2017 ANNUAL REPORT

GLOBAL Bio-Chem Technology Group Company Limited

大成生化科技集團有限公司*

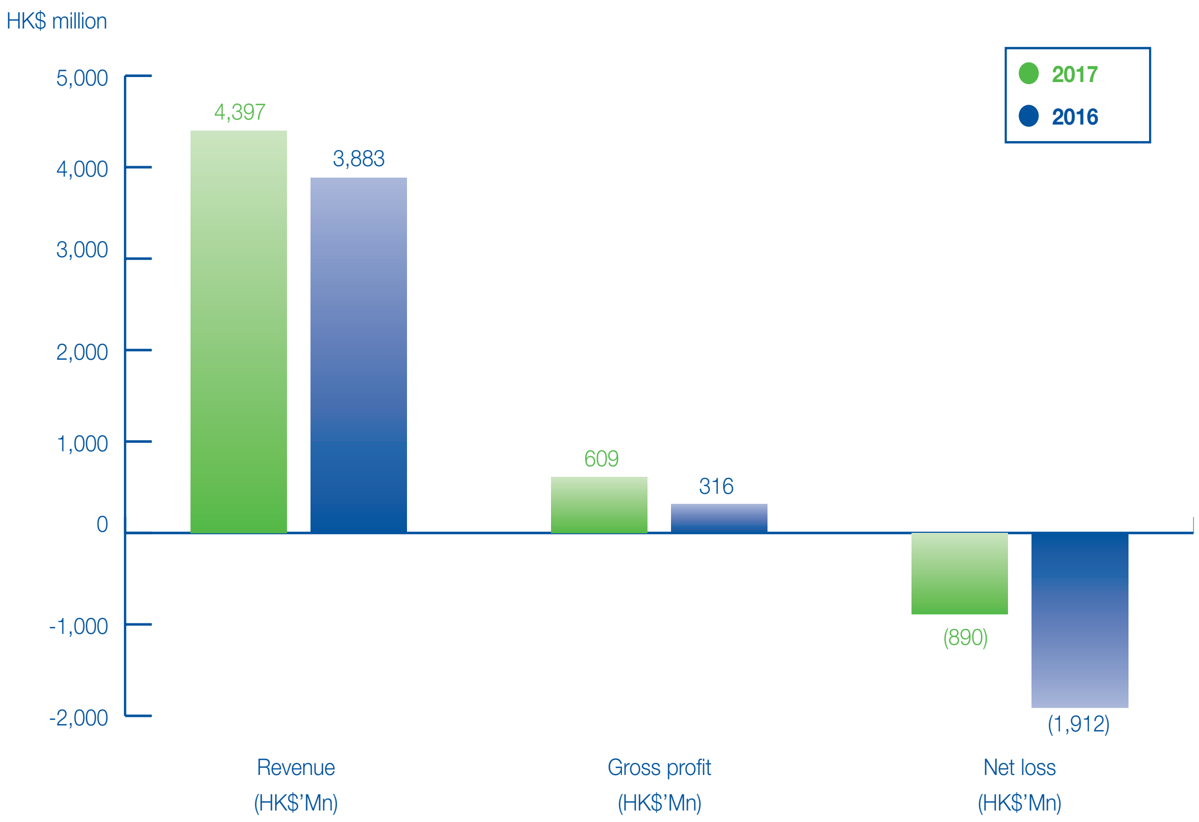
Stock Code: 00809

* For identification purpose only

Contents

Financial Highlights

	2017	2016	Change %
Revenue (HK$'Mn)	**4,397**	3,883	13.2
Gross profit (HK$'Mn)	**609**	316	92.8
Loss for the year (HK$'Mn)	**(890)**	(1,912)	N/A
Loss attributable to owners of the Company (HK$'Mn)	**(837)**	(1,851)	N/A
Basic loss per share (HK cents)	**(13)**	(29)	N/A
Proposed final dividend per share (HK cents)	**–**	–	N/A



Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Yuan Weisen *(Chairman)*
(appointed on 23 March 2017)
Mr. Zhang Zihua *(appointed on 23 March 2017)*
Mr. Liu Shuhang *(appointed on 26 January 2018)*
Ms. Wang Qiu *(resigned on 23 March 2017)*
Mr. Wang Jian *(resigned on 23 March 2017)*
Mr. Li Shuguang *(resigned on 23 March 2017)*

Non-executive Directors
Mr. Qiu Zhuang *(resigned on 23 March 2017)*
Mr. Xing Lizhu *(resigned on 23 March 2017)*

Independent non-executive Directors
Mr. Ng Kwok Pong
Mr. Yeung Kit Lam
Ms. Chiu Lai Ling, Shirley

COMPANY SECRETARY

Mr. Lee Chi Yung, ACCA, HKICPA

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1104
Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

AUDITOR

Mazars CPA Limited
42nd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners
40th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

The Agriculture Bank of China
6 Beian Road
Nanguan District
Changchun, Jilin Province
The People's Republic of China

China Construction Bank
No. 810 Xian Road
Changchun, Jilin Province
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
Cricket Square
PO Box 1093, Boundary Hall
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.globalbiochem.com

STOCK CODE

00809

Message to Shareholders

Dear Shareholders,

Looking back at 2017, the national agricultural policy reform has led to the marketisation of corn price and stabilisation of raw material prices, which had contributed to the improvement of the Group's operational efficiency. At the same time, provincial governments in northeast China offered corn purchase subsidies to qualified corn refiners and effectively reduced the Group's production costs, resulting in significant improvement in the Group's gross profit. Although the relevant subsidy policy expired in May 2017 and posed an impact on the Group's business performance in the second half of the year, the Group strived to enhance its overall operational efficiency which resulted in the continuous improvement in its annual results.

BUSINESS REVIEW

Driven by the improvement in upstream operating environment, the Group recorded a 13% increase in sales revenue for the whole year, while gross profit surged significantly by 92% year-on-year. However, affected by the increase in corn purchase cost in the second half of the year, the Group recorded a gross profit margin of 13.9% for the whole year, which was lower than that of the first half of the year. Despite this, it still represents a 5.8 percentage points improvement year-on-year as compared to the previous year.

Benefitting from the increased operational efficiency in Xinglongshan and Jinzhou, the upstream business returned to profitability and recorded gross profit during the year under review. Although the cost of corn in the second half of the year increased as a result of the expiry of provincial government subsidies policy, the national agricultural policy reform had led to the gradual stabilisation of corn price which facilitated the steady development of the upstream business. From the perspective of the Group, the upstream production provides the necessary raw materials for downstream production and therefore has strategic value to the integrated production. It also helps to maintain certain degree of competitive advantage for the Group's downstream high-value-added products.

The Group's downstream amino acid products continued to maintain steady growth. During the year under review, revenue from the amino acid business increased by 9% to HK$2,101,500,000, accounting for approximately 48% of the Group's total revenue, and gross profit increased by 29% year-on-year. During the year, the Group continued to upgrade its facilities and adjust its product mix to enhance the operational efficiency of amino acid products and achieved satisfactory results.

The Group's spun-off sweeteners business also experienced a year-on-year increase in both revenue and gross profit during the year under review. The significant price difference between corn sweeteners and sugar during the year, coupled with commencement of operation of the new sweetener capacity which was relocated to Xinglongshan, have led the sweetener business to gradually return to healthy development.

During the year under review, the Group's overall liabilities and finance costs remained high, putting immense pressure on the Group's operating performance. The Group's controlling shareholder, Nongtou, continued to provide strong support to the Group with respect to corn supply and financial arrangements during the year under review. Through the corn purchasing agreement entered into with Jilin Jiliang Assets Supply Chain Management Co. Ltd., a subsidiary of Nongtou, the Group could ensure a stable supply of corn kernels and lower the cost of raw materials. On the other hand, Nongtou also granted longer credit terms for the Group, which has effectively eased the Group's cash flow pressure.

With respect to the Group's proposed disposal of certain pieces of land in Luyuan District, Changchun, and the buildings erected thereon, the management of the Group continued to actively negotiate with the municipal government during the year, in order to properly dispose of the assets in Luyuan District as soon as possible. If the disposal of the assets in Luyuan is materialised, this will provide the Group with the necessary funds to expedite the relocation of the facilities to Xinglongshan, allowing the Xinglongshan production base to achieve higher operational efficiency and economies of scale.

OUTLOOK

The central government announced in 2018 the No. 1 Document on deepening supply-side structural reform in agriculture. This year, the No. 1 Document will focus on rural revitalisation strategy, proposing to shift the focus of agricultural development from quantity-oriented to quality-oriented. Agricultural transformation is expected to be accelerated, with further deepening of the reforms on the food storage system and the pricing mechanism of agricultural products. With the continued implementation of the supply-side reforms, corn price will thus be more market-oriented. It is expected that periodic and seasonal fluctuations of corn price will still exist in 2018, but the overall trend will be more stable.

The Group has been aware that the granting of corn purchase subsidies to enterprises would never be a lasting policy. The government's move to end corn stockpiling scheme has already played a positive role in the marketisation of corn prices. In the long run, the Group still needs to effectively control its corn cost through the management of corn procurement channels and the flexible adjustment of purchase volume in response to market changes to avoid tied-up capital.

On the other hand, China has gradually raised environmental protection and emission standards of different industries, especially the heavily polluted livestock farming industry. In the long term, this can help consolidate the livestock farming sector and improve relevant technologies with respect to livestock farming, as well as pay more attention to animal nutrition studies. All this will contribute to the stable development of the amino acids product series. It is expected that lysine price will stay at a healthy range of RMB8,000 per metric tonne ("MT") and RMB10,000 per MT in 2018.

The current agricultural policy of the central government emphasises the supply of green and quality agricultural products, and promotes the development of environmental friendly agriculture. The Group will continue to leverage its expertise in scientific research and strengthen the cooperation relationship with local research labs, for the development of green products, and dedicate effort in the research and development of animal nutrition and health supplement related products. The Group also actively collaborates with local universities for the development of new products. Some of these new products are close to completion, which will be shortly launched to the market on a small-scale to test market response. In respect of the market development of new products, the Group will adopt a prudent approach and seek strategic cooperation to consolidate the expertise and competitive edges of different companies, so as to minimise the relevant investment. At the same time, the Group will also explore the potential of the abundant agricultural resources of Nongtou in the northeast region that will complement its own business development to fully unleash the potential synergies.

On the other hand, the Group will continue to push forward the relocation projects in the Xinglongshan site, which will further enhance overall operational efficiency by upgrading facilities and optimising production processes.

Message to Shareholders

Having experienced years of hardships, the Group is moving towards a healthy development with the support of its controlling shareholder and the improved macro environment. While we see improvements in the Group's overall operational performance, however, we still need to remain vigilant in light of the complex and changing market environment and adopt a cautious approach to ensure our business gradually get back on track.

Finally, I would like to take this opportunity to thank our staff for their continued dedication and loyalty. At the same time, I would also like to express my sincere gratitude to banks, business partners and shareholders for their long-term support to the management. The Board of Directors and I as well as the management team are determined to and will continue to steer the Group to recovery.

Chairman
Yuan Weisen

26 March 2018

Global Bio-chem Technology Group Company Limited (the "Company" or "GBT") and its subsidiaries (collectively, the "Group") is principally engaged in the manufacture and sale of corn refined products, amino acids, corn sweeteners and polyol chemicals. The upstream corn refinery segment serves as a feedstock which break down corn kernels into corn starch, gluten meal, fibre and corn oil; and corn starch is further refined through a series of biochemical and/or chemical processes into a wide range of high value-added downstream products.

BUSINESS REVIEW

The selling prices of the Group's products are affected by the prices of their raw materials (principally corn kernels and corn starch), the demand and supply of each of the products and their respective substitutes in the market and the variety of product specifications.

During the Year, the continuous effort of the State Government to stimulate economic growth and development has lifted the overall operating environment in the PRC. Domestic demand has been recovering in a slow but steady pace.

Global corn production for the year 2017/18 is estimated at 1,042 million metric tonne ("MT"), down from the record high of 1,076 million MT in 2016/17, according to the estimates from the U.S. Department of Agriculture. Due to ample supply in the market as a result of good harvest and high ending stocks, the international corn price dropped to 351 US cents per bushel (equivalent to RMB1,021 per MT) (end of 2016: 425 US cents per bushel) by the end of the Year. In the PRC, corn production in 2017/18 dropped slightly to 216 million MT (2016/17: approximately 220 million MT), with average market price maintained at approximately RMB1,777 per MT (end of 2016: RMB1,735 per MT) by the end of 2017. As disclosed in the Company's interim report for the six months ended 30 June 2016 ("2016 Interim Report"), in an official government document "Opinion on the implementation of the establishment of subsidy programme to corn producers"（關於建立玉米生產者補貼制度的實施意見）dated 19 June 2016, the State Government confirmed the abolition of the state procurement of corn in Heilongjiang, Jilin, Liaoning and Inner Mongolia Autonomous Region, and the introduction of direct subsidy programme in these provinces in 2016/17 corn harvest season. As a result, corn price in China was able to be determined by market mechanisms. In addition, certain provincial governments in northeast China introduced direct subsidies to corn refiners which purchase local corn during the harvest months of 2016. For instance, the Jilin provincial government and the Liaoning provincial government offer subsidies of RMB200 and RMB100, respectively, for qualified corn refiners for every MT of corn purchased locally during the months of October 2016 till the end of April 2017 which processed before June 2017. During the Year, the Group was entitled to HK$142.4 million of subsidies for the purchase of corn kernels – the added cost advantage has contributed to the turnaround of the Group's upstream business for the Year. However, the improved operating environment has attracted a number of suspended capacities to resume operation, which put pressure on the upstream market. On the other hand, with the expiry of the corn subsidies by the provincial governments in northeast China since May 2017, the cost of production has been driven up. As a result, the Group's upstream business for the second half of the Year was put under pressure.

With respect to the Group's lysine business, years of consolidation has eliminated a number of inefficient capacities in the market. Although there is still overcapacity in China, industry players are moving towards building demands and promoting a healthier operating environment. Destructive pricing strategy and pushing out large volume are no longer common in the Chinese lysine market. Although short-term volatility in lysine prices driven by the supply and demand of related products such as meat and soybean could be observed, the lysine market is gradually getting back to equilibrium. During the Year, lysine price has stayed within a healthy range of RMB8,000 to RMB10,000 per MT. Nevertheless, the expiry of the provincial corn purchase subsidies in May 2017 had an impact on the performance of the Group's amino acids business during the second half of the Year. The Group will continue to closely monitor market changes and adjust its product mix and optimise utilisation of production facilities to ensure the healthy operation of the amino acids segment.

As for the sugar market, increased global production has dragged down international sugar price from its peak of 23.90 US cents per pound (equivalent to RMB3,457 per MT) in 2016 to 15.01 US cents per pound (equivalent to RMB2,223 per MT) by the end of the Year. In the PRC market, domestic sugar production increased by 1.2 million MT to 10.5 million MT in 2017/18 harvest, with expanded sugarbeet and sugarcane planting area. As a result, domestic sugar price dropped to RMB6,418 per MT (end of 2016: RMB6,752 per MT) by the end of the Year. The huge difference between international sugar price and domestic sugar price has increased the competitiveness of imported sugar. As such, the government has implemented a series of measures, including raising import tariff for sugar imports without quota from major supplying countries to protect cane sugar and beet sugar producers. Such measures are expected to uphold the domestic sugar price in year 2018. Years of industry development has get customers accustomed to the user-friendliness of corn sweeteners. The substitution effect between sugar and sweeteners is no longer as prominent as it used to be. Sugar price fluctuation has become a reference point for the pricing of sweeteners. Although the decrease in sugar price had an impact on sweeteners prices, the demand for sweetener products has been stable. As such, the performance of the Group's corn sweetener products remained stable during the Year.

The operating environment for the Group's polyol chemical business continued to be challenging during the Year. The Group's research and development team is proactively looking at the possibility to restructure its product portfolio to include high value-added products in response to changing market needs. For instance, as announced by the Company on 10 March 2017, the Group has planned for the construction of a methanol production facility. The management will continue to observe the market and take a prudent approach before resuming its polyol chemical business.

As compared to the previous year, the overall operating environment has improved during the Year. The Group will continue to strengthen its market position with its brand name and customer relationship management, further improve cost effectiveness through continuous research and development efforts, and at the same time, optimise utilisation rate to achieve operation efficiency in response to market moves. Internally, the Group is backed by its ultimate shareholder with State-owned enterprise background. Leveraging on the synergies as a result of the introduction and participation of the resourceful shareholder, the Group has been well-supported with strong financial support, enhanced relationship with bankers, favourable government policies and management capabilities. The synergistic effects have been reflected in the Company's improved performance for the Year.

UPDATE ON REMEDIAL MEASURES

The financial statements for the year ended 31 December 2016 had been subject to the disclaimer of opinion of the then auditor of the Company as detailed in the Company's annual report for the year ended 31 December 2016 ("2016 Annual Report"). Further to the management response and relevant remedial measures taken and to be taken by the management as set out in the paragraph headed "Update on Remedial Measures" in the Company's interim report for the six months ended 30 June 2017, the management of the Company wishes to provide the latest update on the relevant remedial measures taken or to be taken as follows, which have been considered, recommended and agreed by the audit committee ("Audit Committee") of the Company after its critical review of the management's position:

1. Financial guarantee contracts

As detailed in the 2016 Annual Report, the previous financial guarantee contracts ("Previous Supplier Guarantees") given by members of the Group for the benefit of Changchun Dajincang Corn Procurement, Ltd.(長春大金倉玉米收儲有限公司)("Dajincang" or the "Former Supplier") were not recognised in the Group's consolidated financial statements for the year ended 31 December 2016 because the professional valuer could not proceed with the valuation, as the Company was unable to obtain reliable financial information of the Former Supplier for professional valuer to conduct an accurate valuation. During the Year, as a result of similar difficulties encountered by the Group in 2016, no valuation could be proceeded for the Previous Supplier Guarantees.

As disclosed in the joint announcement of the Company and Global Sweeteners Holdings Limited ("GSH" and together with its subsidiaries, the "GSH Group") dated 8 December 2017 and the circular of the Company dated 29 December 2017, the term of the loan ("Previous Supplier Loan") advanced by中國銀行股份有限公司偉峰國際支行(Bank of China Weifeng International Branch) ("BOC") to the Former Supplier under certain loan agreements entered into between the Former Supplier and BOC in 2016 and 2017 ("Previous Supplier Loan Agreements") with an aggregate principal amount of RMB2.49 billion had expired in September 2017, and the Former Supplier still did not have sufficient financial resources to repay the Previous Supplier Loan when the same fell due. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, the Former Supplier proposes to refinance the Previous Supplier Loan by entering into the new loan agreements with BOC for all indebtedness due and owing to BOC ("New Supplier Loan"). As a condition to the New Supplier Loan, new supplier guarantees ("New Supplier Guarantees") were granted by certain subsidiaries of the Company to BOC to guarantee the obligations of the Former Supplier under the New Supplier Loan. The amount drawn down by the Former Supplier as at 31 December 2017 and up to the date of this report amounted to RMB2.49 billion (31 December 2016: RMB2.49 billion). During the Year, the Group paid HK$154.9 million (2016: nil) for the repayment of finance costs to BOC pursuant to the Previous Supplier Guarantees, which was included in other expenses for the Year.

While the Group continues to negotiate with BOC to release the Group from the New Supplier Guarantees, the Group and BOC have also explored other alternatives in case the Former Supplier fails to repay the New Supplier Loan which will consequently trigger the Group's obligations as the guarantors pursuant to the New Supplier Guarantees.

2. Material uncertainty related to going concern

As detailed in the 2016 Annual Report, the then auditor of the Company has raised fundamental uncertainties relating to the going concern of the Group, and the management has taken and will take steps as outlined in note 2.2 to the consolidated financial statements to improve the Group's financial position.

Subsequent to the date of the auditor's report, on 26 March 2018, Mr. Yuen Weisen, the Chairman of the Company, met with the representatives of BOC on behalf of the Group and the GSH Group, and it was proposed that the Group and the GSH Group should provide a revised debt-equity swap proposal to BOC. Subsequently, on 2 April 2018, a revised debt-equity swap proposal has been submitted to BOC for their consideration.

Dependent on the successful and favourable outcomes of the steps being taken as described in note 2.2 to the consolidated financial statements, the Board, including the Audit Committee, is of the view that the Group will be able to continue as a going concern in foreseeable future. Please refer to note 2.2 to the consolidated financial statements for details.

3. Prepayments, deposits and other receivables

Reference is made to the circular of the Company dated 7 May 2014 in relation to, among others, the resumption of certain buildings, machineries and fixtures erected on a piece of land in Changchun, the PRC (collectively "Xihuancheng Assets") by the 長春市土地儲備中心 (Changchun Land Reserve Centre) ("Land Reserve Centre"). Pursuant to the relevant agreements as detailed in the aforementioned circular, the Group shall receive an aggregate compensation of RMB719 million from the Land Reserve Centre for the resumption of the Xihuancheng Assets. As at 31 December 2017, a receivable from the Land Reserve Centre amounting to RMB400 million was still outstanding. The auditor was unable to obtain sufficient appropriate audit evidence on the recoverability of the receivable. As such, the auditor was unable to determine whether any adjustments to the receivable as at 31 December 2017 were necessary.

Based on the understanding of the management of the Company, the outstanding receivable of RMB400 million is recoverable but is subject to the completion of sale and purchase of the Relevant Properties with the Potential Purchaser, which is a municipal government-owned enterprise, as the Potential Purchaser shall facilitate the repayment of the receivables of RMB 400 million. As such, the management of the Company has been actively negotiating with the Potential Purchaser in respect of the sale and purchase of the Relevant Properties including the arrangement of the repayment of the receivables of RMB400 million. Upon the materialisation of the disposal of the Relevant Properties to the Potential Purchaser, it is expected that the Group will receive the outstanding receivable of RMB400 million (equivalent to approximately HK$482 million) accordingly.

4. Other payables and accruals

As detailed in the announcement of the Company dated 7 January 2014, the proposed resumption of land was initiated by the local government to encourage industrial companies to move their factories away from the central districts of the city. It was thus the aim of the Land Reserve Centre to facilitate the completion of the sale and purchase of the Relevant Properties. As such, the Land Reserve Centre, with the assistance of the Changchun Municipal Government, has introduced the Potential Purchaser to participate in the resumption of Relevant Properties. As the relocation of the Group's production facilities was a condition precedent to the resumption of land and that the relocation projects are capital intensive, the Potential Purchaser then agreed to advance funding in the form of bridging loan to facilitate the relocation of the Group's production facilities, which was paid via the Changchun Municipal Government according to the progress of the relocation. Such loan would be deducted from the proceeds of the sale of Relevant Properties subsequent to the completion of the sale.

Such bridging loan of RMB180.0 million (equivalent to HK$216.9 million) was received by the Group in May and August 2015 from the Changchun Municipal Government directly. The amount was subsequently recorded as other payables and accruals in financial statements of the Group in 2015. Since the bridging loan was received from the Changchun Municipal Government but not the Potential Purchaser, the auditor was unable to obtain direct confirmation from the Potential Purchaser or any sufficient appropriate evidence to verify the balance of the advance at 31 December 2017.

Similar to the view as outlined in point (3) above, the management of the Company is of the view that such other payables and accruals would be settled upon the materialisation of the disposal of the Relevant Properties to the Potential Purchaser.

FINANCIAL PERFORMANCE

The consolidated revenue of the Group for the Year increased by approximately 13.2% to approximately HK$4,397.0 million (2016: HK$3,882.8 million), which was mainly attributable to the increase in sale volume by 18.3% as a result of the enhanced operation efficiency in upstream segment and completion of first phase of relocation of corn sweeteners segment. As such, together with the corn subsidies entitled to the Group during the Year amounted to HK$142.4 million, the Group's gross profit and gross profit margin increased by 92.8% and 5.8 per cent points to approximately HK$609.0 million (2016: HK$315.8 million) and 13.9% (2016: 8.1%) respectively. Despite the improved operation performance, due to the low utilisation rate of the Xinglongshan site and high debt level of the Group, the Group recorded a net loss of HK$890.3 million (2016: HK$1,912.3 million) for the Year. Nevertheless due to (1) the increase in cost of sales per MT by 9.6% in the second half of 2017 subsequent to the expiry of the provincial corn subsidy policy in May 2017, with the average selling price remained at similar level; 2) impairment on property, plant and equipment of HK$134.8 million; 3) impairment on trade receivables and inventories of HK$52.6 million; and 4) increase in other expenses of HK$154.9 million in relation to the repayment of finance costs to BOC pursuant to the Previous Supplier Guarantees for the second half of the Year; as a result, the net loss for the second half of the Year amounted to HK$557.3 million, representing an increase of 67.4% when compared to the first half of the Year and the Group recorded LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) of HK$259.6 million for the second half of Year as compared to EBITDA (i.e. earning before interest, taxation, depreciation and amortisation) of HK$85.0 million for the six months ended 30 June 2017. The gross profit and gross profit margin for the second half of the Year decreased by 29.3% and 7.1 per cent points to HK$252.3 million and 10.6% (six months ended 30 June 2017: HK$356.7 million and 17.7%) respectively. To improve the financial performance and financial position of the Group, the management focuses its efforts in 1) actively negotiating with the Potential Purchaser to accelerate the disposal of the Relevant Properties in the Luyuan District Changchun; 2) screening and reviewing projects to relocate to the Xinglongshan site to optimise the operation efficiency in the Xinglongshan site; 3) securing the supply of raw material through collaboration with Jilin Jiliang Assets Supply Chain Management Co., Ltd.（吉林吉糧資產供應鏈管理有限公司）("Jiliang"), a subsidiary of Nongtou, by the entering of the corn procurement contracts.

Upstream products

(Sales amount: HK$1,476.9 million (2016: HK$1,359.2 million))
(Gross profit: HK109.8 million (2016: gross loss: HK$48.0 million))

During the Year, the revenue of the Group's upstream business increased by 8.7% to approximately HK$1,476.9 million (2016: HK$1,359.2 million) as a result of the improvement in operation efficiency in Xinglongshan and Jinzhou. As the agricultural reforms gradually took effect since the harvest of 2016, the Group's cost of raw materials for the Year has been substantially lowered. During the Year, the Group was entitled to approximately HK$142.4 million of corn subsidies. As a result, the Group's upstream business recorded a gross profit of approximately HK$109.8 million (2016: gross loss: HK$48.0 million) for the Year.

Sales volume of corn starch and other corn refined products were approximately 363,000 MT (2016: 306,000 MT) and 333,000 MT (2016: 304,000 MT) respectively. Internal consumption of corn starch was approximately 56,000 MT (2016: 68,000 MT), which was mainly used as raw material for the Group's downstream production.

The PRC agricultural reforms have enhanced the profitability of the upstream segment. As a result, the corn starch segment and other corn refined products segment recorded gross profit margins of 13.1% and 0.8% (2016: gross profit margins of 1.7% and gross loss margin of 9.2%) respectively for the Year.

In the second half of the Year, after the cessation of the corn subsidy policy in May 2017, the cost of sales per MT of corn starch and other corn refined products increased by 21.4% and 20.1% respectively when compared to the six months ended 30 June 2017 while the average selling price per MT increased only by 11.6% and 1.1% respectively. As such, the gross profit and gross profit margin of the corn starch segment for the second half of the Year decreased by 22.2% and 7.3 per cent points to approximately HK$45.5 million and 10.0% respectively (six months ended 30 June 2017: HK$58.6 million and 17.3%). Other corn refined products recorded a gross loss and gross loss margin of HK$26.2 million and 7.6% respectively for the second half of the Year compared to a gross profit and gross profit margin of HK$31.9 million and 9.5% respectively for the six months ended 30 June 2017. As a key agricultural product, the price of corn kernels depends a great deal on the direction of the state agriculture policy. Notwithstanding the possible fluctuations in the price of corn kernels, as the feedstock of the Group's downstream production, the upstream operation has strategic value to the Group's overall operation. As such, the management of the Group will continue their prudent approach in optimising its facilities utilisation and endeavour to control raw material cost in order to maintain healthy cash flows of the Group.

Amino acids

(Revenue: HK$2,101.5 million (2016: HK$1,926.7 million))
(Gross profit: HK$361.5 million (2016: HK$279.5 million))

The amino acids segment consists of lysine, protein lysine and threonine products. Revenue of this segment increased by 9.1% to approximately HK$2,101.5 million (2016: HK$1,926.7 million) during the Year, representing 47.8% (2016: 49.6%) of the Group's revenue. The sales volume of amino acids segment increased by 7.8% to 372,000 MT (2016: 345,000 MT). Benefiting from the cost savings resulting from lower raw material cost, the facility upgrade and the re-adjustment of product mix to suit market needs, the Group's amino acids segment recorded a gross profit of approximately HK$361.5 million (2016: HK$279.5 million) with a gross profit margin of 17.2% (2016: 14.5%) during the Year.

For the second half of 2017, the average selling price per MT of amino acids increased slightly by 1.6% while the cost of sales per MT raised by 10.3% when compared to the six months ended 30 June 2017. As a result, the gross profit and gross profit margin decreased by 26.7% and 6.7 per cent points to HK$152.9 million and 14.0% (six months ended 30 June 2017: HK$208.6 million and 20.7%) respectively. As the market of lysine products gradually consolidates, short-term volatility in lysine product prices is expected. While continuous efforts will be dedicated to lower production cost, the Group's research and development team is proactively looking for opportunities to develop other amino acids products complementary to the current product mix of the Group. The management believes this will provide flexibility and alternatives to current production facilities to enable the Group to respond to market changes, and at the same time, offer wider choices and better services to its current customers.

Corn sweeteners

(Revenue: HK$810.5 million (2016: HK$592.0 million))
(Gross profit: HK$130.1 million (2016: HK$80.4 million))

The corn sweeteners segment consists of corn syrup and corn syrup solid, and is operated by the GSH Group.

During the Year, the widened cost advantage of corn sweeteners over cane sugar in China has enhanced the competitiveness of corn sweeteners. Customers were increasingly convinced to switch from cane sugar to corn sweeteners. Coupled with the resumption of downstream production in the Group's Jinzhou sites since the last quarter of 2016 and completion of phase one relocation of the sweetener production facility to the Xinlongshan site since April 2017, sales volume of corn sweeteners increased by 47.4% to approximately 314,000 MT (2016: 213,000 MT), with revenue increased by 36.9% to approximately HK$810.5 million (2016: HK$592.0 million). As a result, the corn sweeteners segment recorded a gross profit of approximately HK$130.1 million (2016: HK$80.4 million) and a gross profit margin of 16.1% (2016: 13.6%).

Although significant gap exists between international and domestic sugar prices, as the government implemented a series of measures to discourage imports from major supplying countries and suppress illegal smuggling, the outlook on corn sweeteners remain positive for the year of 2018. With the improvement in operation efficiency of the Jinzhou downstream production and the completion of phase one relocation to the Xinglongshan site, the Group will gradually look at the possibility to increase its downstream production volume in Jinzhou. In January 2018, the relocation of the Group's maltodextrin production facility to the Xinglongshan site was completed and the trial run commenced in the first quarter of 2018. The Group will closely monitor market moves and adjust its production volume and product mix to serve customer needs.

Polyol chemicals

(Revenue: HK$8.1 million (2016: HK$4.9 million))
(Gross profit: HK$7.6 million (2016: HK$3.9 million))

Polyol chemicals segment consists of polyol chemicals such as glycols, resins, anti-freeze products, hydrogen and ammonia. The high corn price in the past years has lowered the competitiveness of corn based polyols as compared to traditional petroleum based polyols. As such, the Group had suspended most of its polyol chemicals production since March 2014. During the Year, the Group produced and sold a small amount of anti-freeze products and at the same time, continued to sell its polyol chemicals inventory.

During the Year, due to the increase in the demand for anti-freeze products, the revenue of polyol chemicals segment increased by 65.3% to approximately HK$8.1 million (2016: HK$4.9 million). As substantial provision in relation to the closing inventories of polyol chemicals has been made in previous years, the polyol chemicals segment recorded gross profit of approximately HK$7.6 million (2016: HK$3.9 million), with a gross profit margin of 93.8% (2016: 79.6%).

The Group's ammonia production had been suspended since March 2014 and no sales was made thereafter.

Export sales

During the Year, export sales accounted for 26.2% (2016: 24.5%) of the Group's total revenue. The export sales of upstream products, amino acids and corn sweeteners increased by 39.8%, 17.7%, and 137.3% respectively to approximately HK$158.3 million (2016: HK$113.2 million), HK$980.9 million (2016: HK$833.5 million), and HK$12.1 million (2016: HK$5.1 million) respectively during the Year. Such increase was attributable to the increase in export sales volume by 52.5%, 18.9% and 150.0% of upstream corn refined products, amino acids and corn sweeteners to approximately 90,000 MT (2016: 59,000 MT), 151,000 MT (2016: 127,000 MT), and 5,000MT (2016: 2,000 MT) respectively as a result of enhancement in operation efficiency in the upstream and amino acids segments, and the completion of the relocation of the sweeteners production facilities. Export sales of polyol chemicals for the Year amounted to approximately HK$0.1 million (2016: HK$0.4 million).

Other income and gains, operating expenses, finance costs and income tax credit

Other income and gains

During the Year, other income and gains increased by 6.3% to approximately HK$198.8 million (2016: HK$187.1 million) Such increase was mainly attributable to the increase in gain on disposal of property, plant and equipment and prepaid land lease payments, which amounted to approximately HK$67.6 million (2016: HK$0.1 million); and government grant of approximately HK$77.2 million (2016: HK$61.9 million).

Selling and distribution expenses

During the Year, the selling and distribution expenses accounted for 9.1% (2016: 7.6%) of the Group's revenue, representing an increase of 34.3% to approximately HK$398.2 million (2016: HK$296.6 million). Such increase was mainly attributable to the increase in sales volume by 18.3% as a result of the enhanced operation efficiency in upstream and completion of first phase of relocation of corn sweeteners.

Administrative expenses

During the Year, administrative expenses increased by 20.7% to approximately HK$419.5 million (2016: HK$347.6 million), representing 9.5% (2016: 9.0%) of the Group's revenue. Such increase was mainly attributable to the expenses in relation to exchange losses resulting from inter-company fund transfer and the expenses in relation to the settlement of litigations during the Year.

Other expenses

During the Year, other expenses decreased by 61.0% to HK$584.4 million (2016: HK$1,500.1 million), which mainly consists of expenses in relation to idle capacity of certain production facilities of the Group which amounted to HK$211.7 million, impairment of property, plant and equipment of HK$134.9 million, impairment of trade receivables of HK$45.7 million and payment of HK$154.9 million for the repayment of finance costs to BOC pursuant to the Previous Supplier Guarantees. Such decrease was mainly attributable to one-off expenses in 2016 including impairment of property, plant and equipment in certain PRC subsidiaries and impairment of trade and other receivable in relation to Dajincang amounted to HK$136.8 million and HK$802.3 million respectively.

Finance costs

During the Year, finance costs of the Group increased by 3.1% to approximately HK$454.7 million (2016: HK$441.1 million) which was mainly attributable to the increase in interest on payables to Jiliang amounted to HK$30.6 million (2016: nil).

Income tax credit

Due to the recognition of temporary differences, the Group recorded a deferred tax credit of approximately HK$162.9 million (2016: HK$171.7 million) during the Year. Meanwhile, certain subsidiaries in the PRC generated net profit so PRC enterprise income tax of approximately HK$4.1 million (2016: HK$1.6 million) was recognised. As a result, the Group recorded income tax credit of approximately HK$158.8 million (2016: HK$170.1 million) during the Year.

Loss shared by non-controlling shareholders

During the Year, GSH and other non-wholly-owned subsidiaries recorded a loss of approximately HK$135.0 million (2016: HK$166.5 million), leading to loss shared by the non-controlling shareholders amounted to approximately HK$52.8 million (2016: HK$61.6 million).

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

The total borrowings as at 31 December 2017 increased by approximately HK$785.2 million to approximately HK$8,417.6 million (31 December 2016: HK$7,632.4 million). The change in total borrowings included an increment of approximately HK$641.6 million as a result of exchange rate adjustment as at 31 December 2017. However, the cash and bank balances and pledged deposits as at 31 December 2017 decreased by approximately HK$239.5 million to approximately HK$710.6 million (31 December 2016: HK$950.1 million). As a result, the net borrowings increased to approximately HK$7,707.0 million (31 December 2016: HK$6,682.3 million).

Structure of interest-bearing borrowings

As at 31 December 2017, the Group's interest-bearing borrowings amounted to approximately HK$8,417.6 million (31 December 2016: HK$7,632.4 million), of which approximately 0.2% (31 December 2016: 0.3%) were denominated in Hong Kong dollars while the remaining (31 December 2016: 99.7%) were denominated in Renminbi. The average interest rate during the Year was approximately 5.0% (2016: 4.9%).

The percentage of interest-bearing borrowing wholly repayable within one year, in the second to the fifth years and beyond five years were 57.8%, 42.2% and nil (31 December 2016: 45.1%, 54.9% and nil), respectively. As at 31 December 2017, interest-bearing bank and other borrowings amounted to approximately RMB449.0 million (31 December 2016: RMB69.5 million) has been charged at fixed interest rates ranging from 3.9% to 8.0% (31 December 2016: 8.9%) for terms from one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings are charged with reference to floating interest rate.

Convertible bonds

Subsequent to the completion of the subscription (the "Subscription") of shares and convertible bonds by Modern Agricultural Industry Investment Limited ("Modern Agricultural") in October 2015, convertible bonds (the "Convertible Bonds") in the aggregate principal amount of HK$1,086,279,565 (the "CB Consideration") which may be converted into 4,722,954,631 conversion shares of the Company (the "Conversion Shares") based on the initial conversion price of HK$0.23 (subject to adjustment) per share (the "Initial Conversion Price") upon full conversion, were issued by the Company to Modern Agricultural. The Convertible Bonds carry coupon interest at the rate of 0.01% per annum payable quarterly in arrears with a term of five years. Its holder has the right to convert the whole or any part (in the denominations of HK$1,000,000 and integral multiples thereof) of the outstanding principal amount of the Convertible Bonds into the new shares at any time after the date falling three calendar months following the date of issue of the Convertible Bonds until the date seven days before (and excluding) the date falling on the fifth anniversary of the date of issue, provided that the public float of the Shares shall not be less than 25% or any given percentage as required by the Listing Rules. No conversion right has been exercised by Modern Agricultural as at the date of this report.

At 31 December 2017, the Convertible Bonds was divided into liability component and equity component which amounted to HK$913.1 million and HK$290.6 million (31 December 2016: HK$857.9 million and HK$290.6 million) respectively and effective imputed interest of HK$55.2 million (2016: HK$51.8 million) was charged during the Year.

Turnover days, liquidity ratios and gearing ratios

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. After enhancement in operation efficiency of upstream segment and completion of relocation of corn sweeteners segment in Changchun, longer credit terms were granted to new customers. As a result, trade receivables turnover days increased to approximately 43 days (31 December 2016: 40 days). Meanwhile, the Group has been actively negotiating with creditors on repayment plans mutually-agreed among the parties as part of cash flow management, therefore, the trade creditor's turnover days slightly decreased to at approximately 154 days (31 December 2016: 156 days). As the Group's inventory increased by 9.7% to HK$592.5 million (31 December 2016: HK$540.0 million), the inventory turnover days increased to 57 days (31 December 2016: 55 days).

As at 31 December 2017, the current ratio and quick ratio of the Group slightly decreased to 0.3 (31 December 2016: 0.4) and 0.3 (31 December 2016: 0.4) respectively, which was mainly due to the increase in current portion of interest bearing bank and other borrowing by approximately HK$1,420.5 million. In addition, the Group has recorded a net loss for the year of HK$890.3 million (2016: HK$1,912.3 million), leading to the recorded net liabilities of HK$2,466.5 million (2016: HK$1,804.1 million). As a result, gearing ratio in term of debts (i.e. total interest-bearing bank and other borrowings) to total deficit and debts (i.e. aggregate total of shareholders deficit, non-controlling interests and total interest-bearing bank and other borrowings) was 141.4% (31 December 2016: 131.0%). To improve the financial position of the Group, the Company has adopted several strategic actions as mentioned in the section headed "Going Concern" on pages 71 to 73 of this report.

Foreign exchange exposure

Most of the operations of the Group were carried out in the PRC in which transactions were denominated in Renminbi, while export sales accounting for 26.2% of the Group's revenue in which most of these transactions were denominated in US Dollars. The Directors have been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi and the Directors consider that there is no material unfavourable exposure to foreign exchange fluctuation. Therefore, the Group does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. However, the Group will constantly review the economic situation, development of the business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in future as and when necessary.

LITIGATIONS

Litigation in relation to patent infringement

Pursuant to the announcement of the Company on 30 June 2017, the Company and the Relevant Group Members entered into a settlement agreement ("Settlement Agreement") with Ajinomoto on 29 June 2017, pursuant to which, as soon as possible after receipt by Ajinomoto of a payment from the Group ("Payment"), Ajinomoto and the Group will withdraw all pending proceedings in Europe relating to the alleged infringement by the group of certain patents and violation of trade secrets.

Considering the above litigations had lingered for years, the Board considered that settlement of such litigations would allow the Group to concentrate efforts and resources in the business development of the Group. The Group settled the Payment by internal resources and the Board considers that there is no material impact on its financial position as a result of the entering into the Settlement Agreement and settlement of the Payment.

In August 2017, all the litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. against the relevant members of the Group had been withdrawn.

Litigation in relation to dispute on the interests in the Company

As at the date of this report, the Company was a defendant in a high court action in Hong Kong. A writ dated 28 November 2017 was issued by the Plaintiff and a statement of claim was filed on 8 December 2017 (the "Claim"). The Claim relates to, among others, a document dated 29 November 2011 alleged by the Plaintiff to have been signed by and on behalf of the Company. The Plaintiff alleged that according to the said document, the Plaintiff should be entitled to certain interest in the Company's shares. The Plaintiff has claimed for damages in the amount of approximately HK$109 million, together with loss of dividends and interest in respect thereof, as well as costs and other relief.

A notice of intention to defend was given by the Company on 13 December 2017.

The Directors consider that the Claim to be fictitious and that the Company has strong ground to defend against the Claim, and no provision for the Claim is considered necessary. Save as disclosed above, as of the date of this report, there was no litigation or claims of material importance pending or threatened against any member of the Group.

IMPORTANT TRANSACTIONS DURING THE YEAR AND EVENTS SUBSEQUENT TO THE YEAR UNDER REVIEW

Master Supply Agreement for the procurement of corn kernels

Reference is made to the announcement dated 15 May 2017 and the circular dated 14 June 2017, in relation to the entering into of a master supply agreement (the "Master Supply Agreement") by the Company with Jiliang for the supply of corn kernels by Jiliang to members of the Group on an ongoing basis.

Pursuant to the Master Supply Agreement, the Company appointed Jiliang as one of its suppliers for corn kernels and Jiliang agrees to supply corn kernels to members of the Group. The Master Supply Agreement shall become effective from 3 July 2017, being the date of approval of the Master Supply Agreement by the Independent Shareholders at the extraordinary general meeting and expiring on 31 December 2019 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

Pursuant to the Master Supply Agreement, members of the Group shall enter into purchase orders or sales contracts with Jiliang from time to time during the term of the Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of the Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method, quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the Master Supply Agreement, payment must only be made after receipt of corn kernels, and at pricing terms and otherwise on terms in compliance with those set out in the Master Supply Agreement.

The Company expects that the annual caps in respect of the transactions contemplated under the Master Supply Agreement will be HK$1.40 billion, HK$1.68 billion and HK$2.09 billion for each of the three years ending 31 December 2019, respectively. The above annual caps have been determined by reference to the estimated demand of the Group for corn kernels as contemplated to be purchased under the Master Supply Agreement, taking into account the business growth of the Group, the historical and current prices of corn kernels in Changchun.

As Nongtou is interested in 49% of the entire issued share capital of the Company through its control in Jilin Province Modern Agricultural Industry Investment Fund, which indirectly holds the entire issued share capital of Modern Agricultural, Nongtou is a connected person of the Company. As Jiliang is indirectly wholly owned by Nongtou, Jiliang is an associate of Nongtou and therefore is also a connected person of the Company. Accordingly, the transactions contemplated under the Master Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Master Supply Agreement and the related annual caps were approved by the shareholders by way of poll at the extraordinary general meeting held on 3 July 2017.

Transfer of two subsidiaries in Changchun from the GSH Group

As announced by the Company on 21 July 2017, the Group entered into a sale and purchase agreement (the "S&P Agreement") with the GSH Group for the acquisition (the "Transaction") by the Group of the entire equity interest (the "Sale Interest") of the Target Companies in Changchun. As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction of the Group under Rule 14.06 of the Listing Rules. Pursuant to the S&P Agreement, the Group has conditionally agreed to purchase the Sale Interest. The consideration for the Sale Interest is HK$60,971,000 which shall be payable by the Group at completion. The consideration was determined after arm's length negotiations between the Group and the GSH Group with reference to the net asset value of the Target Companies and the fair value of the land and buildings held by the Target Companies which is based on current use (i.e. industrial).

From management perspective, the Target Companies are both situated in Changchun, the PRC where the major production facilities of the Group are situated while all other production facilities of GSH Group are situated elsewhere in the PRC. As such, the Transaction would enable the Target Companies to be managed under the ambit of the Group with other members of the Group in Changchun, which could enhance the cost and operation efficiency, create potential synergies and reduce the connected transactions between the Group and the GSH Group. Completion is conditional upon fulfillment of certain conditions which are yet to be fulfilled and as additional time is required for the fulfillment of the conditions precedent, the GSH Group and the Group have agreed to extend the final date for fulfillment of conditions to 16 July 2018 or such later date as the GSH Group and the Group may agree.

For details of the Transaction, please refer to the joint announcements of the Company and GSH dated 21 July 2017 and 16 January 2018.

Provision of financial assistance to a former supplier

Reference is made to the announcement dated 8 December 2017 and the circular dated 29 December 2017 in relation to the provision of New Supplier Guarantees given by members of the Group for the benefit of Dajincang. For more information, please refer to the sections headed "Update on Remedial Measures – 1. Financial guarantee contracts" and "Disclosure Pursuant to Rule 13.20 of The Listing Rules — Provision of Financial Assistance to a Former Supplier" in this report.

FUTURE PLANS AND PROSPECTS

In order to maintain the competitiveness of the Group, the Group will strive to maintain its market position, diversify its product range and enhance its capability in developing high value-added products and new applications through in-house research and development efforts and strategic business alliance with prominent international market leaders.

In the short run, the Group will take opportunity of the relocation of its production facilities to the Xinglongshan site to re-adjust its product mix and capacity to adapt to market changes, and at the same time, enhance operation efficiency through continuous research and development efforts to lower operating costs. The relocation plan of the Group will be financed by the Group's internal resources, and the Directors are of the view that the existing technology know-how of the Group is sufficient for the relocation of production facilities.

In the long run, the Group will continue to strengthen its market position leveraging on its brand name and add value to the current product mix through the introduction of new high value-added products. To realise this objective, the Group's research and development centre is currently working on a series of product development projects. The Board will optimise its risk/return decision with respect to capital expenditure and will take a prudent approach in relation to capacity expansion.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2017, the Group had approximately 5,600 (2016: 5,200) full time employees in Hong Kong and the PRC. The Group appreciates the correlation between human resources and its success, and recognises the value of human resources management as a source of competitive advantage in the increasing turbulent environment. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards of its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and performance related commissions.

EXECUTIVE DIRECTORS

Mr. Yuan Weisen, aged 54, was appointed as an executive Director and the chairman (the "Chairman") of the Board on 23 March 2017, responsible for providing leadership and directions to the Board. He is also the chairman and party secretary of 吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.), and the executive director and party secretary of 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.). Mr. Yuan has held a number of positions in various state-owned enterprises in Jilin Province's agricultural sector, including deputy general manager of 吉林糧食集團有限公司 (Jilin Grain Group Co., Ltd.), chairman and party secretary of 吉林西部現代農業產業園股份有限公司 (Jilin Western Modern Agricultural Industrial Park Co., Ltd.), and general manager of 吉林省酒精工業集團有限公司 (Jilin Alcohol Industry Group Co., Ltd.). Mr. Yuan graduated from the Jilin Institute of Finance and Economics (now as Jilin University of Finance and Economics) in 1986 and received a Bachelor's degree in grain and oil engineering.

Mr. Zhang Zihua, aged 48, was appointed as an executive Director on 23 March 2017. He is also the chairman of 吉林省現代農業投資有限公司 (Jilin Province Modern Agricultural Investment Co., Ltd.) and the chairman of 吉林省現代農業產業基金有限公司 (Jilin Province Modern Agricultural Industry Fund Ltd.). Mr. Zhang has held a number of positions in various state-owned enterprises in Jilin Province's agricultural sector, including the general manager of 吉糧期貨經紀有限公司 (Jiliang Futures Brokerage Co., Ltd.), general manager of asset management department of 吉林省投資集團有限公司 (Jilin Province Investment Group Co., Ltd.), deputy general manager of 吉林經濟合作開發投資有限公司 (Jilin Economic Cooperation Development Investment Co., Ltd.), and the chairman of 吉林省大米股份有限公司 (Jilin Rice Co., Ltd.). Mr. Zhang attained a Master's degree in business management from the School of Management of Jilin University in 2005. Mr. Zhang has also been appointed as an executive Director of GSH on 23 March 2017.

Mr. Liu Shuhang, aged 46, was appointed as an executive Director on 26 January 2018. Mr. Liu graduated from China University of Political Science and Law in 1999 majoring in Law. Mr. Liu was the Secretary of Party Committee in Jiangjiadian Village, Liuhe County from January 2003 to January 2006, then the director of Liuhe Economic Development Zone and First Secretary of Liuhe County Party Committee from January 2006 to December 2010; he was the Deputy County Chief of Liuhe County from December 2010 to July 2016, and he also served the temporary position of Associate General Manager of Risk Management Department of Bank of China in Jilin Province from September 2014 to September 2015. Mr. Liu was the Deputy Director-general of the Quality and Technology Supervision Bureau in Tonghua City from July 2016 to January 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chiu Lai Ling, Shirley, aged 55, was appointed as independent non-executive Director on 16 March 2016. Ms. Chiu obtained a Bachelor of science degree in business administration with accounting option in the United States of America ("USA") in 1986, and became a qualified public accountant in California, the USA in 1989. Ms. Chiu is the chief executive officer of Melody Finance Limited. She has extensive experience in fields of accounting and finance, and has over 30 years of working experience in the financial industry (corporate finance, securities sales, corporate sales and wealth management). Currently Ms. Chiu is an inactive member of the Certified Public Accountant of the California Board of Accountancy.

Mr. Ng Kwok Pong, aged 45, was appointed as independent non-executive Director on 1 March 2015. Mr. Ng graduated from University of Greenwich with a Bachelor of Arts (Hons) in Accountancy and Finance. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of Association of Chartered Certified Accountants. Mr. Ng has over 18 years' experience in auditing and accounting, including working experience in listed companies in Hong Kong.

Mr. Yeung Kit Lam, aged 55, was appointed as independent non-executive Director on 23 April 2015. Mr. Yeung is a practicing solicitor of Hong Kong. He obtained a bachelor degree in social sciences majoring in economics from the University of Hong Kong in 1985. He was awarded with the postgraduate certificate in laws by the University of Hong Kong in 1992, and was admitted as a solicitor of the High Court of Hong Kong in 1994. He also obtained a bachelor degree in laws from Peking University in 2001. Mr. Yeung is currently the consultant of Messrs. Yip, Tse & Tang, a firm of solicitors and notaries in Hong Kong. Mr. Yeung has over 22 years of post-qualification experience in the legal field, and has various experiences in litigation and commercial practices.

SENIOR MANAGEMENT

Mr. Kong Zhanpeng, aged 54, was appointed as the chief executive officer of the Group on 24 October 2015, and is responsible for overseeing the operation of the Group. Mr. Kong was an executive Director from May 2000 to September 2007, and December 2013 to May 2014. He is currently an executive Director and chairman of the board of directors of GSH, and directors of various subsidiaries of GSH. He has over 23 years of extensive experience in industry and corporate development and management. Mr. Kong holds a Bachelor's degree in textile engineering and a diploma in international trade from the China Textile University.

Mr. Lee Chi Yung, aged 43, was appointed as the company secretary and the financial controller of the Company on 15 October 2015 and on 24 October 2015 respectively. Mr. Lee is responsible for overseeing the Group's financial reporting procedures, internal controls and compliance of Listing Rules and other relevant laws and regulations. Mr. Lee has extensive experience in the related fields of finance, auditing, accounting and corporate governance practices. Mr. Lee holds a Bachelor's degree with honors in Accountancy and a Master's degree in Business Administration, and is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Lee joined the Group in September 2000 and has been appointed as the financial controller and company secretary of GSH since September 2007. Mr. Lee was an executive director of GSH from December 2009 to October 2015.

Mr. Chu Lalin, aged 56, holds a Bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 22 years of experience in mechanical and food engineering. He joined the Group in 1996. Mr Chu was appointed as the deputy chief executive officer of the Company on 24 October 2015 and is the chief engineer of the Group.

Mr. Zheng Guichen, aged 56, graduated from the Jilin Grain High College for Professional Training, specialising in food engineering. He joined the Group in 1997. Mr. Cheng has been committed to the Group's production and operation management since then, and acted as the Group's deputy general manager of production and operation department since 2015. He was appointed as deputy general manager of the Group's sales department in 2016.

Mr. Wang Guicheng, aged 50, graduated from the Jilin Grain High College for Professional Training, specialising in grain storage and analysis. He joined the Group in 1997 and has been engaged in management of production technology. He acted as the general manager of Xinglongshan production site of the Group since 2015. In 2016, Mr. Wang was appointed as the general manager of Dehui production site of the Group. Mr. Wang was appointed as deputy general manager of the Group's production and operation department in March 2017.

The Company is committed to ensuring high standards of corporate governance at all times and in all areas of its operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND MODEL CODE

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders of the Company and devotes considerable effort in identifying and formalising best practices. The Board regularly reviews the Group's corporate governance guidelines and developments. To the best knowledge and belief of the Board, save as disclosed below, the Company has complied with all code provisions as laid down in the Corporate Governance Code (the "CG Code") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the Year.

The Company has adopted a code of conduct regarding the Director's securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the Directors.

Having made specific enquiry of the Directors, all Directors confirmed that they have complied with the required standards set out in the code of conduct of the Company and the Model Code throughout the Year under review.

BOARD OF DIRECTORS

The number of meetings and attendance by Board members during the Year are set out in the table below:

	Meetings held and Attended						
Name of Directors	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Corporate Governance Committee Meeting	Executive Committee Meeting	Annual General Meeting
Executive Directors							
Yuan Weisen *(note 1)*	11/12		1/1	1/1		8/8	1/1
Zhang Zihua *(note 2)*	12/12				1/1	8/8	1/1
Wang Qiu *(note 3)*	0/3						
Wang Jian *(note 4)*	2/3		1/1	1/1			
Li Shuguang *(note 5)*	3/3				1/1		
Non-Executive Directors							
Qiu Zhuang *(note 6)*	0/3						
Xing Lizhu *(note 6)*	3/3						
Independent Non-Executive Directors							
Ng Kwok Pong	14/15	4/4	2/2	2/2	1/1		0/1
Yeung Kit Lam	14/15	4/4					1/1
Chiu Lai Ling, Shirley	14/15	4/4	2/2	2/2	1/1		1/1

Notes:

1. Mr. Yuan Weisen has been appointed as an executive Director, the member of the remuneration committee (the "Remuneration Committee"), the member of the Nomination Committee and the member of the executive committee (the "Executive Committee") on 23 March 2017.

2. Mr. Zhang Zihua has been appointed as an executive Director, the member of the corporate governance committee (the "Corporate Governance Committee") and the member of the Executive Committee on 23 March 2017.

3. Ms. Wang Qiu has resigned as executive Director on 23 March 2017.

4. Mr. Wang Jian has resigned as executive Director, and has ceased to be the member of the Remuneration Committee and the member of the nomination committee (the "Nomination Committee") on 23 March 2017.

5. Mr. Li Shuguang has resigned as an executive Director and has ceased to be the member of the Corporate Governance Committee on 23 March 2017.

6. Mr. Qiu Zhuang and Mr. Xing Lizhu have resigned as a non-executive Director on 23 March 2017.

As of the date of this report, the Board comprises six Directors, being three executive Directors and three independent non-executive Directors. There is no relationship (including financial, business, family or other material/relevant relationship) between any of the Directors. Details of the biographies of individual Directors and their range of specialist experience and expertise are set out on page 22 to page 23 of this report.

The Company believes its independent non-executive Directors comprise a synergy of financial management, accounting and legal experts. The Board believes such composition is ideally qualified to advise the management team on future strategic development, financial and other statutory requirements, and to guard shareholders' interest. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his/her independence. As of the date of this report, the Board considers all independent non-executive Directors to be independent.

Board diversity

The Company recognises and embraces the benefits of building a diverse and inclusive Board, and agrees to increase diversity at Board level continuously, in order to achieve and maintain a sustainable development and a competitive advantage.

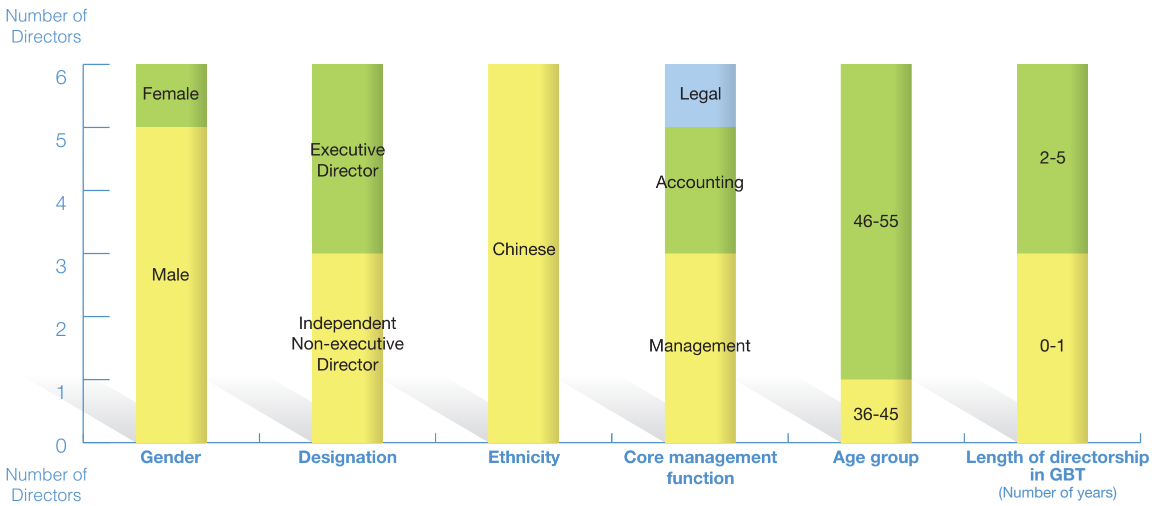
Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum composition of the Board and should be balanced appropriately when possible and necessary.

Underpinned by meritocracy, all Board appointments will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

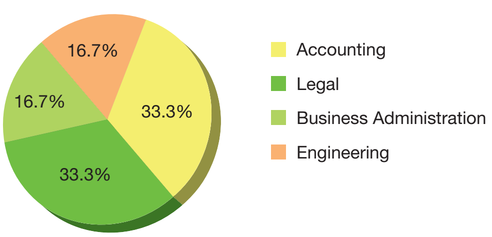
The Board annually discusses and establishes measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

With reference to the business needs of the Group, the following measurable objectives have been set for implementing the Board diversity policy: (a) a prescribed proportion of Board members shall be independent non-executive Directors; (b) a prescribed proportion of Board members shall have attained bachelor's degree or above; (c) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications; (d) a prescribed proportion of Board members shall have experience in the industry he/she is specialised in; and (e) a prescribed proportion of Board members shall have China-related work experience. Based on its review, the Nomination Committee of the Company considers that the Company has achieved the measurable objectives set for implementing the board diversity policy of the Company.

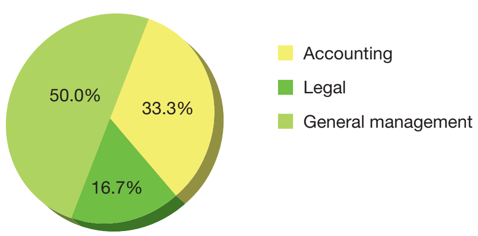
Up to the date of this report, composition of the Board is disclosed as below:



ACADEMIC BACKGROUND



BUSINESS EXPERIENCE



The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's overall strategy, operation and financial performance. Measures have been taken to ensure the Board receives all necessary and up to standard information in a timely manner in order to effectively discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision. Topics discussed at these quarterly Board meetings include: overall strategies; enterprise risk management and internal control; major acquisitions and disposals, annual budgets, interim and annual results, recommendations on Directors' appointment(s) or reappointment(s), matters relating to share capital, approval of major capital projects, dividend policies, and other significant operational and financial matters. All businesses transacted at individual Board meetings are recorded in the minutes of the respective meeting. All Board members have access to the advice and services of the company secretary. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, individual Directors are provided with appraisals of all major changes that may affect the Group's businesses.

In accordance with the articles of association of the Company ("Articles of Association"), every member of the Board shall retire by rotation at the annual general meeting of the Company at least once every three years. The retiring Directors shall be eligible for re-election at the same annual general meeting.

Directors' Training

Pursuant to the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the Year, the Directors have participated in the following trainings:

	Type of trainings	
	A	B
Executive Directors		
Yuan Weisen (Appointed on 23 March 2017)	✓	✓
Zhang Zihua (Appointed on 23 March 2017)	✓	✓
Wang Qiu (Resigned on 23 March 2017)		✓
Wang Jian (Resigned on 23 March 2017)		✓
Li Shuguang (Resigned on 23 March 2017)		✓
Non-executive Directors		
Qiu Zhuang (Resigned on 23 March 2017)		✓
Xing Lizhu (Resigned on 23 March 2017)		✓
Independent non-executive Directors		
Ng Kwok Pong	✓	✓
Yeung Kit Lam	✓	✓
Chiu Lai Ling, Shirley	✓	✓

A: Seminars/conferences relevant to directors' duties and responsibilities

B: Reading materials given by the Company relating to the Company's business and regular updates on Listing Rules and other applicable regulatory requirements relevant to directors' duties and responsibilities

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive of the Company are separate and exercised by different Directors. At the date of this report, Mr. Yuan Weisen is the Chairman of the Company and is mainly responsible for providing leadership and directions to the Board. Mr. Kong Zhanpeng is the chief executive officer of the Group, and is responsible for overseeing the Group's operation management and product development.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Ms. Chiu Lai Ling, Shirley were appointed as independent non-executive Directors on 1 March 2015, 23 April 2015 and 16 March 2016, respectively. The independent non-executive Directors were appointed for a fixed term of two years, which shall be renewable automatically for a successive term of one year commencing from the day after the expiry of the then current term of the appointment, and shall be subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

DIRECTORS' AND OFFICER'S LIABILITY INSURANCE AND INDEMNITY

The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and senior management team against any legal liability that may arise from their performance of their duties.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

During the Year, the Directors' remuneration were as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Fees	**1,440**	1,340
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**–**	–
Performance related bonuses	**–**	–
Equity-settled share option expenses	**–**	–
Pension scheme contributions	**–**	–
	–	–
Total	**1,440**	1,340

(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*
Ng Kwok Pong	**480**	480
Yeung Kit Lam	**480**	480
Chiu Lai Ling, Shirley	**480**	380
Total	**1,440**	1,340

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

(b) Executive Directors

The amount of remuneration paid to the executive Directors during the Year was as follows:

	Basic salaries, housing benefits, other allowances and benefits in kind *HK$'000*	**Performance related bonuses** *HK$'000*	**Equity-settled share option expenses** *HK$'000*	**Pension contributions** *HK$'000*	**Total remuneration** *HK$'000*
2017					
Yuan Weisen *(Note 1)*	–	–	–	–	–
Zhang Zihua *(Note 1)*	–	–	–	–	–
Wang Qiu *(Note 2)*	–	–	–	–	–
Wang Jian *(Note 2)*	–	–	–	–	–
Li Shuguang *(Note 2)*	–	–	–	–	–
Total	–	–	–	–	–
2016					
Wang Qiu	–	–	–	–	–
Wang Jian	–	–	–	–	–
Li Shuguang	–	–	–	–	–
Liu Fang *(Note 3)*	–	–	–	–	–
Total	–	–	–	–	–

Notes:

1. Mr. Yuan Weisen and Mr. Zhang Zihua were appointed as executive Directors on 23 March 2017.

2. Ms. Wang Qiu, Mr. Wang Jian and Mr. Li Shuguang resigned as executive Directors on 23 March 2017.

3. Ms. Liu Fang retired as executive Director on 6 June 2016.

(c) Senior Management

The remuneration of the senior management of the Group by band for the Year is set out below:

Remuneration bands	Number of senior management
Nil to HK$3,000,000	5
	5

Further details of the Directors' and the chief executive's remuneration and the five highest paid employees are set out in notes 8 and 9 to the consolidated financial statements respectively.

ACCOUNTABILITY AND AUDIT

The management of the Company is responsible for providing all relevant information to the Board, giving members with sufficient explanation and information they need to discharge their responsibilities. Board members are provided with monthly updates, including sales updates, projects launched, upcoming projects and financial position, which give the Board members a balanced and understandable assessment of the performance, position and prospects of the Group. A statement by the auditor in respect of their reporting responsibilities is set out in the Independent Auditor's Report.

The Directors are responsible for overseeing the preparation of financial statements of each financial year. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, approved adoption of all applicable Hong Kong Financial Reporting Standards in effect, made judgments and estimates that are appropriate, and prepared the financial statements on a going concern basis. For the year ended 31 December 2017, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The management is however, of the view that the Group will continue as a going concern, for the reasons stated as set out in paragraph 2 "Material uncertainty relating to going concern" under the section "Update on Remedial Measures" on page 10 of this annual report.

The Group has announced its annual and interim results in a timely manner within three months and two months after the end of the relevant period, as required under the Listing Rules.

MANAGEMENT FUNCTIONS

The Board decides on corporate strategies, establishes and maintains appropriate and effective risk management and internal control systems, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim accounts for the Board's approval, implementation of strategies approved by the Board, monitoring of operating budgets, implementation of internal controls procedures, and ensuring of compliance with relevant statutory requirements and other rules and regulations.

BOARD COMMITTEES

In compliance with the CG Code, the Company has set up an Audit Committee, a Remuneration Committee, a Nomination Committee and a Corporate Governance Committee with clearly defined written terms of reference adopted in compliance with the CG code. The Company also set up an Executive Committee for the purpose of effective and timely management of the day to day activities of the Group on 23 March 2017.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems. The Audit Committee comprises three independent non-executive Directors namely Mr. Ng Kwok Pong (the chairman of the committee), Mr. Yeung Kit Lam and Ms. Chiu Lai Ling Shirley.

The duties of the Audit Committee are, among others, to review the Company's half yearly and annual financial statements and to make recommendations to the Board on appointment and removal of the external auditor. The Audit Committee meets regularly with the Company's senior management and the auditor to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The Group's annual results for the Year have been reviewed by the Audit Committee.

The Audit Committee operates pursuant to written terms of reference which are available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company. Set out below is a summary of the work performed by the Audit Committee during the Year:

1. The Audit Committee reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgement, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval. Details of the disclaimer opinions and remedial measures are disclosed in the section headed "Update on remedial measures" on pages 9 to 11;

2. The Audit Committee reviewed, in conjunction with the external auditor, the developments of accounting standards and assessed their potential impacts on the Group's financial statements;

3. The Audit Committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

4. The Audit Committee assessed the independence of the Company's external auditor, prior to formally engaging the external auditor to carry out the audit for the Company's financial statements for the Year;

5. Prior to the actual commencement of the audit, the Audit Committee discussed the proposed scope of work and approach of the audit with the external auditor. Upon completion of the audit, the Audit Committee reviewed the results of the external audit, and discussed with the external auditor on any significant findings and audit issues;

6. The Audit Committee recommended to the Board regarding the appointment and remuneration of the external auditor;

7. The Audit Committee reviewed and approved the internal audit planning, and discussed any significant issues with the internal audit team and the Group's senior management;

8. The Audit Committee reviewed the independence of the internal audit function and the level of support and co-operation given by the Group's management to the internal audit team, as well as the resources of the internal audit team when undertaking its duties and responsibilities;

9. The Audit Committee reviewed the adequacy and effectiveness of the Group's systems of enterprise risk management and internal controls through a review of the work undertaken by the Group's internal auditor and external consultant and discussions with the Board;

10. The Audit Committee reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget through a review of the work undertaken by the Group's senior financial management and internal audit, and discussions with the Board.

The revised terms of reference of Audit Committee was published on the respective websites of the Stock Exchange and the Company on 14 March 2016.

NOMINATION COMMITTEE

The duties of the Nomination Committee are, among others, determining policy for the nomination of Directors, including the nomination procedures, process and criteria adopted by the Nomination Committee to select and recommending candidates for directorship during the Year. The Nomination Committee also reviews the structure, size and composition of the Board and to make recommendations on any proposed changes to the Board and on the selection of individuals nominated for directorships, and reviews the board diversity policy adopted by the Company. For more information on the Company's policy on board diversity, please refer to the section headed "Board diversity" in this report.

On 23 March 2017, Mr. Wang Jian resigned as a member of the Nomination Committee and Ms. Chiu Lai Ling, Shirley resigned as the chairman of the Nomination Committee, but remained as a member of the Nomination Committee. Meanwhile, Mr. Yuan Weisen was appointed as a member and the chairman of the Nomination Committee. The Nomination Committee currently comprises of an executive Director, Mr. Yuan Weisen (the chairman of the committee) and two independent non-executive Directors, Mr. Ng Kwok Pong and Ms. Chiu Lai Ling, Shirley.

During the Year, the Nomination Committee held two meetings to review and make recommendations to the Board about the nomination of proposed candidates to fill the vacancy of the Board.

REMUNERATION COMMITTEE

On 23 March 2017, Mr. Wang Jian resigned as a member of the Remuneration Committee and Mr. Yuan Weisen was appointed as a member of the Remuneration Committee. The Remuneration Committee currently comprises of two independent non-executive Directors, namely, Mr. Ng Kwok Pong (the chairman of the committee) and Ms. Chiu Lai Ling, Shirley, and an executive Director, Mr. Yuan Weisen.

The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the Group's policy and structure for the remuneration of Directors and senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee also assesses performance of executive Directors and approve the terms of executive Directors' service contracts.

During the Year, the Remuneration Committee held two meetings to review and make recommendations to the Board on the individual executive Directors' and senior management's remuneration packages.

CORPORATE GOVERNANCE COMMITTEE

The duties of the Corporate Governance Committee are, among others, to review the Company's policies and practices on corporate governance and provide supervision over the Board and its committees' compliance with their respective terms of reference and relevant requirements under the CG Code, or other applicable laws, regulations, rules and codes.

On 23 March 2017, Mr. Li Shuguang resigned as a member of the Corporate Governance Committee; and Mr. Zhang Zihua was appointed as a member of the Corporate Governance Committee. The Corporate Governances Committee currently comprises of an executive Director, Mr. Zhang Zihua and two independent non-executive Directors, namely, Mr. Ng Kwok Pong (the chairman of the committee) and Ms. Chiu Lai Ling, Shirley.

The Corporate Governance Committee held two meetings in 2017.

During the Year, the Corporate Governance Committee has performed the following works:

1. Reviewed the Company's policies and practices on corporate governance and made recommendations to the Board.

2. Reviewed and monitored the Company's policies and practices in compliance with legal and regulatory requirements.

3. Reviewed the Company's compliance with the code provisions of the CG Code and Corporate Governance Report issued by the Stock Exchange.

4. Ensured that good corporate governance practices and procedures are established.

The Corporate Governance Committee considered that the Company has complied with all code provisions in the CG Code during the Year.

EXECUTIVE COMMITTEE

The duties of the Executive Committee are, among others, to approve and enter into any agreement or document or transaction on behalf of the Company and to approve, execute and authorise the issue, publication or despatch of all such documents as the committee may consider necessary or desirable in connection with the normal and ordinary course of business and the day-to-day management and operation of the Company.

The powers and authorities of the Committee shall not be extended to:

(a) approval of final and interim results of the Company;

(b) declaration, recommendation or payment of any dividend or other distributions;

(c) proposal to the shareholders of the Company to put the Company into liquidation;

(d) approval of any discloseable transaction, major transaction, very substantial acquisition or disposal within the meaning of Chapter 14 of the Listing Rules on the Stock Exchange;

(e) approval of any connected transaction within the meaning of Chapter 14A of the Listing Rules;

(f) matters involving a conflict of interest for a substantial shareholder and/or a Director of the Company.

(g) approving any proposed change in the capital structure, including any redemption of the Company's securities listed on the Stock Exchange;

(h) approving any decision to change the general character or nature of the business of the Company;

(i) matters specifically set out in the Listing Rules which require approval at a full Board meeting; and

(j) any regulations or resolutions or restrictions that may be imposed upon the Committee by the Board from time to time.

At the date of this report, the Executive Committee comprises of three executive Directors, namely Mr. Yuan Weisen (the chairman of the committee), Mr. Zhang Zihua and Mr. Liu Shuhang.

Auditor's Remuneration

For the year ended 31 December 2017, auditor's remuneration of HK$6,200,000 was incurred for the audit services provided by Mazars CPA Limited ("Mazars").

During the Year, the following amounts were paid as professional fee to Mazars and other certified public accountant firms for the provision of non-audit services to the Group:

	HK$'000
Taxation compliance	12
Others	1,650
Total	1,662

COMPANY SECRETARY

The company secretary of the Company, Mr. Lee Chi Yung, is responsible for supporting the Board, ensuring good information flow within the Board and Board policies and procedures are followed, advising the Board on corporate governance matters, facilitating introduction and monitoring the training and continuous professional development of Directors. He has attained no less than 15 hours of relevant professional training during the Year. Mr. Lee's biography is set out on page 23 of this report.

INVESTOR RELATIONS

The Group establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports, information on the Stock Exchange, a corporate website, and general and investor meetings held either face-to-face or via telephone conference calls. The Group reports to its shareholders twice a year and maintains a regular dialogue with investors.

The annual general meetings ("AGM") provide a useful forum for shareholders to exchange views with the Board. The Chairman, all members of the Board committees and the external auditor will also attend the AGM to answer questions from the shareholders.

The notice of AGM will be distributed to all shareholders at least 20 clear business days prior to the AGM. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of Directors. Details of the proposed resolutions will be contained, where necessary, in circulars of the Company. The chairman of the AGM shall exercise his/her power under the Articles of Association to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll will be explained at the meeting. Poll results will be posted on the websites of the Company and the Stock Exchange after the meeting.

A shareholders' communication policy (the "Policy") was adopted by the Company to maintain an on-going dialogue with the shareholders and encourage them to communicate actively with the Company. The Company will review the Policy on a regular basis to ensure its effectiveness.

To the best knowledge of the Directors, as of 31 December 2017, details of shareholders by type and aggregate shareholding are as follow:

	Number of shares held	Percentage of shareholding	Market capitalisation (HK$ million)
Modern Agricultural Industry Investment Limited	3,135,509,196	49.0%	379
Kong Zhanpeng	260,176,000	4.1%	32
Public float in Hong Kong	3,003,313,164	46.9%	363
Total	6,398,998,360	100.0%	774

The 2017 AGM was held on 22 May 2017 to approve the 2016 audited financial statements, grant of the new issue mandate and the repurchase mandate and the re-election of Directors. All resolutions proposed were passed by way of poll.

On 3 July 2017, an extraordinary general meeting ("EGM") was held to approve the master supply agreement dated 15 May 2017 entered into between Jiliang and the Company in relation to the supply of corn kernels by Jiliang to the Group, and the related annual caps. All resolutions proposed were passed by way of poll.

On 16 January 2018, an EGM was held to approve the New Supplier Guarantees. The resolution proposed was passed by way of poll.

The 2018 AGM will be held on 31 May 2018 to approve, among others, the 2017 audited financial statements, grant of the new issue mandate and the repurchase mandate and the re-election of Directors.

RISK MANAGEMENT AND INTERNAL CONTROL

Internal control

The Board is entrusted with the overall responsibility of establishing, maintaining and assessing the Group's internal control and risk management systems and its effectiveness. The role of the Group's management is to implement all policies on risk and control laid down by the Board.

The Group's internal control and risk management systems are designed to provide reasonable protection to the Group's assets, and to safeguard these assets from unauthorised use or disposition by ensuring that all such transactions are executed in accordance with management's authorisation. The systems also ensure accounting records are sufficiently accurate for the preparation of financial information used for operation and reporting purposes.

The Group's internal control framework covers (i) the setting of objectives, budgets and targets; (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority; and (iv) the establishment of clear lines of accountability.

The Group formulates code of conduct to state the Company's expectations on duty and integrity. Whistleblowing policy enables our employees to bring problems to management which considers necessary to make our internal control system effective.

Monthly financial information and variance analysis are provided to Directors and quarterly financial reviews are discussed at Board meetings for any material variances and deviations between actual performances and budgets/targets. This helps the Board and the Group's management to monitor the Group's business operations and to plan on a prudent and timely basis. Other regular and ad hoc reports will also be prepared for the Board to ensure that the Directors are supplied with all the requested information in a timely and appropriate manner.

To allow for delegation of authority as well as to enhance segregation of duties and accountability, a clear organisation structure exists which details different levels of authority and control responsibilities within each business unit of the Group. Certain specific matters are reserved for the Board's decision and are not delegated. These include, amongst others, the approval of annual and interim results, annual budgets, capital structure, declaration of dividends, material acquisitions, disposals and capital expenditure, Board structure and its composition and succession.

The role of the Audit Committee is, through discussion with management and engagement of external consultants, to review annually the effectiveness of internal control and risk management systems, including financial, operational and compliance controls and risk management functions, and to report to the Board any significant risk issues. The annual review also includes the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

No matter how well an internal control system is designed and maintained, it can only provide reasonable, but not absolute, assurance. No system of control can totally eliminate the possibility of human errors and deliberate attempts to defraud the Company. As such, the Group maintains an effective internal audit function that is independent from operational management to carry out risk—based auditing concentrating on areas with significant risks or where significant changes have been made. The Board also endeavours to ensure internal auditors are fully empowered with access to all data and every operation of the Group, as well as provided with adequate resources and well qualified and capable staff.

Internal audit department

The Group established an internal audit department in 2015 which plays a critical role in monitoring the governance of the Group. Internal audit department reports directly to the Audit Committee and it has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work. The annual work plan and resources are reviewed and agreed with the Audit Committee.

Business unit audits are designed to provide assurance that the internal control systems of the Company are implemented properly and operating effectively, and that the risks associated with the achievement of business objectives are being properly identified, monitored and managed. The frequency of each audit is determined by internal audit department using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous internal audit results, external auditors' comments, output from the work of the Audit Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months.

Internal audit department assists the Audit Committee in assessing the effectiveness of the Group's internal controls through the review of the annual control self-assessment process. Internal audit department also conducts ad-hoc projects and investigative work as required by management or the Audit Committee.

Copies of internal audit reports are sent to the Audit Committee, the chief executive officer, the finance controller and the external auditors. Management is called upon to present action plans in response to internal auditor's recommendations, which are agreed by internal auditors.

Inside information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to the Company's attention and/ or it is the subject of a decision unless it falls within the Securities and Futures Ordinance safe harbors. Such disclosure should comply with the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008 respectively. All these have been included in its code of conduct. Employees or Directors possessing relevant inside information should report the same to the executive Director, who will in turn report to the Board. The Board will then discuss and handle the relevant disclosures or dissemination of inside information accordingly. Senior managers of the Group are then identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues. Unauthorised use of confidential or inside informationis strictly prohibited. The Group has also established and implemented procedures for responding to external enquiries about the Group's affairs.

Group Risk Management

Risk is inherent in the Group's business and the markets in which it operates. It is of utmost importance for the management to identify, understand and manage these risks in order to minimise, transfer and avoid them. This demands a proactive approach to risk management and an effective risk management framework.

The Group's overall risk management is overseen by the Board and senior management. The Company recognises that risk management is the responsibility of everyone within the Group. Rather than being a separate and standalone process, risk management has been or will be integrated into business processes including strategy development, business planning, capital allocation, investment decisions, internal control and day-to-day operations.

The Company established its Enterprise Risk Management ("ERM") process with the 'three lines of defence' model to manage operational risks. Such approach makes clear everyone's duty and responsibility within the Group to manage operational risks on a daily basis. The first line of defence is the management controls of the Group that directly identifies, records, reports and manages to mitigate the risks. The second line sets guidelines and regulations, and monitors and facilitates the implementation of effective risk management practices. The third line of defence is the Group's internal audit team's efforts, from risk identification, assessment and response to risk related communication.

Our risk management objectives:

- Strategic level: The Company focuses on the identification and management of material risks at different levels – the Group, business units and functional units so as to better position the Company in pursuing its strategic and business objectives. In seeking growth opportunities, the Company strives to optimise risk/return tradeoffs while establishing strong and independent review and challenge processes.

- Operational level: The Company aims to identify, assess, evaluate and minimise operational hazards and risks to create a safe, healthy and efficient workplace for its employees while respecting our community and neighbourhood to ensure public safety and health, and minimising our environmental footprint.

The Company's risk appetite represents the amount of risk the Group is willing to undertake in pursuit of its strategic and business objectives. In line with the Company's value and expectations of its stakeholders, the Company will only take reasonable risks that fit its strategy and have been assessed, understood and therefore manageable; and such risks should not expose the Group to:

— material financial loss that substantially impacts the Group's ability to execute its business strategy and long-term financial well-being,

— consequence that affects the safety and health of our staff and the public,

— material breach of regulations and subsequently leading to the deterioration of the Group's reputation and brand name,

— business/supply interruption leading to severe impact on the community, and severe environmental incidents.

In 2016, the Company engaged external consultant to assist the management to establish the ERM systems with reference to the COSO ERM framework, where major risks were identified and analysed. Management and employees, assisted by external consultants with particular experience in the design and implementation of internal control systems, have evaluated our control environment and conducted risk assessments of businesses and processes, both at the entity level and the various processes/ transactions levels. The Group has documented those processes which are critical to the Group's performance. Within this exercise, key risks have been identified, along with the controls required to mitigate those risks, after which, such key risks and controls are continually reviewed and updated on an annual basis. High-risk key controls are tested annually by the management and internal auditors. Based on the results of those tests, process owners are able to represent to senior management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal auditors present findings to senior management that controls have been working properly or that changes have been made to ensure the integrity of financial statements. The external auditor also tests the key controls to the extent that they will be relied on for the audit. During the Year, the Board has identified a number of risks and uncertainties for the Group to deal with:

Principal Risks and Uncertainties

Risk Description	Changes in 2017	Key Risk Mitigations
Financial Risks:		
Liquidity risk of inadequate funding	The Company maintains continuous dialogue with banks in order to secure banking facilities	Negotiation with local government for policy endorsement of subsidy and funding
Inability to obtain adequate funding on time	Termination of dispose of land and building and assets	Actively look for new potential buyer utilising major shareholder's network
Compliance Risks:		
Non-compliance with Listing Rules and other ordinances	—	Series of internal control policies were issued and further implementation of control systems were carried out following the recommendations from internal audit department Internal control department continued to provide training to PRC and HK staff

Risk Description	Changes in 2017	Key Risk Mitigations
Operation Risks: Loss of key management	Keen competition for talent recruitment and retention	Engaged external consultants to review human resources strategy
Investment Strategy Risks: Mismatch between market forecast and investment expectations	Capital uncertainty affect the relocation plan from Luyuan District, Changchun to Xinglongshan, Changchun	Constantly update the feasibility studies for more precise forecast
		Engage in strategic collaboration with major clients to strengthen corporate competence

In 2017, the internal audit department conducted a review on the effectiveness of the risk management and internal control systems of the Group, and where weaknesses are identified, means for improvement are recommended to the Audit Committee. The Board has reviewed the effectiveness of the Group's risk management and internal control systems based on the assessment of the Audit Committee. The Company has complied with the CG Code on internal controls and risk management during the Year.

CORPORATE SOCIAL RESPONSIBILITY

To stay competitive, it is the priority of the Group to ensure its long-term sustainability. In pursuing this goal, apart from financial performance, the Group also strives to enhance its social and environmental performances through stakeholders' engagement. The Group's corporate social responsibility ("CSR") strategies aim at building social capital which creates bonding internally as well as communication channels externally, so as to maintain tight relationship with our stakeholders. This will ultimately uphold the Group's moral obligations and lead to high efficiency and moral standard.

Environmental policy and performance

The Group has strong awareness on environmental conservation and places it as important as our business development. It is the Group's mission to maintain environmental sustainability together with its business growth.

To achieve this, the management of the Group is committed to:

1. continuously improving production efficiency and lower greenhouse gas emission through our research and development efforts;

2. reducing waste disposal and impose stringent wastewater treatment standards against the discharge of pollutants;

3. promoting use of recycled materials and renewable resources;

4. promoting sustainable use of energy, water, crops and other raw materials;

5. promoting energy conservation;

6. minimising the impact on biodiversity and ecosystem; and

7. complying with the relevant environmental regulations in all production facilities.

The Group has a supervising team ("Supervising Team") set up in each subsidiary of the Company to monitor emission of gas, discharge of waste water and generation of hazardous and non-hazardous wastes. The Supervising Teams are responsible for the formulation of emission/discharge control procedures and environmental protection measures, regular check and evaluation of emission standards, and ensuring those standards are in compliance with the relevant national and local environmental regulations.

All major production sites of the Group in the PRC have their own wastewater treatment facilities in place to remove physical, chemical and biological contaminants from wastewater (from both industrial and domestic sewage in the production sites), with the objective to produce an environmentally-safe sewage discharges and recycle uses. Monitoring devices are placed at all discharge outlets of the Group's wastewater treatment facilities and connected with the local Environmental Bureau's network to keep track of emission data such as Chemical Oxygen Demand (COD) value. Such data is also subject to real time monitor by the Environment Protection Information Centre of the City as well as the Provincial Environmental Protection Information Centre.

The Group's production processes would emit certain greenhouse gases such as sulfurdioxide and nitrogen oxide. Same as the arrangement for wastewater treatment, monitoring devices are placed at all emission outlets and are subject to real time monitor by the Supervising Teams and the local as well as the provincial Environmental Bureau.

With respect to the cinder produced by the power plants, it will be sold as raw material for the production of cinder blocks after treatment.

Compliance with laws and regulations

During the year ended 31 December 2017, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on our business and operation.

Key relationships with employees, customers and suppliers

Employee

The Group appreciates the correlation between human resources and its success, and recognises the value of human resources management as a source of competitive advantage in the increasing turbulent environment. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards of its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and performance related commissions.

The Group is committed to providing a safe and non-hazardous working environment for all staff. Apart from keeping update on the latest regulations by local and national authorities and government bodies, the Group reviews the working environment in each operation sites from time to time to ensure the health and safety of all staff. Such measures includes those internal control procedures such as setting up a team to inspect the production sites from time to time, reporting any work related accidents, remedies and improvement measures to be taken to the management in a timely manner, etc. All employees are trained before they commence carrying out their duties to ensure they are fit for the job and continuous training are provided to minimise chance of work related accidents.

The Group has stringent recruitment procedures to avoid child or forced labour. The Group's labour standards and recruitment procedures are in compliance with all the local as well as national labour regulations. Human resources department of each subsidiary of the Company will handle all staff-related matters including recruitment, remuneration, training and other welfares to make sure they comply with the relevant labour regulations.

Customers and suppliers

The Group's customers and suppliers are our key stakeholders in the pursuit of the Group's long-term business goals. Customer and supplier relationship management is one of the priorities of the Group during the course of business. Understanding the capabilities of our suppliers is as important as understanding the needs of our customers.

Ensuring product quality and safety products has always been the mission of the Group. The Group has stringent control in every process, from supply chain management, production processes, packaging, to delivery to customers. With respect to supply chain management, the Group has respective guidelines and policies in place for all staff when carrying out their duties. For the engagement of suppliers, the Group implements a stringent supplier certification process. Every supplier is required to go through a list of assessment procedures before getting qualified as the Group's supplier.

During the year ended 31 December 2017, due to economic downturn and tighten credit policy of most PRC banks, there have been certain commercial disputes between the Group and certain of its customers and suppliers. The Group is now in the course of resolving these disputes through legal means and active negotiation with the concerned parties to seek mutually-agreed solutions.

Anti-corruption

The Group adopts zero tolerance policy to corruption. Under no circumstances shall a Group member offer or take bribes for personal earnings from business dealings (may it be in the form of commission, loan, gifts, services or offering/ accepting a position in an organisation). For business related entertainment expenses, employees are required to follow the company policies strictly and submit the relevant applications and declarations where applicable, to suppress any bribery, fraudulent and corrupt practice which would adversely affect the reputation and operations of the Group.

Community

Our commitment to the community also involves our people. The Group organised various extracurricular and social activities for our employees regularly and encourage our employees to participate in community investment activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2017 Environmental, Social and Governance Report ("ESG Report") will be available on or before 30 June 2018. Please view and download the ESG Report from the Company's website at http://www.globalbiochem.com under the heading "Investor Relations" or the website of the Stock Exchange.

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene an EGM

1.1 The following procedures for shareholders to convene an EGM of the Company are prepared in accordance with Article 64 of the Articles of Association:

(1) One or more shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice (the "Requisition"), to require an EGM to be called by the Directors for the transaction of any business specified therein.

(2) Such Requisition shall be made in writing to the Board or the company secretary of the Company via email at the email address of the Company at ir@globalbiochem.com.

(3) The EGM shall be held within two months after the deposit of such Requisition.

(4) If the Directors fail to proceed to convene such meeting within twenty-one (21) days of the deposit of such Requisition, the Requisition(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisition(s) as a result of the failure of the Directors shall be reimbursed to the Requisition(s) by the Company.

2. Procedures for raising enquiries

2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are set out in the section headed "Corporate Information" of this annual report.

2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at ir@globalbiochem.com.

2.3 Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

3. Procedures and contact details for putting forward proposals at shareholders' meetings

3.1 To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information via email at the email address of the Company at ir@globalbiochem.com.

3.2 The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

3.3 The notice period to be given to all the shareholders for the consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 days in writing if the Proposal requires approval by way of an ordinary resolution in an AGM or a special resolution of the Company;

(2) Notice of not less than 14 days in writing if the Proposal requires approval in meeting other than an AGM or approval by way of a special resolution of the Company.

Report of the Directors

The Directors present their report and audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products and corn-based biochemical products. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements.

BUSINESS REVIEW

A business review of the Group and an analysis of the Group's performance using financial key performance indicators during the year are provided in the Message to Shareholders and Management Discussion & Analysis on pages 4 to 6 and 7 to 21 of this annual report respectively. In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the Corporate Social Responsibility Report disclosed in the Corporate Governance Report on pages 42 to 44 of this annual report.

The principal risks and uncertainties are disclosed in Corporate Governance Report under section headed "Risk Management and Internal Control" on pages 38 to 42 on this annual report. Particulars of important events affecting the reporting entity that have occurred since the end of the financial year are disclosed in Management Discussion & Analysis under section headed "Important Transactions during the Year and Events Subsequent to the Year Under Review" on pages 19 to 20 of this annual report. An indication of likely future development of the Group is disclosed in Management Discussion & Analysis under section headed "Future Plans and Prospects" on page 21 of this annual report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 63 to 131 of this report.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, and restated as appropriate, is set out on page 132 of this report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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 operates a share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed at a shareholders' meeting held on 3 September 2007, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date.

Eligible participants of the Scheme include the following:

(i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("GBT Invested Entity") in which any member of the Group holds any equity interest;

(ii) any non-executive Director (including independent non-executive Directors) of the Group or any GBT Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any GBT Invested Entity;

(iv) any customer of the Group or any GBT Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any GBT Invested Entity;

(vi) any shareholder of any member of the Group or any GBT Invested Entity or any holder of any securities issued by any member of the Group or any GBT Invested Entity;

(viii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any GBT Invested Entity; and

(ix) any other group or class or participant who has contributed or may contribute by way of joint venture, business alliance or other business arrangement to the growth of the Group.

And, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

The total number of shares of the Company (the "Shares") which may be allotted and issued upon exercise of all options to be granted under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on 3 September 2007 ("General Scheme Limit"). The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the shareholders' approval. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting (with such participant and his associates abstaining from voting).

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Shares at the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer of the grant of share options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination under the Scheme.

The subscription price for the Shares under the Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

There was no outstanding option pursuant to the Scheme as at 1 January 2017, and no option was granted pursuant to the Scheme during the Year,

SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY

GSH operates a share option scheme (the "GSH Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of GSH Group. The GSH Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date.

Eligible participants of the GSH Scheme include the following:

(i) any employee of proposed employee (whether full time of part time) of the GSH Group or any entity ("GSH Invested Entity") in which any member of the GSH Group holds any equity interest;

(ii) any non-executive director (including independent non-executive directors) of the GSH Group or any GSH Invested Entity;

(iii) any supplier of goods or services to any member of the GSH Group or any GSH Invested Entity;

(iv) any customer of the GSH Group or any GSH Invested Entity;

(v) any person or entity that provides research, development or other technological support to the GSH Group or any GSH Invested Entity;

(vi) any shareholder of any member of the GSH Group or any GSH Invested Entity or any holder of any securities issued by any member of the GSH Group or any GSH Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the GSH Group or any GSH Invested Entity; and

(viii) any other groups or classes or participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the GSH Group.

And for the purposes of the GSH Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants.

The maximum number of unexercised share options currently permitted to be granted under the GSH Scheme is an amount equivalent, upon their exercise, to 30% of the shares of GSH in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of GSH in issue at any time. Any further grant of share options in excess of this limit is subject to GSH shareholders' approval in a general meeting.

Share options granted to substantial shareholder of GSH, or an independent non-executive director of GSH or any of their respective associates, in excess of 0.1% of the shares of GSH in issue at any time or with an aggregate value (based on the price of GSH's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to GSH shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of GSH, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination under the Scheme.

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

There was no outstanding option pursuant to the GSH Scheme as at 1 January 2017, and no option was granted pursuant to the GSH Scheme during the Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company did not have reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the share premium of the Company of approximately HK$3,127,204,000 as at 31 December 2017 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 22.3% of the total sales for the Year and sales to the largest customer included therein accounted for 8.3% of the total sales of the Year. Purchases from the Group's five largest suppliers accounted for 12.2% of the total purchases for the Year and the purchase from the largest supplier included therein accounted for 3.5% of the total purchases for the Year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors of the Company during the Year and up to the date of this report were:

Executive Directors:

Yuan Weisen	*(appointed on 23 March 2017)*
Zhang Zihua	*(appointed on 23 March 2017)*
Liu Shuhang	*(appointed on 26 January 2018)*
Wang Qiu	*(resigned on 23 March 2017)*
Wang Jian	*(resigned on 23 March 2017)*
Li Shuguang	*(resigned on 23 March 2017)*

Non-executive Directors:

Qiu Zhuang	*(resigned on 23 March 2017)*
Xing Lizhu	*(resigned on 23 March 2017)*

Independent non-executive Directors:

Chiu Lai Ling, Shirley
Ng Kwok Pong
Yeung Kit Lam

According to article 108(A) of the Articles of Association, not less than one-third of the Directors shall retire from office by rotation at each AGM of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Zhang Zihua and Mr. Ng Kwok Pong will retire as Directors. Mr. Zhang Zihua and Mr. Ng Kwok Pong, being eligible, will offer themselves for re-election as Directors at the AGM.

In addition, pursuant to article 112 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an additional Director shall hold office until the next following general meeting of the Company (in the case of a Director appointed to fill a casual vacancy) or the next AGM of the Company (in the case of a Director appointed as an additional Director) and shall then be eligible for re-election at the meeting. By virtue of article 112 of the Articles of Association, the office of Mr. Liu Shuhang will end at the AGM. Mr. Liu Shuhang being eligible, will offer himself for re-election as Director at the AGM.

The Company has received annual confirmations from each of Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Ms. Chiu Lai Ling, Shirley of their independence. As at the date of this report, the Company considers all independent non-executive Directors to be independence.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and senior management of the Group are set out on pages 22 to 23 of the annual report.

DIRECTORS' SERVICE AGREEMENTS AND APPOINTMENT LETTERS

The executive Directors, each of Mr. Yuan Weisen and Mr. Zhang Zihua entered into a service agreement with the Company for a term of three years commencing on 23 March 2017. Each of the above service contracts is renewable automatically for a successive term of one year each commencing from the day after the expiry of the then current term of the executive's appointment and subject to termination by either party by giving not less than three months' notice in writing.

The executive Director, Mr. Liu Shuhang entered into a service contract with the Company for an initial term of one year commencing from 26 January 2018, which shall be renewable automatically for successive terms of one year commencing from the day after the expiry of the then current term of the executive's appointment and subject to termination by either party by giving not less than three months' notice in writing.The independent non-executive Directors, Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Ms. Chiu Lai Ling, Shirley, have each entered into an appointment letter with the Company for a term of two years commencing on 1 March 2015, 23 April 2015 and 16 March 2016, respectively.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed elsewhere in the annual report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2017 and up to the date of this report, there was or is permitted indemnity provision (within the meaning in Section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) in the articles of association of the Company being in force. The Company has maintained Directors' and officers' liability insurance throughout the year, which provides appropriate cover certain legal actions brought against its Directors and officers arising out of corporate activities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year ended 31 December 2017.

CONTRACT OF SIGNIFICANCE

There was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest			
Name of chief executive	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Approximate percentage of the Company's issued share capital**
Kong Zhanpeng	18,256,000	241,920,000 *(Note 1)*	260,176,000	4.07

Long positions in ordinary shares of GSH:

	Number of shares held capacity and nature of interest			
Name of chief executive	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Approximate percentage of GSH's issued share capital**
Kong Zhanpeng	–	1,984,000 *(Note 1)*	1,984,000	0.13

Notes:

1. These Shares are held by Hartington Profits Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Kong Zhanpeng.

As at 31 December 2017, save as disclosed above, none of the Directors and chief executives of the Company had any interests or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company:

Name	*Notes*	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Liu Xiaoming	*1*	365,138,400	5.71
Personal representative of the late Mr. Xu Zhouwen	*2*	322,111,600	5.03
Modern Agricultural Industry Investment Limited	*3*	7,858,463,827	122.81

Notes:

1. Mr. Liu Xiaoming is deemed to be interested in 5.71% of interest in the Company through his interest in (i) 19,090,400 Shares as beneficial owner and (ii) 346,048,000 Shares as interest in controlled corporation, namely, LXM Limited. Mr. Liu Xiaoming is the sole director of LXM Limited.

2. The personal representative of the late Mr. Xu Zhouwen is deemed to be interested in 5.03% of interest in the Company through his interest in (i) 26,655,600 Shares as beneficial owner and (ii) 295,456,000 Shares as interest in controlled corporation, namely, Crown Asia Profits Limited.

3. The entire issued capital of Modern Agricultural is held by Modern Agricultural Industry Investment Holdings Limited which is in turn wholly owned by Jilin Province Modern Agricultural Industry Investment Fund (LLP) ("PRC LLP"). The sole general partner of PRC LLP is Jilin Province Modern Agricultural Industry Fund Limited ("GP"). As at 31 December 2017, GP is wholly owned by Nongtou and 40% of the investment capital of PRC LLP is owned by Nongtou. 20% of the investment capital of PRC LLP is owned by 吉林省交通投資集團有限公司 Jilin Province Communication Investment Group Co., Ltd. ("Jiaotou"). As announced by the Company on 2 March 2017, an agreement was entered into between Jiaotou and Nongtou on 27 February 2017 for the transfer by Jiaotou to Nongtou of its investment capital in PRC LLP. During the transition period from the date of the above agreement to the completion of such transfer, Nongtou shall manage the above transferred interest on behalf of Jiaotou. As such, by virtue of Nongtou's control over PRC LLP, Nongtou has become the indirect controlling shareholder of the Company. Nongtou is controlled by State-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province ("SASAC of Jilin Province"). Each of Modern Agricultural Industry Investment Holdings Limited, PRC LLP, GP, Jiaotou, Nongtou and SASAC of Jilin Province are deemed to be interested in the interest held by Modern Agricultural.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the Year, the Group had the following connected transactions or continuing connected transactions with Jiliang. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

Purchase of corn kernels

Pursuant to the master supply agreement (the "Master Supply Agreement") dated 15 May 2017, the Group appointed Jiliang as one of its suppliers for corn kernels and Jiliang agrees to supply corn kernels to members of the Group. During the Year, the Group purchased corn kernels amounting to HK$217 million from Jiliang.

Pursuant to the Master Supply Agreement, members of the Group shall enter into purchase orders or sales contracts with Jiliang from time to time during the term of the Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of the Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method, quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the Master Supply Agreement, payment must only be made after receipt of corn kernels, and at pricing terms and otherwise on terms in compliance with those set out in the Master Supply Agreement.

Nongtou is interested in 49% of the entire issued share capital of the Company through its control in Jilin Province Modern Agricultural Industry Investment Fund, which indirectly holds the entire issued share capital of Modern Agricultural. As such, Nongtou is a connected person of the Company. As Jiliang is indirectly wholly owned by Nongtou, Jiliang is an associate of Nongtou and therefore is also a connected person of the Company. Accordingly, the transactions contemplated under the Master Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that the terms of the Master Supply Agreement are fair and reasonable, and the continuing connected transactions as contemplated under the Master Supply Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole. The auditor of the Company has confirmed that the continuing connected transactions have complied with the matters as set out in Rule 14A.56 of the Listing Rules.

Save for the above continuing connected transactions, the related party transactions entered into by the Group in the year under review which are disclosed in note 33 to the financial statements did not fall under the definition of connected transaction or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, no Director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the Directors of the Company were appointed as Directors to represent the interests of the Company and/or the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the latest practicable date prior to the issue of this annual report, there was sufficient prescribed public float of the issued shares of the Company under the Listing Rules at any time during the year ended 31 December 2017.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

On 26 January 2018, Mr. Liu Shuhang, the executive Director of the Group, entered into a service agreement with the Company. Under the service agreement. Mr. Liu will be entitled to an annual salary of RMB720,000 with effect from 26 January 2018. The emolument of Mr. Liu is determined by the Board with reference to his duties, responsibilities, performance and results of the Group

DISCLOSURE PURSUANT TO RULES 13.19 AND 13.21 OF THE LISTING RULES

Breach of Loan Agreements

Reference is made to the joint announcement of the Company and GSH dated 31 October 2016. Under the various loan agreements (the "Loan Agreements") entered into between Jinzhou Yuancheng Biochem Technology Co., Ltd.(錦州元成生化科技有限公司)("Jinzhou Yuancheng"), which is an indirect wholly owned subsidiary of GSH, and Jinzhou Branch of China Construction Bank(中國建設銀行股份有限公司錦州分行)(the "Lender") in respect of a 18-months fixed term loan in the aggregate principal amount of RMB224.0 million guaranteed by certain members of the GSH Group (the "Loan"), Jinzhou Yuancheng is required to satisfy certain financial covenants, failure to perform or comply with any of those financial covenants entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan immediately due and payable. On 25 August 2017, Jinzhou Yuancheng signed various renewal agreements to renew the Loan Agreements in aggregate principal amount of RMB218.0 million, pursuant to which the due date of the Loan has been extended to September 2018. Based on the unaudited management accounts of Jinzhou Yuancheng for the period ended 30 June 2017, Jinzhou Yuancheng has failed to fulfill certain financial covenants under the Loan Agreements. Such breach entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreements immediately due and payable. In addition, such breach may also trigger cross default provisions ("Cross Default") in other loan agreements entered into by the GSH Group in the aggregate outstanding principal amount of RMB205.8 million. Save for the Cross Default, the breach has not resulted in any triggering of cross default provisions of other loan agreements and/or banking facilities entered into by the Group or the GSH Group. As at the date of this report, the GSH Group has yet to receive a waiver from the Lender for waiver of other remedies available to the Lender which include among others, declaring the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreements immediately due and payable. Despite the above non-compliance, the GSH Group has not experienced any difficulties in obtaining further financing with its banks for its working capital. The GSH Group is also in the process of applying for relevant waivers from other lenders in relation to the breach of the Cross Default. Further announcement(s) regarding the Loan and status of the waivers will be made as and when appropriate.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

Provision of financial assistance to a former supplier

Reference is made to the announcement of the Company dated 31 March 2015, financial guarantees were first granted by certain subsidiaries of the Company during November 2010 to March 2015. As disclosed in the joint announcement of the Company and GSH dated 8 August 2016 and the circular of the Company dated 6 September 2016, the term of the previous loan advanced by BOC to Dajincang expired between August to November 2016. To avoid immediate demand for full repayment of the previous supplier loan by the guarantors or any of them pursuant to the then financial guarantees, loan agreements were re-entered into by the Former Supplier and BOC, and fresh guarantees were granted by subsidiaries of the Company to BOC to guarantee the obligations of the Former Supplier under the supplier loan.

As disclosed in the joint announcement of the Company and GSH dated 8 December 2017 and the circular of the Company dated 29 December 2017, the term of the Previous Supplier Loan advanced by BOC to the Former Supplier under the Previous Supplier Loan Agreements expired in September 2017, and the Former Supplier still did not have sufficient financial resources to repay the Previous Supplier Loan when the same fell due. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, the Former Supplier proposes to refinance the Previous Supplier Loan by entering into the new loan agreements with BOC for the New Supplier Loan. New Supplier Guarantees were granted by members of the Group to BOC to guarantee the obligations of the Former Supplier under the New Supplier Loan.

The maximum principal amount guaranteed under the New Supplier Guarantees is RMB2.5 billion, and as the assets ratio of the guarantees provided by the Group was more than 8%, the Company was under a general disclosure obligation to disclose such financial assistance under Rules 13.13 of the Listing Rules and to comply with Rule 13.14 of the Listing Rules when there occurred a 3% or more increase in the assets ratio. The Company was also under a continuing disclosure requirement under Rule 13.20 of the Listing Rules to disclose the New Supplier Guarantees in its reports and annual reports during the relevant periods when the New Supplier Guarantees are in effect.

SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

Change of auditor of the Company

Reference is made to the announcement of the Company dated 11 October 2017. World Link CPA Limited (“World Link”) had resigned as the auditor of the Company, and Mazars CPA Limited has been appointed as the new auditor of the Company to fill the vacancy following the resignation of World Link and to hold office until the conclusion of the next annual general meeting of the Company.

Relocation of production facilities to the Xinglongshan site

Reference is made to the circulars of the Company dated 3 June 2016, the 2016 Annual Report and the 2017 Interim Report, in relation to among others, the relocation of production facilities of the Group to the Xinglongshan site.

The relocation plan of the Group will be financed by the Group's internal resources, and the management of the Company is of the view that the existing technology know-how of the Group is sufficient for the relocation of the production facilities.

In view of the changes in operating environment, the Group has reviewed the relocation projects and revised the feasibility studies for submission to among others, the relevant government parties for approval. As such, the updated timeframes is revised as follows:

Products of the Group to which the production facilities relate	**Production site to which the production facilities will be relocated**	**Production capacity of the relevant production facilities to be relocated (MT per annum)**	**Expected time for the relocation of production facilities** *(Note)*
Methanol	the Xinglongshan site	165,000	Ongoing (Tentatively to be completed by mid-2019)
Modified starch — food grade (phase 1)	the Xinglongshan site	20,000	September 2018 – August 2019
Modified starch (phase 2)	the Xinglongshan site	60,000	March 2019 – April 2020
Corn oil	the Xinglongshan site	63,000	September 2018 – August 2019
Lysine	the Xinglongshan site	100,000	September 2018 – August 2019
Corn refinery	Dehui City of Changchun	600,000	September 2018 – August 2019
Amino acids (other varieties of amino acids complementary to current product mix with smaller capacity)	the Xinglongshan site	20,000	September 2018 – August 2019

Note: The time frame of the projects are subject to the final decision of the management taking into account the relevant product markets and the obtaining of the approval from among others, the relevant government bodies on the feasibility studies. The timetable may thus change accordingly of which the Group shall update its investors from time to time.

AUDITOR

Mazars CPA Limited will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Yuan Weisen
Chairman

Hong Kong
26 March 2018

Mazars CPA Limited
瑪澤會計師事務所有限公司

To the shareholders of
Global Bio-chem Technology Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Global Bio-Chem Technology Group Company Limited (the "Company") and its subsidiaries (together the "Group") set out on page 63 to page 131, which comprise the consolidated statement of financial position at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As a result of similar limitations of audit scope as mentioned in (i) and (ii) below, in addition to other matters mentioned therein, a disclaimer of opinion was expressed by the predecessor auditor in their report dated 29 March 2017 on the consolidated financial statements of the Group for the year ended 31 December 2016.

(i) Financial guarantee contracts

As mentioned in notes 2.2 and 31 to the consolidated financial statements, certain subsidiaries of the Company had jointly provided corporate guarantees to a bank in connection with banking facilities granted to a former major supplier of the Group which amounted to RMB2.5 billion at 31 December 2016 and 2017 (the "Financial Guarantee Contracts"). In addition, the then ultimate holding entity and the ultimate holding entity of a major shareholder of the Company provided confirmations in writing that they will undertake all the liabilities that may arise from the Financial Guarantee Contracts and provide financial support to the Group to enable it to continue as a going concern (the "Confirmations"). The Financial Guarantee Contracts and the Confirmations were not recognised in the consolidated financial statements. As the management had not developed and applied an appropriate accounting policy for the Confirmations and had not determined the fair value of the Financial Guarantee Contracts for initial recognition and the carrying amount for subsequent measurement in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), we were unable to determine whether any adjustments in respect of the Financial Guarantee Contracts and the Confirmations at 31 December 2016 and 2017 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2016 and 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2017.

BASIS FOR DISCLAIMER OF OPINION *(Continued)*

(ii) Material uncertainty related to going concern

As discussed in note 2.2 to the consolidated financial statements, at 31 December 2017, the Group had net current liabilities and capital deficiency of HK$5,715 million and HK$2,467 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK$890 million for the year ended 31 December 2017. In addition, any potential liabilities or obligations arising from the Financial Guarantee Contracts may have a significant negative impact on the liquidity position of the Group. These conditions, along with other matters as set forth in note 2.2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the management of the Company and the development of the events as described in note 2.2 to the consolidated financial statements. The management of the Company is of the opinion that the Group would be able to continue as a going concern. Therefore, the consolidated financial statements have been prepared on a going concern basis, and do not include any adjustments relating to the recognition of provisions or the realisation and reclassification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

We were unable to obtain sufficient appropriate audit evidence regarding the use of going concern assumption in the preparation of the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at 31 December 2017. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

(iii) Prepayments, deposits and other receivables

Included in the Group's prepayments, deposits and other receivables at 31 December 2017 was the remaining consideration receivable from a government bureau of HK$482 million in respect of the disposal of certain buildings, machineries and fixtures erected on a piece of land during the year ended 31 December 2014. We were unable to obtain sufficient appropriate audit evidence on the recoverability of the receivable. Therefore, we were unable to determine whether any adjustments to the receivable at 31 December 2017 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2017.

(iv) Other payables and accruals

Included in the Group's other payables and accruals at 31 December 2017 was an advance from an independent third party, received through a government bureau in 2015, of HK$217 million, for relocation of the Group's production facilities in Changchun. We were unable to obtain direct confirmation or sufficient appropriate audit evidence by performing alternative procedures to verify the balance of the advance at 31 December 2017. Therefore, we were unable to determine whether any adjustments to the advance at 31 December 2017 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2017.

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

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

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

The directors are responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this 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.

Mazars CPA Limited
Certified Public Accountants
42/F, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

26 March 2018

The engagement director on the audit resulting in this independent auditor's report is:
Yip Ngai Shing
Practising Certificate Number: P05163

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**4,397,005**	3,882,840
Cost of sales		**(3,787,974)**	(3,567,018)
Gross profit		**609,031**	315,822
Other income and gains	5	**198,754**	187,116
Selling and distribution expenses		**(398,193)**	(296,578)
Administrative expenses		**(419,489)**	(347,562)
Other expenses		**(584,442)**	(1,500,062)
Finance costs	6	**(454,678)**	(441,118)
LOSS BEFORE TAX	7	**(1,049,017)**	(2,082,382)
Income tax credit	10	**158,759**	170,096
LOSS FOR THE YEAR		**(890,258)**	(1,912,286)
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign subsidiaries		**(177,849)**	96,586
Items that will not be reclassified subsequently to profit or loss:			
Gain (Loss) on property revaluation, net	13	**540,726**	(20,633)
Income tax effect	27	**(135,076)**	8,190
		405,650	(12,443)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**227,801**	84,143
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(662,457)**	(1,828,143)
Loss attributable to:			
Owners of the Company		**(837,491)**	(1,850,640)
Non-controlling interests		**(52,767)**	(61,646)
		(890,258)	(1,912,286)
Total comprehensive loss attributable to:			
Owners of the Company		**(602,751)**	(1,657,297)
Non-controlling interests		**(59,706)**	(170,846)
		(662,457)	(1,828,143)
LOSS PER SHARE			
Basic	12	**HK$(0.13)**	HK$(0.29)
Diluted	12	**HK$(0.13)**	HK$(0.29)

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	13	**7,188,318**	6,390,498
Prepaid land lease payments	14	**620,865**	574,495
Deposits paid for acquisition of property, plant and equipment		**63,153**	50,310
Goodwill	15	**—**	—
Intangible assets	16	**5,358**	5,368
Interests in an associate	18	**—**	—
		7,877,694	7,020,671
Current assets			
Inventories	19	**592,465**	539,848
Trade and bills receivables	20	**517,402**	424,002
Prepayments, deposits and other receivables	21	**1,047,812**	878,224
Due from an associate		**17,142**	20,388
Pledged deposits	22	**406,209**	53,568
Cash and bank balances	22	**304,362**	896,487
		2,885,392	2,812,517
Current liabilities			
Trade and bills payables	23	**1,646,893**	1,543,439
Other payables and accruals	24	**1,915,400**	1,260,413
Current portion of interest-bearing bank and other borrowings	25	**4,861,642**	3,441,116
Tax payable		**176,952**	164,997
		8,600,887	6,409,965
Net current liabilities		**(5,715,495)**	(3,597,448)
Total assets less current liabilities		**2,162,199**	3,423,223

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Interest-bearing bank and other borrowings	25	**3,555,927**	4,191,332
Deferred income	26	**150,165**	147,114
Deferred tax liabilities	27	**9,561**	30,930
Convertible bonds	28	**913,070**	857,914
		4,628,723	5,227,290
NET LIABILITIES		**(2,466,524)**	(1,804,067)
Capital and reserves			
Share capital	29	**639,900**	639,900
Reserves		**(3,047,432)**	(2,444,681)
Deficit attributable to owners of the Company		**(2,407,532)**	(1,804,781)
Non-controlling interests		**(58,992)**	714
TOTAL DEFICIT		**(2,466,524)**	(1,804,067)

These consolidated financial statements on pages 63 to 131 were approved and authorised for issue by the board of directors on 26 March 2018 and signed on its behalf by

Yuan Weisen
Director

Liu Shuhang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Share option reserve *HK$'000*	Asset revaluation reserve *HK$'000*	Convertible bond reserve *HK$'000*	Other reserve *HK$'000*	Statutory reserve fund *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2016	639,900	2,839,469	10,527	388,469	290,585	15,677	105,939	1,844,437	(6,282,487)	(147,484)	171,560	24,076
Loss for the year	–	–	–	–	–	–	–	–	(1,850,640)	(1,850,640)	(61,646)	(1,912,286)
Other comprehensive income (loss) for the year:	–	–	–	12,623	–	–	–	180,720	–	193,343	(109,200)	84,143
Total comprehensive income (loss) for the year	–	–	–	12,623	–	–	–	180,720	(1,850,640)	(1,657,297)	(170,846)	(1,828,143)
Transfer	–	–	–	–	–	–	6,135	–	(6,135)	–	–	–
Transactions with owners:												
Contributions and distributions												
Transfer upon lapse of share options	–	–	(10,527)	–	–	–	–	–	10,527	–	–	–
At 31 December 2016	639,900	2,839,469*	–*	401,092*	290,585*	15,677*	112,074*	2,025,157*	(8,128,735)*	(1,804,781)	714	(1,804,067)

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Convertible bond reserve HK$'000	Other reserve HK$'000	Statutory reserve fund HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	639,900	2,839,469	–	401,092	290,585	15,677	112,074	2,025,157	(8,128,735)	(1,804,781)	714	(1,804,067)
Loss for the year	–	–	–	–	–	–	–	–	(837,491)	(837,491)	(52,767)	(890,258)
Other comprehensive income (loss) for the year	–	–	–	405,650	–	–	–	(170,910)	–	234,740	(6,939)	227,801
Total comprehensive income (loss) for the year	–	–	–	405,650	–	–	–	(170,910)	(837,491)	(602,751)	(59,706)	(662,457)
Transfer	–	–	–	–	–	–	1,296	–	(1,296)	–	–	–
At 31 December 2017	639,900	2,839,469*	–*	806,742*	290,585*	15,677*	113,370*	1,854,247*	(8,967,522)*	(2,407,532)	(58,992)	(2,466,524)

* These reserve accounts comprise the negative reserves of HK$3,047,432,000 (2016: negative reserves of HK$2,444,681,000) in the consolidated statement of financial position.

SHARE PREMIUM

The share premium includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the shares of Global Sweeteners Holdings Limited ("GSH"), a subsidiary of the Company, in a prior year and the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from capitalisation issues in prior years; and (iii) the premium arising from the placing and subscriptions of shares of the Company in prior years.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

SHARE OPTION RESERVE/ASSET REVALUATION RESERVE/CONVERTIBLE BOND RESERVE/EXCHANGE RESERVE

These reserves are dealt with in accordance with the respective accounting policies as set out in note 2.5 to the consolidated financial statements.

STATUTORY RESERVE FUND

Certain subsidiaries which were established in the People's Republic of China (the "PRC" or "Mainland China") are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to their respective statutory reserve funds until they reach 50% of their respective registered capital, upon which any further appropriation is at the directors' recommendation. These reserves may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	2017 *HK$'000*	2016 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(1,049,017)**	(2,082,382)
Adjustments for:		
Finance costs	**454,678**	441,118
Bank interest income	**(2,605)**	(1,160)
Gain on disposal of property, plant and equipment, net	**(417)**	(58)
Gain on disposal of prepaid land lease payments	**(67,219)**	—
Depreciation	**397,651**	473,862
Amortisation of prepaid land lease payments	**22,078**	23,118
Amortisation of intangible assets	**15**	36
Amortisation of deferred income	**(10,077)**	(10,194)
Impairment of property, plant and equipment	**134,846**	136,845
Loss on revaluation of property, plant and equipment	**2,870**	120,581
Impairment of deposits paid for acquisition of property, plant and equipment	**1,776**	33,931
(Reversal of impairment) Impairment of prepayments, deposits and other receivables, net	**(12,949)**	877,201
Impairment (Reversal of impairment) of trade receivables, net	**45,675**	(29,879)
Reversal of write-off of trade receivables	**—**	(1,062)
Write-down of inventories, net	**7,068**	41,801
Changes in working capital:		
Inventories	**(13,604)**	99,538
Trade and bills receivables	**(98,833)**	(114,135)
Due from an associate	**4,579**	1,176
Prepayments, deposits and other receivables	**(30,713)**	(128,306)
Trade and bills payables	**(24,638)**	138,205
Other payables and accruals	**506,012**	(165,214)
Deferred income	**—**	1,783
Cash generated from (used in) operations	**267,176**	(143,195)
Interest received	**2,605**	1,160
Income taxes paid	**(2,491)**	(1,721)
Net cash generated from (used in) operating activities	**267,290**	(143,756)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	**–**	(45,409)
Purchase of property, plant and equipment	**(335,547)**	(124,265)
Proceeds from disposal of property, plant and equipment	**14,631**	2,728
Proceeds from disposal of financial assets at fair value through profit or loss	**–**	33,300
Net cash used in investing activities	**(320,916)**	(133,646)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans raised	**2,949,770**	706,444
Repayment of bank loans	**(2,806,268)**	(688,675)
Interest paid	**(399,522)**	(389,295)
Pledged deposits	**(352,641)**	(6,565)
Net cash used in financing activities	**(608,661)**	(378,091)
Net decrease in cash and cash equivalents	**(662,287)**	(655,493)
Cash and cash equivalents at beginning of year	**896,487**	1,567,426
Effect of foreign exchange rate changes, net	**70,162**	(15,446)
Cash and cash equivalents at end of year (note 22)	**304,362**	896,487

1. CORPORATE INFORMATION

Global Bio-Chem Technology Group Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of corn refined products and corn based biochemical products.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, except for certain property, plant and equipment which are measured at revalued amounts as further explained in note 2.5 to the consolidated financial statements. These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except where otherwise indicated.

2.2 GOING CONCERN

The Group recorded a loss of approximately HK$890 million (2016: HK$1,912 million) for the year ended 31 December 2017 and as at that date, had net current liabilities of approximately HK$5,715 million (2016: HK$3,597 million) and net liabilities of approximately HK$2,467 million (2016: HK$1,804 million). In addition, any potential liabilities or obligations arising from the Financial Guarantee Contracts as discussed in note 31 to the consolidated financial statements may have a significant negative impact on the liquidity position of the Group. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances, the management of the Company has taken the following steps to improve the Group's financial position:

(a) Active negotiations with banks to obtain adequate bank borrowings

The management of the Company has been actively negotiating with banks in the PRC to secure the renewals of the Group's short-term and long-term bank loans to meet its liabilities when fall due. A debt-equity swap proposal for the restructure of the debt of the Company's subsidiaries in Changchun has been submitted to the People's Government of Jilin Province for consideration. After series of discussions with the relevant professional parties on fine-tuning the proposal, the management believes that realisation of the proposal is unlikely in the near future. The Group has also been exploring other alternatives to strengthen the financial position of the Group, among others, to restructure the short-term bank loans to long-term ones.

2.2 GOING CONCERN *(Continued)*

(b) Disposal of land and buildings located in Luyuan District, Changchun

Reference is made to the joint announcement of the Company and GSH dated 2 March 2017. The Company and GSH have entered into termination agreements with 吉林省太陽神建築工程有限公司(Jilin Province Taiyangshen Construction Engineering Co. Ltd.) (the "Former Purchaser") to terminate the property transfer agreements dated 14 April 2016 entered into between the Former Purchaser and certain members of the Group and the GSH Group respectively (the "Property Disposal Agreements") in respect of the sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the buildings erected thereon (the "Relevant Properties"); and the asset disposal agreements dated 14 April 2016 entered into between the Former Purchaser and certain members of the Group and the GSH Group respectively (the "Asset Disposal Agreements") in respect of the sale and purchase of, including among others, prepayments, trade and other receivables and/or inventories and tools of the Group and the GSH Group (the "Relevant Assets").

During the negotiation process with the Former Purchaser with respect to the termination agreements, the Company, together with GSH, have been in discussion with another potential purchaser (the "Potential Purchaser") in respect of the sale and purchase of the Relevant Properties. The Potential Purchaser is a municipal government-owned enterprise. Pursuant to a letter of intent from the Potential Purchaser, it is expected that the Potential Purchaser shall purchase the Relevant Properties with a consideration of not less than RMB2.2 billion, subject to the price to be determined by way of auction. Given the Potential Purchaser is a municipal government-owned enterprise, the management is prudently optimistic that the disposal will be materialised. During the year ended 31 December 2017, the discussion with the Potential Purchaser has been ongoing. If the disposal of the Relevant Properties is materialised, the Group will have additional funds to finance its operations and the capital expenditure for relocation of its production facilities in Changchun.

On 21 July 2017, a subsidiary of the Company entered into a sale and purchase agreement for the purchase of the entire equity interests in Changchun Dihao Crystal Sugar Industry Development Co. Ltd. and Changchun Dihao Foodstuff Development Co. Ltd., indirect wholly-owned subsidiaries of GSH (the "Target Companies") (the "Transaction"). Upon the completion of the Transaction, the Target Companies shall cease to be subsidiaries of GSH. As the Target Companies own part of the land which accounts for approximately one-fifth of the total site area of the land located in Luyuan District, it would be more efficient for the Group to be in charge of the valuation of the land, and the negotiation and execution of the land transfer as quicker decision-making process and less administrative hurdles are expected if only one party is involved. The management expects that the purchase of the Target Companies could help expedite the process of negotiation with the Potential Purchaser, as well as the process of completion of the disposal as it can be handled solely by the management of the Group without involving the management of the GSH Group.

The completion of the Transaction is conditional upon fulfillment of certain conditions. Up to the date of approval of these consolidated financial statements, those conditions have not been completely fulfilled. Specifically, the directors are still in the process of discussing with relevant banks for the release of the guarantees and/or charges given by a member of the GSH Group in respect of the indebtedness of Changchun Dihao Foodstuff Development Co. Ltd..

2.2 GOING CONCERN *(Continued)*

(c) Improvement of the Group's operating cash flows

The Group has taken measures to tighten cost controls over production costs and expenses with the aim to attain profitable and positive cash flow operations. The Group has also optimised its production in order to minimise operating cash outflows.

(d) Financial support from the ultimate holding entity of a major shareholder

As announced by the Company on 2 March 2017, Jilin Agricultural Investment Group Co. Ltd. (吉林省農業投資集團有限公司, "Nongtou"), an entity controlled by the State-owned Assets Supervision and Administration Commission of the People's Government of Jilin Province, became an indirect major shareholder of the Company. The Group had received a written confirmation dated 6 March 2017 from Nongtou that it will provide financial support to the Group and the GSH Group in the next 24 months for their operation on a going concern basis and undertake all the liabilities that may arise from the Financial Guarantee Contracts. Such assistance received by the Group is not secured by any assets of the Group. On 22 January 2018, Nongtou reconfirmed the validity of the confirmation dated 6 March 2017.

In addition, the Group signed a corn purchasing agreement with Jilin Jiliang Assets Supply Chain Management Co. Ltd. (吉林吉糧資產供應鏈管理有限公司, "Jiliang"), a subsidiary of Nongtou, in May 2017 to ensure a stable supply of corn kernels and lower the cost of raw materials. During the year ended 31 December 2017, the Group purchased approximately 135,300 metric tonnes ("MT") of corn kernels from Jiliang which accounted for 8.9% of total corn procurement of the Group. In January 2018, one of the subsidiaries in Jinzhou, through the connection of Nongtou, signed a one year 500,000MT corn procurement contract with a State-owned enterprise to secure a stable supply of corn kernels in Jinzhou for the year 2018. At 31 December 2017, trade payables and other payables to Jiliang amounted to HK$114.3 million (2016: nil) and HK$481.0 million (2016: nil) respectively. The other payables are interest bearing at 10% per annum and interest on payables to Jiliang for the year ended 31 December 2017 amounted to HK$30.6 million (2016: nil).

Nongtou, being a State-owned enterprise, was established in August 2016 and its unaudited net assets value amounted to RMB1,173.9 million at 31 December 2017 (2016: RMB460.8 million). It is tasked to consolidate the State-owned investments in the agricultural sector in Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group, to provide synergistic effects among its various investments in the agricultural sector in Jilin Province and to provide adequate and sufficient financial support to the Group.

The validity of the going concern basis on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the management and the development of the events as described above. Based on the measures as outlined above, the management is of the view that the Group would be able to generate sufficient funds to meet its obligations as and when they fall due in the foreseeable future. Therefore, the consolidated financial statements have been prepared on a going concern basis and do not include any adjustments relating to the recognition of provisions or the realisation and reclassification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

Should the going concern basis be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2016 consolidated financial statements.

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs	2014–2016 Cycle: HKFRS 12

Amendments to HKAS 7 "Disclosure Initiative"

The amendments require entities 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.

The adoption of the amendments results in the additional disclosures in note 22(b) to the consolidated financial statements. In accordance with the transitional provisions therein, the comparative information is not presented in the first year of adoption.

Amendments to HKAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Annual Improvements 2014-2016 Cycle "HKFRS 12 — Clarification of the scope"

The amendments clarify that except for the summarised financial information for subsidiaries, joint ventures and associates in which the interests are classified or included in a disposal group that is classified as held for sale in accordance with HKFRS 5, the requirements of HKFRS 12 apply to interests in entities within the scope of HKFRS 5.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

2.4 NEW AND REVISED HKFRSs NOT YET ADOPTED

The Group has not applied the following new/revised HKFRSs that are relevant and have been issued but are not yet effective for the current year in the consolidated financial statements.

Annual Improvements to HKFRSs	2014–2016 Cycle: HKFRS 1 and HKAS 28[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
Annual Improvements to HKFRSs	2015-2017 Cycle[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKAS 28	Investments in Associates and Joint Ventures[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective date to be determined

The Group is in the process of making a detailed assessment of the possible impact on the future adoption of the new/revised HKFRSs. So far the management is of the opinion that except for HKFRSs 9, 15 and 16 which are explained below, the adoption of the new/revised HKFRSs will not have any significant impact on the consolidated financial statements.

HKFRS 9 “Financial Instruments”

HKFRS 9, which will supersede HKAS 39 in its entirety, introduces new requirements on the classification and measurement of financial assets and financial liabilities, hedge accounting and impairment of financial assets.

The most significant change to be brought by HKFRS 9 to the Group is the requirements on impairment of financial assets. HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The application of HKFRS 9 may result in earlier recognition of credit losses which are not yet incurred in respect of the Group’s financial assets measured at amortised cost.

2.4 NEW AND REVISED HKFRSs NOT YET ADOPTED *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, by applying the following five steps:

(a) Identify the contract(s) with a customer;

(b) Identify the performance obligations in the contract(s);

(c) Determine the transaction price, the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer;

(d) Allocate the transaction price to the performance obligations in the contract(s); and

(e) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The adoption of this standard is not expected to have a significant impact on the measurement and recognition of revenue of the Group, but it may result in more disclosures.

HKFRS 16 "Leases"

HKFRS 16 significantly changes, among others, the lessee accounting by replacing the dual-model under HKAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

The application of HKFRS 16 will result in recognition of right-of-use assets and lease liabilities for certain leases of the Group that are currently classified as operating leases under HKAS 17. Subsequently, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively. The total amount charged to profit or loss for each reporting period is not expected to be significantly different from the operating lease expense recognised under HKAS 17.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. 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 Company 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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, and (ii) the carrying amount of any non-controlling interest and recognises (i) the fair value of the consideration received, and (ii) the fair value of any investment retained. 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.

Subsidiaries

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). The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. Investments in subsidiaries are stated at cost less impairment losses in the Company's statement of financial position which is presented within these notes. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associate

An associate is an entity over which the Group has 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.

The Group's investment in an associate is stated in the consolidated statement of financial position initially at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets under the equity method of accounting, less any impairment losses, except when the investment or a portion thereof is classified as held for sale. The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of comprehensive income. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate, the Group discontinues recognising its share of further losses when the Group's share of losses of the associate equals or exceeds the carrying amount of its interest in the associate, which includes any long term interests that, in substance, form part of the Group's net investment in the associate.

Goodwill arising on an acquisition of an associate is measured as the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate. Such goodwill is included in interests in associates. On the other hand, any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

Unrealised profits and losses resulting from transactions between the Group and its associate is eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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 a proportionate share of net assets in the event of liquidation 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 at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

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 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 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 combination, 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 disposal of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures certain of its property, plant and equipment 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 best economic interest.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 that the Group can access at the measurement date

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 consolidated 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, construction contract assets and non-current assets classified as held for sale), 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 of disposal, 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 pretax 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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 other than goodwill 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A related party is a person or entity that is related to the Group.

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

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

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also 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).
- (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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

(c) dependants of that person or that person's spouse or domestic partner.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets (or disposal group) held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset 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 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation less accumulated impairment 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:

Leasehold buildings	2.0% to 6.7%
Plant and machinery	6.7%
Leasehold improvements, furniture, office equipment and motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

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 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 represents plant under construction, which 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.

Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire fixed term interests in lessee-occupied land that are classified as operating leases. The premiums are stated at cost less accumulated amortisation and impairment losses and are amortised over the period of the lease on a straight-line basis to profit or loss.

Intangible assets

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 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 at least annually either individually or at the cash-generating unit level. These 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset.

Golf club membership

Golf club membership is stated at cost less impairment losses, if any. The carrying amount of individual golf club membership is reviewed at the end of each reporting period to assess whether the recoverable amount has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such golf club membership is reduced to its recoverable amount. The amount of the reduction is recognised as an expense in profit or loss.

Non-current assets (or disposal group) held for sale

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal groups) and its sale must be highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

On initial classification as held for sale and until disposal, the non-current assets (and disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties which, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.5.

Operating 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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to 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 amortised on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets

Initial recognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

Classification and measurement

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.

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 profit or loss. The loss arising from impairment is recognised in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is 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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment

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 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 profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued 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 profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

Classification and measurement

All financial liabilities are recognised initially at fair value net of directly attributable transaction costs.

Financial liabilities at amortised cost

After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

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 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.

Derecognition

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract 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 profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bond

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond equity reserve is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond reserve is transferred to accumulated profits or losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

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.

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 and at banks, including term deposits, and assets similar in nature to cash, 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 profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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 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 carryforward of unused tax credits and any unused tax losses 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, 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 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 or a reduction of the related expenses item, as appropriate, 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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

(a) Sale of goods is recognised, 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) Interest income is recognised, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

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 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, taking into account any market conditions and non-vesting conditions.

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 profit or loss for a period represents the movement in the cumulative expense recognised at the beginning and end of that period. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of the review, with a corresponding adjustment to the reserve within equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits/losses. 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 award 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 loss per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, 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. The capitalisation rate is based on the actual cost of the related borrowings. 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 proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

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 all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to 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 the PRC are required to participate in the retirement benefit schemes (the "PRC RB Schemes") operated by the respective local municipal governments in provinces of Mainland China where the group entities operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes to fund the benefits. The only obligation of the Group with respect to the PRC RB Schemes is to pay the ongoing required contributions under the PRC RB Schemes. Contributions under the PRC RB Schemes are charged to profit or loss as they become payable in accordance with the rules of the PRC RB Schemes.

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 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 difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their 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 profit or loss.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated 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. 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 future.

Judgement

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

Deferred tax liability for withholding taxes

The Group determines that no dividends are to be distributed by the PRC subsidiaries to the Company or any subsidiary outside Mainland China in the foreseeable future. Therefore, no deferred tax liability for withholding taxes has been recognised in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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:

Fair value of property, plant and equipment

The Group estimates the fair value of its leasehold buildings and construction in progress with reference to valuations performed by an independent professional valuer. The valuation of leasehold buildings and construction in progress is performed using the direct comparison approach or the depreciated replacement cost (the "DRC") approach. The direct comparison approach requires adjustments to transaction price of similar properties regarding differences in key valuation attributes such as size, age and location etc. between the properties under appraisal and the comparable. The DRC approach requires an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of property, plant and equipment, the Group considers various factors such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with a similar asset that is used in a similar way. Additional depreciation is required if the estimated useful lives and/or the residual values of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

Impairment of trade receivables

The provisioning policy for impairment loss of the Group is based on the evaluation of collectability of the receivables. A considerable amount of judgement is required in assessing the ultimate realisation of the receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Write-down of inventories

The Group reviews ageing analysis of its inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving items that are no longer suitable for use in production. The estimated net realisable value of the Group's inventories is based primarily on the latest invoice prices and current market conditions.

Income taxes

At 31 December 2017, a deferred tax asset of approximately HK$297 million (2016: HK$134 million) in relation to deductible temporary difference and tax losses was recognised in the consolidated statement of financial position to the extent of the recognised taxable temporary difference. No deferred tax asset has been recognised on the remaining tax losses of HK$10,165 million (2016: HK$9,142 million) and the remaining deductible temporary difference of HK$3,555 million (2016: HK$5,250 million) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits or taxable temporary differences are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

4. OPERATING SEGMENT INFORMATION

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

(a) the upstream products segment engages in the manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products;

(b) the amino acids segment engages in the manufacture and sale of corn based biochemical products, including lysine and threonine;

(c) the corn sweeteners segment engages in the manufacture and sale of corn based sweetener products, including glucose, maltose, high fructose corn syrup, crystallised glucose and maltodextrin; and

(d) the polyol chemicals segment engages in the manufacture and sale of corn based biochemical products, including polyol chemicals, anti-freeze products, hydrogen and ammonia.

The management, who is the chief operating decision-maker, monitors the results of the Group's operating segments separately for the purpose of making decisions in relation to resources allocation and performance assessment. Segment performance is evaluated based on reportable segment's profit or loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that finance costs as well as corporate income and expenses are excluded from such measurement.

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment results

Year ended 31 December 2017

	Upstream products *HK$'000*	Amino acids *HK$'000*	Corn sweeteners *HK$'000*	Polyol chemicals *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Revenue from:						
External customers	**1,476,858**	**2,101,478**	**810,584**	**8,085**	**–**	**4,397,005**
Intersegment	**136,279**	**–**	**112,450**	**–**	**(248,729)**	**–**
Total Revenue	**1,613,137**	**2,101,478**	**923,034**	**8,085**	**(248,729)**	**4,397,005**
Segment results	**(403,825)**	**(52,340)**	**(12,603)**	**(13,112)**	**–**	**(481,880)**
Bank interest income						**2,605**
Unallocated revenue						**38,347**
Unallocated expenses						**(153,411)**
Finance costs						**(454,678)**
Loss before tax						**(1,049,017)**
Income tax credit						**158,759**
Loss for the year						**(890,258)**

Year ended 31 December 2016

	Upstream products *HK$'000*	Amino acids *HK$'000*	Corn sweeteners *HK$'000*	Polyol chemicals *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Revenue from:						
External customers	1,359,215	1,926,653	592,091	4,881	–	3,882,840
Intersegment	97,904	–	115,262	–	(213,166)	–
Total revenue	1,457,119	1,926,653	707,353	4,881	(213,166)	3,882,840
Segment results	(1,331,638)	(227,040)	21,813	(56,565)	–	(1,593,430)
Bank interest income						1,160
Unallocated revenue						32,230
Unallocated expenses						(81,224)
Finance costs						(441,118)
Loss before tax						(2,082,382)
Income tax credit						170,096
Loss for the year						(1,912,286)

4. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Other segment information

Year ended 31 December 2017

	Upstream products *HK$'000*	**Amino acids** *HK$'000*	**Corn sweeteners** *HK$'000*	**Polyol chemicals** *HK$'000*	**Total** *HK$'000*
Capital expenditure	**201,272**	**88,746**	**82,683**	**79**	**372,780**
Depreciation	**167,054**	**187,401**	**34,877**	**8,319**	**397,651**
Amortisation of prepaid land lease payments	**10,048**	**8,032**	**3,327**	**671**	**22,078**
Gain on disposal of prepaid land lease payments	**(67,219)**	**–**	**–**	**–**	**(67,219)**
(Gain) Loss on disposal of property, plant and equipment, net	**(253)**	**(817)**	**673**	**(20)**	**(417)**
Impairment of property, plant and equipment	**129,349**	**5,497**	**–**	**–**	**134,846**
Impairment (Reversal of impairment) of trade receivables, net	**2,494**	**43,748**	**(749)**	**182**	**45,675**
Write-down (Reversal of write-down) of inventories, net	**26,232**	**5,704**	**(635)**	**(24,233)**	**7,068**
Impairment of deposits paid for acquisition of property, plant and equipment	**1,687**	**89**	**–**	**–**	**1,776**
(Reversal of impairment) Impairment of prepayments, deposits and other receivables, net	**(12,513)**	**(1,120)**	**727**	**(43)**	**(12,949)**

Year ended 31 December 2016

	Upstream products *HK$'000*	Amino acids *HK$'000*	Corn sweeteners *HK$'000*	Polyol chemicals *HK$'000*	Total *HK$'000*
Capital expenditure	52,015	16,038	51,740	4,472	124,265
Depreciation	261,104	182,012	25,147	5,599	473,862
Amortisation of prepaid land lease payments	11,162	8,120	3,165	671	23,118
(Gain) Loss on disposal of property, plant and equipment, net	–	(68)	10	–	(58)
Impairment (Reversal of impairment) of property, plant and equipment, net	190,248	(1,036)	(55,871)	3,504	136,845
(Reversal of impairment) Impairment of trade receivables, net	(20,582)	(41,082)	2,271	29,514	(29,879)
Write-off (Reversal of write-off) of trade receivables, net	–	6	(1,068)	–	(1,062)
Write-down (Reversal of write-down) of inventories, net	59,936	(11,420)	34	(6,749)	41,801
Impairment of deposits paid for acquisition of property, plant and equipment	338	21,048	–	12,545	33,931
Impairment of prepayments, deposits and other receivables	576,581	287,912	280	12,428	877,201

4. OPERATING SEGMENT INFORMATION *(Continued)*

(c) Geographical information

Revenue information based on locations of customers

	2017 HK$'000	2016 HK$'000
Mainland China	**3,245,601**	2,930,606
Regions other than Mainland China	**1,151,404**	952,234
	4,397,005	3,882,840

Non-current assets information based on locations of assets

	2017 HK$'000	2016 HK$'000
Mainland China	**7,853,566**	6,997,291
Hong Kong	**24,128**	23,380
	7,877,694	7,020,671

(d) Information about major customers

No revenue from any customer individually amounted to 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016.

5. REVENUE, OTHER INCOME AND GAINS

	2017 HK$'000	2016 HK$'000
Revenue		
Sale of goods	**4,397,005**	3,882,840
Other income and gains		
Bank interest income	**2,605**	1,160
Net gains from sale of packing materials and by-products	**—**	6,778
Government grants *(Note)*	**77,217**	61,894
Reversal of impairment of trade receivables, net	**—**	29,879
Reversal of write-off of trade receivables, net	**—**	1,062
Reversal of impairment of prepayments, deposits and other receivables, net	**12,949**	—
Amortisation of deferred income	**10,077**	10,194
Gain on disposal of prepaid land lease payments	**67,219**	—
Gain on disposal of property, plant and equipment, net	**417**	58
Foreign exchange gain, net	**—**	36,230
Others	**28,270**	39,861
	198,754	187,116

Note: Government grants represent rewards to certain subsidiaries of the Company located in Mainland China with no further obligations and conditions to be complied with.

6. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank and other borrowings	**368,189**	387,819
Finance costs for discounted bills receivable	**778**	1,476
Interest on payables to Jiliang *(note 24)*	**30,555**	—
Imputed interest on convertible bonds *(note 28)*	**55,156**	51,823
	454,678	441,118

7. LOSS BEFORE TAX

This is stated after charging (crediting):

	2017 HK$'000	2016 HK$'000
Employee benefits expenses including directors' remuneration:		
Wages and salaries	**298,306**	278,928
Pension scheme contributions	**56,573**	47,359
	354,879	326,287
Cost of inventories sold	**3,690,351**	3,516,789
Depreciation	**397,651**	473,862
Amortisation of prepaid land lease payments	**22,078**	23,118
Auditor's remuneration	**6,200**	8,300
Impairment of property, plant and equipment, net, included in other expenses	**134,846**	136,845
Loss on revaluation of property, plant and equipment, net, included in other expenses	**2,870**	120,581
Impairment of deposits paid for acquisition of property, plant and equipment, included in other expenses	**1,776**	33,931
(Reversal of impairment) Impairment of prepayments, deposits and other receivables, net	**(12,949)**	877,201
Research and development costs	**10,567**	11,338
Impairment (Reversal of impairment) of trade receivables, net	**45,675**	(29,879)
Reversal of write-off of trade receivables, net	**—**	(1,062)
Gain on disposal of prepaid land lease payments	**(67,219)**	—
Gain on disposal of property, plant and equipment, net	**(417)**	(58)
Foreign exchange difference, net	**23,249**	(36,230)
Write-down of inventories, net, included in cost of sales	**7,068**	41,801
Amortisation of deferred income	**(10,077)**	(10,194)
Amortisation of intangible assets	**15**	36
Corn subsidy, included in cost of sales	**(142,352)**	(135,644)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

	2017			
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Mr. Yuan Weisen (appointed on 23.3.2017)	–	–	–	–
Mr. Zhang Zihua (appointed on 23.3.2017)	–	–	–	–
Ms. Wang Qiu (resigned on 23.3.2017)	–	–	–	–
Mr. Wang Jian (resigned on 23.3.2017)	–	–	–	–
Mr. Li Shuguang (resigned on 23.3.2017)	–	–	–	–
Non-executive directors				
Mr. Qiu Zhuang (resigned on 23.3.2017)	–	–	–	–
Mr. Xing Lizhu (resigned on 23.3.2017)	–	–	–	–
	–	–	–	–
Independent non-executive directors				
Mr. Ng Kwok Pong	480	–	–	480
Mr. Yeung Kit Lam	480	–	–	480
Ms. Chiu Lai Ling, Shirley	480	–	–	480
	1,440	–	–	1,440
Chief executive officer				
Mr. Kong Zhanpeng	–	4,029	25	4,054

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

	2016			
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Ms. Wang Qiu	–	–	–	–
Mr. Wang Jian	–	–	–	–
Mr. Li Shuguang	–	–	–	–
Ms. Liu Fang (resigned on 19.6.2016)	–	–	–	–
Non-executive directors				
Mr. Qiu Zhuang	–	–	–	–
Mr. Xing Lizhu	–	–	–	–
	–	–	–	–
Independent non-executive directors				
Mr. Ng Kwok Pong	480	–	–	480
Mr. Yeung Kit Lam	480	–	–	480
Ms. Chiu Lai Ling, Shirley (appointed on 16.3.2016)	380	–	–	380
	1,340	–	–	1,340
Chief executive officer				
Mr. Kong Zhanpeng	–	3,600	18	3,618

No emolument was paid or payable by the Group to any of the directors or the chief executive officer as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive officer waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

9. FIVE HIGHEST PAID EMPLOYEES

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

	2017 *HK$'000*	2016 *HK$'000*
Salaries, allowances and benefits in kind	**5,013**	3,454
Pension scheme contributions	**72**	36
	5,085	3,490

The highest paid employees fell within the following bands:

	2017 *Number of individuals*	2016 *Number of individuals*
Nil to HK$1,000,000	**2**	—
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**—**	—
HK$2,000,001 to HK$2,500,000	**1**	1
	4	2

No emolument was paid or payable by the Group to any of the highest paid employees as inducement to join or upon joining the Group or as compensation for loss of office. The highest paid employees did not waive any emoluments during the years ended 31 December 2017 and 2016.

10. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the years ended 31 December 2017 and 2016. PRC enterprise income tax has been provided at the rate of 25% (2016: 25%) on the estimated assessable profits of subsidiaries operating in the PRC.

	2017 *HK$'000*	2016 *HK$'000*
Current tax		
PRC enterprise income tax	**4,141**	1,584
Deferred taxation		
Origination and reversal of temporary differences	**(162,900)**	(171,680)
Income tax credit	**(158,759)**	(170,096)

10. INCOME TAX CREDIT *(Continued)*

Reconciliation of income tax credit

	2017 **HK$'000**	2016 HK$'000
Loss before tax	**(1,049,017)**	(2,082,382)
Income tax at applicable tax rate	**(252,292)**	(515,547)
Non-deductible expenses	**61,648**	160,597
Tax-exempt income	**(1,010)**	(26,442)
Unrecognised temporary difference	**(20,178)**	196,181
Unrecognised tax losses	**188,149**	211,858
Utilisation of previously unrecognised tax losses	**(7,631)**	(25,084)
Recognition of previously unrecognised deferred taxes and reversal of deferred taxes	**(127,445)**	(171,659)
Income tax credit	**(158,759)**	(170,096)

The applicable tax rate is the weighted average of the tax rates prevailing in the locations in which the Group entities operate.

11. DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of HK$837,491,000 (2016: HK$1,850,640,000), and the weighted average number of ordinary shares in issue during the year of 6,398,998,360 (2016: 6,398,998,360) shares.

As the assumed conversion of the convertible bonds and the assumed exercise of the Company's outstanding share options have an anti-dilutive effect, the diluted loss per share was equal to the basic loss per share for the years ended 31 December 2017 and 2016.

13. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount — Year ended 31 December 2017	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvement, furniture, equipment and motor vehicles HK$'000	Construction in-progress HK$'000	Total HK$'000
At 1 January 2017	**4,564,291**	**1,174,451**	**8,942**	**642,814**	**6,390,498**
Additions	**779**	**32,448**	**6,974**	**285,639**	**325,840**
Transfer	**170,433**	**248,305**	**—**	**(418,738)**	**—**
Disposals	**(8,305)**	**(5,796)**	**(103)**	**(10)**	**(14,214)**
Revaluation	**537,856**	**—**	**—**	**—**	**537,856**
Depreciation	**(165,317)**	**(227,957)**	**(4,377)**	**—**	**(397,651)**
Impairment	**—**	**(31,350)**	**—**	**(103,496)**	**(134,846)**
Exchange realignment	**350,860**	**80,078**	**546**	**49,351**	**480,835**
At 31 December 2017	**5,450,597**	**1,270,179**	**11,982**	**455,560**	**7,188,318**
Reconciliation of carrying amount — Year ended 31 December 2016					
At 1 January 2016	4,019,397	1,480,567	12,240	789,771	6,301,975
Additions	376	13,303	2,842	107,744	124,265
Transfer	—	178,929	—	(178,929)	—
Reclassified from non-current assets held for sale	1,086,788	—	—	(2,522)	1,084,266
Disposals	—	(1,981)	(25)	(664)	(2,670)
Revaluation	(141,214)	—	—	—	(141,214)
Depreciation	(162,370)	(306,543)	(4,949)	—	(473,862)
Impairment	—	(103,193)	(629)	(33,023)	(136,845)
Exchange realignment	(238,686)	(86,631)	(537)	(39,563)	(365,417)
At 31 December 2016	4,564,291	1,174,451	8,942	642,814	6,390,498

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvement, furniture, equipment and motor vehicles HK$'000	Construction in-progress HK$'000	Total HK$'000
At 31 December 2017					
At cost	**–**	**9,902,423**	**187,696**	**631,366**	**10,721,485**
At valuation	**5,450,597**	**–**	**–**	**–**	**5,450,597**
Accumulated depreciation and impairment losses	**–**	**(8,632,244)**	**(175,714)**	**(175,806)**	**(8,983,764)**
	5,450,597	**1,270,179**	**11,982**	**455,560**	**7,188,318**
At 1 January 2017					
At cost	–	8,998,310	166,858	704,900	9,870,068
At valuation	4,726,661	–	–	–	4,726,661
Accumulated depreciation and impairment losses	(162,370)	(7,823,859)	(157,916)	(62,086)	(8,206,231)
	4,564,291	1,174,451	8,942	642,814	6,390,498

Leasehold buildings

At 31 December 2017, the Group has not obtained building certificates for certain leasehold buildings with a total carrying amount of HK$1,670,580,000.

Had the Group's leasehold buildings been carried under the cost model, their carrying amount would have been approximately HK$4,612,283,000 (2016: HK$4,245,196,000).

The Group's leasehold buildings located in Luyuan District in Changchun held by the Target Companies (the "Changchun Buildings") were revalued on an open market value basis at 31 May 2017 by Access Partner Consultancy & Appraisals Limited, an independent professionally qualified valuer, for the purpose of preparing for the Transaction. The Group's other leasehold buildings were revalued on an open market value basis at 31 December 2017 by Roma Appraisals Limited, an independent professionally qualified valuer. A gain on revaluation of HK$540,726,000 (before deferred tax) was recognised in other comprehensive income and credited to asset revaluation reserve and a loss on revaluation of HK$2,870,000 was recognised in profit or loss during the year ended 31 December 2017.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leasehold buildings *(Continued)*

The directors were of the opinion that there were no material differences between the carrying amount and the fair value of the leasehold buildings at 31 December 2016. Therefore, no revaluation was performed as at that date. The loss on revaluation of leasehold buildings of HK$141,214,000 recognised in the year ended 31 December 2016 was resulted from the revaluation of certain leasehold buildings of the Group located in Luyuan District in Changchun at 31 March 2016 for the purpose of preparing for the disposal of the Relevant Properties to the Former Purchaser. HK$120,581,000 and HK$20,633,000 (before deferred tax) of the loss on revaluation were charged to profit or loss and other comprehensive income for the year ended 31 December 2016 respectively.

Valuation processes

The Group reviews the estimation of fair value of the leasehold buildings at the end of each reporting period. Valuation of leasehold buildings is normally performed by an independent professional valuer on a bi-annual basis, unless the directors are of the opinion that there is a significant change in fair value. Discussion of the valuation process and results with the audit committee is held twice a year, to coincide with the reporting dates.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's leasehold buildings stated at revalued amounts:

	Fair value measurement at 31 December 2017/31 May 2017 using			
	Quoted prices in active market (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Recurring fair value measurement for:				
Commercial properties – Hong Kong	–	7,952	–	7,952
Industrial properties – The PRC	–	–	5,416,428	5,416,428
Residential properties – The PRC	–	1,036	25,181	26,217
	–	8,988	5,441,609	5,450,597

During the years ended 31 December 2017 and 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leasehold buildings *(Continued)*

The commercial properties in Hong Kong and certain residential properties in the PRC were valued using the direct comparison approach at 31 December 2017 and are categorised as Level 2 fair value measurements. The direct comparison approach requires adjustments to transaction price of similar properties regarding differences in key valuation attributes such as size, age and location etc. between the properties under appraisal and the comparable.

The industrial properties and certain residential properties in the PRC are valued using the DRC approach and are categorised as Level 3 fair value measurements. The movements in Level 3 fair value measurements during the year are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**4,557,853**	4,012,860
Additions and transfer from construction in progress	**171,212**	376
Gain (Loss) on revaluation, net	**535,207**	(141,214)
Depreciation	**(165,218)**	(162,271)
Disposals	**(8,305)**	—
Reclassified from non-current assets held for sale	**—**	1,086,788
Exchange realignment	**350,860**	(238,686)
At 31 December	**5,441,609**	4,557,853

The gain on revaluation represents the total gain for the year included in other comprehensive income of HK$538,077,000 and the total loss for the year included in profit or loss of HK$2,870,000 for leasehold buildings held at the end of the reporting period.

Below is a summary of the valuation technique and the key inputs used in the valuation of the leasehold buildings at 31 December 2017 (other than the Changchun Buildings) and 31 May 2017 (the Changchun Buildings) that are categorised as Level 3 fair value measurements:

Valuation technique	**Significant unobservable inputs**	**Industrial properties**
DRC approach	construction cost (RMB/s.q.m.)	RMB80 to RMB5,500

A significant positive adjustment to any of the above significant unobservable inputs would result in a significant increase in fair value of the leasehold buildings, and vice versa.

The Group has determined that the highest and best use of the buildings at the measurement date would be their existing use.

The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment assessment

The directors have performed an impairment assessment on the construction in progress of certain subsidiaries operating in Changchun and Harbin at 31 December 2017 based on a valuation performed by Roma Appraisals Limited, an independent professionally qualified valuer. The estimates of the recoverable amount, which amounted to HK$373,760,000, were based on the assets' fair value less cost of disposal, using the DRC approach. The DRC approach requires an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation. The fair value on which the recoverable amount is based is categorised as Level 3 fair value measurements. As a result of the impairment assessment, an impairment loss of HK$103,496,000 was recognised in profit or loss during the year ended 31 December 2017.

The directors have performed an impairment assessment on the property, plant and equipment, except for leasehold buildings which were stated at revalued amounts, of certain subsidiaries operating in Jinzhou, Changchun and Harbin at 31 December 2016 based on a valuation performed by Savills Valuation and Professional Services Limited, an independent professionally qualified valuer. As a result of the impairment assessment, an impairment loss of HK$136,845,000 was recognised in profit or loss during the year ended 31 December 2016.

14. PREPAID LAND LEASE PAYMENTS

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**594,643**	461,255
Additions	**44,783**	—
Amortisation	**(22,078)**	(23,118)
Reclassified from non-current assets held for sale	**—**	180,370
Disposal	**(23,041)**	—
Exchange realignment	**46,445**	(23,864)
At 31 December	**640,752**	594,643
Current portion included in prepayments, deposits and other receivables	**(19,887)**	(20,148)
Non-current portion	**620,865**	574,495

The leasehold land is granted with remaining lease term ranging from 13 to 54 years and is situated in Mainland China.

15. GOODWILL

	2017 HK$'000	2016 HK$'000
Cost	**360,889**	360,889
Accumulated impairment losses	**(360,889)**	(360,889)
	—	—

16. INTANGIBLE ASSETS

	Golf club membership HK$'000	Trademarks HK$'000	Total HK$'000
Reconciliation of carrying amount – Year ended 31 December 2017			
At 1 January 2017	**5,284**	**84**	**5,368**
Amortisation	**—**	**(15)**	**(15)**
Exchange realignment	**—**	**5**	**5**
At 31 December 2017	**5,284**	**74**	**5,358**
Reconciliation of carrying amount – Year ended 31 December 2016			
At 1 January 2016	5,284	126	5,410
Amortisation	—	(36)	(36)
Exchange realignment	—	(6)	(6)
At 31 December 2016	5,284	84	5,368
At 31 December 2017			
Cost	**5,284**	**154**	**5,438**
Accumulated amortisation	**—**	**(80)**	**(80)**
	5,284	**74**	**5,358**
At 1 January 2017			
Cost	5,284	146	5,430
Accumulated amortisation	—	(62)	(62)
	5,284	84	5,368

17. SUBSIDIARIES

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal place of business and place of incorporation/ registration	Particulars of registered/paid-up capital	Proportion of ownership interests held by the Group	Principal activities
GSH	Cayman Islands	HK$152,758,600	64	Investment holding
Changchun Dihao Foodstuff Development Co., Ltd.*	The PRC	RMB192,133,068	64	Manufacture and sale of corn sweeteners
Changchun Dihao Crystal Sugar Industry Development Co., Ltd.*	The PRC	US$22,200,000	64	Manufacture and sale of crystallised sugar
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*	The PRC	US$62,504,000	64	Manufacture and sale of corn refined products
Jinzhou Dacheng Food Development Co., Ltd.*	The PRC	US$7,770,000	64	Manufacture and sale of corn sweeteners
Shanghai Hao Cheng Food Development Co., Ltd.*	The PRC	US$9,668,000	64	Manufacture and sale of corn sweeteners
Shanghai Shangying Trading Co., Ltd.*	The PRC	RMB5,000,000	64	Trading of corn sweeteners
Global Sweeteners Trade Development (Dalian) Co., Ltd.*	The PRC	US$9,100,000	64	International trading
Harbin Dacheng Bio-Technology Co., Ltd.*	The PRC	RMB303,000,000	100	Manufacture and sale of corn sweeteners
Changchun Wanxiang Corn Oil Co., Ltd.#	The PRC	HK$28,500,000	79	Manufacture and sale of corn oil products
Changchun Dacheng Industrial Group Co., Ltd.*	The PRC	RMB193,000,000	100	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd.*	The PRC	US$49,227,952	100	Manufacture and sale of corn based biochemical products
Changchun Dahe Bio Technology Development Co., Ltd.*	The PRC	US$123,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-Tech Development Co., Ltd.*	The PRC	RMB2,066,150,000	100	Manufacture and sale of corn based biochemical products

* Wholly foreign-owned enterprise

\# Sino-foreign enterprise

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 financial performance of the Group for the year or formed a substantial portion of the net liabilities/assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. SUBSIDIARIES *(Continued)*

The following table shows the information relating to each of the non-wholly owned subsidiaries that has material non-controlling interests ("NCI"). The summarised financial information represents amounts before inter-company eliminations.

	GSH Group	
	2017	2016
	HK$'000	*HK$'000*
Percentage of equity interest held by NCI	**36%**	36%
Revenue, other income and gains	**1,416,216**	1,148,944
Costs and expenses	**(1,558,943)**	(1,403,422)
Income tax credit	**2,469**	92,120
Loss for the year	**(140,258)**	(162,358)
Other comprehensive income (loss)	**5,305**	(4,149)
Total comprehensive loss for the year	**(134,953)**	(166,507)
Loss for the year attributable to NCI	**(50,493)**	(58,449)
Total comprehensive loss for the year attributable to NCI	**(48,583)**	(59,942)
Dividends paid to NCI	**—**	—
Current assets	**586,922**	487,874
Non-current assets	**1,048,535**	924,897
Current liabilities	**(1,299,135)**	(1,167,084)
Non-current liabilities	**(459,295)**	(233,707)
Net (liabilities) assets	**(122,973)**	11,980
Carrying amount of NCI	**(44,270)**	4,313
Net cash flows from (used in):		
Operating activities	**54,258**	(104,125)
Investing activities	**(87,918)**	(20,869)
Financing activities	**80,932**	185,352

18. INTERESTS IN AN ASSOCIATE

Interests in the associate represents 40% (2016: 40%) of the registered and paid-in capital of Changchun Dacheng Hexin Technology Development Co., Ltd. ("Dacheng Hexin"), a company incorporated in the PRC. It is principally engaged in the manufacture and sale of botanical straw based sweetener products in the PRC.

The Group has discontinued the recognition of its share of losses of Dacheng Hexin when applying the equity method because the share of losses of Dacheng Hexin exceeded the Group's interests in Dacheng Hexin and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of Dacheng Hexin for the current year and cumulatively were HK$1,394,000 (2016: HK$475,000) and HK$6,691,000 (2016: HK$5,297,000) respectively.

The following table illustrates the summarised financial information of Dacheng Hexin extracted from its unaudited management accounts:

	2017 ***HK$'000***	2016 *HK$'000*
Gross amounts:		
Current assets	**7,393**	9,525
Non-current assets	**57,385**	53,911
Current liabilities	**(83,095)**	(76,959)
Deficit	**(18,317)**	(13,523)

	2017 ***HK$'000***	2016 *HK$'000*
Gross amounts:		
Revenue	**—**	—
Loss and total comprehensive loss	**(3,485)**	(1,187)

19. INVENTORIES

	2017 ***HK$'000***	2016 *HK$'000*
Raw materials	**387,980**	481,170
Finished goods	**204,485**	58,678
	592,465	539,848

20. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**915,290**	732,965
Bills receivable	**31,627**	47,371
Impairment	**(429,515)**	(356,334)
	517,402	424,002

The Group normally allows credit terms of 30 to 90 days (2016: 30 to 90 days) to established customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. Since the Group's trade receivables 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 trade receivable balances and the trade receivables are non-interest-bearing.

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

	2017 HK$'000	2016 HK$'000
Within 1 month	**321,131**	198,996
1 to 2 months	**131,801**	48,990
2 to 3 months	**53,886**	47,747
3 to 6 months	**8,856**	41,737
Over 6 months	**1,728**	86,532
	517,402	424,002

The movements in the impairment of trade and bills receivables are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**356,334**	408,252
Impairment losses recognised	**50,131**	51,505
Impairment losses reversed	**(4,456)**	(81,384)
Exchange realignment	**27,506**	(22,039)
At 31 December	**429,515**	356,334

The individually impaired trade and bills receivables are long outstanding and/or relate to customers that were in financial difficulties so they are considered unrecoverable.

20. TRADE AND BILLS RECEIVABLES *(Continued)*

An ageing analysis of the trade and bills receivables that are not considered to be impaired at the end of the reporting period, based on past due date, is as follows:

	2017 **HK$'000**	2016 *HK$'000*
Neither past due nor impaired	**496,264**	325,232
Less than 1 month past due	**13,998**	3,934
1 to 3 months past due	**6,797**	15,305
Over 3 months past due	**343**	79,531
	517,402	424,002

Receivables that were neither past due nor impaired relate to 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 are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 *HK$'000*
Prepayments	**212,043**	161,187
Deposits and other debtors	**41,301**	50,020
PRC value-added tax and other tax receivables	**264,880**	222,573
Receivables from disposal of assets *(note)*	**529,588**	444,444
	1,047,812	878,224

Note: Included in the receivables from disposal of assets was the remaining consideration receivable from a government bureau in respect of the disposal of certain buildings, machineries and fixtures erected on a piece of land located in Luyuan District in Changchun during the year ended 31 December 2014, which amounted to HK$481,928,000 (2016: HK$444,444,000) at 31 December 2017. The Group is currently in discussion with the Potential Purchaser on the disposal of the Relevant Properties, and the transfer of the receivable to the Potential Purchaser is part of the discussion.

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2017 *HK$'000*	2016 *HK$'000*
Cash and bank balances	**304,362**	896,487
Guarantee/Time deposits	**406,209**	53,568
	710,571	950,055
Less: pledged deposits for issuance of bills payable	**(406,209)**	(53,568)
Cash and cash equivalents	**304,362**	896,487

At the end of the reporting period, the cash and bank balances and guarantee/time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$553,436,000 (2016: HK$298,798,000). RMB held by subsidiaries in the PRC is not freely convertible into other currencies. However, under the PRC 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 at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from one day to 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 guarantee/time deposits are deposited with creditworthy banks with no recent history of default.

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Changes in liabilities arising from financing activities

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

	Bank and other borrowings *HK$'000*	**Convertible bonds** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	7,632,448	857,914	8,490,362
Changes from financing cash flows:			
Proceeds from new bank loans	2,949,770	—	2,949,770
Repayment of bank loans	(2,806,268)	—	(2,806,268)
Repayment of interest expense	(399,522)	—	(399,522)
Total changes from financing cash flows	(256,020)	—	(256,020)
Exchange adjustments	641,619	—	641,619
Other changes:			
Interest expenses	399,522	55,156	454,678
At 31 December 2017	8,417,569	913,070	9,330,639

(c) Non-cash investing activities

During the year, the Group disposed of a piece of land in Changchun with carrying amount of HK$23,041,000 to a government bureau at a consideration of HK$90,260,000. In addition, the Group bought two pieces of land in Changchun from the government bureau at a total consideration of HK$44,783,000 which was settled by deducting the amount from the consideration receivable from the government bureau. The remaining consideration receivable of HK$47,660,000 (including exchange realignment) was included in "prepayments, deposits and other receivables" (note 21).

23. TRADE AND BILLS PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables		
— To third parties	**1,155,008**	1,253,421
— To Jiliang	**114,271**	—
	1,269,279	1,253,421
Bills payable	**377,614**	290,018
	1,646,893	1,543,439

The Group normally obtains credit terms ranging from 30 to 90 days (2016: 30 to 90 days) from its suppliers.

An ageing analysis of the trade and bills payables at the end of the reporting period, based on the date of receipt of goods purchased, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	**488,446**	322,270
1 to 2 months	**111,137**	27,012
2 to 3 months	**139,354**	18,357
Over 3 months	**907,956**	1,175,800
	1,646,893	1,543,439

24. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Payables for purchases of machinery	164,023	167,498
Customer deposits and receipts in advance	238,479	217,797
Payables to Jiliang *(note (a))*	481,043	—
Accruals	296,366	255,739
VAT and other duties payable	135,889	101,755
Advance received for relocation *(note (b))*	216,867	200,000
Others	382,733	317,624
	1,915,400	1,260,413

Note (a): The balance represents advances from Jiliang which are unsecured, bear interest at 10% per annum and are repayable on demand.

Note (b): The balance represents an advance from an independent third party, received through a government bureau in 2015, for relocation of the Group's production facilities in Changchun. The amount is repayable upon completion of the relocation.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate %	Maturity	HK$'000	Effective interest rate %	Maturity	HK$'000
Current						
Short term bank loans – secured	3.92-8.00	2018	1,424,806	3.92-8.00	2017	1,330,222
Short term bank loans – unsecured	3.92-5.66	2018	2,771,446	4.28-5.75	On demand/2017	2,014,334
Long term bank loans with repayable on demand clause – unsecured	1.72-4.18 / HIBOR+1.5	On demand/2021	665,390	1.72/HIBOR+1.5	On demand/2021	19,338
Entrusted loans – secured	–	–	–	8.9	2017	77,222
			4,861,642			3,441,116
Non-current						
Bank loans – secured	4.28-7.00	2019-2021	315,661	4.78-8.00	2018-2019	547,321
Bank loans – unsecured	4.28-4.86	2019-2020	3,237,350	4.28-4.86	2018-2020	3,640,000
Other loans – unsecured	2.55	2021	2,916	2.55	2021	4,011
			3,555,927			4,191,332
			8,417,569			7,632,448

25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Analysed into:	**2017** **HK$'000**	2016 HK$'000
Bank loans repayable:		
Within one year or on demand	**4,861,642**	3,441,116
In the second year	**1,932,530**	1,649,544
In the third to fifth years	**1,620,481**	2,537,777
	8,414,653	7,628,437
Other borrowings repayable:		
In the third to fifth years	**2,916**	4,011
	8,417,569	7,632,448
Secured	**1,740,467**	1,954,765
Unsecured	**6,677,102**	5,677,683
	8,417,569	7,632,448

	2017 **HK$'000**	2016 HK$'000
Additional information		
Collaterals pledged for security:		
Property, plant and equipment	**2,866,705**	2,820,417
Prepaid land lease payments	**217,664**	333,441
Corporate guarantee by:		
The Company	**6,498,522**	5,803,893
Certain subsidiaries	**751,674**	727,321
Indirect major shareholder	**554,217**	—
Independent third parties	**118,072**	166,667
Denominated in:		
Renminbi	**8,402,781**	7,613,110
Hong Kong dollars	**14,788**	19,338

Certain of the banking facilities are subject to the fulfillment of covenants relating to certain ratios based on the borrowing subsidiaries' statement of financial position, as are commonly found in lending arrangements with financial institutions. If the entities were to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Company and its subsidiaries have complied with the covenants and met the scheduled repayment obligations. These borrowings were classified as current liabilities even though the directors do not expect that the lenders would exercise their rights to demand immediate repayment.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

The directors regularly monitor its compliance with these covenants and do not consider it probable that the banks will exercise their discretion to demand immediate repayment so long as the Group continues to make payments according to the schedule of the term loans. Further details of the Company's management of liquidity risk are set out in note 34 to the consolidated financial statements. At 31 December 2017, covenants relating to drawn down facilities amounting to HK$263 million (2016: HK$249 million) had been breached. In addition, such breach may also trigger cross default provisions in other loan agreements entered into by the Group in the aggregate outstanding principal amount of approximately HK$248 million (2016: HK$242 million).

26. DEFERRED INCOME

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**147,114**	134,011
Addition	**1,205**	31,778
Amortisation	**(10,077)**	(10,194)
Exchange realignment	**11,923**	(8,481)
At 31 December	**150,165**	147,114

Deferred income represents the receipt of government grants for the purchasing/constructing property, plant and equipment, which is amortised to profit or loss on a straight-line basis over the estimated useful lives of the relevant assets.

27. DEFERRED TAX

The movements of the Group's net deferred tax position are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**30,930**	226,433
Exchange differences	**6,455**	(15,633)
Credited to profit or loss	**(162,900)**	(171,680)
Charged (Credited) to equity	**135,076**	(8,190)
At 31 December	**9,561**	30,930

27. DEFERRED TAX *(Continued)*

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation allowances	**194,633**	84,829	**36,098**	39,708
Revaluation of leasehold buildings	**—**	—	**270,581**	125,543
Impairment of trade and other receivables	**49,918**	35,224	**—**	—
Tax losses	**34,837**	—	**—**	—
Others	**17,730**	14,268	**—**	—
	297,118	134,321	**306,679**	165,251
Offsetting	**(297,118)**	(134,321)	**(297,118)**	(134,321)
Deferred tax liabilities, net	**—**	—	**9,561**	30,930

Unrecognised deferred tax assets:

	2017	2016
	HK$'000	*HK$'000*
Deductible temporary differences	**3,554,779**	5,249,738
Tax losses	**10,164,757**	9,141,582
	13,719,536	14,391,320

Deductible temporary differences and tax losses arising in Hong Kong and Germany of approximately HK$573 million (2016: HK$600 million) have no expiry date under current tax legislations. Tax losses arising in the PRC of approximately HK$9,591 million (2016: HK$8,542 million) which are available for offsetting against future taxable profits of the companies in which the losses arose will expire in one to five years. The directors consider that no deferred tax assets should be recognised as the directors consider that it is uncertain whether future taxable profits can be generated by these companies to utilise these tax losses and deductible temporary differences.

At 31 December 2017 and 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The directors consider that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$855 million at 31 December 2017 (2016: HK$848 million).

28. CONVERTIBLE BONDS

The convertible bonds in an aggregate principal amount of HK$1,086,279,565 were issued to and subscribed by a major shareholder of the Company (the "Convertible Bonds") in 2015. The Convertible Bonds may be converted into 4,722,954,631 conversion shares of the Company (the "Shares") based on the initial conversion price of HK$0.23 (subject to adjustment) per share (the "Initial Conversion Price") upon full conversion. The Convertible Bonds carry coupon interest at the rate of 0.01% per annum payable quarterly in arrears with a term of five years. The holder of the Convertible Bonds shall have the right to convert the whole or any part (in the denominations of HK$1,000,000 and integral multiples thereof) of the outstanding principal amount of the Convertible Bonds into the Shares at any time after the date falling three calendar months following the date of issue of the Convertible Bonds until the date seven days before (and excluding) the maturity date, provided that the public float of the shares of the Company shall not be less than 25% as required by the Listing Rules.

The carrying amounts of the Convertible Bonds at the end of the reporting period are calculated as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Equity component		
Fair value of the Convertible Bonds at the date of issuance	**1,086,280**	1,086,280
Fair value of the liability component at the date of issuance	**(795,695)**	(795,695)
Equity component	**290,585**	290,585
Liability component		
At 1 January	**857,914**	806,091
Imputed interest	**55,156**	51,823
At 31 December	**913,070**	857,914

29. SHARE CAPITAL

	2017 ***HK$'000***	2016 *HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000
Issued and fully paid:		
6,398,998,360 ordinary shares of HK$0.1 each	**639,900**	639,900

30. SHARE OPTION SCHEMES

The Company operated a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 3 September 2007 and expired on 2 September 2017.

All share options of the Company lapsed during the year ended 31 December 2016. There were no share options granted during the years ended 31 December 2017 and 2016 and there were no share options outstanding at 31 December 2017 and 2016.

In addition, GSH also has a similar share option scheme, details of which are included in the annual report of GSH for the year ended 31 December 2017 (www.global-sweeteners.com). All share options of GSH lapsed during the year ended 31 December 2016. There were no share options granted by GSH during the years ended 31 December 2017 and 2016 and there were no share options of GSH outstanding at 31 December 2017 and 2016.

31. FINANCIAL GUARANTEES

Several subsidiaries of the Company had jointly provided corporate guarantees to a bank in Mainland China in respect of banking facilities granted to a former major supplier starting from year 2010 (the "Financial Guarantee Contracts"). The maximum amount of the banking facilities was RMB2.5 billion at 31 December 2017 and 2016. The directors have tried to engage a professional valuer to assess the fair value of the Financial Guarantee Contracts. However, since the directors were unable to obtain sufficient and reliable financial information of the former major supplier, the professional valuer was unable to complete the valuation. Therefore, no financial guarantee liability has been recognised in the consolidated financial statements in respect of the Financial Guarantee Contracts.

During the year ended 31 December 2017, certain subsidiaries of the Company, as guarantors of the Financial Guarantee Contracts, paid interest of HK$154,856,000 (2016: nil) in respect of the bank borrowings of the former major supplier, which was recorded in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

32. CAPITAL COMMITMENTS

	2017 ***HK$'000***	2016 *HK$'000*
Contracted but not provided for:		
Purchase/Construction of property, plant and equipment	**611,848**	310,496

33. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following transactions with related parties:

Related party relationship	Nature of transactions	2017 HK$'000	2016 HK$'000
Key management personnel	Short-term employee benefits	**7,355**	7,121
	Post-employment benefits	**36**	36
		7,391	7,157
Jiliang	Purchase of corn kernels	**216,719**	—

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Financial assets

	Loans and receivables	
	2017 HK$'000	2016 HK$'000
Trade and bills receivables	**517,402**	424,002
Financial assets included in prepayments, deposits and other receivables	**570,889**	494,464
Due from an associate	**17,142**	20,388
Pledged deposits	**406,209**	53,568
Cash and bank balances	**304,362**	896,487
	1,816,004	1,888,909

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	HK$'000	*HK$'000*
Trade and bills payables	**1,646,893**	1,543,439
Financial liabilities included in other payables and accruals	**1,433,982**	1,021,862
Interest-bearing bank and other borrowings	**8,417,569**	7,632,448
Convertible bonds	**913,070**	857,914
	12,411,514	11,055,663

The directors consider that the carrying amounts of the financial assets and financial liabilities in the consolidated financial statements approximate to their fair values.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing bank borrowings with floating interest rates.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. Management continues to monitor the cash flow position of the Group and the debt markets, and the Group would refinance its borrowings with a lower cost of debt when considered appropriate.

At the end of the reporting period, if interest rates had been 100 basis point higher/lower with all other variables held constant, the Group's loss before tax would increase/decrease by HK$68,062,000 (2016: HK$59,812,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for all financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2016.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets, which comprise trade and bills receivables, deposits and other receivables, due from an associate, pledged deposits and cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables is disclosed in notes 20 and 21 to the consolidated financial statements.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. Since the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's policy is to maintain sufficient cash and cash equivalents or available funding through an adequate amount of committed annual borrowing facilities from banks to meet its commitments over the following years in accordance with its strategic plan.

The maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2017

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to 12 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
Trade and bills payables	1,269,279	102,673	274,941	–	1,646,893
Financial liabilities included in other payables and accruals	1,433,982	–	–	–	1,433,982
Interest-bearing bank and other borrowings	704,296	611,842	3,838,868	3,668,089	8,823,095
Convertible bonds	–	–	–	1,086,280	1,086,280
	3,407,557	714,515	4,113,809	4,754,369	12,990,250

At 31 December 2016

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to 12 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
Trade and bills payables	1,112,724	185,510	245,205	–	1,543,439
Financial liabilities included in other payables and accruals	1,017,862	4,000	–	–	1,021,862
Interest-bearing bank and other borrowings	19,338	660,249	3,012,237	4,388,098	8,079,922
Convertible bonds	–	–	–	1,086,280	1,086,280
	2,149,924	849,759	3,257,442	5,474,378	11,731,503

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The above analysis is based on the scheduled repayment dates as set out in the loan agreements ignoring the effect of any repayment on demand clause.

In addition, as disclosed in note 31 to the consolidated financial statements, the Group may be required to make payments in respect of the Financial Guarantee Contracts up to a maximum amount of RMB2.5 billion at 31 December 2017 (2016: RMB2.5 billion).

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 light of changes in economic conditions. 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 2016.

35. LITIGATIONS

Alleged infringement of patents

In previous years, the Company and certain of its wholly-owned subsidiaries (the "Relevant Group Members") were involved in litigations in Europe initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. (the "Plaintiffs") against the Relevant Group Members in relation to the alleged infringement of certain patents and violation of trade secrets (the "Dispute").

During the year, the Relevant Group Members entered into a settlement agreement with the Plaintiffs pursuant to which, as soon as possible after receipt by the Plaintiffs of a payment from the Group (the "Payment"), the Plaintiffs and the Group will withdraw all pending proceedings in Europe relating to the Dispute. The Payment was made by the Group in July 2017.

35. LITIGATIONS *(Continued)*

Alleged interest in the Company's shares

A writ dated 28 November 2017 was issued by a plaintiff and a statement of claim was filed with the High Court of Hong Kong on 8 December 2017 (the "Claim"). The Claim relates to, among others, a document dated 29 November 2011 alleged by the plaintiff to have been signed by and on behalf of the Company. The plaintiff alleged that according to the said document, the plaintiff should be entitled to certain interest in the Company's shares. The plaintiff has claimed for damages in the amount of approximately HK$109 million, together with loss of dividends and interest in respect thereof, as well as costs and other relief. A notice of intention to defend was given by the Company on 13 December 2017. The Company filed a summons with the High Court of Hong Kong to strike out the Claim in March 2018 on the basis that the Claim was made with no reasonable cause or action and/or being scandalous, frivolous or vexatious. The management is of the opinion that there would not be any significant financial impact to the Group.

Delayed payments to suppliers

In previous years, the Group delayed settlement of payables to suppliers due to shortage of working capital. As a result, several subsidiaries in Mainland China have been involved in litigations in Mainland China initiated by various suppliers related to overdue payables. Up to the date of this report, majority of the litigations have been concluded by the court and/or settled, while some of the litigations are still pending judgement. Since the Group has already recorded these payables in the consolidated financial statements, the directors are of the view that the litigations will not have any significant financial impact to the Group.

36. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Investments in subsidiaries		—	—
Current assets			
Other receivables		345	541
Cash and bank balances		9,671	299,661
		10,016	300,202
Current liabilities			
Other payables and accruals		3,664	4,559
Net current assets		6,352	295,643
Total assets less current liabilities		6,352	295,643
Non-current liabilities			
Financial guarantee contracts		990,670	1,040,936
Convertible bonds		913,070	857,914
		1,903,740	1,898,850
NET LIABILITIES		(1,897,388)	(1,603,207)
Equity			
Share capital		639,900	639,900
Reserves	36(a)	(2,537,288)	(2,243,107)
TOTAL DEFICIT		(1,897,388)	(1,603,207)

Approved and authorised for issue by the board of directors on 26 March 2018 and signed on its behalf by

Yuan Weisen
Director

Liu Shuhang
Director

36. THE COMPANY'S STATEMENT OF FINANCIAL POSITION *(Continued)*

36(a) Reserves

	Share premium *HK$'000*	Share option reserve *HK$'000*	Convertible bond reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2016	3,127,204	792	290,585	(4,853,608)	(1,435,027)
Loss and total comprehensive loss for the year	–	–	–	(808,080)	(808,080)
Transfer upon forfeiture of share options	–	(792)	–	792	–
At 31 December 2016	3,127,204	–	290,585	(5,660,896)	(2,243,107)
Loss and total comprehensive loss for the year	–	–	–	(294,181)	(294,181)
At 31 December 2017	3,127,204	–	290,585	(5,955,077)	(2,537,288)

The share premium of the Company represents the difference between the cost of investments in subsidiaries pursuant to a reorganisation in a prior year and the nominal value of the Company's shares issued therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

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 financial statements, is set out below.

	Year ended 31 December				
	2017*	2016#	2015#	2014#	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**4,397,005**	3,882,840	3,352,003	6,399,205	9,686,643
Cost of sales	**(3,787,974)**	(3,567,018)	(3,610,572)	(7,288,927)	(10,587,530)
Gross profit (loss)	**609,031**	315,822	(258,569)	(889,722)	(900,887)
Other income and gains	**198,754**	187,116	138,529	432,346	590,287
Selling and distribution expenses	**(398,193)**	(296,578)	(177,468)	(551,339)	(762,459)
Administrative expenses	**(419,489)**	(347,562)	(383,037)	(405,464)	(717,477)
Other expenses	**(584,442)**	(1,500,062)	(1,068,660)	(1,664,116)	(3,520,221)
Finance costs	**(454,678)**	(441,118)	(515,873)	(628,318)	(673,399)
Share of losses of associates	**—**	—	—	—	(27,899)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**(1,049,017)**	(2,082,382)	(2,265,078)	(3,706,613)	(6,012,055)
Income tax credit (expense)	**158,759**	170,096	(5,461)	(58,067)	(222,584)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(890,258)**	(1,912,286)	(2,270,539)	(3,764,680)	(6,234,639)
DISCONTINUED OPERATION					
Loss for the year from a discontinued operation	**—**	—	—	—	(5,397)
LOSS FOR THE YEAR	**(890,258)**	(1,912,286)	(2,270,539)	(3,764,680)	(6,240,036)
Loss attributable to:					
Owners of the parent	**(837,491)**	(1,850,640)	(1,995,970)	(3,365,133)	(6,078,859)
Non-controlling interests	**(52,767)**	(61,646)	(274,569)	(399,547)	(161,177)
	(890,258)	(1,912,286)	(2,270,539)	(3,764,680)	(6,240,036)
TOTAL ASSETS	**10,763,086**	9,833,188	12,579,801	13,756,393	18,784,740
TOTAL LIABILITIES	**(13,229,610)**	(11,637,255)	(12,555,725)	(12,505,678)	(13,703,262)
NON-CONTROLLING INTERESTS	**58,992**	(714)	(171,560)	(435,584)	(842,270)
	(2,407,532)	(1,804,781)	(147,484)	815,131	4,239,208

* Details of the disclaimer of audit opinion are set out in the independent auditor's report on pages 60 to 62.

\# Disclaimer of audit opinion was issued in respect of the Group's consolidated financial statements for the years ended 31 December 2016, 2015 and 2014. Please refer to the Company's 2016, 2015 and 2014 annual reports for details.