Deferred tax assets	27	53,049
Inventories		1,978,207
Accounts and bills receivables		646,360
Prepayments, deposits and other receivables		6,623,558
Due from related companies		281,618
Tax recoverable		116
Restricted cash at bank		8,267
Cash and cash equivalents		773,106
Accounts and bills payables		(832,699)
Other payables and accruals		(7,671,293)
Interest-bearing bank and other borrowings		(1,819,127)
Due to related companies		(3,460,377)
Tax payable		(59,739)
Deferred income		(120,887)
Deferred tax liabilities	27	(12,411)
Other non-current liabilities		(77)
Non-controlling interests		(264,933)
		4,425,130
Exchange fluctuation reserve		(704,526)
		3,720,604
Gain on disposal of subsidiaries, net of tax and expenses		1,010,735
Tax and expenses		487,887
Gain on disposal of subsidiaries		1,498,622
		5,219,226
Satisfied by:		
Cash		5,219,226

11. DISCONTINUED OPERATION (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Biochemical and Biofuel Subsidiaries is as below:

	2017 HK$'000
Cash consideration on equity interest transfer	**5,219,226**
Cash consideration on loans assignment	**3,360,115**
Cash and bank balances disposed of	**(773,106)**
Net inflow of cash and cash equivalents in respect of the disposal of Biochemical and Biofuel Subsidiaries	**7,806,235**

The result of Biochemical and Biofuel Subsidiaries for the year are presented below:

	2017 HK$'000	2016 HK$'000
Revenue	**11,324,972**	11,113,099
Cost of sales	**(9,440,893)**	(9,779,117)
Gross profit	**1,884,079**	1,333,982
Other income and gains	**892,844**	829,779
Expenses	**(1,799,591)**	(1,596,835)
Finance costs	**(84,584)**	(85,671)
Share of profits of associates	**95,579**	70,317
Profit before tax from a discontinued operation	**988,327**	551,572
Income tax	**(240,182)**	(110,808)
	748,145	440,764
Gain on disposal of subsidiaries, net of tax and expenses	**1,010,735**	–
Profit for the year from a discontinued operation	**1,758,880**	440,764

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

11. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Biochemical and Biofuel Subsidiaries are as below:

	2017 HK$'000	2016 HK$'000
Operating activities	**1,495,259**	1,367,679
Investing activities	**(94,546)**	(199,299)
Financing activities	**(861,949)**	(1,406,247)
Net cash inflow/(outflow)	**538,764**	(237,867)
Earnings per share		
Basic, from a discontinued operation	**33.23 HK cents**	8.44 HK cents
Diluted, from a discontinued operation	**33.19 HK cents**	8.44 HK cents

The calculations of basic and diluted earnings per share from a discontinued operation are based on:

	2017 HK$'000	2016 HK$'000
Profit attributable to ordinary equity holders of the Company from a discontinued operation (note 13)	**1,744,654**	443,419

	2017	2016
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations (note 13)	**5,249,880,788**	5,249,880,788
Weighted average number of ordinary shares used in the diluted earnings per share calculations (note 13)	**5,257,483,420**	5,249,880,788

12. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Interim dividend – 4.0 HK cents (2016: Nil) per ordinary share	**209,995**	–
Proposed final dividend – 0.9 HK cents (2016: 5.4 HK cents) per ordinary share	**47,249**	283,494
Proposed special dividend – 20.0 HK cents (2016: Nil) per ordinary share	**1,049,976**	–
	1,307,220	283,494

The proposed final dividend for the year and special dividend are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of 5,249,880,788 ordinary shares (2016: 5,249,880,788 ordinary shares) in issue during the year.

For the year ended 31 December 2017, the calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

For the year ended 31 December 2016, no adjustment has been made to basic earnings per share amounts presented as the impact of share options had no dilutive effect or an anti-dilutive effect on the basic earnings per share amounts presented.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculations of basic and diluted earnings per share are based on:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations		
From continuing operations	**1,297,669**	975,726
From a discontinued operation	**1,744,654**	443,419
	3,042,323	1,419,145

	2017	2016
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**5,249,880,788**	5,249,880,788
Effect of dilution – weighted average number of ordinary shares:		
Share options	**7,602,632**	–
	5,257,483,420	5,249,880,788

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017				
At 31 December 2016 and at 1 January 2017:				
Cost	**15,125,778**	**16,703,691**	**1,064,367**	**32,893,836**
Accumulated depreciation and impairment	**(3,200,623)**	**(7,893,688)**	**(9,268)**	**(11,103,579)**
Net carrying amount	**11,925,155**	**8,810,003**	**1,055,099**	**21,790,257**
At 1 January 2017, net of accumulated depreciation and impairment	**11,925,155**	**8,810,003**	**1,055,099**	**21,790,257**
Additions	**28,412**	**411,319**	**1,669,139**	**2,108,870**
Acquisition of a subsidiary (note 31)	**–**	**10,245**	**–**	**10,245**
Disposals	**(4,734)**	**(22,038)**	**–**	**(26,772)**
Disposal of subsidiaries (note 11, 32)	**(3,133,431)**	**(3,156,444)**	**(831,219)**	**(7,121,094)**
Depreciation provided during the year	**(487,973)**	**(1,008,318)**	**–**	**(1,496,291)**
Impairment	**(37,169)**	**(21,505)**	**–**	**(58,674)**
Transfers	**582,360**	**490,441**	**(1,072,801)**	**–**
Exchange realignment	**837,431**	**612,089**	**96,051**	**1,545,571**
At 31 December 2017, net of accumulated depreciation and impairment	**9,710,051**	**6,125,792**	**916,269**	**16,752,112**
At 31 December 2017:				
Cost	**12,628,252**	**12,060,832**	**916,269**	**25,605,353**
Accumulated depreciation and impairment	**(2,918,201)**	**(5,935,040)**	**–**	**(8,853,241)**
Net carrying amount	**9,710,051**	**6,125,792**	**916,269**	**16,752,112**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016				
At 31 December 2015 and at 1 January 2016:				
Cost	15,728,614	17,353,755	866,505	33,948,874
Accumulated depreciation and impairment	(2,964,256)	(7,512,062)	–	(10,476,318)
Net carrying amount	12,764,358	9,841,693	866,505	23,472,556
At 1 January 2016, net of accumulated depreciation and impairment	12,764,358	9,841,693	866,505	23,472,556
Additions	14,173	232,412	1,160,441	1,407,026
Disposals	(10,114)	(30,937)	(27,285)	(68,336)
Depreciation provided during the year	(477,370)	(1,037,300)	–	(1,514,670)
Impairment	(147)	(16,612)	(9,268)	(26,027)
Transfers	441,217	430,034	(871,251)	–
Exchange realignment	(806,962)	(609,287)	(64,043)	(1,480,292)
At 31 December 2016, net of accumulated depreciation and impairment	11,925,155	8,810,003	1,055,099	21,790,257
At 31 December 2016:				
Cost	15,125,778	16,703,691	1,064,367	32,893,836
Accumulated depreciation and impairment	(3,200,623)	(7,893,688)	(9,268)	(11,103,579)
Net carrying amount	11,925,155	8,810,003	1,055,099	21,790,257

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2017, certain of the Group's property, plant and equipment with a net carrying amount of approximately HK$147,589,000 (2016: HK$281,562,000) were pledged to secure banking facilities granted to the Group (note 26).

As at 31 December 2017, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of approximately HK$1,012,640,000 (2016: HK$1,535,560,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

15. PREPAID LAND PREMIUMS

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**2,551,748**	2,776,600
Additions	**2,734**	7,877
Disposal of subsidiaries	**(574,453)**	–
Recognised during the year	**(65,241)**	(64,292)
Exchange realignment	**170,384**	(168,437)
Carrying amount at 31 December	**2,085,172**	2,551,748
Current portion included in prepayments, deposits and other receivables	**(47,570)**	(57,745)
Non-current portion	**2,037,602**	2,494,003

As at 31 December 2017, certain land use rights of the Group with a net carrying amount of approximately HK$15,527,000 (2016: HK$63,552,000) were pledged to secure bank loans granted to the Group (note 26).

As at 31 December 2017, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net carrying amount of approximately HK$4,855,000 (2016: HK$69,717,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

16. GOODWILL

	HK$'000
31 December 2017	
At 31 December 2016 and 1 January 2017:	
Cost	**1,073,220**
Accumulated impairment	**–**
Net carrying amount	**1,073,220**
Cost at 1 January 2017, net of accumulated impairment	**1,073,220**
Acquisition of a subsidiary (note 31)	**718,649**
Disposal of subsidiaries (note 11)	**(412,518)**
Exchange realignment	**3,384**
At 31 December 2017, net of accumulated impairment	**1,382,735**
At 31 December 2017:	
Cost	**1,382,735**
Accumulated impairment	**–**
Net carrying amount	**1,382,735**
31 December 2016	
At 31 December 2015 and 1 January 2016:	
Cost	1,076,489
Accumulated impairment	–
Net carrying amount	1,076,489
Cost at 1 January 2016, net of accumulated impairment	1,076,489
Exchange realignment	(3,269)
At 31 December 2016, net of accumulated impairment	1,073,220
At 31 December 2016:	
Cost	1,073,220
Accumulated impairment	–
Net carrying amount	1,073,220

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units, which are reportable operating segments, for impairment testing:

- Oilseeds processing cash-generating unit;
- Rice processing and trading cash-generating unit; and
- Biochemical and biofuel cash-generating unit.

Oilseeds processing cash-generating unit

The recoverable amount of the oilseeds processing cash-generating unit has been determined based on a value in use calculation using cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate (after tax) applied to the cash flow projection is 9% (2016: 9%). The growth rate used to extrapolate the cash flows of the oilseeds processing unit beyond the five-year period is zero (2016: zero).

Rice processing and trading cash-generating unit

The recoverable amount of the rice processing and trading cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate (after tax) applied to the cash flow projection is 9.5% (2016: 9.5%). The growth rate used to extrapolate the cash flows of rice processing and trading unit beyond the five-year period is zero (2016: zero).

Biochemical and biofuel cash-generating unit

The recoverable amount of the biochemical and biofuel cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. For the year ended 31 December 2016, the discount rate (after tax) applied to the cash flow projection is 9.5%. The growth rate used to extrapolate the cash flows beyond the five-year period is zero. The Group has disposed the Biofuel and Biochemical Subsidiaries on 27 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

16. GOODWILL (continued)

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	2017 HK$'000	2016 HK$'000
Oilseeds processing	**1,250,420**	528,387
Rice processing and trading	**129,132**	129,132
Biochemical and biofuel	**–**	412,518
Others	**3,183**	3,183
	1,382,735	1,073,220

Assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased or decreased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for countries from where the raw materials are sourced.

The values assigned to the key assumptions on discount rates and raw materials price inflation are consistent with external information sources.

17. INVESTMENTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Share of net assets	**1,960,503**	2,277,823
Goodwill on acquisition	**16,642**	28,356
	1,977,145	2,306,179
Loans to associates	**129,702**	130,558
	2,106,847	2,436,737

The loans to associates included in non-current assets are unsecured, interest-free and the Group does not expect these loans to be repaid within the next 12 months. In the opinion of the directors, these loans are considered as part of the Group's net investments in the associates.

The balances with associates included in current assets and current liabilities are unsecured, interest-free and repayable within one year except for loans to an associate of HK$141,164,000 (2016: HK$305,195,000) included in current assets, which are unsecured and bear interest at rates of 4.35% per annum (2016: 3.92% and 4.35% per annum).

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Oilseeds processing cash-generating unit; and
- Biochemical and biofuel cash-generating unit.

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	2017 HK$'000	2016 HK$'000
Oilseeds processing	**16,642**	16,642
Biochemical and biofuel	**–**	11,714
	16,642	28,356

Details of the basis of determination of recoverable amounts and assumptions used in the value in use calculation for the above cash-generating units are set out in note 16 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

17. INVESTMENTS IN ASSOCIATES (continued)

In the opinion of the directors, there was no associate considered individually material to the Group. The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 HK$'000	2016 HK$'000
Share of the associates' profit for the year	**204,007**	225,719
Share of the associates' post tax profit from a discontinued operation	**95,579**	70,317
Share of the associates' total comprehensive income	**204,007**	225,719
Aggregate carrying amount of the Group's investments in the associates	**2,106,847**	2,436,737

Particulars of the Group's principal associates as at 31 December 2017 are set out in note 40 to the financial statements.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Available-for-sale investments:		
Unlisted equity investments, at cost	**30,536**	25,622

Note:

These available-for-sale investments are stated at cost less any impairment because the directors are of the opinion that their fair values cannot be measured reliably.

19. INTANGIBLE ASSETS

	Trademark HK$'000	Golf club membership HK$'000	Others HK$'000	Total HK$'000
31 December 2017				
Cost at 31 December 2016 and 1 January 2017, net of accumulated amortisation	**6,020**	**6,545**	**44,689**	**57,254**
Additions	**–**	**–**	**51**	**51**
Acquisition of a subsidiary (note 31)	**600,344**	**–**	**21,641**	**621,985**
Amortisation provided during the year	**(6,918)**	**–**	**(7,104)**	**(14,022)**
Disposal	**–**	**(4,513)**	**(1,047)**	**(5,560)**
Disposal of subsidiaries (note 11)	**(2,458)**	**–**	**(20,293)**	**(22,751)**
Exchange realignment	**770**	**83**	**2,782**	**3,635**
At 31 December 2017	**597,758**	**2,115**	**40,719**	**640,592**
At 31 December 2017:				
Cost	**605,244**	**2,115**	**59,760**	**667,119**
Accumulated amortisation	**(7,486)**	**–**	**(19,041)**	**(26,527)**
Net carrying amount	**597,758**	**2,115**	**40,719**	**640,592**
31 December 2016				
Cost at 31 December 2015 and 1 January 2016, net of accumulated amortisation	8,106	6,711	53,861	68,678
Amortisation provided during the year	(1,176)	–	(6,065)	(7,241)
Exchange realignment	(910)	(166)	(3,107)	(4,183)
At 31 December 2016	6,020	6,545	44,689	57,254
At 31 December 2016:				
Cost	14,783	6,545	65,871	87,199
Accumulated amortisation	(8,763)	–	(21,182)	(29,945)
Net carrying amount	6,020	6,545	44,689	57,254

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**12,636,702**	11,678,351
Work in progress	**1,345,646**	845,294
Finished goods	**8,648,434**	5,363,345
	22,630,782	17,886,990

21. ACCOUNTS AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Accounts and bills receivables	**3,160,001**	2,926,781
Impairment	**(21,681)**	(24,205)
	3,138,320	2,902,576

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivables balances. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

21. ACCOUNTS AND BILLS RECEIVABLES (continued)

An ageing analysis of the accounts and bills receivables at the end of the reporting period, based on the invoice date and bill issue date, net of provision for impairment, is as follows:

	2017 HK$'000	2016 HK$'000
Within 3 months	**2,996,961**	2,810,505
3 to 12 months	**140,110**	71,553
1 to 2 years	**1,249**	12,757
2 to 3 years	**–**	5,954
Over 3 years	**–**	1,807
	3,138,320	2,902,576

The movements in the provision for impairment of accounts receivable are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**24,205**	27,234
Impairment losses recognised	**1,488**	1,203
Impairment write-off	**(3,300)**	(173)
Disposal of subsidiaries	**(4,891)**	–
Exchange realignment	**4,179**	(4,059)
At 31 December	**21,681**	24,205

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

21. ACCOUNTS AND BILLS RECEIVABLES (continued)

An ageing analysis of the accounts and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**2,708,991**	2,875,453
Less than 1 month past due	**37,045**	10,738
1 to 3 months past due	**304,701**	6,245
More than 3 months but less than 12 months past due	**79,904**	6,385
More than 1 year past due	**7,679**	3,755
	3,138,320	2,902,576

Receivables that were neither past due nor impaired relate to bills receivable and a large number of diversified customers for whom there was no recent history of default.

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

22. AGENCY PURCHASE OF GRAINS

Pursuant to the Fagaidian [2013] No. 229, Guoliangtiao [2013] No. 265, Guoliangtiao [2014] No. 254 and Guoliangtiao [2015] No.169 issued by certain Chinese government authorities (the "Notices"), during the period from 30 November 2013 to 30 April 2014, the period from 30 November 2014 to 30 April 2015 and the period from 1 November 2015 to 30 April 2016 (the "Designated Grain Purchase Periods"), certain subsidiaries (the "Entrusted Subsidiaries") of biochemical and biofuel business and rice processing and trading business entered into agency purchase agreements (the "Agency Purchase Agreements") with branch companies of China Grain Reserves Corporation ("Sinograin"), which is a state-owned enterprise, and local grain authorities of State Administration of Grain to purchase certain quantities of grains from farmers as agent of Sinograin at prices fixed in the Agency Purchase Agreements during the Designated Grain Purchase Periods. According to the Notices and the Agency Purchase Agreements, (a) the grains purchased are national grains reserve and should be stored in separate warehouses of the Entrusted Subsidiaries and Sinograin is obliged to pay the Entrusted Subsidiaries with custody fees; (b) the funds for purchase of grains would be financed by Agricultural Development Bank of China ("ADBC"), which is a bank incorporated to implement the Chinese government's agricultural policies, through bank loans lent to the Entrusted Subsidiaries; (c) the interest expenses related to these bank loans would be fully reimbursed by Sinograin to these Entrusted Subsidiaries once the related government subsidies were granted to Sinograin; and (d) the principal of the bank loans should be repaid to ADBC upon receipt of funds transferred from Sinograin when the grains are sold by Sinograin.

22. AGENCY PURCHASE OF GRAINS (continued)

As at 31 December 2017, the balance owed by Sinograin to the Group and short term unsecured bank loans owed by the Group to ADBC as a result of the aforesaid arrangements amounted to HK$520,425,000 (31 December 2016: HK$7,472,001,000) and HK$522,820,000 (31 December 2016: HK$7,452,314,000), respectively. In view of the fact that the interest expenses to ADBC can be fully reimbursed by the related interest income from Sinograin, the interest expenses to ADBC and the related interest income from Sinograin were presented in the consolidated statement of profit or loss on a net basis. The storage income arising from the aforesaid arrangements attributable to current year was HK$252,830,000 (2016: HK$300,130,000), of which HK$19,342,000 (2016: HK$26,478,000) was from continuing operations (note 5), which is recorded as other income in the consolidated statement of profit or loss.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Commodity futures contracts	**376,607**	–	28,250	82,122
Foreign currency forward contracts	–	**238,381**	238,226	67,056
	376,607	**238,381**	266,476	149,178

The Group has entered into various commodity futures contracts to manage commodity price risk in future purchases or sales of soybeans, soybean meal, soybean oil and corn. The commodity futures are not designated for hedging purpose and are measured at fair value through profit or loss. Net fair value gain on commodity futures contracts of HK$1,954,735,000 (2016: loss of HK$759,310,000) was recognised in the consolidated statement of profit or loss during the year (note 6).

In addition, the Group has entered into various foreign currency forward contracts to manage its foreign currency risk exposures. The Group has applied fair value hedge accounting to certain foreign currency forward contracts that are designated to offset the foreign currency risk related to certain unrecognised firm commitments, denominated in USD, of the Group's subsidiaries operate in Mainland China and the hedges are considered to be effective to achieve such purpose. The related net fair value loss of approximately HK$451,539,000 (2016: gain of HK$317,437,000) was recognised in the consolidated statement of profit or loss and offset with a similar fair value gain on the hedged items, of which the loss of approximately HK$451,539,000 (2016: gain of HK$312,281,000) was from continuing operations. The foreign currency forward contracts not applied for hedge accounting are measured at fair value through profit or loss, and the related net fair value loss on foreign currency forward contracts of HK$418,200,000 (2016: gain of HK$196,608,000) was recognised in the consolidated statement of profit or loss during the year (note 6), of which the loss of HK$417,771,000 (2016: gain of HK$191,452,000) was from continuing operations.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BANK

	Notes	2017 HK$'000	2016 HK$'000
Cash and bank balances		**3,966,684**	6,670,305
Time deposits		**6,605,113**	988,341
		10,571,797	7,658,646
Less: Pledged for bills payable	25	**–**	(71,403)
Others		**–**	(1,262)
		–	(72,665)
Cash and cash equivalents		**10,571,797**	7,585,981

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$3,544,940,000 (2016: HK$3,378,806,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and restricted cash at bank are deposited with creditworthy banks with no recent history of default.

25. ACCOUNTS AND BILLS PAYABLES

An ageing analysis of the accounts and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 3 months	**4,000,236**	2,747,120
3 to 12 months	**135,863**	543,676
1 to 2 years	**11,077**	8,175
Over 2 years	**2,449**	8,537
	4,149,625	3,307,508

The accounts and bills payables are non-interest-bearing and are normally settled within one to three months.

As at 31 December 2017, none (31 December 2016: HK$463,388,000) of the Group's bills payable are secured by bank deposits of the Group (note 24).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective contractual interest rate (%)	**Maturity**	**HK$'000**	**Effective contractual interest rate (%)**	**Maturity**	**HK$'000**
Current						
Bank loans – unsecured	**1.53–4.79, LIBOR+0.3% –LIBOR+0.75%**	**2018**	**17,993,192**	0.83–8.3, LIBOR+0.45% –LIBOR+0.8%	2017	15,439,810
Bank loans – secured	**4.35–4.57**	**2018**	**107,667**	3.92–4.35	2017	134,152
Other loans – unsecured	**3.2–4.35**	**2018**	**906,198**	1.4–3.92, LIBOR+0.45%	2017	6,019,847
			19,007,057			21,593,809
Non-current						
Bank loans – unsecured	**4.75**	**2019**	**6,101**	4.41–5.18, LIBOR+1.3%, LIBOR+1.4%	2018–2023	1,418,520
Bank loans – secured	**4.9**	**2019–2022**	**48,450**	4.75–4.9	2018–2022	66,103
Other loans – unsecured	**1.08**	**2019–2027**	**119,630**	1.08	2018–2027	111,793
			174,181			1,596,416
			19,181,238			23,190,225

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**18,100,859**	15,573,962
In the second year	**35,411**	1,411,958
In the third to fifth years, inclusive	**19,140**	72,665
	18,155,410	17,058,585
Other loans repayable:		
Within one year or on demand	**906,198**	6,019,847
In the second to fifth years, inclusive	**53,833**	27,948
Beyond five years	**65,797**	83,845
	1,025,828	6,131,640
	19,181,238	23,190,225

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) certain property, plant and equipment of the Group with a net carrying amount of approximately HK$147,589,000 (2016: HK$281,562,000) (note 14); and

(ii) certain land use rights of the Group with a net carrying amount of approximately HK$15,527,000 (2016: HK$63,552,000) (note 15).

(b) Except for bank and other borrowings of HK$9,572,680,000 (2016: HK$9,735,507,000) which are denominated in United States dollars, and bank and other borrowings of nil (2016: HK$294,262,000) which are denominated in Hong Kong dollars, all other borrowings are denominated in RMB.

(c) The other loans represented loans from fellow subsidiaries and loans from the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Provision against inventories and non-cancellable purchase contracts HK$'000	Impairment of receivables HK$'000	Unrealised losses on derivative financial instruments HK$'000	Tax losses available for offsetting against future taxable profits HK$'000	Others HK$'000	Total HK$'000
At 1 January 2016	22,060	9,489	7,814	537,606	170,913	747,882
Deferred tax credited/(charged) to the statement of profit or loss during the year	10,621	4,301	6,561	(93,440)	(1,830)	(73,787)
Exchange realignment	(1,289)	(738)	(704)	(12,059)	(10,321)	(25,111)
At 31 December 2016 and at 1 January 2017	**31,392**	**13,052**	**13,671**	**432,107**	**158,762**	**648,984**
Deferred tax credited/(charged) to the statement of profit or loss during the year	**81,875**	**5,248**	**(1,842)**	**(150,405)**	**15,721**	**(49,403)**
Acquisition of a subsidiary (note 31)	**–**	**–**	**–**	**6,819**	**–**	**6,819**
Disposal of subsidiaries (notes 11&32)	**(4,330)**	**(15,057)**	**–**	**(7,676)**	**(33,522)**	**(60,585)**
Exchange realignment	**2,588**	**1,099**	**894**	**6,014**	**11,826**	**22,421**
Gross deferred tax assets at 31 December 2017	**111,525**	**4,342**	**12,723**	**286,859**	**152,787**	**568,236**

27. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value adjustment on acquisition of subsidiaries HK$'000	Unrealised gains on derivative financial instruments HK$'000	Others HK$'000	Total HK$'000
At 1 January 2016	45,331	7,364	14,116	66,811
Deferred tax charged/(credited) to the statement of profit or loss during the year	(2,771)	(6,126)	27,093	18,196
Exchange realignment	(670)	(152)	(187)	(1,009)
At 31 December 2016 and at 1 January 2017	**41,890**	**1,086**	**41,022**	**83,998**
Deferred tax charged/(credited) to the statement of profit or loss during the year	**(4,650)**	**80,246**	**(35,814)**	**39,782**
Acquisition of a subsidiary (note 31)	**156,151**	**–**	**–**	**156,151**
Disposal of subsidiaries (note 11)	**(12,411)**	**–**	**–**	**(12,411)**
Exchange realignment	**675**	**2,884**	**10**	**3,569**
Gross deferred tax liabilities at 31 December 2017	**181,655**	**84,216**	**5,218**	**271,089**

The Group has tax losses arising in Mainland China of HK$2,578,669,000 (2016: HK$3,560,166,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised in the future.

Pursuant to the PRC Corporate Income Tax Law, dividends income received by China Resident Enterprise ("CRE") from its investment in non-CREs established outside Mainland China will be subject to Chinese income tax whereas the related income tax expenses paid by these non-CREs incorporated in Hong Kong are deductible due to the availability of double taxation relief between Mainland China and Hong Kong. As at 31 December 2017, deferred tax liability of HK$74,029,000 (2016: HK$91,114,000) has not been recognised for corporate income tax liabilities that would be payable on the unremitted earnings in non-CREs of the Group as in the opinion of the directors, it is not probable to distribute such unremitted earnings in the foreseeable future.

As the Company is regarded as a CRE in the approval by the State Administration of Taxation, the Enterprise Income Tax Law and the Implementation Rules is applicable to the Company since 1 January 2013. The Company is required to withhold 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders on or after 1 January 2013.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Issued and fully paid:		
5,249,880,788 (2016: 5,249,880,788) ordinary shares	**9,771,664**	9,771,664

Share options

Details of the Company's share option scheme and share options issued under the scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating directors and eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but are not limited to, any directors (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors may propose. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in any 12-month period is limited to 1% of the shares in issue at the relevant time unless it is approved by shareholders in a general meeting of the Company.

Any grant of share options under the Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors. Any share options granted to a substantial shareholder of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by each grantee. The exercise period of the share options granted is determinable by the board of directors.

29. SHARE OPTION SCHEME (continued)

The exercise price of share options is determinable by the board of directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) HK$0.1.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 31 March 2011, a total of 45,300,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2011 Options"). The 2011 Options had an exercise price of HK$8.720 per share and an exercise period from 31 March 2013 to 30 March 2018. The closing price of the Company's share of the 2011 Options at the date of grant was HK$8.720 per share.

In accordance with the terms of the Scheme, with effect on 28 March 2013, the exercise prices and the outstanding number of share options of the 2011 Options had been adjusted (the "Adjustments") as a result of the rights issue of the Company made in 2012. After the Adjustments, the exercise prices of the 2011 Options is HK$8.220 per share and the outstanding number of share options of the 2011 Options has been increased by 2,646,000 shares.

On 4 December 2015, a total of 134,500,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2015 Options"), the new vesting schedule of which was approved by the Company's shareholders in the annual general meeting on 1 June 2016. The 2015 Options have an exercise price of HK$2.850 per share and an exercise period from 4 December 2017 to 3 December 2020. The closing price of the Company's share of the 2015 Options on 1 June 2016 was HK$2.560 per share.

The following 2011 Options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**8.220**	**42,491**	8.220	43,244
Forfeited during the year	**8.220**	**(1,314)**	8.220	(753)
At 31 December	**8.220**	**41,177**	8.220	42,491

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

29. SHARE OPTION SCHEME (continued)

The vesting periods, exercise price and exercise periods of the 2011 Options outstanding as at 31 December 2017 and 2016 are as follows:

2017	2016			
Number of options granted*			Exercise price*	
Total '000	Total '000	Vesting period (dd-mm-yyyy)	per share HK$	Exercise period (dd-mm-yyyy)
8,235	8,521	**31-3-2011 to 30-3-2013**	**8.220**	**31-3-2013 to 30-3-2018**
8,235	8,521	**31-3-2011 to 30-3-2014**	**8.220**	**31-3-2014 to 30-3-2018**
8,235	8,522	**31-3-2011 to 30-3-2015**	**8.220**	**31-3-2015 to 30-3-2018**
8,236	8,522	**31-3-2011 to 30-3-2016**	**8.220**	**31-3-2016 to 30-3-2018**
8,236	8,405	**31-3-2011 to 30-3-2017**	**8.220**	**31-3-2017 to 30-3-2018**
41,177	42,491			

* *The exercise price and number of share options were subject to adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The following 2015 Options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**2.850**	**131,790**	2.850	134,500
Forfeited during the year	**2.850**	**(22,976)**	2.850	(2,710)
At 31 December	**2.850**	**108,814**	2.850	131,790

29. SHARE OPTION SCHEME (continued)

The vesting periods, exercise price and exercise periods of the 2015 Options outstanding as at 31 December 2017 and 2016 are as follows:

2017	2016			
Number of options granted*			Exercise price*	
Total '000	Total '000	Vesting period (dd-mm-yyyy)	per share HK$	Exercise period (dd-mm-yyyy)
42,088	43,491	**4-12-2015 to 3-12-2017**	**2.850**	**4-12-2017 to 3-12-2020**
32,865	43,491	**4-12-2015 to 3-12-2018**	**2.850**	**4-12-2018 to 3-12-2020**
33,861	44,808	**4-12-2015 to 3-12-2019**	**2.850**	**4-12-2019 to 3-12-2020**
108,814	131,790			

* *The exercise price and number of share options shall be subject to adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair values of the 2011 Options and the fair values of the 2015 Options were approximately HK$173,616,000 (2016: HK$173,616,000) and HK$102,238,000 (2016: HK$102,238,000), respectively, of which the Group recognised share option expenses of HK$36,856,000 (2016: HK$43,747,000) during the year.

The fair values of the equity-settled share options were estimated as at the date of grant, using option pricing models, taking into account of the according terms and conditions. The following table lists the inputs to the models used:

	2011 Options	2015 Options
Date of grant	31 March 2011	1 June 2016
Dividend yield (%)	1.43	1.49
Expected volatility (%)	47.49	43.09
Historical volatility (%)	47.49	–
Risk-free interest rate (%)	2.369	1.00
Expected life of options (year)	7.0	5.0
Closing share price (HK$ per share)	8.72	2.56

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

29. SHARE OPTION SCHEME (continued)

The expected life of the options is determined with reference to the vesting term and original contractual term of the Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had approximately 149,991,000 (2016: 174,281,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 149,991,000 (2016: 174,281,000) additional ordinary shares of the Company and additional share capital of HK$648,594,840 (2016: HK$724,877,520) (before issue expenses).

At the date of the approval of these financial statements, the Company had share options outstanding under the Scheme, which represented approximately 2.8% (2016: 3.3%) of the Company's shares in issue as at that date.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Group's capital reserve mainly represents contributed surplus which is the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the previous nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises and foreign invested enterprises, a portion of the profits of the Group's joint ventures and foreign invested enterprises entities which are established in the PRC has been transferred to reserve funds which are restricted as to use.

31. BUSINESS COMBINATIONS

Business combinations for the year ended 31 December 2017

On 25 May 2017, COFCO Fortune Holdings Limited ("COFCO Fortune"), a wholly-owned subsidiary of the Company, entered into the equity transfer agreement with COFCO Food Sales & Distribution Co., Ltd., a wholly-owned subsidiary of China Foods Limited, pursuant to which COFCO Fortune shall acquire 100% equity interest in COFCO Fortune Foods Sales & Distribution Co., Ltd.* ("COFCO Fortune Sales") at a total cash consideration of RMB1,050,000,000 (equivalent to approximately HK$1,235,788,000).

The acquisition of COFCO Fortune Sales was approved by the independent shareholders of the Company at the extraordinary general meeting held on 7 July 2017 and the above transaction was completed in September 2017. Following the completion of the acquisition, COFCO Fortune Sales became a subsidiary of the Company. COFCO Fortune Sales is primarily engaged in the sales, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate, seasoning and grains).

31. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2017 (continued)

The fair value of the identifiable assets and liabilities of COFCO Fortune Sales at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	10,245
Intangible assets	19	621,985
Inventories		983,193
Deferred tax assets	27	6,819
Accounts and other receivables		917,939
Cash and cash equivalents		29,759
Accounts and other payables		(1,896,650)
Deferred tax liabilities	27	(156,151)
Total identifiable net assets at fair value		517,139
Goodwill on acquisition	16	718,649
		1,235,788
Satisfied by:		
Cash		1,235,788

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

31. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2017 (continued)

An analysis of the cash flows in respect of the acquisition of COFCO Fortune Sales is as follows:

	2017 HK$'000
Cash consideration	(1,235,788)
Cash and cash equivalents acquired	29,759
Net outflow of cash and cash equivalents in respect of the acquisition of COFCO Fortune Sales	(1,206,029)

During the year ended 31 December 2017, COFCO Fortune Sales generated revenue and net profit of approximately HK$12,050,687,000 and HK$41,523,000, respectively. Since the acquisition date, COFCO Fortune Sales contributed revenue of HK$1,968,757,000 and net profit of approximately HK$18,827,000 to the Group for the year ended 31 December 2017.

* *The English name of the entity referred in these consolidated financial statements represents the translation of the Chinese name for identification purpose only, as the English name have not been registered.*

Business combinations for the year ended 31 December 2016

The Group did not enter into any business combination during the year ended 31 December 2016.

32. DISPOSAL OF SUBSIDIARIES

The details of disposal of subsidiaries which were engaged in the discontinued operation during the year ended 31 December 2017 are included in note 11 to the financial statements.

On 8 September 2017, Full Extent, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement and loan transfer agreement (the "Agreement A") with COFCO Feed Co., Ltd. ("COFCO Feed"). Pursuant to the Agreement A, Full Extent shall sell its 100% equity interests in COFCO Feed Holdings Limited ("Feed Holdings") at a cash consideration of RMB7,248,783 (equivalent to approximately HK$8,698,000) and assign the loans owed to it by Feed Holdings at a cash consideration of RMB207,196,600 (equivalent to approximately HK$248,625,000).

Meanwhile, COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("EOGI"), a non-wholly-owned subsidiary of the Company, entered into the equity transfer agreement (the "Agreement B") with COFCO Feed. Pursuant to the Agreement B, EOGI shall sell its 32% equity interests in COFCO Feed (Dongtai) Co., Ltd. ("COFCO Feed (Dongtai)"), a non-wholly-owned subsidiary of Feed Holdings, at a cash consideration of RMB28,554,617 (equivalent to approximately HK$34,160,000).

The above transactions under Agreement A was completed on 22 December 2017, following which, Feed Holdings and its subsidiaries are no longer subsidiaries of the Company. The above transaction under Agreement B was in progress, and COFCO Feed (Dongtai) had become an associate of the Group as at 31 December 2017.

32. DISPOSAL OF SUBSIDIARIES (continued)

Details of the net assets disposed of under the share transfer agreement and the financial impacts are summarised below:

	Notes	2017 HK$'000
Net assets disposed of:		
Property, plant and equipment	14	**390,751**
Prepaid land premiums		**29,630**
Deposits for purchases of items of property, plant and equipment		**18,428**
Deferred tax assets	27	**7,536**
Inventories		**147,016**
Accounts and bills receivables		**107,546**
Prepayments, deposits and other receivables		**45,021**
Due from related companies		**130,948**
Cash and cash equivalents		**54,605**
Accounts and bills payables		**(166,690)**
Other payables and accruals		**(61,795)**
Interest-bearing bank and other borrowings		**(430,970)**
Due to related companies		**(267,028)**
Tax payable		**(121)**
Deferred income		**(3,584)**
		1,293
Exchange fluctuation reserve		**9,080**
		10,373
Gain on disposal of a subsidiary, net of tax and expenses		**24,895**
Tax and expenses		**4,735**
Gain on disposal of a subsidiary	5	**29,630**
		40,003
Satisfied by:		
Cash		**8,698**
Increase in investment in an associate		**31,305**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

32. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the cash flows in respect of the disposal of a subsidiary is as below:

	2017 HK$'000
Cash consideration on equity interest transfer	**8,698**
Cash consideration on loan transfer	**248,625**
Cash and bank balances disposed of	**(54,605)**
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**202,718**

33. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to five years, and that for land use rights for terms of fifty years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**69,295**	52,058
In the second to fifth years, inclusive	**15,047**	4,883
After five years	**38,574**	37,056
	122,916	93,997

34. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2017 **HK$'000**	**2016** **HK$'000**
Guarantees given to banks in connection with facilities granted to subsidiaries	**8,925,687**	9,874,661

As at 31 December 2017, the banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$4,035,009,000 (31 December 2016: HK$4,519,260,000).

35. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2017 **HK$'000**	**2016** **HK$'000**
Contracted, but not provided for:		
Property, plant and equipment	**247,651**	598,831

36. OTHER COMMITMENTS

Commitments under commodity futures contracts with aggregate notional amount:

	2017 **HK$'000**	**2016** **HK$'000**
Sales contracts	**13,276,023**	5,303,167
Purchases contracts	**167,084**	107,905

Commitments under foreign currency forward contracts with aggregate notional amount:

As at 31 December 2017, the Group has commitments under foreign currency forward contracts of sales with aggregate notional amount of HK$738,510,000 (31 December 2016: HK$52,602,000) and contracts of purchase with an aggregate notional amount of HK$11,045,947,000 (31 December 2016: HK$14,276,437,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2017 HK$'000	2016 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	**7,868,324**	11,677,311
Purchases of goods**	(i)	**35,243,039**	37,125,871
Operating lease rental paid*	(i)	**8,820**	5,492
Interest expense	(ii)	**42,682**	38,802
Brokerage fees paid*	(i)	**5,116**	5,569
Other service fee paid**	(i)	**80,663**	61,998
Processing service and other income**	(i)	**22,981**	21,640
Transactions with the ultimate holding company:			
Sales of goods**	(i)	**619,743**	1
Purchases of goods**	(i)	**3,389**	37,853
Operating lease rental paid*	(i)	**32,827**	39,787
Interest expense	(ii)	**46,300**	102,443
Transaction with an intermediate holding company:			
Interest expense	(ii)	**8,864**	–
Transactions with associates:			
Sales of goods**	(i)	**163,168**	322,171
Purchases of goods**	(i)	**158,389**	89,049
Interest income*	(iii)	**9,663**	7,179
Other income**	(i)	**15,431**	26,951
Logistics service and storage fee paid*	(i)	**22,621**	6,058
Transactions with related companies[#]:			
Sales of goods**	(i)	**1,338,910**	715,466
Purchases of goods**	(i)	**1,455,216**	471,338
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods	(i)	**300,507**	305,084
Purchases of goods and services	(i)	**242,389**	14,483

37. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

* *These related party transactions also constituted connected transactions or continuing connected transactions discloseable in accordance with the Listing Rules.*

** *A certain portion of these related party transactions constituted connected transactions or continuing connected transactions discloseable in accordance with the Listing Rules.*

Related companies are companies under significant influence of the Group's ultimate holding company.

Notes:

(i) For the years ended 31 December 2016 and 31 December 2017, all transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.

(ii) The interest expense to fellow subsidiaries arose from the loans from fellow subsidiaries which were unsecured and bore interest at rates ranged from 1.40% to 4.95% (2016: 0.9% to 4.6%) per annum. The interest expenses to the ultimate holding company arose from the loans from COFCO which were unsecured and bore interest at rates ranged from 1.08% to 3.92% (2016: 1.08% to 3.92%) per annum. The interest expense to an intermediate holding company arose from the loans from COFCO (Hong Kong) Limited which were unsecured and bore interest rate of LIBOR+1.3% per annum.

(iii) The interest income from associates arose from loans to an associate, which were unsecured and bore interest at rates ranged from 3.92% to 4.35% (2016: 3.92% to 4.82%) per annum.

(b) Outstanding balances with related parties

Except for the following, balances with the related parties as at the end of the reporting period are unsecured, interest-free and have no fixed terms of repayment:

(1) Loans from fellow subsidiaries of HK$906,198,000 (31 December 2016: HK$2,598,980,000) bear interest at rates ranged from 3.20% to 4.35% (31 December 2016: 1.40% to 3.92%) per annum and are repayable within one year. Loans from the ultimate holding company of HK$119,630,000 (31 December 2016: HK$3,532,660,000) bear interest at a rate of 1.08% (31 December 2016: 1.08% to 3.92%) per annum and repayable from 2019 to 2027. As at 31 December 2016, except for long-term loan of HK$111,793,000 which are repayable from 2018 to 2027, all other loans from the ultimate holding company are repayable within one year.

(2) Amounts due to non-controlling shareholders of subsidiaries of HK$202,644,000 (31 December 2016: HK$197,171,000) are financing in nature and not repayable within one year.

(3) Details of the Group's loans to its associates as at the end of the reporting period are included in note 17 to the financial statements.

(c) Commitments with related parties

As at 31 December 2017, the Group had outstanding purchase agreements with COFCO Resources S.A., a fellow subsidiary of the Group, pursuant to which the Group agreed to purchase soybean from COFCO Resources S.A. of approximately HK$2,838,337,000 (31 December 2016: HK$2,422,658,000). The Group expects that the transaction will take place in 2018.

The amount of total transactions with related parties for the year is included in note 37(a) to the financial statements. The transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

37. RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel of the Group

	2017 HK$'000	2016 HK$'000
Short term employee benefits	**24,770**	9,362
Post-employment benefits	**1,785**	470
Equity-settled share option expense	**1,590**	2,943
Total compensation paid to key management personnel	**28,145**	12,775

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

(e) Transactions and balances with other state-owned enterprises

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Group enters into extensive transactions covering, but not limited to, purchases of agricultural raw materials, sales of diversified products, purchases of property, plant and equipment and other assets, receiving of services, and making deposits and borrowings with State-owned Enterprises, other than the COFCO group, in the normal course of business at terms comparable to those with other non-state-owned enterprises. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the business, and that dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions constitutes a related party transaction that requires separate disclosure.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2017 are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	100	Investment holding
COFCO Agri-Industries Management Co., Ltd. ***	The PRC/ Mainland China	US$10,000,000	100	Provision of management services
Glory River Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	Investment holding
China Agri Trading (HK) Limited *	Hong Kong/ Hong Kong	Ordinary HK$10,000	100	Trading of agricultural products
COFCO Oils & Fats Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$2	100	Investment holding
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("EOGI") ***	The PRC/ Mainland China	US$145,000,000	54	Production and sale of edible oil, and trading of soybeans and rapeseeds
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. **	The PRC/ Mainland China	US$84,159,095	70.62	Production and sale of edible oil
China Agri Oils Trading Limited*	Hong Kong/ Hong Kong	Ordinary HK$1	100	Trading of soybeans and oils
中糧四海豐（張家港）貿易有限公司****	The PRC/ Mainland China	RMB20,000,000	80.58	Trading of soybeans and oils
COFCO Oils (Qinzhou) Co., Ltd.**	The PRC/ Mainland China	RMB948,036,187	95.32	Production and sale of edible oil
COFCO Xinsha Oils & Grains Industries (Dongguan) Co., Ltd.***	The PRC/ Mainland China	US$34,850,000	100	Production and sale of edible oil
COFCO Excel Joy (Tianjin) Co., Ltd. **	The PRC/ Mainland China	US$269,068,392.44	75.95	Production and sale of edible oil

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Malt (Dalian) Co., Ltd. ***	The PRC/ Mainland China	US$32,526,000	100	Production and sale of brewing materials
COFCO Malt (Jiangyin) Co., Ltd. ***	The PRC/ Mainland China	US$35,000,000	100	Production and sale of brewing materials
COFCO International (Beijing) Co., Ltd. ***	The PRC/ Mainland China	RMB285,000,000	100	Trading of rice
COFCO Jiangxi Rice Processing Limited **	The PRC/ Mainland China	RMB110,200,000	83.47	Processing and trading of rice
COFCO Dalian Rice Processing Limited ***	The PRC/ Mainland China	RMB196,600,000	100	Processing and trading of rice
COFCO Suihua Rice Processing Limited ***	The PRC/ Mainland China	RMB194,050,000	100	Processing and trading of rice
Shenyang Xiangxue Flour Limited Liability Company **	The PRC/ Mainland China	RMB106,108,449	68.71	Production and sale of wheat products
COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd. ***	The PRC/ Mainland China	US$17,340,000	100	Production and sale of wheat products
中糧（成都）糧油工業有限公司***	The PRC/ Mainland China	US$84,620,000	100	Production and sale of edible oil, rice, wheat, feed and biochemicals
COFCO Fortune Foods Sales & Distribution Co., Ltd.***	The PRC/ Mainland China	RMB100,000,000	100	Distribution of consumer pack edible oils and other consumer food products
中糧（東莞）糧油工業有限公司***	The PRC/ Mainland China	RMB212,600,000	100	Production and sale of edible oil and rice

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

* *Audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network*

** *Sino-foreign equity joint ventures*

*** *Wholly-foreign-owned enterprises*

**** *Domestic-funded enterprises*

Except for China Agri Oils Trading Limited and China Agri Trading (HK) Limited, the statutory audits for the above subsidiaries were not performed by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Except for China Agri-Industries Limited, COFCO Agri-Industries Management Co., Ltd. and Glory River Holdings Limited, all of the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

39. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of a subsidiary of the Company, namely EOGI, which in the opinion of the directors, has material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests	**46%**	46%

	2017 HK$'000	2016 HK$'000
Profit for the year allocated to non-controlling interests	**168,811**	42,169
Accumulated balances of non-controlling interests at the reporting dates	**2,660,951**	2,319,421

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

39. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of EOGI. The amounts disclosed are before any inter-company eliminations:

	2017 HK$'000	**2016 HK$'000**
Revenue and other income	**19,541,534**	17,084,781
Total expenses	**(19,174,554)**	(16,992,606)
Profit for the year	**366,980**	92,175
Attributable to:		
Owners of EOGI	**366,974**	91,671
Non-controlling interests of EOGI	**6**	504
Total comprehensive income/(loss) for the year	**742,464**	(255,220)
Attributable to:		
Owners of EOGI	**742,458**	(255,724)
Non-controlling interests of EOGI	**6**	504
Current assets	**7,143,769**	6,041,496
Non-current assets	**1,954,247**	1,919,599
Current liabilities	**(3,137,915)**	(2,769,543)
Non-current liabilities	**(44,968)**	(18,884)
Net cash flows from operating activities	**760,254**	162,599
Net cash flows from/(used in) investing activities	**(656,334)**	830,735
Net cash flows used in financing activities	**(119,714)**	(952,212)
Effect of foreign exchange rate changes, net	**(1,566)**	734
Net increase/(decrease) in cash and cash equivalents	**(17,360)**	41,856

40. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the principal associates as at 31 December 2017 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Great Ocean Oil and Grains Industries (Fang Cheng Gang) Co., Ltd.	US$69,500,000	The PRC	40	Soybean oil extraction, and refining packaging and production of soybean meal
Laiyang Luhua Fragrant Peanut Oil Co., Ltd. #	US$19,219,300	The PRC	24	Production and sale of peanut oil
Shandong Luhua Fragrant Peanut Oil Co., Ltd. #	RMB197,284,200	The PRC	24	Production and sale of peanut oil
COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd. #	US$51,557,000	The PRC	50.45	Production and sale of edible oil
Lassiter Limited *#	Ordinary share US$100	Samoa	49	Investment holding
Shenzhen Nantian Oilmills Co., Ltd. #	US$10,000,000	The PRC	20	Oilseeds processing

* *Lassiter Limited has a 61.74% equity interest in Shenzhen Southseas Grains Industries Ltd., a Sino-foreign equity joint venture registered in the PRC, the principal activity of which is the production and sale of wheat products in Mainland China.*

\# *Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.*

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the share of profits and losses of associates for the year or formed a substantial portion of the investments in associates of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

All of the above associates are indirectly held by the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2017	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	30,536	30,536
Accounts and bills receivables	–	3,138,320	–	3,138,320
Other receivables due from Sinograin	–	520,425	–	520,425
Financial assets included in prepayments, deposits and other receivables*	–	1,363,614	–	1,363,614
Derivative financial instruments	376,607	–	–	376,607
Due from related parties	–	1,918,912	–	1,918,912
Cash and cash equivalents	–	10,571,797	–	10,571,797
Total	376,607	17,513,068	30,536	17,920,211

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial assets (continued)

2016	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	25,622	25,622
Accounts and bills receivables	–	2,902,576	–	2,902,576
Other receivables due from Sinograin	–	7,472,001	–	7,472,001
Financial assets included in prepayments, deposits and other receivables*	–	1,678,913	–	1,678,913
Derivative financial instruments	266,476	–	–	266,476
Due from related parties	–	2,891,470	–	2,891,470
Restricted cash at bank	–	72,665	–	72,665
Cash and cash equivalents	–	7,585,981	–	7,585,981
Total	266,476	22,603,606	25,622	22,895,704

* *Included in "Prepayments, deposits and other receivables" of HK$4,555,367,000 (31 December 2016: HK$4,390,597,000) in the consolidated statement of financial position are prepayments to suppliers of HK$1,714,906,000 (31 December 2016: HK$1,797,126,000), and deposits relating to commodity futures contracts of HK$628,971,000 (31 December 2016: HK$795,734,000) and other miscellaneous prepayments, deposits and other receivables of HK$2,211,490,000 (31 December 2016: HK$1,797,737,000), of which HK$1,363,614,000 (31 December 2016: HK$1,678,913,000) are financial assets as disclosed above.*

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial liabilities

2017	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payables	–	**4,149,625**	**4,149,625**
Other payables*	–	**3,243,151**	**3,243,151**
Bank borrowings due to ADBC	–	**522,820**	**522,820**
Interest-bearing bank and other borrowings	–	**19,181,238**	**19,181,238**
Derivative financial instruments	**238,381**	–	**238,381**
Due to related parties	–	**1,136,297**	**1,136,297**
Total	**238,381**	**28,233,131**	**28,471,512**

2016	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payables	–	3,307,508	3,307,508
Other payables*	–	2,551,143	2,551,143
Bank borrowings due to ADBC	–	7,452,314	7,452,314
Interest-bearing bank and other borrowings	–	23,190,225	23,190,225
Derivative financial instruments	149,178	–	149,178
Due to related parties	–	1,566,878	1,566,878
Total	149,178	38,068,068	38,217,246

* *Included in "Other payables and accruals" of HK$6,261,660,000 (31 December 2016: HK$5,013,664,000) in the consolidated statement of financial position are advances from customers of HK$2,651,834,000 (31 December 2016: HK$2,311,348,000), accrued staff payroll and benefits of HK$631,864,000 (31 December 2016: HK$562,669,000), and other miscellaneous payables and accruals of HK$2,977,962,000 (31 December 2016: HK$2,139,647,000), of which HK$3,243,151,000 (31 December 2016: HK$2,551,143,000) are financial liabilities as disclosed above.*

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017 HK$'000	**2016 HK$'000**	**2017 HK$'000**	**2016 HK$'000**
Financial assets				
Derivative financial instruments	**376,607**	266,476	**376,607**	266,476
Financial liabilities				
Derivative financial instruments	**238,381**	149,178	**238,381**	149,178
Interest-bearing bank and other borrowings	**19,181,238**	23,190,225	**19,172,233**	23,168,549
	19,419,619	23,339,403	**19,410,614**	23,317,727

Management has assessed that the fair values of cash and cash equivalents, restricted cash at bank, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, other receivables due from Sinograin, bank borrowings due to ADBC, current balances with related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current balances with related parties, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for amounts due to related parties and interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally established commodity trading exchanges or financial institutions with good credit ratings. Derivative financial instruments, including commodity futures contracts and foreign currency forward contracts, are measured using market quoted prices or quoted prices from financial institutions with which the foreign currency forward contracts are entered into. The carrying amounts of commodity futures contracts and foreign currency forward contracts are the same as their fair values.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2017, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on other financial instruments recognised at fair value.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

	Fair value measurement using			
As at 31 December 2017	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	**376,607**	**–**	**–**	**376,607**
As at 31 December 2016	(Level 1) HK$'000	(Level 2) HK$'000	(Level 3) HK$'000	Total HK$'000
Derivative financial instruments	266,476	–	–	266,476

Liabilities measured at fair value

	Fair value measurement using			
As at 31 December 2017	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	**238,381**	**–**	**–**	**238,381**
As at 31 December 2016	(Level 1) HK$'000	(Level 2) HK$'000	(Level 3) HK$'000	Total HK$'000
Derivative financial instruments	149,178	–	–	149,178

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed

	Fair value measurement using			
As at 31 December 2017	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	**–**	**19,172,233**	**–**	**19,172,233**
As at 31 December 2016	(Level 1) HK$'000	(Level 2) HK$'000	(Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	–	23,168,549	–	23,168,549

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments other than derivatives, comprise bank and other interest-bearing loans, cash and cash equivalents and restricted cash at bank. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and bills receivables, accounts and bills payables and balances with related parties, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign currency forward contracts and commodity futures contracts. The purpose is to manage the foreign currency risks and commodity price risk arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks with material impact on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term interest-bearing bank and other borrowings with a floating interest rate. The effective interest rates and terms of repayment of the interest-bearing bank and other borrowings of the Group are disclosed in note 26. It is the Group's policy to negotiate the terms of the interest-bearing bank and other borrowings in order to minimise the respective finance cost.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2017	**100**	**(546)**	**(431)**
	(100)	**546**	**431**
2016	100	(14,846)	(11,254)
	(100)	14,846	11,254

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 1% (2016: 2%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 47% (2016: 47%) of costs are denominated in currencies other than the functional currency of the operating units incurring the purchases. The Group usually enters into foreign currency forward contracts to manage its foreign currency risks, especially the foreign exchange risk of US dollars. As of 31 December 2017, the Group had open foreign currency forward contracts which were entered into to manage the foreign currency risk of its liabilities or assets denominated in foreign currency of its operating units, as well as to manage the foreign currency risk of its future cash flows that are denominated in foreign currency of its operating units. In the opinion of the directors, the Group's business is not subject to significant foreign exchange risk of US dollars at the end of the reporting period.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in basis points %	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2017			
If Renminbi weakens against Hong Kong dollar	**5**	**–**	**(1,436,628)**
If Renminbi strengthens against Hong Kong dollar	**(5)**	**–**	**1,436,628**
2016			
If Renminbi weakens against Hong Kong dollar	5	–	(1,482,592)
If Renminbi strengthens against Hong Kong dollar	(5)	–	1,482,592

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit before tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period for presentation purposes.

Credit risk

The Group has no significant concentration of credit risk. The carrying amount of the accounts receivable represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Accounts and bills payables	**4,149,625**	**–**	**–**	**4,149,625**
Other payables	**3,243,151**	**–**	**–**	**3,243,151**
Derivative financial instruments	**238,381**	**–**	**–**	**238,381**
Bank borrowings due to ADBC	**522,820**	**–**	**–**	**522,820**
Interest-bearing bank and other borrowings	**19,036,700**	**40,550**	**123,950**	**19,201,200**
Due to related parties	**1,136,297**	**–**	**–**	**1,136,297**
	28,326,974	**40,550**	**123,950**	**28,491,474**

	2016			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Accounts and bills payables	3,307,508	–	–	3,307,508
Other payables	2,551,143	–	–	2,551,143
Derivative financial instruments	149,178	–	–	149,178
Bank borrowings due to ADBC	7,452,314	–	–	7,452,314
Interest-bearing bank and other borrowings	21,629,767	1,438,941	171,045	23,239,753
Due to related parties	1,566,878	–	–	1,566,878
	36,656,788	1,438,941	171,045	38,266,774

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Commodity price risk

The raw material costs and product selling prices of the Group's soybean oil, soybean meal, and other related commodity products are substantially correlated to the prices of the future commodities markets. Commodity price risk arises from price fluctuations of raw material cost and product selling price during the delivery, production and storage processes. To minimise the Group's commodity price risk exposure, the Group enters into commodities futures contracts of soybeans, soybean meal, soybean oil and corn etc.

The following table demonstrates the sensitivity to a reasonably possible change in the Group's major raw material prices, with all other variables held constant and no hedging investments available, of the Group's profit before tax and the Group's equity.

	Change in raw materials prices %	Change in profit before tax HK$'000	Change in equity HK$'000
2017			
Soybeans	**5**	**2,101,414**	**1,559,286**
Rice	**5**	**501,716**	**376,278**
Barley	**5**	**78,719**	**59,024**
Wheat	**5**	**389,143**	**291,857**
2016			
Soybeans	5	1,569,874	1,193,167
Corn	5	333,779	249,446
Rice	5	246,611	208,252
Barley	5	91,016	75,265
Wheat	5	366,980	325,342

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to owners of the Company. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents and restricted cash at bank. The gearing ratios as at the end of the reporting period were as follows:

	2017 HK$'000	2016 HK$'000
Interest-bearing bank and other borrowings	**19,181,238**	23,190,225
Less: Cash and cash equivalents	**(10,571,797)**	(7,585,981)
Restricted cash at bank	**–**	(72,665)
Net debt	**8,609,441**	15,531,579
Equity attributable to owners of the Company	**29,855,212**	26,249,345
Gearing ratio	**28.8%**	59.2%

44. STATEMENT OF COMPANY FINANCIAL POSITION

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**6**	13
Investments in subsidiaries	**13,653,376**	20,458,653
Total non-current assets	**13,653,382**	20,458,666
CURRENT ASSETS		
Due from subsidiaries	**16,243**	15,831
Dividend receivable	**36**	33
Prepayments, deposits and other receivables	**3,323**	1,144
Cash and cash equivalents	**6,664,679**	1,101,479
Total current assets	**6,684,281**	1,118,487
CURRENT LIABILITIES		
Other payables and accruals	**12,285**	27,786
Due to subsidiaries	**–**	221,944
Total current liabilities	**12,285**	249,730
NET CURRENT ASSETS	**6,671,996**	868,757
TOTAL ASSETS LESS CURRENT LIABILITIES	**20,325,378**	21,327,423
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**–**	775,700
Total non-current liabilities	**–**	775,700
Net assets	**20,325,378**	20,551,723
EQUITY		
Share capital	**9,771,664**	9,771,664
Other reserves (note)	**10,553,714**	10,780,059
Total equity	**20,325,378**	20,551,723

DONG Wei
Director

WANG Qingrong
Director

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

44. STATEMENT OF COMPANY FINANCIAL POSITION (continued)

Note:

	Notes	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016		5,689,788	165,804	4,420,244	10,275,836
Total comprehensive income for the year		–	–	460,476	460,476
Equity-settled share option arrangements	29	–	43,747	–	43,747
At 31 December 2016 and at 1 January 2017		5,689,788	209,551	4,880,720	10,780,059
Total comprehensive income for the year		–	–	230,288	230,288
Dividend declared		–	–	(493,489)	(493,489)
Equity-settled share option arrangements	29	–	36,856	–	36,856
At 31 December 2017		5,689,788	246,407	4,617,519	10,553,714

The Company's capital reserve mainly represents contributed surplus which is the excess of carrying amount of China Agri-Industries Limited acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the previous nominal value of the Company's shares issued in exchange therefor.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share capital account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans HK$'000
At 1 January 2017	23,190,225
Changes from financing cash flows	(2,448,842)
Foreign exchange movement	689,952
Decrease arising from disposal of subsidiaries	(2,250,097)
At 31 December 2017	19,181,238

46. COMPARATIVE AMOUNTS

The comparative consolidated statement of profit or loss has been re-presented as if the discontinued operation during the current year had been discontinued at the beginning of the comparative period (note 11).

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

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