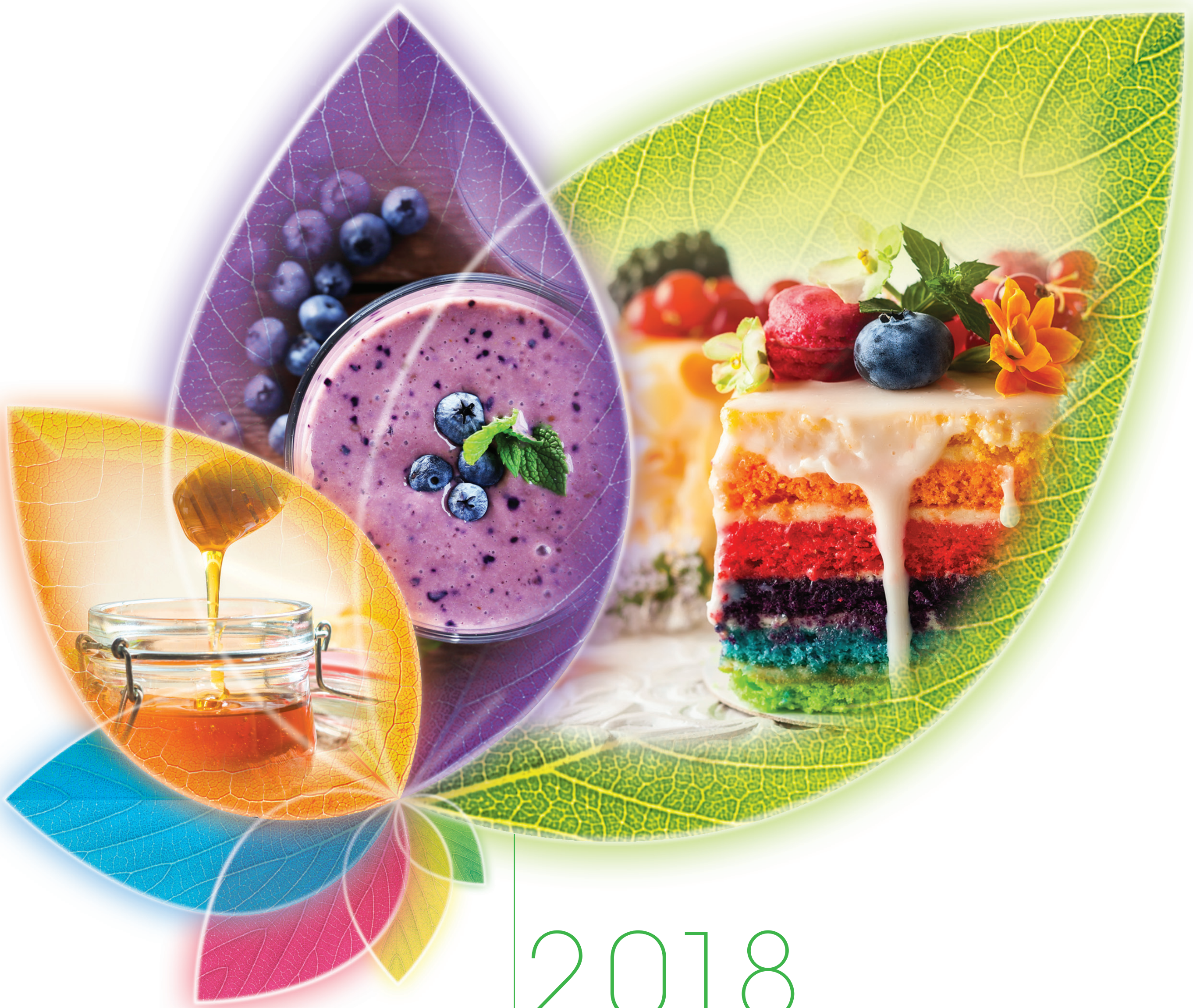
大成糖業控股有限公司*

GLOBAL Sweeteners Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 03889



2018 ANNUAL REPORT

* For identification purpose only

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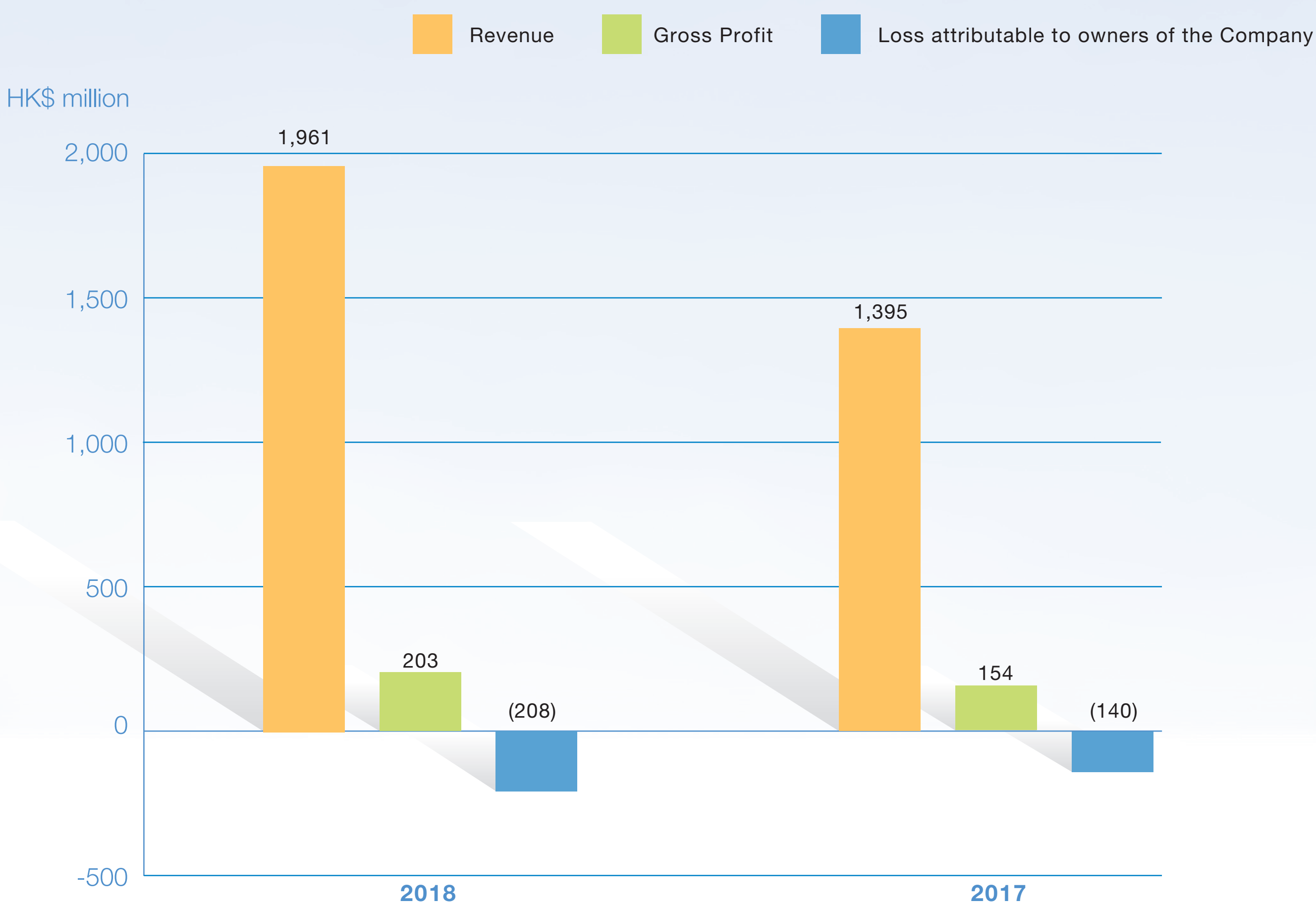
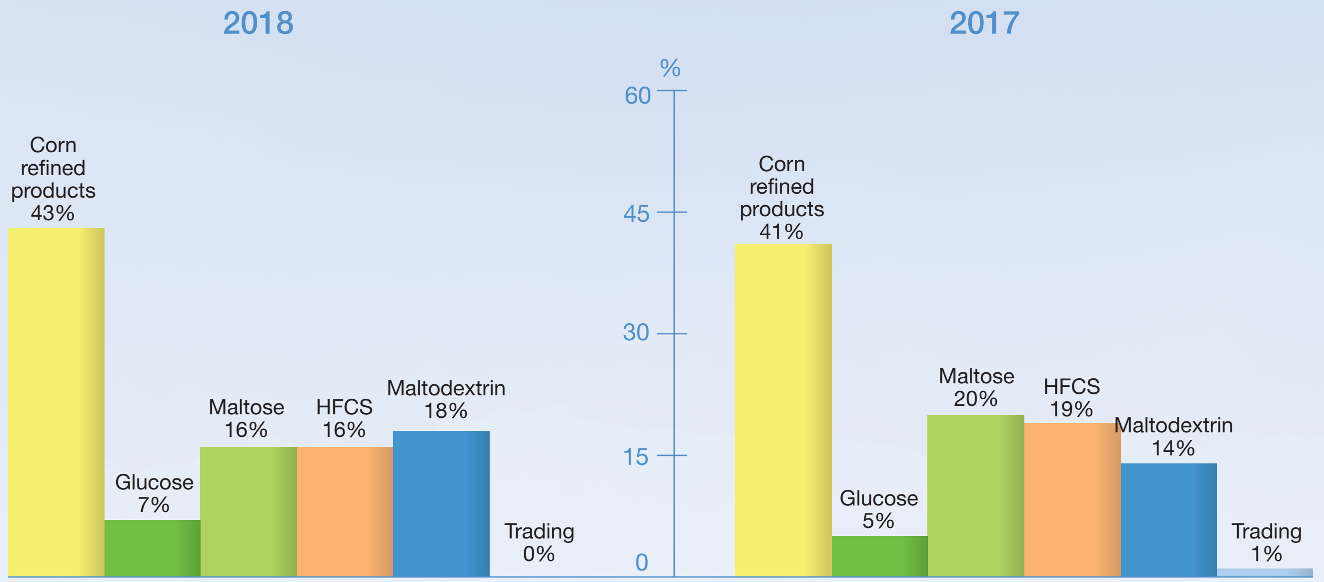
FINANCIAL HIGHLIGHTS

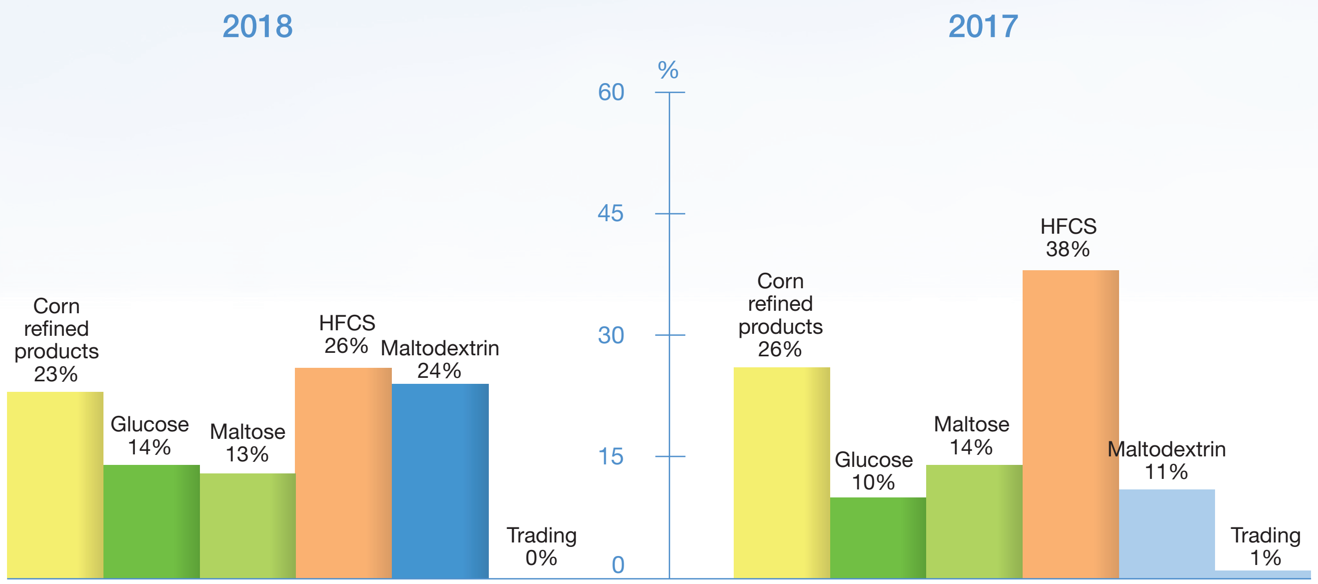
	2018	2017	Change %
Revenue (HK$'Mn)	**1,961**	1,395	40.6
Gross profit (HK$'Mn)	**203**	154	31.3
Loss before tax (HK$'Mn)	**(205)**	(143)	N/A
Loss attributable to owners of the Company (HK$'Mn)	**(208)**	(140)	N/A
Basic loss per share (HK cents)	**(13.7)**	(9.2)	N/A
Proposed final dividend per share (HK cents)	**—**	—	N/A



REVENUE DISTRIBUTION



GROSS PROFIT DISTRIBUTION



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kong Zhanpeng *(Resigned on 31 December 2018)*
Mr. Zhang Zihua *(Acting Chairman)*

Independent non-executive Directors

Mr. Fong Wai Ho *(Appointed on 31 December 2018)*
Mr. Ho Lic Ki *(Resigned on 31 December 2018)*
Mr. Lo Kwing Yu
Mr. Wang Wenquan *(Appointed on 31 December 2018)*
Mr. Yuen Tsz Chun *(Resigned on 31 December 2018)*

COMPANY SECRETARY

Mr. Lee Chi Yung, ACCA, HKICPA
(Resigned on 23 April 2018)
Mr. Chan Sing Fai, HKICS, HKICPA
(Appointed on 23 April 2018 and resigned on 10 May 2018)
Ms. Hui Ka Man, HKICPA *(Appointed on 10 May 2018)*

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUDITOR

Mazars CPA Limited
Certified Public Accountants
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 BANKER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.global-sweeteners.com

STOCK CODE

03889

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

During the year under review, the Group's operating efficiency improved as a result of the increase in utilisation rate of the Jinzhou facilities and the commencement of the corn sweetener production facilities in Xinglongshan, resulting in significant growth in the Group's revenue and gross profit for the year ended 31 December 2018. However, due to high finance costs and selling expenses, the Group still recorded a net loss during the year.

BUSINESS REVIEW

In 2018, economic growth in the PRC slowed down. The China-US trade disputes also brought uncertainties to and added pressure on the macro economic environment. On top of this, the outbreak of the African Swine Flu ("ASF") in Mainland China had been serious during the year. All these had posed an impact on the feed industry. The performance of the Group's upstream other corn refined products was under pressure.

During the year under review, corn prices in China rose by about 27% year-on-year. In addition, due to changes in the agricultural subsidy policy of the provincial governments, the subsidies that the Group was entitled to reduced drastically, leading to a surge in the cost of raw material of the Group. Nevertheless, the price of corn starch was supported by its downstream end users as demand was stable. The increase in the price of corn starch basically offset the rise in costs, and this segment recorded a gross profit margin of 15.7%. Although the prices of other corn refined products also increased during the year, such increase was not enough to cover the increase in costs. The Group's other corn refined products segment recorded a gross loss as a result.

Nevertheless, the upstream business is an integral part of the Group's business deployment to secure the supply of feedstock for downstream production. In view of this, during the year, the Group signed corn supply contracts with the subsidiaries of the indirect controlling shareholder, Jilin Province Agricultural Investment Group Co., Ltd. （吉林省農業投資集團有限公司）("Nongtou") and a state-owned supplier introduced by Nongtou to stabilise the corn supply of the Group. During the year under review, the Group's upstream production facilities in Jinzhou had resumed normal operations. The total sales volume of upstream products amounted to approximately 341,000 metric tonnes, up by close to 30% year-on-year.

In 2018, with expanded sugarbeet and sugarcane planting area, sugar production increased slightly. As at the end of 2018, domestic sugar prices remained at around RMB5,400, down by about 16% year-on-year. Global production also increased during the year, keeping international sugar price at low levels. International sugar prices remained far below the domestic sugar prices during the year, and sugar imports continued to affect the domestic market. However, as the market for sweeteners has become mature in recent years, domestic users have got accustomed to the application of sweeteners in different industries. Although sugar price movement serves as a guidance for sweeteners price movement to a certain extent, as the consumption of sweeteners had become stable, the sweeteners segment had displayed relatively steady performance.

During the year under review, the Group completed the relocation of certain sweetener production facilities to Xinglongshan. As a result of the smooth operation of the glucose/maltose production line and the maltodextrin production line in Xinglongshan, the output and sales amount of these products had increased. The increase in sale volume also lowered the unit cost of corn sweeteners, coupled with a slight increase in sweeteners price, the increase in corn costs had been partially offset. As such, the gross profit margin of sweetener products had only been squeezed slightly.

In view of changes in the operating environment, the Group had not carried out other relocation projects after the completion of the relocation of the above facilities to the Xinglongshan production base, in order to effectively utilise the Group's limited financial resources. During the year under review, the management team of the Group focused on improving productivity and cost effectiveness of the Group's facilities and strictly controlling production costs to maintain positive cash flow.

MESSAGE TO SHAREHOLDERS

Our Shanghai base continued to maintain stable operation. The high fructose corn syrup produced at the Shanghai plant had established a mature and stable customer base in the Huadong region in the PRC. Part of the upstream products of the Group's Jinzhou production base had been used to supply the Shanghai base as raw material. We hope to generate greater overall business synergistic effect through more efficient resource allocation within the Group.

During the year under review, the Group was still under heavy financial pressure. Notwithstanding the substantial support from the Group's indirect shareholder, Nongtou, via corn purchasing arrangement and financial arrangement to alleviate part of the Group's financial pressure, the management of the Group understood that it was necessary for the Group to seek ultimate solutions that could fix its overall debt problem, in order to get its business return to healthy development.

In view of this, the Group continued to negotiate with the creditor banks and local government in respect of the Group's debt restructuring during the year under review, to address the Group's debt problems and the uncertainties arising from the supplier guarantee of Dihao. The direction of the further revised debt-equity swap proposal ("Further Revised Debt-Equity Swap Proposal") has been acknowledged by the parties and is pending the approval by the Jilin provincial government and the headquarters of the creditor banks. The principal banks also confirmed that they would continue to support the Group and GBT Group during the transitional period, including not to withdraw any banking facilities already provided and to ensure the renewal of all existing bank borrowings, as well as to allow interest payment to be settled annually instead of monthly so as to ease the pressure of cash flow of the Group.

OUTLOOK

It is expected that the ageing corn stocks in the PRC will gradually be digested in 2019, and the corn inventory level will return to normal. It is expected that corn production in mainland China will increase in 2019/20, and supply will be abundant. On the other hand, the corn ethanol project will continue to boost corn demand further and is expected to support domestic and international corn prices. As for upstream business performance, it depends on the control of the ASF, the macro economic environment and the development of the China-US trade dispute.

It is expected that sugar production in the EU and Brazil will decrease in 2019/20, which will support the international sugar price. At present, there is a huge gap between domestic sugar price and international sugar price due to the difference in production costs. The Chinese government is narrowing the gap through the implementation of various measures including levying uniform tariffs on imported sugar.

Since the use of sweeteners has become increasingly popular, most of the manufacturers have been accustomed to the application of sweeteners. We expect demand for sweeteners will be stable in 2019. The commencement of the downstream production line in Xinglongshan not only enables the Group to expand the sales volume of sweetener products, but also further lowers the unit cost of the production base.

Jinzhou's upstream corn starch production capacity has important strategic value in supporting the Group's business in Huadong region in the PRC. The utilisation rate of the upstream production capacities of the Jinzhou production base had been increased to nearly 70% by the end of the year under review, which will help increase the corn starch supply to the Shanghai base, a step further to strengthen its foothold in the Huadong market and to further expand its business in the surrounding areas.

In the first half of 2019, it is expected that the gross profit margin of corn refined products will still be under pressure due to high corn prices and the ASF. We will continue to review and perfect our production processes and techniques to further increase cost efficiency.

In 2019, our primary focus is to seek a long-term viable solution to resolve the Group's financial difficulties. We are actively negotiating with creditor banks, the relevant departments of the Jilin provincial government and financial regulatory bodies to fine-tune the details and contents of the debt-to-equity swap proposal to facilitate the finalisation of the Further Revised Debt-Equity Swap Proposal. At the same time, we will also explore other feasible options to dispose the old production site in Luyuan District, to release the Group from the Dihao New Supplier Guarantee and to lower the existing gearing ratio of the Group.

On the other hand, the Group and the GBT Group are also reviewing the existing business portfolios of both groups, and seeking methods to provide a clearer delineation between the businesses of the two companies so as to enable the two groups to reasonably allocate resources in their respective businesses. We also wish to introduce new investors to the Group and bring new impetus to its business development.

I would like to express our deepest gratitude to all the shareholders and business partners for their continued support to the Group and trust in the Board and the management team. In addition, I am also grateful to all of our staff as they have been doing their utmost to overcome difficulties in face of adversity. I understand the expectations of shareholders and other stakeholders, and we will continue to work hard to improve the Group's financial position and operational efficiency, and strive to guide the Group back to a healthy and stable development track.

Acting Chairman
Zhang Zihua

26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Global Sweeteners Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the manufacture and sale of corn refined products and corn sweeteners, categorised into upstream and downstream products. The Group's upstream products include corn starch, gluten meal, corn oil and other corn refined products. Corn starch is refined downstream to produce various corn sweeteners such as corn syrup (glucose syrup, maltose syrup and high fructose corn syrup) and corn syrup solid (maltodextrin). In addition, the Group is the sole distributor of the Global Bio-chem Technology Group Company Limited ("GBT") and its subsidiaries (collectively, the "GBT Group") in the Huadong region in the People's Republic of China ("PRC" or "Mainland China") for the sale of lysine and other corn refined 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 ended 31 December 2018 (the "Year"), despite the continuous effort of the state government to stimulate economic growth and development of the PRC, the trade war between the PRC and the US added uncertainties to the overall economic environment in the PRC. As a result, economic growth rate in the PRC slowed down to its 28-year low at 6.6% in 2018. On the other hand, outbreak of the African Swine Flu ("ASF") across the PRC impacted on the feed industry during the Year. As such, the performance of the Group's upstream other corn refined products for the Year was under pressure.

With respect to corn supply, according to the United States Department of Agriculture, global corn production for the year 2018/19 is estimated at 1,100 million metric tonnes ("MT") (2017/18: 1,076 million MT). As demand of corn remained strong during the Year, as driven by corn-based ethanol in the US as well as in the PRC, and the decrease in corn production in Brazil and Argentina, international corn price increased to 429 US cents per bushel (equivalent to RMB1,161 per MT) (End of 2017: 351 US cents per bushel) by the end of the Year. In the PRC, the harvest in 2018/19 produced 257 million MT of corn (2017/18: 259 million MT). Consumption volume in 2018 was 263 million MT. As such, corn price in the PRC was up 27.2% year-on-year. As it is expected that the ageing corn stock in the PRC will gradually be digested in 2019, corn production for the harvest year 2019/20 is expected to increase. Since the abolition of the state procurement of corn in 2016, corn price in the PRC has been normalised and determined by market mechanisms. With the expectation of an abundant supply of corn in the 2019/20 harvest, the performance of the upstream corn refinery business will then be determined by the profitability of the other corn refined products which shall depend on the government's control over the outbreak of the ASF and the macro economic environment.

As for the sugar market, increased global production has kept international sugar price low at 12.03 US cents per pound (equivalent to RMB1,829 per MT) by the end of the Year (end of 2017: 15.01 US cents per pound, equivalent to RMB2,223 per MT). In the PRC market, domestic sugar production remained at similar level at 10.8 million MT in 2018/19 harvest (2017/18: 10.5 million MT), with expanded sugarbeet and sugarcane planting area. As a result, domestic sugar price dropped to RMB5,378 per MT (end of 2017: RMB6,418 per MT) by the end of the Year. In response to the huge difference between international sugar price and domestic sugar price, the PRC government has implemented a series of measures, including raising import tariff for sugar imports without quota and introducing uniform tariff policy for all sugar exporting countries (instead of favouring smaller exporters). Such measures are expected to narrow the differences between the international and domestic sugar prices and stabilise the domestic sugar price in the PRC. On the other hand, since Brazil and the EU are expected to cut their sugar output in 2019/20 harvest which may give rise to a sugar deficit of approximately 2 million MT for the 2019/20, this may help relieve the pressure of sugar imports into the PRC.

Nevertheless, after years of industry development, customers have got 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 is only one of the pricing references of sweeteners. Although the fluctuation 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 downstream sweetener products remained relatively stable during the Year. The Group will continue to strengthen its market position leveraging on its brand name and further improve cost effectiveness through continuous research and development efforts to lower operating costs, at the same time optimise facilities utilisation rate to improve operational efficiency.

UPDATE ON REMEDIAL MEASURES

The consolidated financial statements of the Group for the year ended 31 December 2017 was subject to the disclaimer of opinion of the auditor in the independent auditor's report in the Company's annual report for the year ended 31 December 2017 ("2017 Annual Report"). Further to the management's 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 2017 Annual Report and the interim report of the Company for the six months ended 30 June 2018 ("2018 Interim Report"), the management of the Company wishes to provide an update on the remedial measures of the Company taken or to be taken as follows, which have been considered, recommended, and agreed by the audit committee of the Company (the "Audit Committee") after its critical review of the management's position. In addition, the Audit Committee and its independent non-executive Directors agreed with the audit modification set out in the Independent Auditor's Report in this report.

1. Financial guarantee contract

As detailed in the 2017 Annual Report, the financial guarantee contract was not recognised in the Group's consolidated financial statements for the year ended 31 December 2017 because the Group was unable to obtain reliable financial information of Changchun Dajincang Corn Procurement Co., Ltd.(長春大金倉玉米收儲有限公司)("Dajincang") for the professional valuer to conduct an accurate valuation. During the Year, as the Company was still not able to obtain such information despite continuous enquiries and requests made to Dajincang. Consequently, the valuer was not able to conduct a valuation of the financial guarantee contract for financial reporting purpose.

As disclosed in the joint announcement of the Company and GBT dated 6 November 2018 and the circular of the Company dated 3 December 2018, the terms of the previous supplier guarantee ("Previous Supplier Guarantee") had expired in December 2018 and Dajincang still did not have sufficient financial resources to repay the loan ("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 Guarantee, Dajincang proposed to refinance the Previous Supplier Loan by entering into new supplier loan agreements ("New Supplier Loan") with Bank of China Weifeng International Branch（中國銀行股份有限公司偉峰國際支行）("BOC") for all the indebtedness due and owing to BOC with, among others, a new supplier guarantee ("Dihao New Supplier Guarantee") to be granted by 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.) ("Dihao Foodstuff"), a subsidiary of the Company. As a condition to the New Supplier Loan, the Dihao New Supplier Guarantee was granted by Dihao Foodstuff to BOC to guarantee the obligations of Dajincang under the New Supplier Loan. The amount drawn down by Dajincang as at 31 December 2018 and up to the date of this report amounted to RMB2.49 billion (31 December 2017: RMB2.49 billion).

During the Year, the Group has continued to negotiate with BOC to release the Group from the Dihao New Supplier Guarantee through the restructuring of Dajincang to improve the financial position of Dajincang. However, it is expected that more time is needed for Dajincang to materialise its business plan for restructuring. As such, BOC did not release the Group from the Dihao New Supplier Guarantee at the date of this report. Nevertheless, the Group will continue to find solutions to release the Group from its obligations under the Dihao New Supplier Guarantee.

As disclosed in the 2018 Interim Report, Mr. Yuan Weisen, the chairman of GBT, met with the representatives of BOC on behalf of the Group and the GBT Group on 26 March 2018, and it was proposed that the Group and the GBT Group together should provide a revised debt-equity swap proposal to BOC. Subsequent to the submission of the revised debt-equity swap proposal on 2 April 2018, the negotiation between the Group, the GBT Group and BOC continued and further revised versions of the debt-equity swap proposal were submitted to both BOC and the People's Government of Jilin Province for their review and consideration. During the Year, the management of the Group and the GBT Group met with BOC, the People's Government of Jilin Province and the relevant professional parties on a regular basis to discuss the proposal and other alternatives to resolve the audit modification in respect of the Dihao New Supplier Guarantee, such as the option to include the indebtedness of Dajincang in the debt-equity swap proposal. Subsequently, a further revised debt-equity swap proposal ("Further Revised Debt-Equity Swap Proposal") was submitted by the Group and the GBT Group to Bank of China Jilin Province Branch proposing, among others, the conversion of debt due to banks to equity in order to lower the debt ratio of the Group, the GBT Group and Dajincang and the introduction of strategic investor(s) in order to strengthen the capital of the Group and the GBT Group. The Further Revised Debt-Equity Swap Proposal has been passed on to the headquarters of the Bank of China by Bank of China Jilin Province Branch, and further submitted to the People's Government of Jilin Province in August 2018 for their consideration. For further details of the progress of the Further Revised Debt-Equity Swap Proposal, please refer to note 2.2 to the consolidated financial statements.

2. Material uncertainty relating to going concern

With respect to the material uncertainty relating to the Group's ability to continue as a going concern, the board (the "Board") of directors (the "Directors") of the Company has expressed their views and outlined the steps that have been taken and to be taken to improve the Group's financial position in note 2.2 to the consolidated financial statements.

Depending on the successful and favourable outcomes of the proposed steps as set out in note 2.2 to the consolidated financial statements, the Board, including the Audit Committee, is of the view that the Group has sufficient working capital for its requirements for at least the next 12 months from the date of this report, and that the relevant disclaimer opinion may not appear in the final results for the year ending 31 December 2019. In addition, the Group had received a written confirmation from Jilin Province Agricultural Investment Group Co., Ltd.(吉林省農業投資集團有限公司)("Nongtou", together with its subsidiaries the "Nongtou Group") dated 8 June 2018 in which Nongtou reaffirmed that it would continue to support the Group and the GBT Group to operate on a going concern basis with its resources and connections by way of providing financial support through loans and borrowings and operational support such as the supply of corn kernels to the Group.

FINANCIAL PERFORMANCE

During the Year, with the improvement in operational efficiency of the Jinzhou site and the completion of relocation and commencement of the sweeteners production facilities in the Xinglongshan site, the Group's consolidated revenue increased by approximately 40.6% to approximately HK$1,961.0 million (2017: HK$1,395.1 million) as compared to last year. With respect to the cost of raw material, due to changes in the agricultural subsidy policy of the provincial governments, the corn procurement subsidies the Group was entitled to for the Year decreased by 95.6% to approximately HK$1.0 million (2017: HK$22.9 million). In addition, the Group's purchase price of corn kernels increased by 27.2% during the Year. The combined effect of the above has driven up the cost of sales per MT by 14.9% during the Year. Nevertheless, as the total sales volume increased by 23.1% to approximately 714,000 MT (2017: 580,000 MT) subsequent to the commencement of production in the Xinglongshan site, with average selling price increased by 14.0%, the Group's gross profit increased by 31.3% to approximately HK$202.8 million (2017: HK$154.4 million) while gross profit margin decreased by merely 0.8 percentage point to 10.3% (2017:11.1%).

Nevertheless, the increase in selling expenses and finance costs have dragged down the overall performance of the Group. As a result, the Group recorded a net loss and LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) of approximately HK$208.5 million (2017: HK$140.3 million) and approximately HK$46.4 million (2017: HK$24.5 million) respectively for the Year.

During the Year, the management has been actively considering and adopting a number of measures to improve the financial performance and financial position of the Group. For further details, please refer to note 2.2 to the consolidated financial statements.

Upstream products

(Sales amount: HK$839.3 million (2017: HK$572.8 million))
(Gross profit: HK$46.5 million (2017: HK$40.2 million))

With respect to the Group's corn refinery business, the improvement in operational efficiency in Jinzhou site for the Year has increased the sales volume of corn starch and other corn refined products to approximately 212,000 MT (2017: 163,000 MT) and 129,000 MT (2017: 101,000 MT) respectively, as well as their revenue to approximately HK$559.4 million (2017: HK$362.9 million) and HK$279.9 million (2017: HK$209.9 million) respectively. Internal consumption of corn starch was approximately 143,000 MT (2017: 128,000 MT), which was mainly used as the raw material for production in the Group's production sites in Jinzhou and Shanghai.

Due to changes in the provincial corn procurement subsidy programme, the corn subsidies the Group was entitled to for the Year was reduced to approximately HK$1.0 million (2017: HK$22.9 million). On the other hand, while the Group's average cost of sales of corn starch and other corn refined products increased by 14.3% and 15.8% respectively, their average selling prices increased by 18.3% and 3.9% respectively. As a result, the corn starch segment recorded a gross profit margin of approximately 15.7% (2017: 12.7%) while the other corn refined products segment recorded a gross loss margin of 14.7% (2017: 2.9%) for the Year.

The Group has been the sole distributor of the GBT Group for the sales and marketing of their upstream corn refined products in the Huadong region in the PRC since 2016. No trading of GBT's upstream products was recorded during the Year (2017: HK$1.6 million).

Corn syrup

(Sales amount: HK$765.4 million (2017: HK$614.5 million))
(Gross profit: HK$108.8 million (2017: HK$95.8 million))

During the Year, the revenue and gross profit of corn syrup increased by 24.6% and 13.6% respectively to approximately HK$765.4 million (2017: HK$614.5 million) and approximately HK$108.8 million (2017: HK$95.8 million) respectively. Such increases were mainly attributable to the increase in sales volume by 8.7% to approximately 251,000 MT (2017: 231,000 MT) as a result of the completion of the relocation and commencement of the glucose/maltose production facilities in the Xinglongshan site. However, as the market in northeast China was primarily occupied by low-margin industrial users and the increased corn cost had been passed on to the downstream operation, the gross profit margin of corn syrup decreased to 14.2% (2017: 15.6%) during the Year.

Corn syrup solid

(Sales amount: HK$355.8 million (2017: HK$197.6 million))
(Gross profit: HK$47.5 million (2017: HK$17.5 million))

During the Year, the revenue and gross profit of maltodextrin increased by 80.1% and 171.4% to approximately HK$355.8 million (2017: HK$197.6 million) and approximately HK$47.5 million (2017: HK$17.5 million) respectively. Such increases were mainly attributable to the increase in sales volume of maltodextrin by 47.0% to approximately 122,000 MT (2017: 83,000 MT) as a result of the completion of the relocation of the maltodextrin production facilities to Xinglongshan site and a 22.9% increase in selling price year-on-year. Together with the improved efficiency subsequent to the relocation of the production facilities, the gross profit margin of corn syrup solid increased to 13.4% (2017: 8.9%).

Trading

(Sales amount: HK$0.5 million (2017: HK$10.2 million))
(Gross profit: Nil (2017: HK$0.9 million))

The Group has entered into a master sales agreement with the GBT Group since 2016 for the marketing and selling of their lysine, corn starch and other corn refined products in the Huadong region in the PRC. Results of trading of corn starch and other corn refined products are included in the financial results of upstream products. Results of the trading segment include only those of amino acids.

During the Year, the revenue of the trading of amino acids decreased to approximately HK$0.5 million (2017: HK$10.2 million) and no gross profit was recorded during the Year (2017: HK$0.9 million). The downturn of trading of amino acids business was mainly attributable to the weak lysine market driven by the poor market sentiment of the husbandry industry and the outbreak of the ASF during the Year.

Export sales

During the Year, the Group exported approximately 39,000 MT (2017: 51,000 MT) of upstream corn refined products and approximately 16,000 MT (2017: 4,000 MT) of corn sweeteners; their export sales amounted to approximately HK$92.7 million (2017: HK$94.2 million) and approximately HK$49.8 million (2017: HK$12.1 million) respectively, together representing 7.3% (2017: 7.6%) of the Group's total revenue.

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

Other income and gains

During the Year, other income of the Group decreased slightly by 3.3% to approximately HK$20.4 million (2017: HK$21.1 million), as there was a one-off government grant in 2017 for Jinzhou upstream operation amounted to approximately HK$2.1 million which was not available for the Year.

Selling and distribution costs

During the Year, the selling and distribution costs increased by 40.0% to approximately HK$188.6 million (2017: HK$134.7 million), accounting for 9.6% (2017: 9.7%) of the Group's revenue. Such increase was mainly attributable to the increase in sales volume by 23.1% to approximately 714,000 MT (2017: 580,000 MT) as a result of the increase in production in the Jinzhou site and the completion of the relocation and commencement of the production facilities in the Xinglongshan site.

Administrative expenses

As revaluation work has been done on buildings for administrative use in the PRC at the end of 2017 where value of these buildings appreciated, additional depreciation expenses were recognised during the Year. Consequently, administrative expenses increased by 6.3% to approximately HK$109.3 million (2017: HK$102.8 million), representing 5.6% (2017: 7.4%) of the Group's revenue.

Other expenses

Other expenses of the Group increased to approximately HK$56.2 million (2017: HK$31.0 million) during the Year. Such increase was mainly attributable to the impairment of prepayments, deposits and other receivables which amounted to HK$17.7 million (2017: Nil).

Finance costs

During the Year, finance costs of the Group increased to approximately HK$74.5 million (2017: HK$49.7 million) as a result of the increase in interest on trade payables, which amounted to HK$16.7 million (2017: Nil).

Income tax expenses (credit)

Due to the reversal of temporary differences, the Group recorded deferred tax expenses of approximately HK$0.6 million (2017: deferred tax credit HK$6.6 million) during the Year, meanwhile, a subsidiary of the Company in the PRC generated net profit and the PRC income tax expenses amounted to approximately HK$2.4 million was provided for the Year (2017: HK$4.1 million). As a result, the Group recorded income tax expenses of approximately HK$3.0 million during the Year (2017: income tax credit: HK$2.5 million).

Net loss attributable to shareholders

As a result of the challenging operating environment of the upstream business and the increase in finance costs and other expenses, the Group's net loss was widened to approximately HK$208.5 million (2017: HK$140.3 million) during the Year.

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

The total borrowings as at 31 December 2018 decreased by approximately HK$118.2 million to approximately HK$1,009.3 million (31 December 2017: HK$1,127.5 million). The change in total borrowings was mainly attributable to exchange rate adjustment as at 31 December 2018 which amounted to approximately HK$61.4 million and the decrease in interest-bearing bank borrowings in the Group's operation in Shanghai which amounted to approximately HK$34.1 million. On the other hand, cash and bank balances and pledged bank deposits as at 31 December 2018 decreased by approximately HK$115.2 million to approximately HK$99.6 million (31 December 2017: HK$214.8 million). As such, the net borrowings merely decreased to approximately HK$909.7 million (31 December 2017: HK$912.7 million).

Structure of interest-bearing borrowings and net borrowing position

As at 31 December 2018, the Group's bank borrowings amounted to approximately HK$1,009.3 million (31 December 2017: HK$1,127.5 million), all of which (31 December 2017: 100.0%) were denominated in Renminbi ("RMB"). The average interest rate during the Year increased to approximately 7.0% (2017: 5.1%) per annum as a result of the increase in the PRC interest rate. The percentage of interest-bearing borrowing wholly repayable within one year and in the second to the fifth years were 81.9% and 18.1% (31 December 2017: 63.1% and 36.9%), respectively. As at 31 December 2018, interest-bearing bank borrowings amounted to approximately RMB225.0 million have been charged at fixed interest rates of 7.0% to 8.0% for terms of one year to three years. Other than that, the rest of the Group's interest-bearing bank borrowings are charged with reference to floating interest rate.

Considering the management's continuous efforts in monitoring the cash flow of the Group and in maintaining good relationships with banks, the Group has not experienced any difficulties in renewing the existing banking facilities as of the date of this report.

Turnover days, liquidity ratios and gearing ratios

Credit terms, normally 30 to 90 days, are granted to customers, depending on their credit worthiness and business relationships with the Group. Although the Group's revenue increased by 40.6% to approximately HK$1,961.0 million for the Year (2017: HK$1,395.1 million), the Group had maintained a stringent credit control and therefore, the trade receivables turnover days only increased to 38 days (31 December 2017: 36 days).

During the Year, trade payables turnover days increased to approximately 93 days (31 December 2017: 52 days) as better credit terms were offered to the Group for the corn procurement agreements signed with several subsidiaries of Nongtou.

As at 31 December 2018, the Group's inventory level increased by 50.8% to approximately HK$255.0 million (31 December 2017: HK$169.1 million) as a result of increased inventory in the Jinzhou operation. Consequently, the inventory turnover days increased to approximately 53 days for the Year (31 December 2017: 50 days).

As at 31 December 2018, the current ratio and quick ratio decreased to approximately 0.4 (31 December 2017: 0.5) and 0.2 (31 December 2017: 0.3), respectively. Gearing ratio in terms of debts (i.e. total interest-bearing bank borrowings) to total deficit and debts (i.e. aggregate total of shareholders deficit, non-controlling interests and total interest-bearing bank borrowings) was approximately 145.0% (31 December 2017: 112.2%).

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 7.3% (2017: 7.6%) of the Group's revenue in which most of these transactions were denominated in US Dollars. The management of the Company has been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi and is of the view that there is no material unfavourable exposure to foreign exchange fluctuation. Therefore, the Group currently does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. The Group will constantly review the economic situation, development of the Group's business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in the future as and when necessary.

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

Termination of transaction in relation to the transfer of two subsidiaries in Changchun from the Group to the GBT Group

Reference is made to the joint announcements of the Company and GBT dated 21 July 2017, 16 January 2018, 16 July 2018 and 31 December 2018 in relation to the transfer of two subsidiaries in Changchun from the Group to the GBT Group (the "Transaction") and the joint announcement of the Company and GBT dated 12 March 2019, in relation to the termination of the Transaction. The relevant member of the Group was advised by the relevant bank that the final approval would only be given subject to certain conditions which were considered and not accepted by the relevant member of the Group. While no consensus for alternative solution can be reached between the relevant member of the Group and the relevant bank, both the Group and the GBT Group have been actively negotiating with their lending banks for the restructuring of the debts of their member companies in Changchun, the PRC, including the debt-equity swap proposal.

Since the restructuring of debt involves a number of banks in the PRC, the parties consider it more appropriate to keep the current corporate structure as is in order to facilitate the negotiation and approval process.

Therefore, in view of the above, the Vendors and the Purchaser have mutually agreed to terminate the S&P Agreement, and neither party shall have any claim against each other under the S&P Agreement.

Provision of financial assistance to Dajincang

Reference is made to the joint announcement of the Company and GBT dated 6 November 2018 and the circular of the Company dated 3 December 2018 in relation to the provision of Dihao New Supplier Guarantee given by a member of the Group for the benefit of Dajincang. For more information, please refer to the sections headed "Update on remedial measures – 1. Financial guarantee contract" and "Disclosure pursuant to rule 13.20 of The Listing Rules" in this report.

New master agreements with GBT Group

On 8 January 2019, the Company proposed to enter into the new master agreements for certain continuing connected transactions (the "New Master Agreements") with GBT Group. GBT is a controlling shareholder of the Company, therefore, the transactions contemplated under the New Master Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since the proposed annual caps for the transactions contemplated under each of the New Master Agreements for each of the three years ending 31 December 2021 are more than 5% of each of the applicable percentage ratios under the Listing Rules, therefore the New Master Agreements and the proposed annual caps are subject to the reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The relevant announcement and circular of aforesaid were published on the website of the Stock Exchange and the Company on 8 January 2019 and 4 February 2019, respectively.

An extraordinary general meeting was convened for the independent shareholders to approve, amongst others, the New Master Agreements and the related annual caps on 28 February 2019 and all ordinary resolutions proposed were passed by way of poll.

FUTURE PLANS AND PROSPECTS

In order to maintain the competitiveness of the Group, the Group will strive to maintain its market share, diversify its product mix 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 consolidate its resources towards the development of the Shanghai production base, leveraging on the synergistic effect with the Jinzhou production base for the supply of raw materials/sweetener products to serve the respective Huadong market in the PRC and further enhance the operational efficiency in the Jinzhou site and the Xinglongshan site to lower operating costs and maintain the competitiveness of the Group.

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.

With respect to the financial position of the Group, the management will endeavour to overcome the challenges and adopt a prudent approach in face of the current market condition.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2018, the Group has approximately 1,100 (31 December 2017: 1,120) full time employees in Hong Kong and in 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Mr. Zhang Zihua, aged 49, has been an executive Director of the Company since his appointment in March 2017. Mr. Zhang has been appointed as an acting chairman of the Company since 31 December 2018. 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.), executive director and general manager of 吉林省現代農業產業基金有限公司 (Jilin Province Modern Agricultural Industry Fund Ltd.) and deputy general manager of 吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.). Mr. Zhang attained a Master's degree in business management from the School of Management of the Jilin University in 2005. 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.), the general manager of asset management department of 吉林省投資集團有限公司 (Jilin Province Investment Group Co., Ltd.), the 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 Province Rice Co., Ltd.). Mr. Zhang has also been appointed as an executive director of GBT since 23 March 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Wai Ho, aged 38, obtained a Bachelor's degree in business administration (honours) in accountancy and management information systems from the City University of Hong Kong in 2004. Mr. Fong obtained his qualification from Hong Kong Institute of Certified Public Accountants in 2010 and has become a practising Certified Public Accountant in Hong Kong since 2013, a member of the Association of Chartered Certified Accountants since 2015, a fellow of the Hong Kong Institute of Certified Public Accountants since 2017. Since 2018, Mr. Fong has become a member of the Chartered Professional Accountants of British Columbia and Chartered Professional Accountants of Canada. Mr. Fong has over 10 years of experience in accounting, auditing and financing aspect. Mr. Fong has been appointed as an independent non-executive Director in December 2018.

Mr. Lo Kwing Yu, aged 55, holds a Bachelor's degree in law and economics from the University of Keele, United Kingdom. Mr. Lo is a solicitor and has been in private practice in Hong Kong since 1995. He was first admitted as a solicitor in England and Wales and then admitted as solicitor of the Supreme Court of Hong Kong and of the Eastern Caribbean Supreme Court in the Territory in the Virgin Islands. Mr. Lo is a consultant of Messrs. Ho and Ip. Mr. Lo has been appointed as an independent non-executive Director in March 2014.

Mr. Wang Wenquan, aged 39, obtained a Bachelor's degree in law and a Master's degree in civil and commercial law from Nankai University in the PRC in July 2003 and July 2006, respectively. Since November 2013, Mr. Wang has been a partner at the Beijing headquarters of Dentons, a global law firm, focusing his practice on initial public offerings, secondary fundraising by listed companies, mergers and acquisitions, private equity investment funds and debt financing in the PRC. Mr. Wang obtained his licenses as a securities practitioner and a fund practitioner in the PRC in December 2006 and April 2017, respectively. Mr. Wang has been appointed as an independent non-executive Director in December 2018.

SENIOR MANAGEMENT

Mr. Chan Sing Fai, aged 35, has been appointed as the financial controller of the Group on 23 April 2018, and has over 10 years of experience in the related fields of finance, auditing, accounting and corporate governance practices. Mr. Chan graduated from the Hong Kong Polytechnic University with a Bachelor's degree with honors in accountancy in 2007 and attained a Master of Corporate Governance from the Hong Kong Polytechnic University in 2015. He is a member of the Hong Kong Institute of Certified Public Accountants and is an associate member of The Hong Kong Institute of Chartered Secretaries. Mr. Chan was the accounting manager of the Group from September 2012 to April 2015. Mr. Chan re-joined the Group as the assistant financial controller in July 2016 and has also been pointed as company secretary and financial controller of GBT on 23 April 2018.

Ms. Hui Ka Man, aged 32, is the company secretary of the Company since May 2018. Ms. Hui has over 7 years of experience in the finance, auditing, accounting and corporate governance practices. She graduated from the University of New South Wales with a Bachelor's degree of Commerce in accounting and finance in 2010. She is a member of the Certified Public Accountants Australia and the Hong Kong Institute of Certified Public Accountants. Ms. Hui joined the Group as an assistant finance manager in April 2016.

Mr. Meng Xiangyan, aged 46, is the vice general manager of the Group's Changchun production site. He joined the Group in February 2005 and has extensive experience in production engineering as well as corn refinery and sweeteners industries. Mr. Meng was appointed as the vice general manager of the Group's Changchun production site in December 2017.

Mr. Wang Guicheng, aged 51, graduated from the Jilin Grain High College for Professional Training, specialising in grain storage and analysis. He joined the GBT Group in 1997 and has been engaging in management of production technology. He has been the general manager of Xinglongshan production site of the GBT Group since 2015. Mr. Wang was the general manager of Dehui production site of the GBT Group from July 2016 to March 2017. Mr. Wang was appointed as deputy general manager of the Group's production and operation department in March 2017 and was subsequently appointed as the chief operating officer of the Group in December 2018.

Mr. Wen Gang, aged 46, is the general manager of the Group's Shanghai and Jinzhou production sites. Mr. Wen graduated from Jilin Grain College in 1996. He joined the Group in August 1999 and served as the general manager of certain subsidiaries of the Company and GBT. Mr. Wen has over 20 years of experience in corn refinery and sweeteners industries. Mr. Wen was an executive Director of the Company from June 2015 to October 2015.

CORPORATE GOVERNANCE REPORT

The Company is committed to ensuring high standards of corporate governance in the interests of its shareholders (the "Shareholders") and devoting considerable effort to identify and formalise best practices.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND MODEL CODE

Save as disclosed below, in the opinion of the Directors, the Company has complied with all code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2018.

On 1 October 2018, Mr. Wang Jian resigned as the chief executive officer of the Company. On 31 December 2018, Mr. Kong Zhanpeng resigned as an executive Director and ceased to be the chairman of the Company. On 31 December 2018, Mr. Zhang Zihua was appointed as acting chairman of the Company. On 29 December 2018, Mr. Wang Guicheng has been appointed as the chief operating officer and is responsible for overseeing the Company's operation management and product development of the Group.

The Company has adopted a code of conduct regarding the Directors' 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 as set out in Appendix 10 to the Listing Rules ("Model Code"). Having made specific enquiry of each of the Directors, all Directors have confirmed to the Company that they have complied with the required standards set out in the Model Code and the Company's code of conduct during the Year.

BOARD OF DIRECTORS

The individual attendance record of the Directors at board meetings, board committee meetings and general meetings during the Year are as follows:

	Meetings held and attended							
Name of Directors	Board meeting	Audit Committee meeting	Nomination committee meeting	Remuneration committee meeting	Continuing connected transactions executive committee meeting *(Note 7)*	Continuing connected transactions supervisory committee meeting	Corporate governance committee meeting	Annual general meeting
Executive Directors								
Kong Zhanpeng *(Note 1)*	5/6		2/2	2/2			1/1	1/1
Zhang Zihua *(Note 2)*	5/6		–	–			–	1/1
Independent Non-executive Directors								
Fong Wai Ho *(Note 3)*	–	–				–	–	–
Ho Lic Ki *(Note 4)*	6/6	3/3	2/2	2/2		4/4	1/1	1/1
Lo Kwing Yu	6/6	3/3	2/2	2/2		4/4		1/1
Wang Wenquan *(Note 5)*	–	–	–	–		–	–	–
Yuen Tsz Chun *(Note 6)*	6/6	3/3				4/4	1/1	1/1

Notes:

1. Mr. Kong Zhanpeng resigned as an executive Director, the chairman of nomination committee of the Company (the "Nomination Committee"), a member of the remuneration committee of the Company (the "Remuneration Committee") and a member of the corporate governance committee of the Company (the "Corporate Governance Committee") on 31 December 2018.

2. Mr. Zhang Zihua has been appointed as the acting chairman of the Company, the chairman of the Nomination Committee, a member of the Remuneration Committee and a member of the Corporate Governance Committee on 31 December 2018.

3. Mr. Fong Wai Ho has been appointed as an independent non-executive Director, the chairman of each of the Audit Committee, Corporate Governance Committee and continuing connected transactions supervisory committee of the Company (the "CCT Supervisory Committee") on 31 December 2018.

4. Mr. Ho Lic Ki resigned as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee, Nomination Committee, Corporate Governance Committee and CCT Supervisory Committee on 31 December 2018.

5. Mr. Wang Wenquan has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee, Nomination Committee, Corporate Governance Committee and CCT Supervisory Committee on 31 December 2018.

6. Mr. Yuen Tsz Chun resigned as an independent non-executive Director, the chairman of each of the Audit Committee, Corporate Governance Committee and CCT Supervisory Committee on 31 December 2018.

7. The current members of the continuing connected transactions executive committee of the Company (the "CCT Executive Committee") are members of the senior management of the Group.

As of the date of this report, the Board comprises four Directors, being one executive Director 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 16 to page 17 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 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, the 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.

During the Year, the Board has adopted and the Company has achieved the following measurable objectives:

(1) at least one-third of the Board is composed of independent non-executive Directors;

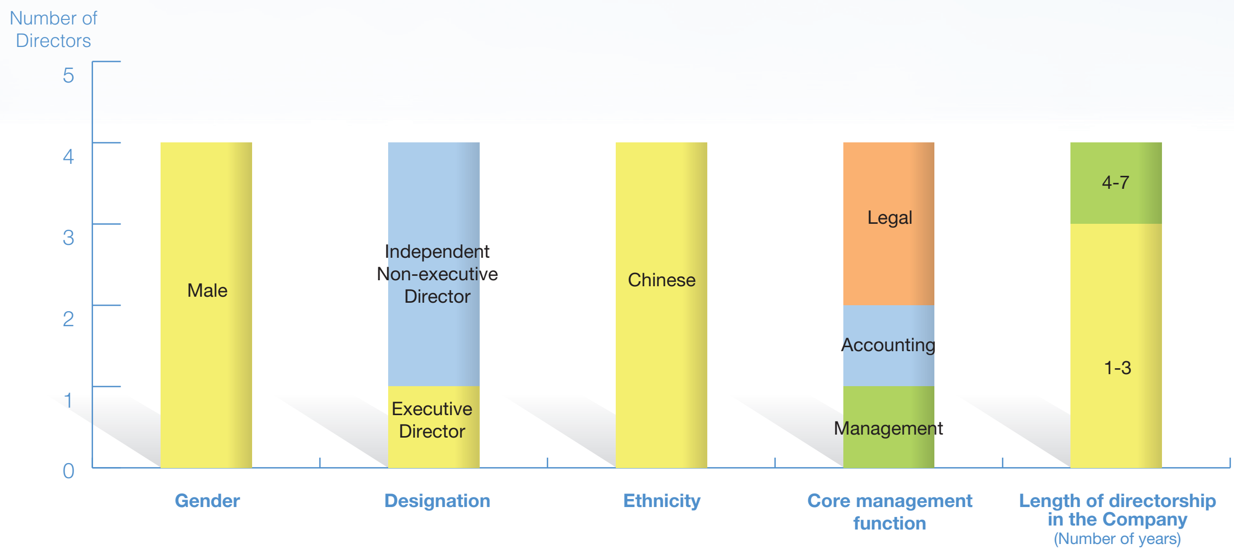
(2) at least one-third of the Board are holders of a Bachelor's degree or above;

(3) at least one Director is a qualified accountant;

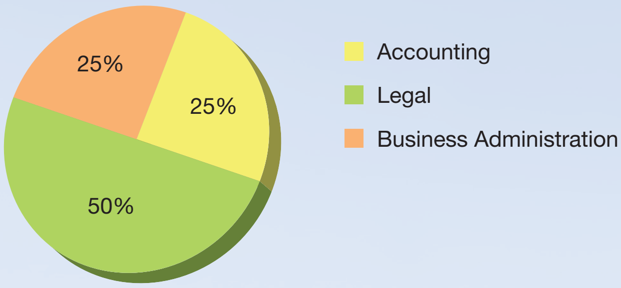
(4) at least one Director has relevant experience in the agriculture industry; and

(5) at least one Director has relevant experience in legal field.

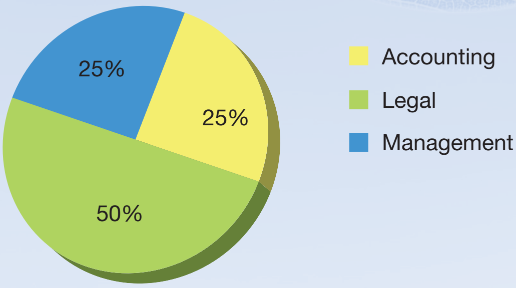
Up to the date of this report, composition of the Board is disclosed as below:



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 resource 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.

All new Directors, if any, will be briefed about their duties, responsibilities and obligations as a director of a listed company. Newly-appointed Directors are also encouraged to discuss with the chairman/acting chairman of the Company any additional information or training they may require, in order to discharge their duties in a more effective manner.

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.

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

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		✓
Kong Zhanpeng *(Resigned on 31 December 2018)*		✓
Zhang Zihua		
Independent non-executive Directors		
Fong Wai Ho *(Appointed on 31 December 2018)*	✓	✓
Ho Lic Ki *(Resigned on 31 December 2018)*		✓
Lo Kwing Yu		✓
Wang Wenquan *(Appointed on 31 December 2018)*	✓	✓
Yuen Tsz Chun *(Resigned on 31 December 2018)*		✓

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

Mr. Wang Jian resigned as the chief executive officer of the Company on 1 October 2018. Mr. Kong Zhanpeng resigned as the chairman on 31 December 2018. Following the resignation of Mr. Kong, Mr. Zhang Zihua was appointed as acting chairman and is mainly responsible for providing leadership and directions to the Board. On 29 December 2018, Mr. Wang Guicheng was appointed as the chief operating officer and is responsible for overseeing the operation management and product development of the Group.

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Wai Ho, Mr. Lo Kwing Yu and Mr. Wang Wenquan have been appointed for an initial term of two years. The terms of all independent non-executive Directors are renewable automatically for a successive term of one year each commencing from the next day after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by either party at any time during the then existing term.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

During the Year, Directors' remuneration were as follows:

	2018 HK$'000	2017 HK$'000
Fees	1,438	1,440
Other emoluments:		
Salaries, allowances and benefits in kind	3,000	3,600
Performance-related bonuses *(Note)*	—	—
Payment in lieu of notice	—	—
Pension scheme contributions	15	18
	4,453	5,058

Note:

According to the Directors' service contracts and the supplemental agreements entered into between the Company and Mr. Kong Zhanpeng, upon completion of every 12 months of services, he shall be entitled to a management bonus. The management bonus in respect of each financial year of the Company shall be determined pursuant to the mechanism adopted by the Board from time to time, or to be determined by the Board in its absolute discretion. No bonus was paid to Mr. Kong during the years ended 31 December 2017 and 2018.

(a) Independent non-executive Directors

The fees paid to independent non-executive Directors during the Year were as follows:

	2018 HK$'000	2017 HK$'000
Fong Wai Ho *(Note 2)*	—	—
Ho Lic Ki *(Note 1)*	479	480
Lo Kwing Yu	480	480
Wang Wenquan *(Note 2)*	—	—
Yuen Tsz Chun *(Note 1)*	479	480
	1,438	1,440

Note:

1. Mr. Ho Lic Ki and Mr. Yuen Tsz Chun resigned as independent non-executive Directors on 31 December 2018.

2. Mr. Fong Wai Ho and Mr. Wang Wenquan were appointed as independent non-executive Directors on 31 December 2018.

There were no other emoluments payable to the independent non-executive Directors during the Year (2017: Nil).

(b) Executive Directors

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

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Payment in lieu of notice HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2018					
Kong Zhanpeng *(Note 1)*	3,000	—	—	15	3,015
Zhang Zihua	—	—	—	—	—
	3,000	—	—	15	3,015
2017					
Kong Zhanpeng	3,600	—	—	18	3,618
Zhang Zihua	—	—	—	—	—
Wang Jian *(Note 2)*	—	—	—	—	—
	3,600	—	—	18	3,618

Notes:

1. Mr. Kong Zhanpeng resigned as an executive Director on 31 December 2018.

2. Mr. Wang Jian resigned as an executive Director on 23 March 2017.

(c) Senior Management

The band of the remuneration of senior management personal and related number of members of senior management personnel are as follows:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	5	4

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.

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 2018, 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. The management is of the view that the Group will continue as a going concern for the reasons stated as set out in point 2 "Material uncertainty relating to going concern" under the section headed "Update on remedial measures" on page 10 of this report.

The Group has announced in 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 control procedures, and ensuring compliance with relevant statutory requirements and other rules and regulations by the Group.

BOARD COMMITTEES

In compliance with the CG Code, the Company has set up its Audit Committee, Nomination Committee, Remuneration Committee and Corporate Governance Committee with clearly defined written terms of reference adopted in compliance with the CG Code. The Company has also set up its CCT Executive Committee and CCT Supervisory Committee to monitor the continuing connected transactions between the Group and the GBT Group.

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 control systems. The Audit Committee comprises three independent non-executive Directors. As at the date of this report, the members of the Audit Committee are Mr. Fong Wai Ho (the chairman of the committee), Mr. Lo Kwing Yu and Mr. Wang Wenquan.

The Audit Committee meets regularly with the Company's senior management and the Company's auditor to review the Company's financial reporting process, the effectiveness of internal control, audit process and risk management.

The Group's annual results for the Year have been reviewed by the Audit Committee and the Audit Committee held three meetings during the Year.

The Audit Committee operates pursuant to written terms of reference which are available on the websites of 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 opinion and remedial measures are disclosed in the section headed "Update on remedial measures" on page 9 to page 10;

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 Group'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 control 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.

NOMINATION COMMITTEE

At the date of this report, the Nomination Committee comprises an executive Director, Mr. Zhang Zihua, and two independent non-executive Directors, Mr. Lo Kwing Yu and Mr. Wang Wenquan. Mr. Zhang Zihua is the chairman of the Nomination Committee. The duties of the Nomination Committee are, among others, determining policy for the nomination of Directors, including the nomination procedures, processes and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the Year. The Nomination Committee also reviews the structure, size and composition of the Board and to makes 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.

The Board has adopted written policy for the nomination of new directors. In evaluating and selecting candidates for directorship, the criteria to be taken into account when considering the suitability of a candidate shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities.

The Board has adopted procedures for nomination of new directors, pursuant to which (i) interviews will be conducted with the prospective candidates; and (ii) the Board will consider and, if thought fit, approve the appointment of the new directors by way of board meeting or written resolution. To ensure a proper understanding of the operations and businesses of the Company and that he or she is fully aware of his or her responsibilities under the applicable laws and regulations (including the Listing Rules), the newly appointed directors will be provided with a comprehensive, tailored and formal induction on the first occasion of his appointment.

The Nomination Committee held two meetings in 2018.

The Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors and made recommendation to the Board on the appointment of directors in the forthcoming annual general meeting ("AGM").

REMUNERATION COMMITTEE

As the date of this report, the members of the Remuneration Committee include an executive Director, Mr. Zhang Zihua, and two independent non-executive Directors, Mr. Lo Kwing Yu and Mr. Wang Wenquan. Mr. Wang Wenquan is the chairman of the Remuneration Committee. The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, as well as on Group's policy and structure for the remuneration of Directors and senior management. The Remuneration Committee also assesses performance of executive Directors and approves the terms of executive Directors' service contracts.

In 2018, the Remuneration Committee held two meetings to review and make recommendations to the Board remuneration packages of the individual executive Directors and the senior management.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was established in accordance with the requirements of the CG Code for the purposes of reviewing the Company's policies and practices on corporate governance, and providing 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. The Corporate Governance Committee comprises an executive Director, Mr. Zhang Zihua and two independent non-executive Directors, Mr. Fong Wai Ho and Mr. Wang Wenquan. Mr. Fong Wai Ho is the chairman of the Corporate Governance Committee.

The Corporate Governance Committee held one meeting in 2018.

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

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.

Save as disclosed on page 18 of this report, the Corporate Governance Committee considered that the Company has complied with all code provisions in the CG Code during the Year.

CONTINUING CONNECTED TRANSACTIONS EXECUTIVE COMMITTEE

The CCT Executive Committee is responsible for monitoring, reviewing and managing the continuing connected transactions ("CCT") between the Group on one part and the GBT Group on the other part. The main duties of the CCT Executive Committee are to prepare the CCT reports and submit the same to the CCT Supervisory Committee on regular basis. As at the date of this report, the members of the CCT Executive Committee are Mr. Meng Xiangyan and Mr. Wen Gang, both being senior management of the Group.

During the Year, the CCT Executive Committee held twelve meetings.

CCT SUPERVISORY COMMITTEE

The CCT Supervisory Committee that comprises all independent non-executive Directors was established by the Board to supervise the CCT Executive Committee. The main responsibilities of the CCT Supervisory Committee, among others, are:

(1) to devise and revise detailed rules and guidelines ("Prescribed Guidelines") from time to time for the CCT Executive Committee to follow in order to ensure that the CCT with the GBT Group, which are not qualified for exemptions or waivers from the Shareholders' approval, annual review and disclosure requirements under Chapter 14A of the Listing Rules ("Non-exempt CCT"), will be entered into in accordance with the respective agreements ("Master Agreements") entered into between the Group and the GBT Group, on normal commercial terms or better and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(2) to review, on a quarterly basis, the quarterly reports submitted by the CCT Executive Committee in relation to purchase of corn starch from the GBT Group by the Group and the distribution of lysine and other corn refined products of the GBT Group by the Group ("Proposed Sale and Purchase and Consignment Sale") as to whether they have been proceeded with in accordance with the Prescribed Guidelines (the "CCT Quarterly Reports");

(3) in respect of the provision of utility services (the "Utility Services") by the GBT Group to the Group, to review the CCT Quarterly Reports from the CCT Executive Committee as to how the fees have been charged by the GBT Group during the previous quarter, with evidence and detailed calculations as to the amount of costs and expenses actually incurred by the GBT Group, and to recommend the Board to take action in recovering any excessive fees charged by the GBT Group; and

(4) to report its findings on review of the CCT Quarterly Reports to the Board and give recommendations to the Board to ensure the transactions will be entered into in the interests of the Group and the Shareholders as a whole.

The principal terms of the prevailing Prescribed Guidelines are set out below:

(1) the Group shall not purchase corn starch from the GBT Group, distribute the lysine and other corn refined products of the GBT Group or obtain the Utility Services from the GBT Group, unless the GBT Group shall agree that the purchase prices and fees payable and other commercial terms for these transactions shall be determined in the manner as prescribed under the Prescribed Guidelines;

(2) in order to ascertain the prevailing market rates of corn starch in the form of starch slurry or powder from time to time and to ensure that the terms offered by the GBT Group to the Group are on normal commercial terms, pursuant to the Prescribed Guidelines, the CCT Executive Committee would obtain market selling prices of corn starch according to the following procedures:

(i) the CCT Executive Committee will obtain quotation from at least one (or such other number as shall be determined by the CCT Supervisory Committee from time to time) independent third party supplier(s) and compare it with the terms offered by the GBT Group for the supply of corn starch of comparable quantities and specifications to its independent third party customers;

(ii) the total purchase price and terms for the purchase of corn starch in the form of corn starch slurry shall be determined by using the lower of (i) the average unit selling price of corn starch offered by the GBT Group to its independent customers, less the unit transportation, storage, insurance, dehydration and/or packaging costs saved by reason of the supply of corn starch in slurry form which would otherwise be payable to the GBT Group by its independent customers for the relevant month up to the price determination date; and (ii) the quotations from independent supplier(s) for purchase of corn starch of comparable specifications and quantities plus (if not included as part of the purchase price) any additional cost (such as transportation, storage and/or insurance costs) to be incurred by the Group in order for the Group to purchase corn starch from such independent supplier(s) for the relevant month up to the price determination date; and

(iii) the total purchase price and terms for the purchase of corn starch in the form of corn starch powder shall be determined by using the lower of (i) the average unit selling price of corn starch offered by the GBT Group to its independent customers for the relevant month up to the price determination date; and (ii) the quotations from independent supplier(s) for purchase of corn starch of comparable specifications and quantities plus (if not included as part of the purchase price) any additional cost (such as transportation, storage and/or insurance costs) to be incurred by the Group in order for the Group to purchase corn starch from such independent supplier(s) for the relevant month up to the price determination date.

(3) in respect of the distribution of lysine and other corn refined products of the GBT Group by the Group:

(i) prior to, for any calendar month, the sale of any lysine and other corn refined products of the GBT Group by the Group as a distributor of the GBT Group in the Huadong Region in the PRC, to the customers of the Group, and the purchase of the consignment stock of lysine and other corn refined products, the CCT Executive Committee should obtain from the GBT Group the prevailing ex-factory price of the relevant lysine and other corn refined products and other major commercial terms (including credit terms) then offered by the GBT Group to its independent third party distributors or customers of the relevant calendar month; and

(ii) the supply and sale of the consignment stock of lysine and other corn refined products by the GBT Group to the Group in the relevant calendar month should be settled within seven business days before the end of the relevant calendar month (the "Lysine Settlement Date"). The purchase price of the consignment stock of lysine and other corn refined products sold by the Group during the relevant calendar month shall be the prevailing ex-factory price of the relevant lysine and other corn refined products then offered by the GBT Group, plus the actual additional packaging, transportation and/or insurance costs to be incurred by the GBT Group for the transportation and delivery of the relevant lysine and other corn refined products to the facilities of the members of the Group as from time to time designated by the Group. The CCT Executive Committee should obtain from the GBT Group before Lysine Settlement Date the evidences and detailed calculation of the actual costs of additional packaging, transportation and/or insurance cost incurred by the GBT Group.

(4) the CCT Executive Committee shall submit to the CCT Supervisory Committee a quarterly report within 15 days from the end of each quarter in relation to the Proposed Sale and Purchase and Consignment Sale during the quarter;

(5) in the event that there is any deviation from the terms of the relevant Master Agreements and/or any non—compliance with the Prescribed Guidelines in respect of any Non-exempt CCT entered into by any member of the Group during the period covered by the quarterly report, the CCT Supervisory Committee may request the Group to take such procedures (including price adjustments) as the CCT Supervisory Committee may consider appropriate to rectify such deviation or non-compliance; and

(6) the auditor of the Group will be engaged to review the Non-exempt CCT on a quarterly basis, and shall report to the CCT Supervisory Committee the result of their review. Such report shall be in compliance with the requirements under Rule 14A.56 of the Listing Rules.

Four meetings were held by the CCT Supervisory Committee to review the CCT Quarterly Reports submitted by the CCT Executive Committee in respect of the Proposed Sale and Purchase and Consignment Sales and the Utility Services entered into by the Group with the GBT Group during the Year. Details of findings have been published on 31 May 2018, 23 August 2018, 14 November 2018 and 22 March 2019. As reported by the CCT Supervisory Committee, (i) the Proposed Sale and Purchase and Consignment Sale conducted during the Year were in line with the Prescribed Guidelines; (ii) the fees charged by the GBT Group in respect of the Utility Services during the Year had been charged in accordance with the relevant Master Agreements; and (iii) there was no other matter that needs to be brought to the attention of the Shareholders.

Auditor's Remuneration

Auditor's remuneration of HK$2,200,000 was incurred for the audit of the Group's consolidated financial statements for the year ended 31 December 2018.

During the Year, the following amounts were paid as professional fee to Mazars CPA Limited for the provision of non-audit related services to the Group:

	HK$'000
Taxation compliance	20
Services for interim report and circulars	648
Total	668

COMPANY SECRETARY

The company secretary of the Company, Ms. Hui Ka Man, 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 induction, and monitoring the training and continuous professional development of Directors. She has attained no less than 15 hours of relevant professional training during the Year. Ms. Hui's biography is set out on page 17 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 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 exercises his/her power under the Articles of Association of the Company 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.

As of 31 December 2018, details of Shareholders by type and aggregate shareholding are as follow:

	Number of shares held	**Percentage of shareholding**	**Market capitalisation (HK$ million)**
GBT	978,278,000	64.04	53.81
Kong Zhanpeng *(Note 1)*	1,984,000	0.13	0.11
Public float in Hong Kong	547,324,000	35.83	30.10
Total	1,527,586,000	100.00	84.02

Note:

1. The shares held by Mr. Kong Zhanpeng were not counted as part of public float by virtue of him being an executive Director as at 31 December 2018.

The 2018 AGM was held on 31 May 2018 to approve the 2017 audited consolidated 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 21 December 2018, an extraordinary general meeting ("EGM") was held to approve the guarantee for the benefit of Dajincang in relation to all indebtedness due and owing to BOC pursuant to any loan agreements or other documents signed by Dajincang in the maximum principal amount of RMB2.5 billion. The resolution proposed was passed by way of poll.

On 28 February 2019, an EGM was held to approve i) the master agreement in relation to sale of corn sweeteners by the Group to the GBT Group, purchase of corn starch and other raw materials such as enzymes by the Group from the GBT Group and supply of electricity, water and steam and the provision of wastewater treatment services by the GBT Group to the Group, ii) to re-elect Mr. Fong Wai Ho and Mr. Wang Wenquan as Directors and to authorise the Board to fix the Director's remuneration. The resolutions proposed were passed by way of poll.

The 2019 AGM will be held on 22 May 2019 to approve, among others, the 2018 audited consolidated financial statements, grant of the new issue mandate and the repurchase mandate and the re-election of Directors.

DIVIDEND POLICY

1. Declaration of dividends will be subject to the discretion of the Directors, depending on factors including but not limited to the results, working capital, cash positions and capital requirements of the Group and statutory and regulatory restrictions.

2. Subject to the factors mentioned in paragraph 1, it is the Directors' present intention to recommend annual distribution to the shareholders of not less than 15% of the annual profits attributable to equity holders of the Company as dividends in the foreseeable future.

3. The declaration of dividends is subject to the absolute discretion of the Board and any final dividend for the Year is subject to the approval of the Shareholders. The amounts of dividends actually declared and distributed to the Shareholders will be subject to the absolute discretion of the Board and will depend upon a number of factors, including but not limited to availability of the Company's cash and distributable reserves, investment requirements, and the cash flow and working capital requirements of the Group and any factors considered thought fit by the Board.

4. The payment of the dividend by the Company is also subject to any restrictions under the Laws of the Cayman Islands and the Articles of Association of the Company.

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 and its various committees 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 Organisations 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, chief executive officer and the external auditor. Management is called upon to present action plans in response to internal auditor's recommendations, which are agreed by internal auditor.

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 information is 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; and

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

The internal control department assists the management to establish the ERM systems with reference to the COSO ERM framework, where major risks were identified and analysed. Management and employees 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. 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 report to senior management and Audit Committee 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 2018	Key risk mitigations
Financial Risks:		
Liquidity risk of inadequate funding	The Group maintains continuous dialogue with banks in order to secure banking facilities	Actively negotiate with local government and principal lending banks to maintain the existing banking loans and finalise the debt-equity swap proposal
Inability to obtain adequate funding on time	Completion of relocation of sweeteners production facilities in Changchun	Monthly review the financial statement for cash flow forecast
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
Strategic Risks:		
Market competition	Intense competition in domestic and export markets	Dedicate research and development efforts in development of more high value added downstream products
Operation Risks:		
Loss of key personnel	Keen competition for talent recruitment and retention	Investigate and review human resource strategy on regular basis Keep track of the career path for talent employee

In 2018, 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 lowering greenhouse gas emission through our research and development efforts;

2. reducing waste disposal and imposing 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 supervising team set up in each subsidiary 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 monitoring 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 monitoring 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 2018, 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 updated 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 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.

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 Company has been publishing the Environmental, Social and Governance reports (the "ESG Reports") on the Company's website on an annual basis. The 2018 ESG Report will be available on or before 30 June 2019. Please view and download the ESG Reports from the Company's website at www.global-sweeteners.com under the heading "Investor Relations" and 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 contact@global-sweeteners.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 21 days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(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 contact@global-sweeteners.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 (the "Proposal") with his/her/its detailed contact information via email at the email address of the Company at contact@global-sweeteners.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 consideration of the Proposal raised by the Shareholders 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 hereby present their report and the audited financial statements of the Group for the year ended 31 December 2018.

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 sweeteners. Details of the principal activities of the principal subsidiaries are set out in note 33 to the consolidated 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 5 to 15 of this report. 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 ESG Reports disclosed in the Company's website.

The principal risks and uncertainties are disclosed in Corporate Governance Report under section headed "Risk management and internal control" on page 32 on this 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 page 14 of this 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 15 of this report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the financial position of the Company and the Group at that date are set out in the consolidated financial statements on page 53 to page 119.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

The Company adopts a dividend policy which is set out on page 32 of this report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and restated as appropriate, is set out on page 120 of this report. This summary does not form part of the audited consolidated 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 consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 26 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 34 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company does not have reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) (the "Companies Law") of the Cayman Islands. Under the Companies Law of the Cayman Islands, the share premium account of the Company of approximately HK$1,074,879,000 as at 31 December 2018 is distributable to the shareholders 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 account 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 approximately 14.9% of the total sales for the Year and sales to the largest customer included therein accounted for approximately 4.8% of the total sales of the Year. Purchases from the Group's five largest suppliers accounted for approximately 30.8% of the total purchases for the Year, and purchases from the largest supplier included therein accounted for approximately 15.9% of the total purchases of the Year.

None of Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5.0% 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:
Kong Zhanpeng *(resigned on 31 December 2018)*
Zhang Zihua

Independent non-executive Directors:
Fong Wai Ho *(appointed on 31 December 2018)*
Ho Lic Ki *(resigned on 31 December 2018)*
Lo Kwing Yu
Wang Wenquan *(appointed on 31 December 2018)*
Yuen Tsz Chun *(resigned on 31 December 2018)*

According to article 108(A) of the articles of association of the Company, 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, being an executive Director, and Mr. Lo Kwing Yu being an independent non-executive Director, will retire as Directors and, being eligible, will offer themselves for re-election as Directors at the AGM.

The Company has received annual confirmations from each of Mr. Fong Wai Ho, Mr. Lo Kwing Yu and Mr. Wang Wenquan of their independence during the Year. As at the date of this report, the Company still considers all independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on page 16 to page 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The executive Director, Mr. Zhang Zihua has entered into a service contract with the Company for an initial term of three years which commenced on 23 March 2017 and renewable automatically for successive term of one year. The above service contract may be terminated by either party by giving not less than three months' written notice.

The independent non-executive Directors, Mr. Fong Wai Ho, Mr. Lo Kwing Yu and Mr. Wang Wenquan have entered into appointment letters with the Company for an initial term of two years which commenced on 31 December 2018, 3 March 2014 and 31 December 2018, respectively, and are renewable automatically for successive term of one year. Each of the above appointment letters may be terminated by either party by giving not less than three months' written notice.

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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 that Mr. Kong Zhanpeng, being an executive Director, was indirectly interested in the contracts made between the Group and the GBT Group as disclosed in the paragraph headed "Continuing Connected Transactions" of this report; and Mr. Zhang Zihua, by virtue of him being an executive Director of the Company and GBT, was deemed to have a material interest in the transaction, save as above, 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. With effect from 31 December 2018, Mr. Kong Zhanpeng resigned as an executive Director.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2018 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.

CONTRACT OF SIGNIFICANCE

Save as disclosed on page 46 under continuing connected transactions, 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.

SHARE OPTION SCHEME

The Company operates 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 since 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date.

There was no outstanding option pursuant to the Scheme as at 1 January 2017, and the Scheme has not been renewed after its expiration date.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, none of the Directors and the chief executive of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company or any 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 under 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

Apart from as disclosed under the paragraph headed "Directors Interest and Short Positions in Shares and Underlying Shares" above, at no time during the Year were rights to acquired benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or any person in whose shares and debentures any Directors is deemed to be interested under Part XV of the SFO, or were any such rights exercised by them; or was the Company or 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 2018, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Capacity/nature of interest	Number of Shares held *(Note 1)*	Percentage of Company's issued share capital
Global Corn Bio-chem Technology Company Limited ("Global Corn Bio-chem")	Beneficial owner	977,778,000 Shares (L)	64.01
GBT	Interest of a controlled corporation *(Note 2)*	977,778,000 Shares (L)	64.01
	Beneficial owner	500,000 Shares (L)	0.03
Modern Agricultural Industry Investment Limited	Interest of a controlled corporation *(Note 3)*	978,278,000 Shares (L)	64.04

Notes:

1. The letter "L" denotes the person's interest in the share capital of the Company.

2. These Shares are registered in the name of Global Corn Bio-chem, which is a wholly-owned subsidiary of GBT. Therefore, GBT is deemed to be interested in all the shares in which Global Corn Bio-chem is interested according to the SFO.

3. These Shares are registered in the name of or deemed to be interested by GBT, which is owned as to approximately 49% by Modern Agricultural Industry Investment Limited. The entire issued capital of Modern Agricultural Industry Investment Limited 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 2018, 20% of the investment capital of PRC LLP is owned by Nongtou and the transfer of a further 40% of the investment capital of PRC LLP to Nongtou from a company controlled by Jiaotou Province Communication Investment Group Co., Ltd.（吉林省交通投資集團有限公司）("Jiaotou") is pending for completion. As announced by the Company on 2 March 2017, during the transition period before the completion, such 40% of the investment capital of PRC LLP shall be managed by Nongtou. 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 and Administration Commission of the People's Government of Jilin Province（吉林省人民政府國有資產監督管理委員會）("Jilin SASAC"). Each of Modern Agricultural Industry Investment Limited, Modern Agricultural Industry Investment Holdings Limited, PRC LLP, GP, Jiaotou, Nongtou and Jilin SASAC are deemed to be interested in the interest held by GBT.

Saved as disclosed above, no person, other than the Directors and chief executive of the Company, as of 31 December 2018, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the Year, save as disclosed in this report, the Group had the following connected transactions or continuing connected transactions with the GBT Group. Save as disclosed below and in this report, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

Sourcing of utilities services

Pursuant to the utilities master supply agreement dated 8 April 2016, the GBT Group provided utility services including electricity, water, steam and wastewater treatment services to all of its subsidiaries at Changchun, including the Group's production plants at Changchun on arm's length basis and with reference to the actual cost incurred by the GBT Group for its provision of such services. Under the utilities service master supply agreement, the fees payable by the Group shall be settled on a monthly basis and shall be payable by the Group within 90 days after the date of the relevant invoice issued by the GBT Group. During the Year, the GBT Group charged the Group HK$17.0 million for the provision of these utilities services.

Purchase of corn starch

Pursuant to the corn starch master purchase agreement dated 8 April 2016, the Group has been sourcing corn starch either in the form of starch powder or starch slurry, from the GBT Group as one of the principal production materials for the Group's production. Under the corn starch master purchase agreement, the prices shall be from time to time determined by the relevant members of the GBT Group and the Group on arm's length basis and with reference to the prevailing market rates of corn starch powder, with adjustments to be made to the purchase price with reference to the delivery arrangement between the Group and the GBT Group. The payment terms for the products would be set out in the purchase order for each order to be placed under the corn starch master purchase agreement, provided that the purchase price shall be payable by the relevant member of the Group within 60 days after the date of the relevant invoice issued by the relevant member of the GBT Group. During the Year, purchase of corn starch from the GBT Group by the Group amounted to HK$264.1 million.

Distribution of lysine and other corn refined products

Pursuant to the master sales agreement dated 8 April 2016, the Group has been appointed by GBT Group as the distributor for the distribution of lysine and other corn refined products in Huadong Region in the PRC. Under the master sales agreement, the purchase prices of the consignment stock of lysine and other corn refined products shall be the prevailing ex-factory price of the relevant lysine and other corn refined products then offered by GBT Group to its independent third party distributors or customer, plus the actual additional packaging, transportation and/or insurance cost to be incurred by the GBT Group for the transportation and delivery of the relevant lysine and other corn refined products to facilities of the member of the Group from time to time designated by the Group. The terms and conditions of each sales and purchase (including payment terms) shall in any event be no less favorable to the Group than those offered by GBT Group to independent third party distributor(s) of its lysine and other corn refined products and purchase prices shall be payable by the Group within 30 days after the date of the relevant invoice issued by the Group to the Group (that is, approximately 60 days from delivery of the products), or such longer period as the parties may agree.

During the Year, purchase of consignment stock of lysine and other corn refined products from the GBT Group amounted to HK$0.5 million.

The GBT Group holds in aggregate 64.04% interest in the share capital of the Company. The above transactions constituted continuing connected transactions 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 these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (iv) the aggregate consideration charged by or to the Group in respect of the continuing connected transactions during the Year had not exceeded the respective caps as set out in the relevant announcements. The auditor of the Company have 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 aforementioned continuing connected transactions and connected transactions disclosed in this report, the related party transactions disclosed in note 30 to the consolidated financial statements are either exempted connected continuing transactions or non-exempted continuing connected transactions which have complied with the requirement of Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

NON-COMPETE UNDERTAKINGS

Mr. Kong Zhanpeng, who resigned as an executive Director with effect from 31 December 2018, is interested in approximately 4.07% of the issued share capital of GBT through his interest as beneficial owner and his interest in Hartington Profits Limited. The GBT Group is engaged in, among other things, the production and sale (the "Excluded Business") of corn starch, steepwater liquid, corn oil, germ cake, corn fibre feed, corn gluten meal, corn gluten feed pellets and other co-products ("Co-Products"). Pursuant to a non-compete undertaking ("Non-compete Undertaking") given by GBT and Global Corn Bio-chem dated 3 September 2007 in favour of the Group (as supplemented by a waiver executed by the Company to GBT and Global Corn Bio-chem dated 24 September 2008), the GBT Group is restricted from engaging in any business that may compete with the business of the Group from time to time.

The Group is principally engaged in the manufacture and sale of various corn sweeteners, which are classified into two categories: corn syrup (glucose syrup, maltose syrup and high fructose corn syrup) and corn syrup solid (maltodextrin). The production and sale of corn starch and Co-Products are not the core businesses of the Group and the management team of the Group is substantially independent from the management team of the GBT Group. The core business of the Group is not dependent or otherwise reliant on the sales of corn starch and/or the Co-products and also given the execution of the Non-compete Undertaking, the Directors consider that the Group is capable of carrying on its own business independently of, and at arm's length from, the Excluded Business.

During the Year and up to the date of this report, save as disclosed above, 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 were appointed as Directors to represent the interests of the Company and/or the Group.

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

On 7 December 2018, as recommended by the Remuneration Committee and approved by the Board, the annual director's fee of Mr. Lo Kwing Yu, being an independent non-executive Director, Mr. Ho Lic Ki and Mr. Yuen Tsz Chun, whose respective resignations as independent non-executive Directors took effect from 31 December 2018, has been reduced to HK240,000 with effect from 1 January 2019.

Effective from 1 November 2018, Mr. Kong Zhanpeng whose resignation as executive Director took effect from 31 December 2018, has ceased to receive directors fee.

DISCLOSURE PURSUANT TO RULES 13.19 AND 13.21 OF THE LISTING RULES

Reference is made to the joint announcement of the Company and GBT dated 21 September 2018. Under a loan agreement (the "Loan Agreement") entered into between Jinzhou Dacheng Food Development Co., Ltd.（錦州大成食品發展有限公司）("Jinzhou Dacheng"), which is an indirect wholly owned subsidiary of the Company, and Jinzhou Port Branch of Bank of China（中國銀行股份有限公司錦州港支行）(the "Lender") in respect of a twelve month fixed term loan due in December 2018 (the "Loan"), Jinzhou Dacheng is required to, among others, satisfy a financial covenant as to the debt-to-assets ratio, failure to comply with such financial covenant 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. The Loan is guaranteed by the Company and certain members of the Group have also provided guarantees and securities to secure the Loan.

Based on the unaudited management accounts of Jinzhou Dacheng for the eight months ended 31 August 2018, Jinzhou Dacheng has failed to fulfill certain financial covenant under the Loan Agreement. Such breach entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreement immediately due and payable. In addition, such breach may also trigger cross default provisions ("Cross Default") in other loan agreements entered into by the Group in the aggregate outstanding principal amount of approximately RMB454.8 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 GBT Group.

On 18 December 2018, Jinzhou Dacheng signed a renewal agreement to renew the Loan Agreement with the principal amount of RMB25.0 million pursuant to which the due date of the Loan has been extended to December 2019. As at the date of this report, the outstanding principal amount under the Loan Agreement is RMB25.0 million and Jinzhou Dacheng has yet to receive a waiver from the Lender in respect of the breach under the Loan Agreement. In addition, the Group is in the process of applying for the relevant waivers from the lenders in relation to the Cross Default. Despite the above non-compliance, the Group has not experienced any difficulties in obtaining financing with its banks for its working capital. Further announcement(s) will be made by the Company and GBT to update the status of the waivers as and when appropriate.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

As announced by the Company on 31 March 2015, financial guarantees were first granted by certain subsidiaries of the Company and GBT in respect of the indebtedness of Dajincang due to BOC between November 2010 to March 2015.

As disclosed in the joint announcement of the Company and GBT dated 6 November 2018 and the circular of the Company dated 3 December 2018, the term of the Previous Supplier Loan expired in December 2018 and Dajincang 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, Dajincang proposed to refinance the Previous Supplier Loan by entering into the new loan agreements with BOC for the New Supplier Loan. New supplier guarantees with the maximum guaranteed amount of RMB2.5 billion were granted by Dihao Foodstuff and other members of the GBT Group to BOC to guarantee the obligations of Dajincang under the New Supplier Loan. The maximum principal amount guaranteed under the Dihao New Supplier Guarantee is RMB2.5 billion. Since 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 rule 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 Dihao New Supplier Guarantee in its interim and annual reports during the relevant periods when the Dihao New Supplier Guarantee is in effect.

SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

Relocation of production facilities to the Xinglongshan site

Reference is made to the 2018 Interim Report in relation to, among others, the suspension and relocation of production facilities of the Group at Luyuan District in Changchun pending its relocation of production facilities 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.

The relocation of the 60,000 MT per annum ("mtpa") glucose/maltose production facilities and the 30,000 mtpa maltodextrin production facilities were completed in April 2017 and January 2018 respectively. In respect of the other relocation projects, in view of changes in operating environment, the Group is in the process of reviewing the relocation projects and revising the feasibility studies for submission to, among others, the relevant government bodies for approval. As such, the updated time frame is revised as follows:

Products of the Group to which the production facilities relate	**Production capacity of the relevant production facilities to be relocated (mtpa)**	**Expected time for the relocation of production facilities**
Crystallised glucose*	100,000	June 2019 — June 2020
Corn refinery*	600,000	December 2019 — December 2020

* 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 re-appointment as auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

Zhang Zihua
Acting Chairman

Hong Kong
26 March 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Global Sweeteners Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Global Sweeteners Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on page 53 to page 119, which comprise the consolidated statement of financial position at 31 December 2018, 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 below, a disclaimer of opinion was expressed by us in our report dated 26 March 2018 on the consolidated financial statements of the Group for the year ended 31 December 2017.

(i) Financial guarantee contracts

As mentioned in notes 2.2 and 27 to the consolidated financial statements, a subsidiary of the Company, together with certain fellow subsidiaries, had jointly provided corporate guarantees (the "Financial Guarantee Contracts") 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 2017 and 31 December 2018. In addition, an indirect major shareholder of the ultimate holding company of the Company provided confirmation in writing that it would undertake all the liabilities that might arise from the Financial Guarantee Contracts and provide financial support to the Group to enable it to continue as a going concern (the "Confirmation"). The Financial Guarantee Contracts and the Confirmation were not recognised in the consolidated financial statements. As the management of the Company had not developed and applied an appropriate accounting policy for the Confirmation 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 Confirmation at 31 December 2017 and 31 December 2018 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2017 and 31 December 2018, 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 2018.

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 2018, the Group had net current liabilities and capital deficiency of HK$1,024 million and HK$313 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK$208 million for the year ended 31 December 2018. 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 amounts other than which they are currently recorded in the consolidated statement of financial position at 31 December 2018. 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.

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 2019

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 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	1,961,004	1,395,090
Cost of sales		(1,758,173)	(1,240,651)
Gross profit		202,831	154,439
Other income and gains	5	20,374	21,126
Selling and distribution costs		(188,649)	(134,735)
Administrative expenses		(109,323)	(102,825)
Other expenses		(56,179)	(31,024)
Finance costs	7	(74,540)	(49,708)
LOSS BEFORE TAX	6	(205,486)	(142,727)
Income tax (expenses) credit	10	(3,010)	2,469
LOSS FOR THE YEAR		(208,496)	(140,258)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside Hong Kong		18,250	(18,368)
Items that will not be reclassified subsequently to profit or loss:			
Gain on property revaluation	13	–	31,565
Income tax effect		–	(7,892)
		–	23,673
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		18,250	5,305
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(190,246)	(134,953)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(208,496)**	(140,258)
Non-controlling interests		**—**	—
		(208,496)	(140,258)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:			
Owners of the Company		**(190,618)**	(134,443)
Non-controlling interests		**372**	(510)
		(190,246)	(134,953)
LOSS PER SHARE	12		
Basic		**HK(13.7) cents**	HK(9.2) cents
Diluted		**HK(13.7) cents**	HK(9.2) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	798,859	896,985
Prepaid land lease payments	14	130,650	147,999
Deposits paid for acquisition of property, plant and equipment		5,254	308
Goodwill	15	—	—
Other intangible assets	16	1,704	3,243
		936,467	1,048,535
CURRENT ASSETS			
Inventories	17	255,041	169,130
Trade and bills receivables	18	204,724	136,980
Prepayments, deposits and other receivables	19	76,482	66,012
Pledged bank deposits	20	79,433	41,103
Cash and bank balances	20	20,120	173,697
		635,800	586,922
CURRENT LIABILITIES			
Trade and bills payables	21	446,957	176,446
Other payables and accruals	22	241,582	258,432
Interest-bearing bank borrowings	23	826,378	711,807
Due to fellow subsidiaries	30(ii)	120,577	126,095
Tax payables		24,324	26,355
		1,659,818	1,299,135
NET CURRENT LIABILITIES		(1,024,018)	(712,213)
TOTAL ASSETS LESS CURRENT LIABILITIES		(87,551)	336,322

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	23	182,954	415,663
Deferred income	24	31,955	34,072
Deferred tax liabilities	25	10,759	9,560
		225,668	459,295
NET LIABILITIES		(313,219)	(122,973)
CAPITAL AND RESERVES			
Share capital	26	152,759	152,759
Reserves		(460,047)	(269,429)
Deficit attributable to owners of the Company		(307,288)	(116,670)
Non-controlling interests		(5,931)	(6,303)
TOTAL DEFICIT		(313,219)	(122,973)

These consolidated financial statements on pages 53 to 119 were approved and authorised for issue by the board of directors on 26 March 2019 and signed on its behalf by

Zhang Zihua
Director

Fong Wai Ho
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Asset revaluation 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 deficit HK$'000
At 1 January 2018	152,759	1,074,879	65,173	67,246	297,476	(1,774,203)	(116,670)	(6,303)	(122,973)
Loss for the year	–	–	–	–	–	(208,496)	(208,496)	–	(208,496)
Other comprehensive income for the year:									
– Exchange realignment	–	–	–	–	17,878	–	17,878	372	18,250
Total comprehensive income (loss) for the year	–	–	–	–	17,878	(208,496)	(190,618)	372	(190,246)
Transfer	–	–	–	574	–	(574)	–	–	–
At 31 December 2018	152,759	1,074,879*	65,173*	67,820*	315,354*	(1,983,273)*	(307,288)	(5,931)	(313,219)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Asset revaluation 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 equity (deficit) HK$'000
At 1 January 2017	152,759	1,074,879	41,500	65,949	315,334	(1,632,648)	17,773	(5,793)	11,980
Loss for the year	–	–	–	–	–	(140,258)	(140,258)	–	(140,258)
Other comprehensive income (loss) for the year:									
– Revaluation gain, net of deferred tax	–	–	23,673	–	–	–	23,673	–	23,673
– Exchange realignment	–	–	–	–	(17,858)	–	(17,858)	(510)	(18,368)
Total comprehensive income (loss) for the year	–	–	23,673	–	(17,858)	(140,258)	(134,443)	(510)	(134,953)
Transfer	–	–	–	1,297	–	(1,297)	–	–	–
At 31 December 2017	152,759	1,074,879*	65,173*	67,246*	297,476*	(1,774,203)*	(116,670)	(6,303)	(122,973)

* These reserve accounts comprise the negative reserves of HK$460,047,000 (2017: HK$269,429,000) in the consolidated statement of financial position.

SHARE PREMIUM

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.

ASSET REVALUATION 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") 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 reserve funds 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 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	29(a)	47,694	56,612
Interest received		960	788
Overseas taxes paid		(3,471)	(3,142)
Net cash generated from operating activities		45,183	54,258
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid for acquisition of property, plant and equipment		(5,254)	(308)
Purchases of property, plant and equipment		(23,479)	(89,113)
Proceeds from disposal of property, plant and equipment		319	1,503
Net cash used in investing activities		(28,414)	(87,918)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank borrowings		759,342	652,644
Repayment of interest-bearing bank borrowings		(816,095)	(413,218)
Interest paid		(61,833)	(49,708)
(Decrease) Increase in an amount due to the ultimate holding company		(7,398)	33,610
Increase (Decrease) in amounts due to fellow subsidiaries		1,622	(101,293)
Increase in pledged bank deposits		(38,330)	(41,103)
Net cash (used in) generated from financing activities		(162,692)	80,932
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(145,923)	47,272
Cash and cash equivalents at beginning of year		173,697	116,972
Effect of foreign exchange rate changes, net		(7,654)	9,453
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	20,120	173,697

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 13 June 2006. The principal activity of the Company is investment holding. The address of the registered office 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 Suites 2202-04, 22nd Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Group is principally engaged in the manufacture and sale of corn refined products and corn sweeteners.

The Company is a subsidiary of Global Corn Bio-chem Technology Company Limited, a company incorporated in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is Global Bio-chem Technology Group Company Limited (the "ultimate holding company" or "GBT" and together with its subsidiaries, the "GBT Group"), a company incorporated in the Cayman Islands whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 (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.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 2.3 to the consolidated financial statements. A summary of the principal accounting policies adopted by the Group is set out in note 2.5 to the consolidated financial statements.

2.2 GOING CONCERN

The Group recorded a loss of approximately HK$208 million (2017: HK$140 million) for the year ended 31 December 2018 and as at that date, had net current liabilities of approximately HK$1,024 million (31 December 2017: HK$712 million) and net liabilities of approximately HK$313 million (31 December 2017: HK$123 million). In addition, any potential liabilities or obligations arising from the financial guarantee contracts as discussed in note 27 to the consolidated financial statements granted by 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.) ("Dihao Foodstuff"), a subsidiary of the Company, for the benefit of Changchun Dajincang Corn Procurement Co., Ltd.（長春大金倉玉米收儲有限公司）("Dajincang") 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 and based on the recommendations of the audit committee of the Company after its critical review of the management's position, the management of the Company has taken the following steps to improve the Group's financial position:

2.2 GOING CONCERN *(continued)*

(1) Active negotiations with banks to obtain adequate bank borrowings and to finalise the debt-equity swap proposal

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. In addition, Mr. Yuan Weisen, the chairman of GBT, met with the representatives of Bank of China Weifeng International Branch（中國銀行股份有限公司偉峰國際支行）("BOC") on behalf of the Group and the GBT Group on 26 March 2018, and it was proposed that the Group and the GBT Group together should provide a revised debt-equity swap proposal to BOC. Subsequent to the submission of the revised debt-equity swap proposal on 2 April 2018, the negotiation between the Group, the GBT Group and BOC continued and further revised versions of the debt-equity swap proposal were submitted to both BOC and the People's Government of Jilin Province for their review and consideration. During the negotiation, the Group, the GBT Group and BOC have also explored the possibility of including the indebtedness of Dajincang into the debt-equity swap proposal. Subsequently, a further revised debt-equity swap proposal ("Further Revised Debt-Equity Swap Proposal") was submitted by the Group and the GBT Group to Bank of China Jilin Province Branch proposing, among others, the conversion of debt due to banks to equity in order to lower the debt ratio of the Group, the GBT Group and Dajincang and the introduction of strategic investor(s) in order to strengthen the capital of the Group and the GBT Group. The Further Revised Debt-Equity Swap Proposal has been reviewed by Bank of China Jilin Province Branch and further submitted to the People's Government of Jilin Province in August 2018 for their consideration. On 1 February 2019, a meeting amongst the representatives of the principal lending banks of the Group and the GBT Group in the PRC, the State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province（吉林省人民政府國有資產監督管理委員會）("Jilin SASAC"), Jilin Province Local Financial Supervision Administration（吉林省地方金融監督管理局）, Jilin Agricultural Investment Group Co., Ltd.（吉林省農業投資集團有限公司）("Nongtou", together with its subsidiaries the "Nongtou Group"), and the management of the Group and the GBT Group was held in Changchun, in which the parties acknowledged the direction of the Further Revised Debt-Equity Swap Proposal and reinstated their intention to push through the execution of such proposal. The principal lending banks also confirmed at the meeting that during this transitional period, they would continue their support to the Group and the GBT Group and agreed (1) not to withdraw any banking facilities already provided; (2) to take all possible measures to ensure the renewal of all existing bank borrowings; and (3) to allow interest payment to be settled annually instead of monthly so as to ease the pressure of cash flow of the Group and the GBT Group.

As at the date of this report, the negotiation about the Further Revised Debt-Equity Swap Proposal is still on-going, pending the finalisation of the details and the conditions with the People's Government of Jilin Province and the headquarters of the principal lending banks of the Group and the GBT Group in the PRC. Subsequent to the meeting on 1 February 2019, the parties have been actively working on the details of the Further Revised Debt-Equity Swap Proposal. The Company will endeavour to facilitate the materialisation of the Further Revised Debt-Equity Swap Proposal which shall resolve the audit limitations in respect of the financial guarantee contracts as discussed in note 27 to the consolidated financial statements and the material uncertainty related to the going concern of the Group and it is targeted that the Further Revised Debt-Equity Swap Proposal will be concluded by the end of the third quarter of 2019, subject to the due approvals from the People's Government of Jilin Province and the headquarters of the principal lending banks of the Group and the GBT Group.

2.2 GOING CONCERN *(continued)*

(2) Monitoring of the Group's operating cash flows

The Group has taken various measures to enhance its operational efficiency, especially in the Jinzhou site and the Xinglongshan site, to lower operating costs and strengthen the competitiveness of the Group. During the year ended 31 December 2018, the Group has also optimised its production in order to minimise operating cash outflows.

(3) Financial support from the indirect major shareholder of GBT

The Group has received a written confirmation dated 8 June 2018 from Nongtou, the indirect major shareholder of GBT, that it would continue to provide financial support to the Group and the GBT Group in the following 24 months on a going concern basis and undertake all the liabilities that might arise from the financial guarantee contracts as discussed in note 27 to the consolidated financial statements. Such assistance received by the Group is not secured by any assets of the Group.

In addition, the Group signed corn purchasing contracts for an aggregate amount of 800,000 metric tonnes ("MT") of corn kernels with the subsidiaries of Nongtou in 2018, to ensure a stable supply of corn kernels. During the year ended 31 December 2018, the Group purchased approximately 121,000 MT of corn kernels from the subsidiaries of Nongtou which aggregately accounted for 22.2% of total corn procurement of the Group.

Furthermore, through the connection of Nongtou, the Group signed a one-year corn purchasing contract for the supply of 500,000 MT of corn kernels with a state-owned supplier (the "State-Owned Supplier") in January 2018 to further secure a stable supply of corn kernels for 2018. During the year ended 31 December 2018, the Group purchased approximately 138,000 MT of corn kernels from the State-Owned Supplier which accounted for 25.3% of total corn procurement of the Group.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value amounted to RMB1,483 million at 31 December 2018 (31 December 2017: RMB1,174 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 and the GBT 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 and the GBT Group.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the management of the Company and the development of the events as described above. The directors proposed to procure additional working capital through the steps mentioned above. After taking into account the above steps, the internal resources, the present and expected banking facilities available, the Group has sufficient working capital for its requirements for at least 12 months from the date of this report. Therefore, the consolidated financial statements of the Group 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 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. 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 2017 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

HKFRS 9: Financial Instruments

The following terms are used in these consolidated financial statements:

- FVPL: fair value through profit or loss
- FVOCI: fair value through other comprehensive income
- Designated FVOCI: equity instruments measured at FVOCI
- Mandatory FVOCI: debt instruments measured at FVOCI

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

In accordance with the transition provisions in HKFRS 9, comparative information has not been restated and the Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1 January 2018 (i.e. the date of initial application), except as described below:

(a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:

  (i) the determination of the business model within which a financial asset is held;
  (ii) the designation of financial assets or financial liabilities at FVPL or, in case of financial assets, at Designated FVOCI; and
  (iii) the de-designation of financial assets or financial liabilities at FVPL.

  The above resulting classification shall be applied retrospectively.

(b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.

(c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 9: Financial Instruments *(continued)*

Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities.

The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Measurement category	**Carrying amount under HKAS 39 Loans and receivables** HK$'000	**Carrying amount under HKFRS 9 Amortised cost** HK$'000
Trade and bills receivables	136,980	136,980
Financial assets included in prepayments, deposits and other receivables	3,308	3,308
Pledged bank deposits	41,103	41,103
Cash and bank balances	173,697	173,697
	355,088	355,088

Note: These items continue to be measured at amortised cost because, at the date of initial application, the Group's business model is to hold these items to collect contractual cash flows and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

Impact of the new impairment requirements

The effect on adoption of the new impairment requirements under HKFRS 9 is not material to the Group's consolidated financial statements.

HKFRS 15: Revenue from Contracts with Customers

HKFRS 15 replaces, among others, HKAS 18 Revenue and HKAS 11 Construction Contracts which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. This standard establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers. It also introduces 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 Group has elected to apply the cumulative effect transition method and recognised the cumulative effect of initial adoption as an adjustment to the opening balance of components of equity at 1 January 2018 (i.e. the date of initial application). Therefore, the comparative information has not been restated for the effect of HKFRS 15.

In addition, the Group has applied HKFRS 15 retrospectively only to contracts that were not completed at 1 January 2018 in accordance with the transition provisions therein.

The adoption of this standard does not have a significant impact on the measurement and recognition of revenue of the Group but additional disclosures have been made throughout the consolidated financial statements.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HK(IFRIC)-Int 22: Foreign Currency Transactions and Advance Consideration

The interpretation specifies the date of the transaction for determining the exchange rate to be used for transactions that involve advance consideration paid or received in a foreign currency.

The adoption of the interpretation does 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 to the Group but are not yet effective for the current year in the consolidated financial statements.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 19	Employee Benefits[1]
Amendments to HKAS 28	Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Annual Improvements to HKFRSs	2015–2017 Cycle[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 3	Definition of a Business[2]
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 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 The effective date to be determined

The management of the Company 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 HKFRS 16 which is explained below, the adoption of the new/revised HKFRSs will not have any significant impact on the consolidated financial statements.

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 initial 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 comprise 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.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. 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 4.5%
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.

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 or pending installation, 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.

Other intangible assets — 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Financial instruments

Financial assets

Recognition and derecognition

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.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) the Group transfers substantially all the risks and rewards of ownership of the financial asset, or (b) the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Classification and measurement

Applicable from 1 January 2018

Financial assets (except for trade and bills receivables without a significant financing component which are initially measured at their transaction price) are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) Mandatory FVOCI; (iii) Designated FVOCI; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

Applicable before 1 January 2018

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly 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 and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Financial liabilities

Recognition and derecognition

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

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, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payables at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial guarantee contracts *(continued)*

Subsequently, the financial guarantee is measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with HKFRS 15 and (ii) the amount of the loss allowance determined in accordance with the expected credit losses ("ECL") model under HKFRS 9, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Before the adoption of HKFRS 9, the financial guarantee is subsequently measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amortisation recognised in accordance with HKAS 18, and (ii) the amount of the provision determined in accordance with HKAS 37, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Impairment of financial assets and other items under HKFRS 9

Applicable from 1 January 2018

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost and financial guarantee contracts issued to which the impairment requirements apply in accordance with HKFRS 9. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped on one or more of the following bases of shared credit risk characteristics:

(i) past due information

(ii) nature of instrument

(iii) nature of collateral, if any

(iv) industry of debtors

(v) geographical location of debtors

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets and other items under HKFRS 9 *(continued)*

Applicable from 1 January 2018 (continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets and other items under HKFRS 9 *(continued)*

Applicable from 1 January 2018 (continued)

Simplified approach of ECL

For trade and bills receivables and contract assets without a significant financing components or otherwise for which the Group applies the practical expedient not to account for the significant financing components, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any recovery made is recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets and other items under HKFRS 9 *(continued)*

Applicable before 1 January 2018

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 other expenses in profit or loss.

Inventories

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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 expense 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

Applicable from 1 January 2018

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The Group engages in the manufacture and sale of corn refined products and corn sweeteners.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Applicable from 1 January 2018 *(continued)*

Revenue from contracts with customers within HKFRS 15 (continued)

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of corn refined products and corn sweeteners is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Applicable from 1 January 2018 *(continued)*

Revenue from contracts with customers within HKFRS 15 (continued)

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Applicable before 1 January 2018

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.

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract assets and contract liabilities *(continued)*

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

In accordance with the standard payment terms of the Group, payments are normally not due or received from the customer until when the goods are delivered, although the Group may request from the customer the whole or some of the contractual payments before the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue.

Contract costs

Contract costs are either incremental costs of obtaining or costs (other than those that are accounted for as inventories, property, plant and equipment, or intangible assets) to fulfil contracts with customers. Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses.

The costs to obtain contracts are capitalised if they are incremental and recoverable, except to the extent that the practical expedient in paragraph 94 of HKFRS 15 is applied. The capitalised costs are amortised on a straight–line basis over the term of the specific existing and anticipated contracts to which the costs relate. The Group applies the practical expedient in HKFRS 15 and recognises the incremental costs as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

The costs to fulfil contracts are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, generate or enhance resources that will be used to provide goods or services in the future, and are expected to be recovered. Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred. The costs are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services under the specific existing and anticipated contracts to which the costs relate.

An impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset exceeds (a) the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates; less (b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses. A reversal of impairment loss is recognised in profit or loss when the impairment conditions no longer exist or have improved provided the increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognised previously.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

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 mainland of 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 the PRC 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.

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.

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 the 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 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 the PRC in the foreseeable future. Therefore, no deferred tax liability for withholding taxes has been recognised in these consolidated financial statements. Please refer to note 25 to the consolidated financial statements for more details of the unrecognised deferred tax liability for withholding taxes.

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 with reference to valuation performed by an independent professional valuer. The valuation of leasehold buildings is performed using the depreciated replacement cost (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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Estimation uncertainty *(continued)*

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.

Loss allowance for ECL

The management of the Company estimates the loss allowance for trade and bills receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and bills receivables. Details of the key assumptions and inputs used in estimating ECL are set out in note 31 to the consolidated financial statements.

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 2018, a deferred tax asset of approximately HK$22 million in relation to deductible temporary differences 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 tax losses of HK$1,179 million and the remaining deductible temporary difference of HK$417 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 its products and services and has three (2017: three) reportable operating segments as follows:

(a) the corn refined products segment which comprises the manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products;

(b) the corn sweeteners segment which comprises the manufacture and sale of glucose syrup, maltose syrup, high fructose corn syrup and maltodextrin; and

(c) the trading segment which includes the sale of amino acids of the GBT Group in the Huadong region in the PRC.

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 2018

	Corn refined products HK$'000	Corn sweeteners HK$'000	Trading HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	839,324	1,121,227	453	1,961,004
Intersegment sales	353,005	90,539	—	443,544
	1,192,329	1,211,766	453	2,404,548
Reconciliation:				
Elimination of intersegment sales				(443,544)
Revenue				1,961,004
Segment results	(65,214)	(49,539)	(163)	(114,916)
Reconciliation:				
Unallocated bank interest and other corporate income				960
Corporate and other unallocated expenses				(16,990)
Finance costs				(74,540)
Loss before tax				(205,486)
Income tax expenses				(3,010)
Loss for the year				(208,496)

(b) Other segment information

	Corn refined products HK$'000	Corn sweeteners HK$'000	Trading HK$'000	Total HK$'000
Capital expenditure	6,890	16,897	—	23,787
Depreciation	31,496	45,707	—	77,203
Amortisation of prepaid land lease payments	3,854	3,486	—	7,340
Loss on disposal of property, plant and equipment, net	71	140	—	211
Write-down (Reversal of write-down) of inventories, net	2,089	(2,521)	—	(432)
Impairment (Reversal of impairment) of trade and bills receivables, net	417	(11,157)	(3)	(10,743)
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net	17,652	48	(9)	17,691
Wavier of payables	—	(1,188)	—	(1,188)

4. OPERATING SEGMENT INFORMATION *(continued)*

(a) Segment results *(continued)*

Year ended 31 December 2017

	Corn refined products HK$'000	Corn sweeteners HK$'000	Trading HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	572,800	812,042	10,248	1,395,090
Intersegment sales	320,205	—	—	320,205
	893,005	812,042	10,248	1,715,295
Reconciliation:				
Elimination of intersegment sales				(320,205)
Revenue				1,395,090
Segment results	(35,618)	(41,508)	646	(76,480)
Reconciliation:				
Unallocated bank interest and other corporate income				178
Corporate and other unallocated expenses				(16,717)
Finance costs				(49,708)
Loss before tax				(142,727)
Income tax credit				2,469
Loss for the year				(140,258)

(b) Other segment information

	Corn refined products HK$'000	Corn sweeteners HK$'000	Trading HK$'000	Total HK$'000
Capital expenditure	6,624	82,683	—	89,307
Depreciation	26,578	34,878	—	61,456
Amortisation of prepaid land lease payments	3,721	3,327	—	7,048
Loss on disposal of property, plant and equipment, net	26	673	—	699
Write-down (Reversal of write-down) of inventories, net	470	(635)	—	(165)
Impairment (Reversal of impairment) of trade and bills receivables, net	349	(751)	3	(399)
(Reversal of impairment) Impairment of prepayments, deposits and other receivables, net	(11,471)	699	28	(10,744)

4. OPERATING SEGMENT INFORMATION *(continued)*

(c) Geographical information

Revenue information based on locations of customers

	2018 HK$'000	2017 HK$'000
The PRC	1,818,523	1,288,782
Asian region and others	142,481	106,308
	1,961,004	1,395,090

Non-current assets information based on locations of assets

	2018 HK$'000	2017 HK$'000
The PRC	936,467	1,048,535

(d) Information about major customers

There was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the year ended 31 December 2018 (2017: Nil).

5. REVENUE, OTHER INCOME AND GAINS

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within HKFRS 15		
Sale of goods	1,961,004	1,395,090

The revenue from contracts with customers within HKFRS 15 is based on fixed price and recognised at a point in time.

The amount of revenue recognised for the year ended 31 December 2018 that was included in the contract liabilities at the beginning of the year is HK$83,404,000.

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

	Notes	2018 HK$'000	2017 HK$'000
Other income and gains			
Bank interest income		960	788
Net gains arising from sale of packing materials and by-products		—	175
Government grants *(note)*		1,208	2,532
Amortisation of deferred income	24	190	184
Subcontracting income		4,140	2,274
Foreign exchange gain, net		695	328
Reversal of impairment of trade and bills receivables, net	31	10,743	399
Reversal of impairment of prepayments, deposits and other receivables, net		—	10,744
Wavier of payables		1,188	—
Others		1,250	3,702
		20,374	21,126

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

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging (crediting):

	Notes	2018 HK$'000	2017 HK$'000
Employee benefit expenses (excluding directors' remuneration)			
— Wages and salaries		95,537	64,464
— Pension scheme contributions		32,790	23,889
		128,327	88,353
Cost of inventories sold*		1,746,785	1,235,933
Auditor's remuneration		2,200	2,500
Foreign exchange gain, net		(695)	(328)
Operating lease payments in respect of land and premises		4,304	2,830
Depreciation	13	77,203	61,456
Amortisation of prepaid land lease payments	14	7,340	7,048
Impairment of other intangible assets	16	1,539	—
Loss on disposal of property, plant and equipment, net		211	699
Reversal of write-down of inventories, net, included in cost of sales		(432)	(165)
Reversal of impairment of trade and bills receivables, net	31	(10,743)	(399)
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net		17,691	(10,744)
Corn subsidies, included in cost of sales		(955)	(22,854)

* Cost of inventories sold includes employee benefit expenses, depreciation, amortisation of prepaid land lease payments and reversal of write-down of inventories, which are also included in the respective total amounts disclosed separately above for each of these types of income and expenses.

7. FINANCE COSTS

An analysis of finance costs of the Group is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	57,241	48,929
Interest on trade payables	16,736	—
Finance costs for discounted bills receivables	563	779
	74,540	49,708

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The directors' and the chief executive's remuneration for the year, pursuant to the Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	2018 HK$'000	2017 HK$'000
Fees	1,438	1,440
Other emoluments:		
Salaries, allowances and benefits in kind	3,000	3,600
Pension scheme contributions	15	18
	3,015	3,618
	4,453	5,058

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

(a) Executive directors and the chief executive

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018			
Executive directors:			
Mr. Zhang Zihua[(2)]	—	—	—
Mr. Kong Zhanpeng[(3)]	3,000	15	3,015
	3,000	15	3,015

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017			
Executive directors:			
Mr. Wang Jian[(1)]	—	—	—
Mr. Zhang Zihua[(2)]	—	—	—
Mr. Kong Zhanpeng[(3)]	3,600	18	3,618
	3,600	18	3,618

(1) Mr. Wang Jian resigned as an executive director and the chief executive officer of the Company on 23 March 2017 and 1 October 2018 respectively.

(2) Mr. Zhang Zihua was appointed as an executive director of the Company on 23 March 2017.

(3) Mr. Kong Zhanpeng resigned as an executive director of the Company on 31 December 2018.

According to a service contract and a supplemental agreement entered into between the Company and Mr. Kong Zhanpeng, upon completion of every 12 months of services, he shall be entitled to a management bonus. The management bonus shall be determined pursuant to a mechanism adopted by the board of directors from time to time, or to be determined by the board of directors in its absolute discretion. No bonus was paid to Mr. Kong during the years ended 31 December 2018 and 2017.

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

(b) Independent non-executive directors

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

	2018 HK$'000	2017 HK$'000
Mr. Ho Lic Ki[1]	479	480
Mr. Lo Kwing Yu	480	480
Mr. Yuen Tsz Chun[1]	479	480
Mr. Fong Wai Ho[2]	—	—
Mr. Wang Wenquan[2]	—	—
	1,438	1,440

(1) Mr. Yuen Tsz Chun and Mr. Ho Lic Ki resigned as independent non-executive directors of the Company on 31 December 2018.

(2) Mr. Fong Wai Ho and Mr. Wang Wenquan were appointed as independent non-executive directors of the Company on 31 December 2018.

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2018 and 2017.

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office. Except that Mr. Kong Zhanpeng waived emoluments of HK$600,000 during the year ended 31 December 2018, none of the directors waived any emoluments during the year ended 31 December 2018 and 31 December 2017.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2017: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2017: one) highest paid employee who is neither a director nor the chief executive of the Company were as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	774	592
Pension scheme contributions	18	18
	792	610

The highest paid employee fell within the following band:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	1	1

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

No emolument was paid by the Group to the highest paid non-director employee as inducement to join or upon joining the Group or as compensation for loss of office. The highest paid non-director employee did not waive any emoluments during the years ended 31 December 2018 and 2017.

10. INCOME TAX EXPENSES (CREDIT)

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2018 (2017: Nil). The PRC enterprise income tax has been provided at the rate of 25% (2017: 25%) on the estimated assessable profits of subsidiaries operating in the PRC.

	Note	2018 HK$'000	2017 HK$'000
Current tax — The PRC enterprise income tax		2,360	4,141
Deferred tax — Origination and reversal of temporary differences, net	25	650	(6,610)
Income tax expenses (credit)		3,010	(2,469)

A reconciliation of tax expenses (credit) to loss before tax using the applicable tax rate is as follows:

	2018 HK$'000	2017 HK$'000
Loss before tax	(205,486)	(142,727)
Income tax at applicable tax rate	(41,308)	(34,267)
Non-deductible expenses	3,349	5,546
Tax-exempt revenue	(649)	(906)
Recognition of previously unrecognised deferred taxes and reversal of deferred taxes	1,080	(6,638)
Unrecognised tax losses	45,796	39,735
Unrecognised temporary differences	(5,258)	(5,939)
Income tax expenses (credit)	3,010	(2,469)

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 of directors does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: 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 approximately HK$208,496,000 (2017: HK$140,258,000) and the weighted average number of ordinary shares in issue throughout the year of 1,527,586,000 shares (2017: 1,527,586,000 shares).

Diluted loss per share is the same as basic loss per share as there was no potential dilutive ordinary shares outstanding during the years ended 31 December 2018 and 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Note	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Reconciliation of carrying amount – year ended 31 December 2018						
At 1 January 2018		561,566	255,435	4,896	75,088	896,985
Additions		54	6,443	4,000	13,290	23,787
Disposals		(442)	(53)	(35)	–	(530)
Depreciation	6	(38,791)	(36,176)	(2,236)	–	(77,203)
Transfer		2,016	40,096	23	(42,135)	–
Exchange realignment		(25,751)	(15,086)	(346)	(2,997)	(44,180)
At 31 December 2018		498,652	250,659	6,302	43,246	798,859
Reconciliation of carrying amount – year ended 31 December 2017						
At 1 January 2017		518,555	203,442	4,456	54,416	780,869
Additions		–	18,133	2,246	68,928	89,307
Gain on revaluation		31,565	–	–	–	31,565
Disposals		(627)	(1,596)	31	(10)	(2,202)
Depreciation	6	(25,648)	(33,699)	(2,109)	–	(61,456)
Transfer		199	52,700	–	(52,899)	–
Exchange realignment		37,522	16,455	272	4,653	58,902
At 31 December 2017		561,566	255,435	4,896	75,088	896,985
At 31 December 2018						
At cost		–	1,376,251	31,220	74,471	1,481,942
At valuation		537,405	–	–	–	537,405
Accumulated depreciation and impairment losses		(38,753)	(1,125,592)	(24,918)	(31,225)	(1,220,488)
		498,652	250,659	6,302	43,246	798,859
At 1 January 2018						
At cost		–	1,438,523	31,839	108,195	1,578,557
At valuation		561,566	–	–	–	561,566
Accumulated depreciation and impairment losses		–	(1,183,088)	(26,943)	(33,107)	(1,243,138)
		561,566	255,435	4,896	75,088	896,985

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

Leasehold buildings

The leasehold buildings are situated on parcels of land of the Group in the PRC with remaining lease term ranging from 12 to 53 years.

At 31 December 2018, the applications for building certificates for certain leasehold buildings of the Group with a total carrying amount of HK$143,595,000 (2017: HK$166,812,000) were still in progress.

Had the Group's leasehold buildings been carried under the cost model, their carrying amount at 31 December 2018 would have been approximately HK$422,824,000 (2017: HK$471,164,000).

The Group's leasehold buildings located in Luyuan District in Changchun held by the Changchun Dihao Foodstuff Development Co., Ltd. and Changchun Dihao Crystal Sugar Industry Development Co., Ltd. (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. 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 approximately HK$31,565,000 (before deferred tax) was recognised in other comprehensive income and credited to asset revaluation reserve during the year ended 31 December 2017.

The directors were of the opinion that there were no material differences between the carrying amount and fair value of the leasehold buildings at 31 December 2018. Therefore, no revaluation was performed as at that date.

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 or a more frequent valuation is necessary. 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:				
Industrial properties	—	—	536,385	536,385
Residential properties	—	—	25,181	25,181
	—	—	561,566	561,566

During the years ended 31 December 2018 and 2017, 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)*

Fair value hierarchy *(continued)*

The movements in Level 3 fair value measurements during the year are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	561,566	518,555
Additions and transfer from construction in progress	2,070	199
Gain on revaluation	—	31,565
Disposals	(442)	(627)
Depreciation	(38,791)	(25,648)
Exchange realignment	(25,751)	37,522
At 31 December	498,652	561,566

The gain on revaluation for the year ended 31 December 2017 represents the total gain for the year included in other comprehensive income for leasehold buildings held at 31 December 2017.

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):

Valuation technique	Significant unobservable input	Industrial properties	Residential properties
DRC approach	Construction cost (Renminbi "RMB"/sq.m.)	RMB500-RMB3,600	RMB500-RMB5,200

A significant positive adjustment to the above significant unobservable input 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.

14. PREPAID LAND LEASE PAYMENTS

	Notes	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January		155,869	147,873
Amortisation	6	(7,340)	(7,048)
Exchange realignment		(10,457)	15,044
Carrying amount at 31 December		138,072	155,869
Current portion included in prepayments, deposits and other receivables	19	(7,422)	(7,870)
Non-current portion		130,650	147,999

The leasehold land is granted with remaining lease term ranging from 12 to 53 years and is situated in the PRC.

15. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost	183,538	183,538
Impairment	(183,538)	(183,538)
	–	–

16. OTHER INTANGIBLE ASSETS

	Note	Golf club membership HK$'000
Reconciliation of carrying amount – year ended 31 December 2018		
At 1 January 2018		3,243
Impairment	6	(1,539)
At 31 December 2018		1,704
Reconciliation of carrying amount – year ended 31 December 2017		
At 1 January 2017 and 31 December 2017		3,243
At 31 December 2018		
At cost		3,243
Accumulated impairment losses		(1,539)
		1,704
At 1 January 2018		
At cost		3,243
Accumulated impairment losses		—
		3,243

17. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	131,635	97,852
Finished goods	123,406	71,278
	255,041	169,130

18. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	274,285	221,907
Bills receivables	6,186	6,307
	280,471	228,214
Loss allowance	(75,747)	(91,234)
	204,724	136,980

The Group normally grants credit terms of 30 to 90 days (2017: 30 to 90 days) to established customers. The trade and bills receivables are mainly denominated in Renminbi. Ageing analysis of the trade and bills receivables at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	140,483	89,680
1 to 2 months	43,996	32,808
2 to 3 months	12,572	7,741
Over 3 months	7,673	6,751
	204,724	136,980

Information about the Group's exposure to credit risks and loss allowance for trade and bills receivables is included in note 31 to the consolidated financial statements.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Prepayments		27,233	27,757
Deposits and other debtors		5,703	3,308
PRC value-added tax ("VAT") and other tax receivables		36,124	27,077
Current portion of prepaid land lease payments	14	7,422	7,870
		76,482	66,012

Included in the balances, which are net of impairment, are individually impaired prepayments, deposits and other receivables with an aggregate gross balance of HK$19,588,000 (2017: HK$1,235,000) which are due to long outstanding and/or default of payment. The Group does not hold any collateral over these balances.

20. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	20,120	173,697
Pledged bank deposits	79,433	41,103
	99,553	214,800
Less: Pledged bank deposits for issuance of bills payable	(79,433)	(41,103)
Cash and cash equivalents	20,120	173,697

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi amounted to HK$89,764,000 (2017: HK$138,296,000). Renminbi held by subsidiaries in the PRC is not freely convertible into other currencies. However, under relevant regulations in the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi 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 are deposited with creditworthy banks with no recent history of default.

21. TRADE AND BILLS PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables		
— To third parties (note (a))	204,572	135,343
— To a subsidiary of Nongtou (note (b))	163,046	—
	367,618	135,343
Bills payables	79,339	41,103
	446,957	176,446

The Group normally obtains credit terms ranging from 30 to 90 days (2017: 30 to 90 days) from its suppliers.

Note (a): At 31 December 2018, the trade payables to third parties included balances payable to the State-Owned Supplier of HK$80 million (31 December 2017: Nil), which are unsecured and interest-bearing at 8.0% to 9.0% per annum after the credit periods lapsed.

Note (b): The trade payables to a subsidiary of Nongtou are unsecured and interest-bearing at 8.0% per annum after the credit periods lapsed.

21. TRADE AND BILLS PAYABLES *(continued)*

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:

	2018 HK$'000	2017 HK$'000
Within 1 month	209,231	59,270
1 to 2 months	67,563	4,853
2 to 3 months	2,632	3,976
Over 3 months	167,531	108,347
	446,957	176,446

22. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Payables for purchases of machinery	3,887	5,297
Customer deposits and receipts in advance (note)	72,106	84,409
VAT and other duties payable	93,307	100,478
Accrued expenses	72,282	68,248
	241,582	258,432

Note: The balance represents the contract liabilities from contracts with customers within HKFRS 15 at the end of the reporting period and the movements (excluding those arising from increases and decreases both occurred within the same year) of the contract liabilities during the year are as follows:

	2018 HK$'000
At 1 January	84,409
Recognised as revenue	(83,404)
Receipt of advances or recognition of receivables	75,540
Exchange realignment	(4,439)
At 31 December	72,106

Unsatisfied or partially unsatisfied performance obligations

All the performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2018 are part of contracts that have an original expected duration of one year or less. Given that the Group applies the practical expedient in paragraph 121(a) of HKFRS 15, the transaction price allocated to these performance obligations is not disclosed.

23. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate %	Maturity	Amount HK$'000	Effective interest rate %	Maturity	Amount HK$'000
Current						
Bank loans						
— Unsecured	3.9%-5.0%	2019	622,968	3.9%-5.2%	2018	616,626
— Secured	4.3%-8.0%	2019	203,410	4.8%-8.0%	2018	95,181
			826,378			711,807
Non-current						
Bank loans						
— Unsecured			—	4.3%	2019	108,434
— Secured	7.0%	2020	182,954	4.3%-7.0%	2019-2020	307,229
			182,954			415,663
			1,009,332			1,127,470

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	826,378	711,807
In the second year	182,954	221,687
In the third to fifth years	—	193,976
	1,009,332	1,127,470

Notes:

(a) At 31 December 2018, the Group's bank borrowings amounting to HK$386,364,000 (2017: HK$402,410,000) were secured by pledge of certain of the Group's property, plant and equipment and prepaid land lease payments amounting to HK$575,065,000 (2017: HK$626,532,000) and HK$63,446,000 (2017: HK$54,431,000), respectively.

(b) At 31 December 2018, the Group's bank borrowings amounting to HK$452,841,000 (2017: HK$239,759,000) were secured by corporate guarantee provided by GBT.

(c) At 31 December 2018, all (2017: all) of the Group's bank borrowings were denominated in Renminbi.

23. INTEREST-BEARING BANK BORROWINGS *(continued)*

Notes: *(continued)*

(d) 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. 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.

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 31 to the consolidated financial statements. At 31 December 2018, covenants relating to drawn down facilities amounting to HK$28 million (2017: HK$263 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$519 million (2017: HK$248 million).

24. DEFERRED INCOME

	Note	2018 HK$'000	2017 HK$'000
At 1 January		34,072	31,600
Amortisation	5	(190)	(184)
Exchange realignment		(1,927)	2,656
At 31 December		31,955	34,072

Deferred income represents government grants received by the Group for purchasing and 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.

25. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and deferred tax liabilities have been offset. Analysis of the deferred tax balances for financial reporting purposes is as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	(22,142)	(22,901)
Deferred tax liabilities	32,901	32,461
Deferred tax liabilities, net	10,759	9,560

25. DEFERRED TAX *(continued)*

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

	Note	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of leasehold buildings HK$'000	Total HK$'000
Deferred tax liabilities				
At 1 January 2017		10,085	12,896	22,981
Debited to profit or loss	10	312	—	312
Debited to equity		—	7,892	7,892
Exchange realignment		1,276	—	1,276
At 31 December 2017 and 1 January 2018		11,673	20,788	32,461
Debited to profit or loss	10	1,192	—	1,192
Exchange realignment		(752)	—	(752)
At 31 December 2018		12,113	20,788	32,901

	Note	Depreciation in excess of depreciation allowance HK$'000	Others HK$'000	Total HK$'000
Deferred tax assets				
At 1 January 2017		12,832	8,042	20,874
Credited (Debited) to profit or loss	10	14,883	(7,961)	6,922
Exchange realignment		(5,573)	678	(4,895)
At 31 December 2017 and 1 January 2018		22,142	759	22,901
Credited (Debited) to profit or loss	10	1,258	(716)	542
Exchange realignment		(1,258)	(43)	(1,301)
At 31 December 2018		22,142	—	22,142

The Group had accumulated tax losses arising in Hong Kong of approximately HK$47,761,000 (2017: HK$47,761,000) that were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

25. DEFERRED TAX *(continued)*

In addition, the Group had accumulated tax losses arising in the PRC of approximately HK$1,130,900,000 (2017: HK$1,194,975,000) that were available for offsetting against future taxable profits of the companies in which the losses arose. These tax losses will expire from the year ending 31 December 2019 to the year ending 31 December 2023 (2017: year ending 31 December 2018 to the year ending 31 December 2022). Furthermore, the Group had deductible temporary differences of approximately HK$416,500,000 at 31 December 2018 (2017: HK$398,000,000). 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.

Deferred tax has not been recognised for the withholding taxes and other taxes that would be payable on the unremitted earnings of certain subsidiaries totaling approximately HK$283,074,000 at 31 December 2018 (2017: HK$277,318,000). The directors consider that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

26. SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised:		
100,000,000,000 (2017: 100,000,000,000) ordinary shares of HK$0.10 each	10,000,000	10,000,000
Issued and fully paid:		
1,527,586,000 (2017: 1,527,586,000) ordinary shares of HK$0.10 each	152,759	152,759

27. FINANCIAL GUARANTEE CONTRACTS

As mentioned in note 2.2 to the consolidated financial statements, Dihao Foodstuff together with certain fellow subsidiaries of GBT have jointly provided corporate guarantees to a bank in the PRC in respect of banking facilities granted to Dajincang starting from year 2010. The maximum amount of the banking facilities was RMB2.5 billion at 31 December 2018 (2017: RMB2.5 billion). 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 Dajincang, 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.

28. COMMITMENTS

(a) Capital commitments

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Purchase or construction of property, plant and machinery	7,926	30,623

(b) Commitments under operating leases

The Group leases certain land and buildings under operating leases, which typically run for a period of three years. At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	3,355	2,484
In the second to fifth years inclusive	1,103	293
	4,458	2,777

29. OTHER CASH FLOW INFORMATION

(a) Cash generated from operations

	Notes	2018 HK$'000	2017 HK$'000
Loss before tax		(205,486)	(142,727)
Finance costs	7	74,540	49,708
Bank interest income	5	(960)	(788)
Depreciation	13	77,203	61,456
Loss on disposal of property, plant and equipment, net	6	211	699
Impairment of other intangible assets	16	1,539	—
Amortisation of prepaid land lease payments	14	7,340	7,048
Reversal of impairment of trade and bills receivables, net	31	(10,743)	(399)
Amortisation of deferred income	24	(190)	(184)
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net	6	17,691	(10,744)
Reversal of write-down of inventories, net	6	(432)	(165)
Wavier of payables	5	(1,188)	—
		(40,475)	(36,096)
Change in working capital:			
Inventories		(100,843)	(44,937)
Trade and bills receivables		(69,334)	69,399
Prepayments, deposits and other receivables		(32,769)	15,500
Trade and bills payables		306,119	22,785
Other payables and accruals		(15,004)	29,961
Cash generated from operations		47,694	56,612

29. 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.

	Due to the ultimate holding company HK$'000	Due to fellow subsidiaries HK$'000	Interest-bearing bank borrowings HK$'000	Total HK$'000
At 1 January 2018	—	126,095	1,127,470	1,253,565
Changes from financing cash flows:				
Decrease in an amount due to the ultimate holding company	(7,398)	—	—	(7,398)
Increase in amounts due to fellow subsidiaries	—	1,622	—	1,622
Proceeds from new bank loans	—	—	759,342	759,342
Repayment of bank loans	—	—	(816,095)	(816,095)
Interest paid	—	—	(57,241)	(57,241)
Total changes from financing cash flows	(7,398)	1,622	(113,994)	(119,770)
Exchange realignment	(799)	1,057	(61,385)	(61,127)
Other changes:				
Offsetting	8,197	(8,197)	—	—
Interest expenses	—	—	57,241	57,241
Total other changes	8,197	(8,197)	57,241	57,241
At 31 December 2018	—	120,577	1,009,332	1,129,909

29. OTHER CASH FLOW INFORMATION *(continued)*

(b) Changes in liabilities arising from financing activities *(continued)*

	Due to the ultimate holding company HK$'000	Due to fellow subsidiaries HK$'000	Interest-bearing bank borrowings HK$'000	Total HK$'000
At 1 January 2017	—	190,636	808,333	998,969
Changes from financing cash flows:				
Increase in an amount due to the ultimate holding company	33,610	—	—	33,610
Decrease in amounts due to fellow subsidiaries	—	(101,293)	—	(101,293)
Proceeds from new bank loans	—	—	652,644	652,644
Repayment of bank loans	—	—	(413,218)	(413,218)
Interest paid	—	—	(48,929)	(48,929)
Total changes from financing cash flows	33,610	(101,293)	190,497	122,814
Exchange realignment	1,221	1,921	79,711	82,853
Other changes:				
Offsetting	(34,831)	34,831	—	—
Interest expenses	—	—	48,929	48,929
Total other changes	(34,831)	34,831	48,929	48,929
At 31 December 2017	—	126,095	1,127,470	1,253,565

(c) Major non-cash transactions

During the years ended 31 December 2018 and 2017, amount due to the ultimate holding company and amounts due from fellow subsidiaries were assigned to or offset against amounts due to fellow subsidiaries pursuant to agreements entered into between relevant parties.

30. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year ended 31 December 2018:

(i) Transactions with related parties

	Notes	2018 HK$'000	2017 HK$'000
Purchases from fellow subsidiaries			
— Corn starch	(a)	264,078	115,966
— Lysine and other corn refined products	(a)	456	11,702
Purchases of corn kernels from Nongtou Group	(b)	245,957	17,626
Interest on trade payables to Nongtou Group	(b)	4,998	—
Reimbursement of cost of utilities provided by a fellow subsidiary	(c)	17,025	9,830
Rental expense paid to a fellow subsidiary	(d)	3,514	2,370

Notes:

(a) The Group sourced corn starch and lysine and other corn refined products from fellow subsidiaries. These purchases were made at prices based on the agreements between the parties.

(b) The Group sourced corn kernels from Nongtou Group. These purchases were made at prices based on the agreements between the parties. The trade payables to Nongtou Group are unsecured and interest bearing at 8.0% to 12.0% per annum after the credit periods lapsed.

(c) The Group used the utilities facilities provided by a fellow subsidiary. The utility costs were charged based on actual costs incurred by the fellow subsidiary.

(d) The Group leased certain land and premises from a fellow subsidiary. The rental expense was charged based on lease agreements signed between the parties.

(ii) Balances with fellow subsidiaries

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed term of repayment.

(iii) Compensation of key management personnel of the Group

The compensation of key management personnel of the Group who are directors of the Company is set out in note 8 to the consolidated financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

At 31 December 2018	**Financial assets at amortised cost** HK$'000
Assets as per consolidated statement of financial position	
Trade and bills receivables	204,724
Financial assets included in prepayments, deposits and other receivables	5,703
Pledged bank deposits	79,433
Cash and bank balances	20,120
	309,980

At 31 December 2018	**Financial liabilities at amortised cost** HK$'000
Liabilities as per consolidated statement of financial position	
Trade and bills payables	446,957
Financial liabilities included in other payables and accruals	76,169
Interest-bearing bank borrowings	1,009,332
Due to fellow subsidiaries	120,577
	1,653,035

At 31 December 2017	Loans and receivables HK$'000
Assets as per consolidated statement of financial position	
Trade and bills receivables	136,980
Financial assets included in prepayments, deposits and other receivables	3,308
Pledged bank deposits	41,103
Cash and bank balances	173,697
	355,088

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

At 31 December 2017	Financial liabilities at amortised cost HK$'000
Liabilities as per consolidated statement of financial position	
Trade and bills payables	176,446
Financial liabilities included in other payables and accruals	73,545
Interest-bearing bank borrowings	1,127,470
Due to fellow subsidiaries	126,095
	1,503,556

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 market, and the Group would refinance its borrowings at a lower cost of debt when considered appropriate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in interest rate %	**Increase/ (decrease) in loss before tax** HK$'000
2018	1/(1)	4,747/(4,902)
2017	1/(1)	3,694/(4,910)

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 (2017: 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 2017.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, pledged bank deposits, trade and bills receivables and financial assets included in prepayments, deposits and other receivables. Substantially all of the Group's cash and cash equivalents and pledged bank deposits were deposited in creditworthy global financial institutions and state-controlled financial institutions in the PRC, which management considers they are without significant credit risk.

The carrying amount of financial assets recognised on the consolidated statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

Trade and bills receivables

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. The Group normally allows credit terms of 30 to 90 days (2017: 30 to 90 days) to established customers. Overdue balances are reviewed regularly by the management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances and the trade receivables are non-interest-bearing.

At the end of the reporting period, the Group had a concentration of credit risk as 18% (2017: 26%) and 46% (2017: 50%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

The Group's customer base consists of a wide range of customers and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the year.

The information about the exposure to credit risk and ECL for trade and bills receivables using a provision matrix at 31 December 2018 is summarised below.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

At 31 December 2018

	Expected loss rate	Gross carrying amount	Loss allowance	Credit-impaired
	%	HK$'000	HK$'000	
Not past due	0.3	202,593	(689)	No
Less than 1 month past due	0.5	2,376	(13)	No
1 to 3 months past due	69.2	373	(258)	No
Over 3 months past due	99.5	75,129	(74,787)	Yes
		280,471	(75,747)	

Ageing analysis of the trade and bills receivables that are not considered to be impaired at 31 December 2017, based on past due date, is as follows:

	2017
	HK$'000
Not past due	134,805
Less than 1 month past due	644
1 to 3 months past due	1,277
Over 3 months past due	254
	136,980

Included in the Group's trade and bills receivables balance at 31 December 2017 were debtors with a carrying amount of HK$2,175,000, which were past due at 31 December 2017 but which the Group had not impaired as there had not been any significant changes in credit quality and the directors believed that the amounts would be fully receivable.

Receivables that were neither past due nor impaired at 31 December 2017 related to a wide range of customers for whom there was no history of default.

The Group does not hold any collateral over trade and bills receivables at 31 December 2018 (2017: Nil).

At 31 December 2018, the Group recognised loss allowance of HK$75,747,000 (2017: HK$91,234,000) on the trade and bills receivables. The movement in the loss allowance for trade and bills receivables during the year is summarised below. The comparative amounts represent the loss allowance for impairment losses recognised under HKAS 39.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

	Notes	2018 HK$'000	2017 HK$'000
At 1 January		91,234	84,523
Increase in allowance	6	962	1,016
Reversal of allowance	6	(11,705)	(1,415)
Exchange realignment		(4,744)	7,110
At 31 December		75,747	91,234

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.

The decrease in the loss allowance is attributable to:

(i) Reversal of allowance of HK$11,705,000 as a result of long aged trade receivables recovered during the year; and

(ii) Increase in trade receivables from customers which meet contractual cash flow obligations in a near term.

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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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 2018

	On demand HK$'000	Less than 3 months HK$'000	More than 3 months but less than 12 months HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000
Trade and bills payables	–	279,426	167,531	–	–	446,957
Financial liabilities included in other payables and accruals	76,169	–	–	–	–	76,169
Due to fellow subsidiaries	120,577	–	–	–	–	120,577
Interest-bearing bank borrowings	–	286,367	571,751	190,346	–	1,048,464
	196,746	565,793	739,282	190,346	–	1,692,167

At 31 December 2017

	On demand HK$'000	Less than 3 months HK$'000	More than 3 months but less than 12 months HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000
Trade and bills payables	–	176,446	–	–	–	176,446
Financial liabilities included in other payables and accruals	73,545	–	–	–	–	73,545
Due to fellow subsidiaries	126,095	–	–	–	–	126,095
Interest-bearing bank borrowings	–	64,408	690,137	237,076	202,281	1,193,902
	199,640	240,854	690,137	237,076	202,281	1,569,988

In addition, as disclosed in note 27 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 2018 (2017: RMB2.5 billion).

32. 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 2018 and 2017.

33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Registered/ paid up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Global Sweeteners (HK) Limited	Hong Kong	HK$1,000	100	General administration
Indirectly held:				
Changchun Dihao Foodstuff Development Co., Ltd.*	The PRC	Registered Capital RMB325,100,000 (Paid up: RMB192,133,068)	100	Manufacture and sale of corn sweeteners
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*	The PRC	US$62,504,000	100	Manufacture and sale of corn refined products
Jinzhou Dacheng Food Development Co., Ltd.*	The PRC	US$7,770,000	100	Manufacture and sale of corn sweeteners
Shanghai Hao Cheng Food Development Co., Ltd.*	The PRC	US$9,668,000	100	Manufacture and sale of corn sweeteners

* Wholly-foreign-owned enterprise

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.

34. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2017 HK$'000
Non-current asset			
Investments in subsidiaries		–	–
		–	–
Current assets			
Due from subsidiaries		271,732	365,673
Prepayments, deposits and other receivables		371	235
Cash and cash equivalents		6,104	6,280
		278,207	372,188
Current liabilities			
Due to subsidiaries		411,921	429,244
Other payables and accruals		1,934	3,059
Financial guarantee contracts		77,090	62,963
		490,945	495,266
Net current liabilities		(212,738)	(123,078)
Total assets less current liabilities		(212,738)	(123,078)
Non-current liability			
Financial guarantee contracts		100,590	–
		100,590	–
NET LIABILITIES		(313,328)	(123,078)
Capital and reserves			
Share capital		152,759	152,759
Reserves	34(a)	(466,087)	(275,837)
TOTAL DEFICIT		(313,328)	(123,078)

This statement of financial position was approved and authorised for issue by the board of directors on 26 March 2019 and signed on its behalf by

Zhang Zihua
Director

Fong Wai Ho
Director

34. THE COMPANY'S STATEMENT OF FINANCIAL POSITION *(continued)*

(a) Reserves

	Contributed surplus HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	491,695	1,074,879	(1,707,779)	(141,205)
Loss and total comprehensive loss for the year	—	—	(134,632)	(134,632)
At 31 December 2017	491,695	1,074,879	(1,842,411)	(275,837)
Loss and total comprehensive loss for the year	—	—	(190,250)	(190,250)
At 31 December 2018	491,695	1,074,879	(2,032,661)	(466,087)

Note: The contributed surplus 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.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for the issue by the board of directors on 26 March 2019.

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 (and as restated and reclassified) from the published audited consolidated financial statements is set out below.

	Year ended 31 December				
	2018* HK$'000	2017# HK$'000	2016# HK$'000	2015# HK$'000	2014# HK$'000
RESULTS					
REVENUE	1,961,004	1,395,090	995,218	1,648,981	2,919,716
Cost of sales	(1,758,173)	(1,240,651)	(890,960)	(1,568,695)	(3,109,569)
Gross profit (loss)	202,831	154,439	104,258	80,286	(189,853)
Other income and gains	20,374	21,126	153,726	38,029	130,830
Selling and distribution costs	(188,649)	(134,735)	(83,982)	(87,702)	(213,562)
Administrative expenses	(109,323)	(102,825)	(115,329)	(100,640)	(108,610)
Other expenses	(56,179)	(31,024)	(264,700)	(611,821)	(621,620)
Finance costs	(74,540)	(49,708)	(48,451)	(65,360)	(79,438)
LOSS BEFORE TAX	(205,486)	(142,727)	(254,478)	(747,208)	(1,082,253)
Income tax (expense) credit	(3,010)	2,469	92,120	(6,559)	(10,983)
LOSS FOR THE YEAR	(208,496)	(140,258)	(162,358)	(753,767)	(1,093,236)
Attributable to:					
Owners of the Company	(208,496)	(140,258)	(162,358)	(753,454)	(1,093,115)
Non-controlling interests	—	—	—	(313)	(121)
	(208,496)	(140,258)	(162,358)	(753,767)	(1,093,236)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
TOTAL ASSETS	1,572,267	1,635,457	1,412,771	1,617,472	2,728,452
TOTAL LIABILITIES	(1,885,486)	(1,758,430)	(1,400,791)	(1,438,985)	(1,804,552)
NON-CONTROLLING INTERESTS	5,931	6,303	5,793	6,225	6,237
	(307,288)	(116,670)	17,773	184,712	930,137

* Details of the disclaimer of audit opinion are set out in the independent auditor's report on page 50 to page 52.

\# Disclaimer of audit opinion was issued in respect of the Group's consolidated financial statements for the years ended 31 December 2017, 2016, 2015 and 2014. Please refer to the Company's 2017, 2016, 2015 and 2014 annual reports for details.