2018
ANNUAL REPORT

GLOBAL Bio-Chem Technology Group Company Limited

大成生化科技集團有限公司*

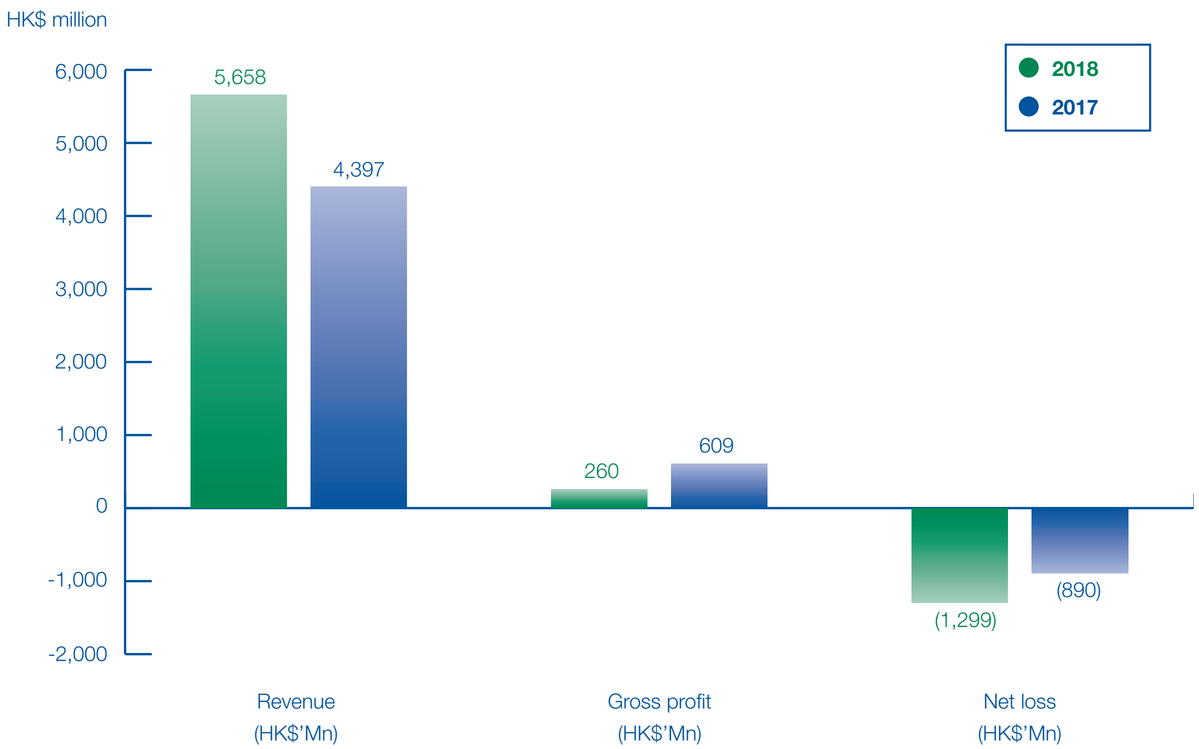
Stock Code: 00809

* For identification purpose only

Contents

Financial Highlights

FINANCIAL HIGHLIGHTS	2018	2017	Change %
Revenue (HK$'Mn)	**5,658**	4,397	28.7
Gross profit (HK$'Mn)	**260**	609	(57.4)
Loss for the year (HK$'Mn)	**(1,299)**	(890)	N/A
Loss attributable to owners of the Company (HK$'Mn)	**(1,222)**	(837)	N/A
Basic loss per share (HK cents)	**(19.1)**	(13.0)	N/A
Proposed final dividend per share (HK cents)	—	—	N/A



Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Yuan Weisen *(Chairman)*
Mr. Zhang Zihua
Mr. Liu Shuhang
(Appointed on 26 January 2018)

Non-executive Director
Ms. Liang Wanpeng
(Appointed on 21 December 2018)

Independent non-executive Directors
Mr. Ng Kwok Pong
Mr. Yeung Kit Lam
Ms. Chiu Lai Ling, Shirley
(Resigned on 1 October 2018)
Mr. Zhao Jin
(Appointed on 21 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)

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2202-04, 22/F
Tower 6, The Gateway
9 Canton Road
Tsimshatsui
Kowloon
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 BANKERS

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

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

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

The Export-Import Bank of China Jilin Province Branch
Floor 19-21, Honghui International Square, No. 3299
Renmin Road, Chaoyang District,
Changchun, Jilin Province
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.globalbiochem.com

STOCK CODE

00809

Message to Shareholders

Dear Shareholders,

Looking back at 2018, hit by the rising raw material costs and reduced selling price and sales volume of the lysine product series as a result of the outbreak of the African Swine Flu ("ASF"), the Group's business faced severe challenges. These coupled with high finance costs and selling expenses had led to a further widening of the Group's net loss for the year. In order to ease the financial pressure faced by the Group, the management team continued to negotiate with creditor banks and the local government to seek solutions to the high debt level of the Group.

BUSINESS REVIEW

The Group's overall revenue for the year under review increased by approximately 30% from that of the previous year to approximately HK$5.6 billion. The rise in revenue was mainly attributable to the increase in the capacity utilisation rate of the three production bases of the Group — the Harbin production facilities resumed operation in December 2017 and maintained smooth operation throughout 2018, coupled with the increase in production volume of the Jinzhou production facilities during the year under review, the output of upstream products recorded a relatively large increase. On the other hand, the capacity utilisation of the sweeteners production facilities in Xinglongshan site had been enhanced upon the completion of relocation, resulting in an 18% increase in the sales volume of sweeteners.

During the year under review, the Group recorded more than one million metric tonnes of sales volume of its upstream corn refined products. Although the selling price of corn starch increased by 18% year-on-year, the rate of increase in the corn price was higher than that of the increase in the price of corn starch; this coupled with the decrease in the price of other corn refined products as a result of the depressed husbandry industry had put the profitability of the upstream business under pressure.

During the year under review, affected by the ASF, feed consumption decreased significantly, causing domestic demand for lysine to soften. Apart from the negative effect posed by the poor market sentiment of the feed industry, the Group's tight liquidity also had an impact on the performance of the lysine segment. The tight cash flow had limited the production volume of lysine products, leading to rising unit cost of the product. On the other hand, the imbalance between market supply and demand had led to fluctuations in the selling price of lysine products and further eroded the gross profit of this business segment. As such, the Group's lysine business did not record substantial gross profit during the year under review.

On the other hand, with the completion of the relocation and the commencement of the corn sweeteners production facilities in the Xinglongshan site during the year under review, the sales volume and revenue of the Group's corn sweeteners segment had increased, leading to an increase in gross profit.

In recent years, the Group's businesses had been plagued by high debt level and finance costs. The Group's controlling shareholder, Jilin Province Agricultural Investment Group Co., Ltd.(吉林省農業投資集團有限公司)("Nongtou"), continued to provide support through corn procurement arrangement and financial support, which partially eased the financial pressure of the Group. The management of the Group understood that it was necessary to seek ultimate solutions that could fix the Group's overall debt position, in order to get its business back on track. During the year under review, the Company and its subsidiary GSH continued to negotiate with the creditor banks to seek solutions to the problems in relation to the Group's high debt level and to release the Group from its obligations under the financial guarantee contracts.

During the year under review, the Group had submitted the further revised debt-equity swap proposal ("Further Revised Debt-Equity Swap Proposal") to the creditor banks, proposing the conversion of a portion of the debts owed by the Group and Dajincang to the banks into equity to lower the gearing ratios of the Group and Dajincang; and at the same time, the strengthening of the capital of the Group through the introduction of strategic investors for the future development of the Group's business. Although the direction of the proposal had been acknowledged by the relevant parties and such proposal had been submitted to the People's Government of Jilin Province and the headquarters of the creditor banks for consideration, the previous supplier loan agreements expired in December 2018, and the Group had entered into the New Supplier Guarantee for the benefit of Dajincang for the new supplier loan agreements to refinance the previous supplier loan in December 2018.

In addition, in order to further improve the Group's financial position, the Group completed the sale of its office in Admiralty, Hong Kong in 2018 for a consideration of HK$184,849,800. The proceeds from the disposal were mainly used to provide additional working capital for the Group, thus bringing positive impact on the Group's cash flow position.

OUTLOOK

The global corn production output in 2018/19 is expected to increase slightly to 1,100 million metric tonnes. It is also expected that corn production volume in China will also increase in 2018/19. Since 2016, China's corn price has gradually become market-oriented under the government's guidance. Corn price is expected to stabilise following the increase in output and destocking. Ample supply of corn is expected to have a positive impact on the Group's upstream corn refinery business.

On the other hand, with the increasing popularity of corn-based ethanol in the US and China in recent years, corn consumption is expected to increase. At the same time, the uncertainties arising from the China-US trade dispute might have a direct impact on the supply of soybeans in China. Industry predicts that some of the arable land originally reserved for corn plantation may be switched to soybeans, which may pose uncertainty in respect of the stable supply of corn. The Group will closely monitor market development and will take initiative to secure raw material supply to ensure smooth production and operation.

The Group's main product, lysine, still faces severe market challenges. As the domestic swine population had significantly reduced and the impact of the ASF is still lingering, the demand for feed additive such as lysine has been weakened. In 2019, the global lysine production capacity is estimated to be approximately 4.95 million metric tonnes, of which Chinese manufacturers accounted for 70%. It is still unknown as to when the industry's destocking will end; as such, imbalance between supply and demand in the lysine market is expected to continue in 2019, with slightly weakened price.

In 2019, the Group will focus on maintaining capacity utilisation of each production base in order to improve operational efficiency and reduce cash outflow.

Improving the financial position and cash flow of the Group is also the top priority for our management team. We will continue our active negotiations with local government to speed up the disposal of land as well as the creditor banks in respect of the Group's debt restructuring and exploring alternative ways for alleviating the pressure of cash flow, such as altering the way of payment of interest, which includes the above-mentioned Further Revised Debt-Equity Swap Proposal and the lowering of debt ratio. At the same time, we are actively studying the Group's business layout and the possibility of equity re-structuring, and hope to respond to market changes more effectively through business restructuring.

Message to Shareholders

The Group has confronted various challenges from the market, operations and finance in the past few years. In the face of all these difficulties, the Group still strove to overcome them. I would like to express my heartfelt gratitude to our employees at all levels. At the same time, I am also thankful to the Company's shareholders, business partners and banks for their trust and support to the management team over the years. We strongly believe that the Group is gradually getting past of tough situations. Although the process is difficult and long, we will unswervingly lead the Group towards a bright future.

Chairman
Yuan Weisen

26 March 2019

Management Discussion and Analysis

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

BUSINESS REVIEW

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

During the year ended 31 December 2018 (the "Year"), despite the continuous effort of the state government to stimulate economic growth of the People's Republic of China ("PRC" or "Mainland China"), the trade war between the PRC and the US added uncertainties to the overall economic environment in the PRC. Economic growth rate in the PRC slowed down to 28-year low at 6.6% in 2018. On the other hand, outbreak of the African Swine Flu ("ASF") across the PRC had posed impact on the feed industry during the Year. As such, the performance of the Group for the Year was under pressure.

Global corn production for year 2018/19 is estimated at 1,100 million metric tonnes ("MT") (2017/18: 1,076 million MT), according to the estimates from the United States Department of Agriculture. As for corn consumption, demand for corn has been strong as driven by corn-based ethanol in the US as well as in the PRC. On the other hand, due to the trade war, the PRC has reduced the purchase of US corn significantly and bought from Latin American countries instead. However, as the production output of major corn producing countries in Latin America such as Brazil and Argentina dropped, the supply of corn for export markets has tightened up. Consequently, the international corn price was driven up 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, corn harvest in 2018/19 produced approximately 257 million MT (2017/18: approximately 259 million MT). Consumption volume in 2018 was approximately 263 million MT. As a result, domestic corn price increased by 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 of 2019/20 is expected to increase. Since the abolition of the state policy of temporary corn purchase and storage 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 outlook on the upstream corn refinery industry is prudently optimistic. As for feed related industry such as the Group's other corn refined products and amino acids, their performances will depend on the government's control over the outbreak of the ASF and the macro economic environment going forward.

With respect to the Group's lysine business, the outbreak of the ASF across the country had a great impact on the husbandry industry, especially in the second half of the Year. As a huge number of swine were slaughtered and quarantined to control the spread of the ASF, the demand for lysine products reduced significantly. In addition, the Russian ban on the import of lysine products from various manufacturers in the PRC has intensified domestic competition. The overall utilisation rate of the lysine manufacturers in the PRC was kept low during the Year. During the Year, lysine prices were maintained at a range of RMB8,000 to RMB10,000 per MT. The increased corn cost has also posed pressure on the profit margins of the Group's amino acid products. In light of the challenging market sentiment, the management has been optimising the facility utilisation in response to market changes during the Year. Despite this, the gross profit of the Group's lysine segment was squeezed to approximately HK$30.1 million for the Year (2017: HK$361.5 million).

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 areas. 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 the year 2019/20 which may give rise to a sugar deficit of approximately 2 million MT for the year 2019/20, this may help relieve the pressure from 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 has become one of the references for the pricing 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 sweetener products remained relatively stable during the Year.

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

The operating environment has been challenging during the Year. The Group will continue to strengthen its market position with its brand name and customer relationship management, further improve cost effectiveness through continuous research and development efforts, and at the same time, optimise utilisation rate to achieve operational efficiency in response to market moves. Internally, the Group is backed by its indirect major shareholder with state-owned enterprise background. Leveraging on the synergies as a result of the introduction and participation of the resourceful shareholder, the Group has been well-supported with strong financial support, enhanced relationship with bankers, favourable government policies and management capabilities.

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 as detailed in the 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 interim report for the six months ended 30 June 2018 ("2018 Interim Report"), the management of the Company wishes to provide the latest update on the relevant remedial measures taken or to be taken as follows, which have been considered, recommended and agreed by the audit committee of the Company ("Audit Committee") after its critical review of the management's position. In addition, the Company's 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 contracts

As detailed in the 2017 Annual Report, the previous supplier guarantees contracts ("Previous Supplier Guarantees") given by members of the Group for the benefit of Changchun Dajincang Corn Procurement Co., Ltd.（長春大金倉玉米收儲有限公司）("Dajincang") were not recognised in the Group's consolidated financial statements for the year ended 31 December 2017 because the professional valuer could not proceed with the valuation, as the Company was unable to obtain reliable financial information of Dajincang for 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, the Company and the valuer were not able to conduct a valuation of the Previous Supplier Guarantees for financial reporting purpose.

As disclosed in the joint announcement of the Company and Global Sweeteners Holdings Limited ("GSH", together with its subsidiaries, the "GSH Group") dated 6 November 2018 and the circular of the Company dated 3 December 2018, the term of the loan ("Previous Supplier Loan") advanced by Bank of China Weifeng International Branch（中國銀行股份有限公司偉峰國際支行）("BOC") to Dajincang under certain loan agreements entered into between Dajincang and BOC ("Previous Supplier Loan Agreements") with an aggregate principal amount of RMB2.49 billion had 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 all indebtedness due and owing to BOC ("New Supplier Loan"). As a condition to the New Supplier Loan, new supplier guarantees ("New Supplier Guarantees") to be granted by certain subsidiaries of the Company 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 paid HK$105.2 million (2017: HK$154.9 million) for the repayment of finance costs to BOC pursuant to the Previous Supplier Guarantees, which was included in other expenses for the Year.

During the Year, the Group has continued to negotiate with BOC to release the Group from the New Supplier Guarantees 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 New Supplier Guarantees as at the date of this report. Nevertheless, the Group will continue to find solutions to release the Group from its obligations under the New Supplier Guarantees.

As disclosed in the 2018 Interim Report, Mr. Yuan Weisen, the chairman of the Company, met with the representatives of BOC on behalf of the Group on 26 March 2018, and it was proposed that the Group 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 and BOC continued and further revised versions of the revised 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 Company 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 New Supplier Guarantees, such as the option to include the indebtedness of Dajincang in the debt-equity swap proposal. Subsequently, the further revised debt-equity swap proposal ("Further Revised Debt-Equity Swap Proposal") was submitted by the 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 and Dajincang and the introduction of strategic investor(s) in order to strengthen the capital of the 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 point (a) in note 2.2 to the consolidated financial statements.

2. Material uncertainty related to going concern

As detailed in the 2017 Annual Report, the auditor has raised fundamental uncertainties relating to the going concern of the Group, save as the remedial actions disclosed in the 2017 Annual Report, the management has taken and will take steps as outlined in note 2.2 to the consolidated financial statements to improve the Group's financial position.

Dependent on the successful and favourable outcomes of the steps being taken as described in note 2.2 to the consolidated financial statements, the board (the "Board") of directors (the "Directors") of Company, 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. Please refer to note 2.2 to the consolidated financial statements for details. In addition, in relation to financial support from the indirect major shareholder, 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 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.

3. Prepayments, deposits and other receivables

As detailed in the 2017 Annual Report, the Group shall receive an aggregate compensation of RMB719.0 million from the Changchun Land Reserve Centre(長春市土地儲備中心)("Land Reserve Centre") for the resumption of certain buildings, machineries and fixtures erected on a piece of land in Changchun, the PRC. As at 31 December 2018, a receivable from the Land Reserve Centre amounting to RMB400.0 million was still outstanding. The auditor was unable to obtain sufficient appropriate audit evidence on the recoverability of the receivable. As such, the auditor was unable to determine whether any adjustments to the receivable as at 31 December 2018 were necessary.

Based on the understanding of the management of the Company, the outstanding receivable of RMB400.0 million is recoverable but is subject to the completion of sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the buildings erected thereon (the "Relevant Properties") with the potential purchaser ("Potential Purchaser"), which is a municipal government-owned enterprise, as the Potential Purchaser shall facilitate the repayment of the receivable of RMB400.0 million. As such, the management of the Company has been actively negotiating with the Potential Purchaser in respect of the sale and purchase of the Relevant Properties including the arrangement of the repayment of the receivable of RMB400.0 million. In addition, during the Year, the Group has received an official document dated 28 April 2018 from the Changchun Safeguard Housing Project Leading Group（長春市保障性安居工程領導小組）in which the Relevant Properties have been confirmed as part of the subject properties for redevelopment under the PRC's Slum Redevelopment Policy. Such policy is expected to speed up the process of the disposal of the Relevant Properties through shortened procedures and exemption of certain taxes.

In addition, the Group has received a land resumption prepayment in the amount of approximately RMB197.0 million from the Potential Purchaser in June 2018, which was paid via the Changchun Municipal Government, to secure the disposal of the Relevant Properties. The Group and the municipal government have jointly engaged a professional valuer to conduct the valuation of the Relevant Properties.

On 27 September 2018, the Changchun Safeguard Housing Project Leading Group held another meeting in which the site location and area of the Relevant Properties had been confirmed. As at the date of this report, the valuation for the Relevant Properties is still on-going. The Group is currently awaiting for an execution notice for the redevelopment under the PRC's Slum Redevelopment Policy granted by the Changchun Municipal Government. Depending on the availability of such execution notice and the agreement on the result of the valuation among the parties, it is currently expected that the auction for a portion of the Relevant Properties will take place in 2019.

Upon the materialisation of the disposal of the Relevant Properties to the Potential Purchaser, it is expected that the outstanding receivable of RMB400.0 million will be recovered accordingly.

4. Other payables and accruals

As detailed in the 2017 Annual Report, the Potential Purchaser agreed to advance funding to facilitate the relocation of the Group's production facilities, which was paid via the Changchun Municipal Government according to the progress of the relocation and such advance payment in aggregate of RMB377.0 million was received by the Group in 2015 and 2018 from the Changchun Municipal Government directly. Such amount would be deducted from the proceeds of the sale of Relevant Properties subsequent to the completion of the sale. The amount was recorded as other payables and accruals in the consolidated financial statements of the Group in 2015. The auditor has arranged confirmation in order to obtain sufficient appropriate audit evidence to verify the balance of the advance payment and the management of the Company had also helped follow up on the return of the confirmation. However, the auditor was unable to obtain direct confirmation from the Potential Purchaser or other sufficient appropriate audit evidence to verify the balance of the advance payment at 31 December 2018.

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

Management Discussion and Analysis

FINANCIAL PERFORMANCE

The consolidated revenue of the Group increased by approximately 28.7% to approximately HK$5,657.7 million (2017: HK$4,397.0 million) during the Year, which was mainly attributable to the increase in sales volume by 33.5% as a result of the resumption of Harbin production facilities since the end of 2017 and the completion of relocation and commencement of the sweeteners production facilities in the Xinglongshan site. However, 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 73.1% to approximately HK$38.3 million (2017: HK$142.4 million). On the other hand, the Group's purchase price of corn kernels increased by 31.6% during the Year. The combined effect of the above has driven up the average cost of sales of the upstream products and amino acid products by 17.3% and 24.5% respectively, while the average selling price of the Group's upstream products and amino acids increased by only 10.3% and 4.8% respectively during the Year.

As a result, the Group's gross profit and gross profit margin decreased by 57.4% and 9.3 percentage point respectively to approximately HK$259.7 million (2017: HK$609.0 million) and 4.6% (2017: 13.9%). Together with the significant increase in selling expenses and high debt level of the Group, the Group recorded a net loss of HK$1,299.2 million (2017: HK$890.3 million) and LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) of HK$299.1 million (2017: HK$174.6 million) during the Year. To improve the financial performance and financial position of the Group, the management focuses its efforts on 1) accelerating the relocation of the production facilities from Luyuan District, Changchun to the Xinglongshan site in order to free up the land for disposal and to optimise operational efficiency in the Xinglongshan site; 2) actively negotiating with banks on the debt-equity swap proposal and other alternatives to lower the debt level of the Group; and 3) ensuring a stable supply of corn kernels through the connections of Nongtou by entering into the corn procurement contracts.

Upstream products

(Revenue: HK$2,710.5 million (2017: HK$1,476.9 million))
(Gross profit: HK$43.3 million (2017: HK$109.8 million))

During the Year, the revenue of the Group's upstream business increased by 83.5% to approximately HK$2,710.5 million (2017: HK$1,476.9 million) as a result of resumption of upstream corn-refinery in Harbin since the end of 2017. On the other hand, the increase in the price of corn kernels by 31.6% and the changes in the corn procurement subsidy programme during the Year have raised the Group's cost of sales of the upstream products substantially. As a result, the gross profit of the Group's upstream business for the Year was squeezed to approximately HK$43.3 million (2017: HK$109.8 million).

Sales volume of corn starch and other corn refined products were approximately 687,000 MT (2017: 363,000 MT) and 471,000 MT (2017: 333,000 MT) respectively. Internal consumption of corn starch was approximately 88,000 MT (2017: 56,000 MT), which was mainly used as raw material for the Group's downstream production.

Due to the increase in the cost of corn kernels, the cost of sales per MT of corn starch and other corn refined products increased by 19.6% and 15.7% respectively. During the Year, the average selling price of corn starch increased by 18.4%. As a result, the gross profit margin of corn starch segment slightly decreased to 12.3% (2017:13.1%). However, as for other corn refined products, the unfavourable market condition has dragged down the average selling price by 3.2% during the Year. Consequently, the other corn refined products segment recorded a gross loss margin of 18.5% (2017: gross profit margin: 0.8%).

Amino acids

(Revenue: HK$1,794.9 million (2017: HK$2,101.5 million))
(Gross profit: HK$30.1 million (2017: HK$361.5 million))

The amino acids segment consists of lysine, protein lysine and threonine products. During the Year, the amino acids segment recorded a revenue of approximately HK$1,794.9 million (2017: HK$2,101.5 million), representing 31.7% (2017: 47.8%) of the Group's revenue. Due to the impact of the ASF, the sales volume of amino acids decreased by 69,000 MT to 303,000 MT (2017: 372,000 MT), and the average selling price of amino acids was under pressure. Along with the cost pressure from the upstream segment, the gross profit of amino acids segment was squeezed significantly to approximately HK$30.1 million (2017: HK$361.5 million), with a gross profit margin of 1.7% (2017: 17.2%) during the Year. Since it is expected that the effect of the ASF will linger for a while, the outlook on feed related industry will be challenging going forward. Based on industry estimates, the consumption of soybean meal by swine husbandry sector has dropped by 12% in two consecutive months since November 2018, such decrease was further accelerated to 15%-20% in February 2019 – indicating a decreased swine population by at least 30% in 2019. While the global trade war will continue to add uncertainty to the global and domestic demand for feed and meat products, the Group's research and development team will strive to dedicate its effort to lower production cost, at the same time proactively look for opportunities to develop other amino acid products complementary to the current product mix of the Group and to cater to different types of animals. The management believes this will provide flexibility and alternatives to current production facilities to enable the Group to respond to market changes, and at the same time, to offer more choices and better services to its customers.

Corn sweeteners

(Revenue: HK$1,121.1 million (2017: HK$810.5 million))
(Gross profit: HK$170.6 million (2017: HK$130.1 million))

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

During the Year, with the completion of relocation and commencement of the sweetener production facilities in the Xinglongshan site, the sales volume of corn sweeteners increased by 18.5% to approximately 372,000 MT (2017: 314,000 MT), with revenue increased by 38.3% to approximately HK$1,121.1 million (2017: HK$810.5 million). However, as the cost pressure from the upstream segment passed on to the downstream operation, the gross profit margin of the corn sweeteners segment dropped by 0.9 percentage point to approximately 15.2% (2017: 16.1%). Nevertheless, due to the increased sales volume, the gross profit of corn sweeteners increased by 31.1% to approximately HK$170.6 million (2017: HK$130.1 million) during the Year.

Despite sugar price continued to drop during the Year, the corn sweeteners business is expected to remain stable with stable demand from customers. As the macro economic environment is expected to be challenging in 2019, the Group will closely monitor market movements and adjust its production volume and product mix to cater to customer needs.

Polyol chemicals

(Revenue: HK$31.2 million (2017: HK$8.1 million))
(Gross profit: HK$15.7 million (2017: HK$7.6 million))

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

During the Year, due to the increase in demand for anti-freeze products, the revenue of polyol chemicals segment increased by 285.2% to approximately HK$31.2 million (2017: HK$8.1 million). Although substantial provision in relation to the closing inventories of polyol chemicals has been made in previous years, the polyol inventory kept in the Group's storage over the years required additional processing in order to revive them to saleable condition. During the Year, the polyol chemicals segment recorded a gross profit of approximately HK$15.7 million (2017: HK$7.6 million) and the gross profit margin decreased to 50.3% (2017: 93.8%) as additional cost was incurred for processing.

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

Export sales

During the Year, export sales accounted for 20.8% (2017: 26.2%) of the Group's total revenue. The export sales of upstream products and corn sweeteners increased by 70.2% and 311.6% to approximately HK$269.5 million (2017: HK$158.3 million) and HK$49.8 million (2017: HK$12.1 million) respectively during the Year. Such increase was attributable to the increase in export sales volume of upstream products and corn sweeteners by 46.7% and 220.0% to approximately 132,000 MT (2017: 90,000 MT) and 16,000 MT (2017: 5,000 MT) respectively. As for the amino acid products, since the outbreak of the ASF had an impact on the domestic market, most of the lysine manufacturers have put more effort in exploring the overseas market. As a result, competition was keen in the overseas market. Consequently, the export sales of amino acids decreased by 12.6% to approximately HK$857.7 million (2017: HK$980.9 million) during the Year, which was mainly attributable to the decrease in export volume. No export sales of polyol chemicals was recorded during the Year (2017: HK$0.1 million).

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

Other income and gains

During the Year, other income and gains increased by 61.8% to approximately HK$321.6 million (2017: HK$198.8 million). Such increase was mainly attributable to the increase in gain on disposal of Hong Kong office, which amounted to approximately HK$163.4 million.

Selling and distribution costs

During the Year, the selling and distribution costs increased by 46.7% to approximately HK$584.1 million (2017: HK$398.2 million), accounting for 10.3% (2017: 9.1%) of the Group's revenue. Such increase was mainly attributable to the increase in total sales volume by 33.5% as a result of the resumption of production in the Harbin site and the commencement of the sweeteners production facilities in the Xinglongshan site.

Administrative expenses

During the Year, administrative expenses increased by 4.7% to approximately HK$439.2 million (2017: HK$419.5 million), representing 7.8% (2017: 9.5%) of the Group's revenue. As revaluation work has been done on buildings of the Group for administrative use in the PRC at the end of 2017 where value of these buildings have appreciated, additional depreciation expenses were recognised during the Year.

Other expenses

During the Year, other expenses decreased by 38.4% to HK$360.1 million (2017: HK$584.4 million). These expenses mainly consists of expenses in relation to idle capacity of certain production facilities of the Group which amounted to HK$179.7 million, impairment of prepayments, deposits and other receivables of HK$26.2 million and payment of HK$105.2 million for the repayment of finance costs to BOC pursuant to the Previous Supplier Guarantees. The decrease in other expenses was mainly attributable to certain one-off expenses in 2017 including impairment of property, plant and equipment in certain PRC subsidiaries amounted to HK$134.9 million.

Finance costs

During the Year, finance costs of the Group increased by 24.3% to approximately HK$565.0 million (2017: HK$454.7 million), which was mainly attributable to the increase in interest on payables to suppliers amounted to HK$84.7 million (2017: HK$30.6 million).

Income tax credit

Due to the reversal of a provision for tax exposure for a subsidiary in Germany of approximately HK$70.9 million during the Year (2017: Nil) and certain subsidiaries in the PRC generated net profit so a PRC enterprise income tax of approximately HK$2.3 million (2017: HK$4.1 million) was recognised. As a result, the Group recorded income tax credit of approximately HK$67.9 million (2017: HK$158.8 million) during the Year.

Loss shared by non-controlling shareholders

During the Year, GSH and other non-wholly-owned subsidiary recorded a loss of approximately HK$199.5 million (2017: HK$169.1 million), leading to loss shared by the non-controlling interests amounted to approximately HK$76.9 million (2017: HK$52.8 million).

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

The total borrowings as at 31 December 2018 decreased by approximately HK$419.6 million to approximately HK$7,998.0 million (31 December 2017: HK$8,417.6 million). The change in total borrowings included a decrease of approximately HK$513.5 million as a result of exchange rate adjustment as at 31 December 2018. On the other hand, the cash and bank balances and pledged bank deposits as at 31 December 2018 decreased by approximately HK$371.6 million to approximately HK$339.0 million (31 December 2017: HK$710.6 million). As a result, the net borrowings decreased only slightly to approximately HK$7,659.0 million (31 December 2017: HK$7,707.0 million).

Structure of interest-bearing borrowings

As at 31 December 2018, the Group's interest-bearing borrowings amounted to approximately HK$7,998.0 million (31 December 2017: HK$8,417.6 million), all of the interest-bearing borrowings were denominated in Renminbi ("RMB") (2017: approximately 0.2% were denominated in Hong Kong dollars and 99.8% were denominated in Renminbi). The average interest rate during the Year was approximately 6.2% (2017: 5.0%).

The percentage of interest-bearing borrowing wholly repayable within one year and in the second to the fifth years were 76.6% and 23.4% (31 December 2017: 57.8% and 42.2%), respectively. As at 31 December 2018, interest-bearing bank and other borrowings amounted to approximately RMB453.0 million (31 December 2017: RMB449.0 million) have been charged at fixed interest rates ranging from 6.0% to 13.6% (31 December 2017: 3.9% to 8.0%) for terms from one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings are charged with reference to floating interest rate.

Convertible bonds

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

At 31 December 2018, the Convertible Bonds was divided into liability component and equity component which amounted to HK$971.8 million and HK$290.6 million (31 December 2017: HK$913.1 million and HK$290.6 million) respectively and effective imputed interest of HK$58.7 million (2017: HK$55.2 million) was charged during the Year.

Turnover days, liquidity ratios and gearing ratios

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. During the Year, trade receivables turnover days decreased to approximately 37 days (31 December 2017: 43 days) due to the strengthened control on credit terms. Meanwhile, the trade payables turnover days decreased to approximately 129 days (31 December 2017: 154 days) during the Year, as the Group has been actively negotiating with creditors on repayment plans mutually-agreed among the parties. As the Group's inventory increased by 25.8% to HK$745.5 million (31 December 2017: HK$592.5 million), the inventory turnover days decreased to 50 days (31 December 2017: 57 days).

As at 31 December 2018, the current ratio of the Group remained at 0.3 (31 December 2017: 0.3) and the quick ratio decreased to 0.2 (31 December 2017: 0.3), which was mainly due to the increase in current portion of interest bearing bank and other borrowings by approximately HK$1,265.6 million. The Group recorded a net loss of approximately HK$1,299.2 million (2017: HK$890.3 million) during the Year leading to the recorded net liabilities value of approximately HK$3,570.5 million (31 December 2017: HK$2,466.5 million). As a result, gearing ratio in terms of debts (i.e. total interest-bearing bank and other borrowings) to total deficit and debts (i.e. aggregate total of shareholders deficit, non-controlling interests and total interest-bearing bank and other borrowings) was 180.6% (31 December 2017: 141.4%). To improve the financial position of the Group, the Company has adopted several strategic measures as mentioned in note 2.2 to the consolidated financial statements.

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 20.8% of the Group's revenue in which most of these transactions were denominated in US Dollars. The Directors have been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi and the Directors consider that there is no material unfavourable exposure to foreign exchange fluctuation of the Group. Therefore, the Group does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. However, the Group will constantly review the economic situation, development of the business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in the future as and when necessary.

LITIGATIONS

Litigation in relation to dispute on the interests in the Company

During the Year, the Company was a defendant in a high court action in Hong Kong. A writ dated 28 November 2017 was issued by the Plaintiff and a statement of claim was filed on 8 December 2017 (the "Claim"). The Claim relates to, among others, a document dated 29 November 2011 alleged by the Plaintiff to have been signed by and on behalf of the Company. The Plaintiff alleged that according to the said document, the Plaintiff should be entitled to certain interest in the Company's shares. The Plaintiff has claimed for damages in the amount of approximately HK$109.4 million, together with loss of dividends and interest in respect thereof, as well as costs and other relief. The Company applied for a striking out application of the Claim. A hearing session took place on 1 November 2018 and the court has granted the Company its application to strike out the Plaintiff's claim on 30 November 2018 and a court order against the Plaintiff to repay the Company's legal costs. No appeal application had been made by the Plaintiff and as such, the Claim has been finally struck out.

Save as disclosed above, as of the date of this report, there was no litigation or claims of material importance pending or threatened against any member of the Group.

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

Deemed disposal of equity interests in a subsidiary

Reference is made to the announcement dated 4 May 2018 and the circular dated 14 June 2018 of the Company. A capital increase agreement dated 4 May 2018 (the "Capital Increase Agreement") was entered into between 長春大成生物科技開發有限公司 ("Dacheng Bio-tech"), 長春大成實業集團有限公司("Dacheng Industrial") and 吉林省現代農業產業基金有限公司("GP"), the general partner of 吉林省現代農業產業投資基金 (Jilin Province Modern Agricultural Industry Investment Fund (LLP)*) ("PRC LLP"). PRC LLP is the holder of the entire equity interest of Modern Agricultural Industry Investment Holdings Limited, which in turn is the holder of the entire equity interest of Modern Agricultural. Pursuant to the Capital Increase Agreement, Dacheng Industrial and GP shall become shareholders of 長春鴻成生物化工材料技術開發有限公司(Changchun Hongcheng Biotechnology Development Co., Ltd.*) ("JV Company"), which is currently wholly-owned by Dacheng Bio-tech. Dacheng Bio-tech shall make further contribution of RMB77,950,000, Dacheng Industrial shall make contribution of RMB10,050,000 and GP shall make contribution in cash of RMB60,000,000. Upon completion of the relevant capital contribution, the JV Company shall be owned as to 53.3% by Dacheng Bio-tech, 6.7% by Dacheng Industrial and 40.0% by GP respectively. The Capital Increase Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 3 July 2018. For more information, please refer to the circular of the Company dated 14 June 2018.

The Capital Increase Agreement shall only become effective upon the satisfaction (or waiver by all parties or by Dacheng Industrial and GP in writing) of several conditions. As announced by the Company on 18 December 2018, as the conditions precedent to the obligations of Dacheng Industrial and GP to make Capital Contribution have not been fully fulfilled or waived, Dacheng Bio-tech, Dacheng Industrial and GP have mutually agreed to terminate the Capital Increase Agreement. Accordingly, on 18 December 2018, Dacheng Bio-tech, Dacheng Industrial and GP entered into a termination agreement to terminate the Capital Increase Agreement with effect from the date thereof.

Disposal of office in Hong Kong

Reference is made to the announcement dated 29 May 2018 and the circular dated 5 July 2018 of the Company. A subsidiary of the Company, Bio-chem Technology (HK) Limited ("Bio-chem (HK)") entered into the provisional agreement for sale and purchase ("Provisional Agreement") with the purchaser (the "Purchaser"), pursuant to which the Bio-chem (HK) had agreed to sell and the Purchaser had agreed to purchase the Group's office in Hong Kong ("Property") at the consideration of HK$184,849,800, subject to and upon the terms of the Provisional Agreement. The consideration was arrived at after arm's length negotiation between the Purchaser and Bio-chem (HK), having considered the market value of the commercial property nearby, as well as the market value of the Property of HK$180,000,000 as at 31 May 2018 based on the independent valuation of the Property prepared by a professional valuer. The disposal was approved by the shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 26 July 2018. The formal sale and purchase agreement for the sale and purchase of the Property was signed on 17 July 2018 and completion took place on 21 September 2018.

New master supply agreement for the procurement of corn kernels and master sales agreement for the sales of corn starch and other products

Reference is made to the announcement dated 12 September 2018 and the circular dated 25 October 2018 of the Company, in relation to enter into a new master supply agreement (the "New Master Supply Agreement") and a master sales agreement (the "Master Sales Agreement") by the Company and Nongtou for the supply of corn kernels by Nongtou Group to members of the Group and the Group agrees to supply corn starch and other corn-based products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners and amino acid products ("Corn Starch and Other Products") to members of the Nongtou Group on an ongoing basis.

Pursuant to the New Master Supply Agreement, the Company appointed Nongtou as one of its suppliers for corn kernels and Nongtou agrees to supply corn kernels to members of the Group. The New Master Supply Agreement shall become effective from 14 November 2018 and expire on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

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

The Company expects that the annual caps in respect of the transactions contemplated under the New Master Supply Agreement will be HK$506,000,000, HK$2,453,000,000 and HK$3,158,000,000 for each of the three years ending 31 December 2020, respectively. The above annual caps are prepared on the basis of multiplying the estimated price of the corn kernels per MT by the estimated quantity to be purchased, plus the inflation rate in the PRC of 3.0% annual growth rate of the unit price of corn kernels. The estimated quantity for the purchase of corn kernels is based on the purchase volume of corn kernels during the six months ended 30 June 2018, the estimated future production output of the Group for 2018 to 2020 and the purchase plan of the Nongtou Group.

Pursuant to the Master Sales Agreement, Nongtou appointed the Company as one of its suppliers for Corn Starch and Other Products and the Group agrees to supply Corn Starch and Other Products to members of the Nongtou Group. The Master Sales Agreement shall become effective from 14 November 2018 and expire on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice. Pursuant to the Master Sales Agreement, members of the Nongtou Group shall enter into purchase orders or sales contracts with members of the Group from time to time during the term of the Master Sales Agreement for the purpose of confirming the purchase of Corn Starch and Other Products by the relevant members of the Nongtou Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method (if there is any delay in payment by the purchaser, interest rate of interest chargeable by the supplier shall not be lower than (a) the payment overdue interest rate charged by the Group to independent third parties from time to time; and (b) the payment overdue interest rate charged by the purchaser to the Group in other transactions), quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the Master Sales Agreement, at pricing terms and otherwise on terms in compliance with those set out in the Master Sales Agreement.

The Company expects that the annual caps in respect of the transactions contemplated under the Master Sales Agreement will be HK$447,000,000, HK$2,052,000,000 and HK$2,642,000,000 for each of the three years ending 31 December 2020, respectively. The above annual caps have been determined with reference to (i) the estimated demand of the Nongtou Group for the Corn Starch and Other Products as contemplated to be sold under the Master Sales Agreement; and (ii) the historical amount of sales of Corn Starch and Other Products to independent third parties by the Group for the six months ended 30 June 2018.

As Nongtou is interested in 49% of the entire issued share capital of the Company through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural, Nongtou is a connected person of the Company. Accordingly, the transactions contemplated under the New Master Supply Agreement and Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The New Master Supply Agreement and Master Sales Agreement and the related annual caps were approved by the shareholders by way of poll at the extraordinary general meeting held on 14 November 2018.

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

Reference is made to the joint announcements of the Company and GSH 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 GSH Group to the Group (the "Transaction") and the joint announcement of the Company and GSH dated 12 March 2019, in relation to the termination of the Transaction. The relevant member of the GSH 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 GSH Group. While no consensus for alternative solution can be reached between the relevant member of the GSH Group and the relevant bank, both the Group and the GSH 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 of the Group and the GSH Group.

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 GSH dated 6 November 2018 and the circular of the Company dated 3 December 2018 in relation to the provision of the New Supplier Guarantees given by members of the Group for the benefit of Dajincang. For more information, please refer to the sections headed "Update on remedial measures – 1. Financial guarantee contracts" and "Disclosure pursuant to rule 13.20 of the Listing Rules" in this report.

FUTURE PLANS AND PROSPECTS

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

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

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

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2018, the Group had approximately 4,600 (2017: 4,900) 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 DIRECTORS

Mr. Yuan Weisen, aged 55, was appointed as an executive Director and the chairman (the "Chairman") of the Board on 23 March 2017, responsible for providing leadership and directions to the Board. He is also the chairman and party secretary of 吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.), and the executive director and party secretary of 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.). Mr. Yuan has held a number of positions in various state-owned enterprises in Jilin Province's agricultural sector, including deputy general manager of 吉林糧食集團有限公司 (Jilin Grain Group Co., Ltd.), chairman and party secretary of 吉林西部現代農業產業園股份有限公司 (Jilin Western Modern Agricultural Industrial Park Co., Ltd.), and general manager of 吉林省酒精工業集團有限公司 (Jilin Province Alcohol Industry Group Co., Ltd.). Mr. Yuan graduated from the Jilin Institute of Finance and Economics (now as Jilin University of Finance and Economics) in 1986 and received a Bachelor's degree in grain and oil engineering.

Mr. Zhang Zihua, aged 49, was appointed as an executive Director on 23 March 2017. Mr. Zhang 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.), the 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 has held a number of positions in various state-owned enterprises in Jilin Province's agricultural sector, including the general manager of 吉糧期貨經紀有限公司 (Jiliang Futures Brokerage Co., Ltd.), general manager of asset management department of 吉林省投資集團有限公司 (Jilin Province Investment Group Co., Ltd.), deputy general manager of 吉林經濟合作開發投資有限公司 (Jilin Economic Cooperation Development Investment Co., Ltd.), and the chairman of 吉林省大米股份有限公司 (Jilin Province Rice Co., Ltd.). Mr. Zhang attained a Master's degree in business management from the School of Management of Jilin University in 2005. Mr. Zhang has also been appointed as an executive Director and acting chairman of GSH on 23 March 2017 and 31 December 2018, respectively.

Mr. Liu Shuhang, aged 47, was appointed as an executive Director on 26 January 2018. Mr. Liu graduated from China University of Political Science and Law in 1999 majoring in Law. Mr. Liu was the Secretary of Party Committee in Jiangjiadian Village, Liuhe County, Tonghua City, Jilin Province, the PRC from January 2003 to January 2006, then the director of Liuhe Economic Development Zone and First Secretary of Liuhe County Party Committee from January 2006 to December 2010; he was the Deputy County Chief of Liuhe County from December 2010 to July 2016, and he also served the temporary position of associate general manager of risk management department of Bank of China in Jilin Province from September 2014 to September 2015. Mr. Liu was the deputy director-general of the Quality and Technology Supervision Bureau in Tonghua City from July 2016 to January 2018.

NON-EXECUTIVE DIRECTOR

Ms. Liang Wanpeng, aged 48, was appointed as a non-executive Director on 21 December 2018. Ms. Liang obtained a Master's degree in world economics from Northeast Normal University in 2002. Ms. Liang has over 26 years' experience in banking, finance and asset management sector. Since March 2012, Ms. Liang has been working in Changchun Emerging Industry Equity Investment Fund Co., Ltd. with her current position as director.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwok Pong, aged 46, was appointed as an independent non-executive Director on 1 March 2015. Mr. Ng graduated from University of Greenwich with a Bachelor of Arts (Hons) degree in Accountancy and Finance. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of Association of Chartered Certified Accountants. Mr. Ng has over 19 years' experience in auditing and accounting, including working experience in listed companies in Hong Kong.

Mr. Yeung Kit Lam, aged 56, was appointed as an independent non-executive Director on 23 April 2015. Mr. Yeung is a practicing solicitor of Hong Kong. He obtained a Bachelor's degree in social sciences majoring in economics from the University of Hong Kong in 1985. He was awarded with the postgraduate certificate in laws by the University of Hong Kong in 1992, and was admitted as a solicitor of the High Court of Hong Kong in 1994. He also obtained a Bachelor's degree in laws from Peking University in 2001. Mr. Yeung is currently the consultant of Messrs. Yip, Tse & Tang, a firm of solicitors and notaries in Hong Kong. Mr. Yeung has over 24 years of post-qualification experience in the legal field, and has various experiences in litigation and commercial practices.

Mr. Zhao Jin, aged 37, was appointed as an independent non-executive Director on 21 December 2018. Mr. Zhao obtained a Bachelor of Science in geochemistry and a Master's degree of business administration from Peking University in 2003 and 2010, respectively. Since 2010, Mr. Zhao has worked in various securities firms in the PRC where he participated in mergers and acquisitions and other corporate finance activities such as assets restructuring and assets swap that involved companies listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. Since February 2017, Mr. Zhao has been the executive general manager of the investment banking department of Guangzhou Securities Company Limited.

SENIOR MANAGEMENT

Mr. Chan Sing Fai, aged 35, has been appointed as the company secretary and financial controller of the Company 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 GSH from September 2012 to April 2015, and re-joined the Group as the assistant financial controller in July 2016. Mr. Chan has also been appointed as the financial controller of GSH on 23 April 2018.

Mr. Chu Lalin, aged 57, holds a Bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 23 years of experience in mechanical and food engineering. He joined the Group in 1996. Mr. Chu was appointed as the deputy chief executive officer of the Company on 24 October 2015 and is the chief engineer of the Group.

Mr. Kong Zhanpeng, aged 55, was appointed as the chief economist on 21 December 2018, and is responsible for advising on the long-term financial plan, liaison and co-ordination with principal banks of the Group, potential strategic investors and the People's Government of Jilin Province to facilitate the process of debt restructuring plan of the Group. Mr. Kong was an executive Director from May 2000 to September 2007, and December 2013 to May 2014 and the chief executive officer from 24 October 2015 to 1 October 2018. Mr. Kong was also an executive Director of GSH from 13 June 2006 to 30 December 2018. Mr. Kong has over 18 years of experience in investments and corn-based manufacturing industry and over 11 years of experience in corn sweetener industry through the various functions and corporate investment projects he was involved in with GSH. Mr. Kong holds a Bachelor's degree in textile engineering and a diploma in international trade from the China Textile University.

Mr. Wang Guicheng, aged 51, graduated from the Jilin Grain High College for Professional Training, specialising in grain storage and analysis. He joined the Group in 1997 and has been engaging in management of production technology. He has been the general manager of Xinglongshan production site of the Group since 2015. Mr. Wang was the general manager of Dehui production site of the 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. Zheng Guichen, aged 57, graduated from the Jilin Grain High College for Professional Training, specialising in food engineering. He joined the Group in 1997. Mr. Zheng has been committed to the Group's production and operation management since then, and acted as the Group's deputy general manager of production and operation department since 2015. He was appointed as deputy general manager of the Group's sales department in 2016.

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND MODEL CODE

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 Listing Rules during the year ended 31 December 2018.

Mr. Kong Zhanpeng has resigned as the chief executive officer of the Company with effect from 1 October 2018 and no replacement has yet been made after his resignation.

Mr. Wang Guicheng has been appointed as the chief operating officer and responsible for overseeing the operation management and product development of the Group with effect from 29 December 2018.

Ms. Chiu Lai Ling, Shirley has resigned as an independent non-executive Director with effect from 1 October 2018 as she wished to focus on other business and personal affairs. Following her resignation as an independent non-executive Director, she also ceased as a member of the Audit Committee, the remuneration committee of the Company (the "Remuneration Committee"), the nomination committee of the Company (the "Nomination Committee") and the corporate governance committee of the Company (the "Corporate Governance Committee") with effect from 1 October 2018 and upon the resignation of Ms. Chiu, the Company only had two independent non-executive Directors and two members of the Audit Committee which fell below the minimum number required under rule 3.10(1) and rule 3.21 of the Listing Rules. In addition, the Remuneration Committee and Nomination Committee did not comprise a majority of independent non-executive Directors which failed to meet the requirement under rule 3.25 of the Listing Rules and code provision A.5.1 of the CG Code respectively. Subsequently, on 21 December 2018, Mr. Zhao Jin was appointed as an independent non-executive Director and a member of the Audit Committee, a member of the Remuneration Committee, a member of the Nomination Committee and a member of Corporate Governance Committee.

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

Having made specific enquiry of 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 number of meetings and attendance by Board members during the Year are set out in the table below:

Name of Directors	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Executive committee meeting	Annual general meeting
	Meetings held and attended						
Executive Directors							
Yuan Weisen	7/9		3/3	3/3		2/2	1/1
Zhang Zihua	7/9				1/1	2/2	1/1
Liu Shuhang *(Note 1)*	9/9					1/1	1/1
Non-executive Director							
Liang Wanpeng *(Note 2)*							–
Independent non-executive Directors							
Ng Kwok Pong	9/9	4/4	3/3	3/3	1/1		1/1
Yeung Kit Lam	9/9	4/4					1/1
Chiu Lai Ling, Shirley *(Note 3)*	6/6	3/3	1/1	1/1	–		1/1
Zhao Jin *(Note 4)*		–	–	–	–		–

Notes:

1. Mr. Liu Shuhang has been appointed as an executive Director and a member of the executive committee of the Company (the "Executive Committee") with effect from 26 January 2018.

2. Mr. Liang Wanpeng has been appointed as a non-executive Director with effect from 21 December 2018.

3. Ms. Chiu Lai Ling, Shirley has resigned as an independent non-executive Director, and has ceased to be the members of the Audit Committee, the Remuneration Committee, Nomination Committee and the Corporate Governance Committee with effect from 1 October 2018.

4. Mr. Zhao Jin has been appointed as an independent non-executive Director and a member of the Audit Committee, a member of the Remuneration Committee, a member of the Nomination Committee and a member of Corporate Governance Committee with effect from 21 December 2018.

As of the date of this report, the Board comprises seven Directors, being three executive Directors, one non-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 23 to page 24 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.

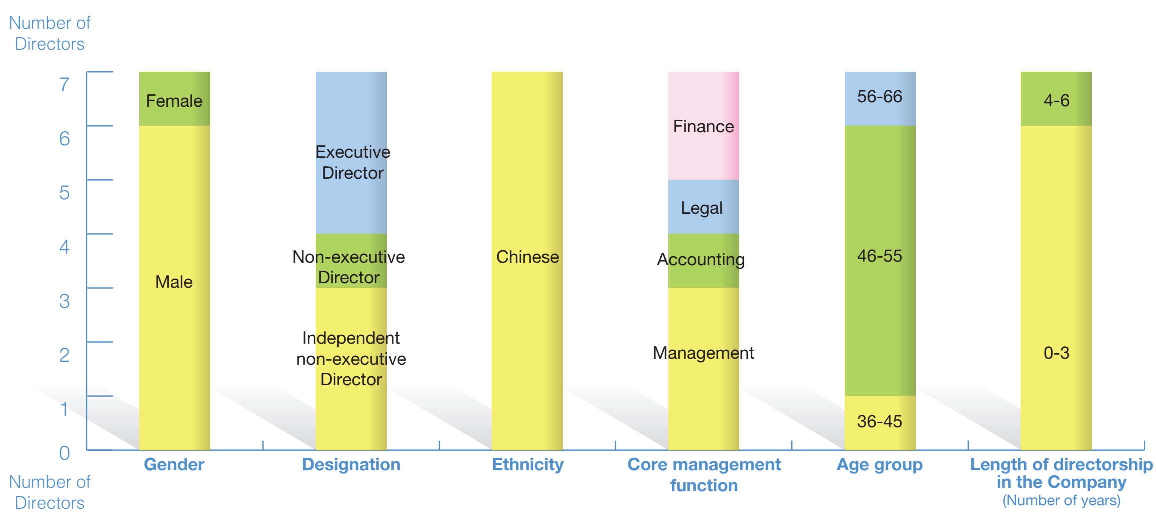
Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum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

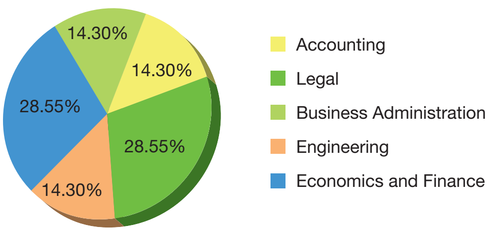
The Board annually discusses and establishes measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

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

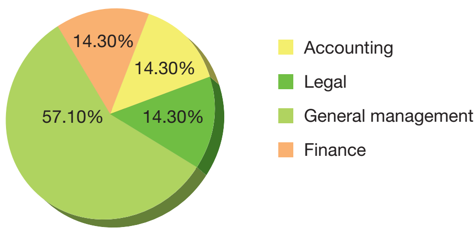
Up to the date of this report, composition of the Board is disclosed as below:



ACADEMIC BACKGROUND



BUSINESS EXPERIENCE



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

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

Directors' Training

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

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

	Type of trainings	
	A	B
Executive Directors		
Yuan Weisen		✓
Zhang Zihua		✓
Liu Shuhang (Appointed on 26 January 2018)	✓	✓
Non-executive Director		
Liang Wanpeng (Appointed on 21 December 2018)	✓	✓
Independent non-executive Directors		
Ng Kwok Pong	✓	✓
Yeung Kit Lam		✓
Chiu Lai Ling, Shirley (Resigned on 1 October 2018)		✓
Zhao Jin (Appointed on 21 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

The roles of the chairman and chief executive officer of the Company are separate and exercised by different persons. As at the date of this report, Mr. Yuan Weisen is the Chairman and is mainly responsible for providing leadership and directions to the Board. On 1 October 2018, Mr. Kong Zhanpeng resigned as the chief executive officer of the Company and no replacement has yet been made after his resignation. As of the date of this report, Mr. Wang Guicheng has been appointed as the chief operating officer and is responsible for overseeing the operation management and product development of the Group.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Ms. Chiu Lai Ling, Shirley were appointed as independent non-executive Directors on 1 March 2015, 23 April 2015 and 16 March 2016, respectively. Ms. Chiu Lai Ling, Shirley resigned as an independent non-executive Director on 1 October 2018. On 21 December 2018, Ms. Liang Wangpeng and Mr. Zhao Jin have been appointed as a non-executive Director and an independent non-executive Director, respectively. The terms of initial appointment of non-executive Directors and independent non-executive Directors have been fixed for two years, which shall be renewable automatically for a successive term of one year commencing from the day after the expiry of the then current term of the appointment, and shall be subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

DIRECTORS' AND OFFICER'S LIABILITY INSURANCE AND INDEMNITY

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

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

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

	2018 *HK$'000*	2017 *HK$'000*
Fees	**2,067**	1,440
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**—**	—
Performance related bonuses	**—**	—
Equity-settled share option expenses	**—**	—
Pension scheme contributions	**229**	—
	229	—
Total	**2,296**	1,440

(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*
Ng Kwok Pong	**480**	480
Yeung Kit Lam	**480**	480
Chiu Lai Ling, Shirley *(Note 1)*	**360**	480
Zhao Jin *(Note 2)*	**—**	—
Total	**1,320**	1,440

Notes:

1. Ms. Chiu Lai Ling, Shirley resigned as an independent non-executive Director on 1 October 2018.

2. Mr. Zhao Jin has been appointed as an independent non-executive Director on 21 December 2018.

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

(b) Non-executive Directors

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

	2018 *HK$'000*	2017 *HK$'000*
Qiu Zhuang *(Note 1)*	**–**	–
Xing Lizhu *(Note 1)*	**–**	–
Liang Wanpeng *(Note 2)*	**–**	–
Total	**–**	–

Note:

1. Mr. Qiu Zhuang and Mr. Xing Lizhu resigned as non-executive Directors on 23 March 2017.

2. Ms. Liang Wanpeng has been appointed as a non-executive Director on 21 December 2018.

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

(c) Executive Directors

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

	Director's fees *HK$'000*	Basic salaries, housing benefits, other allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Equity-settled share option expenses *HK$'000*	Pension contributions *HK$'000*	Total remuneration *HK$'000*
2018						
Yuan Weisen	–	–	–	–	–	–
Zhang Zihua	–	–	–	–	–	–
Liu Shuhang *(Note 2)*	747	–	–	–	229	976
Total	747	–	–	–	229	976
2017						
Yuan Weisen *(Note 1)*	–	–	–	–	–	–
Zhang Zihua *(Note 1)*	–	–	–	–	–	–
Wang Qiu *(Note 3)*	–	–	–	–	–	–
Wang Jian *(Note 3)*	–	–	–	–	–	–
Li Shuguang *(Note 3)*	–	–	–	–	–	–
Total	–	–	–	–	–	–

Notes:

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

2. Mr. Liu Shuhang was appointed as an executive Director on 26 January 2018.

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

(d) Senior Management

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

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

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

ACCOUNTABILITY AND AUDIT

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

The Directors are responsible for overseeing the preparation of consolidated financial statements of each financial year. In preparing the consolidated 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 consolidated financial statements on a going concern basis. For the year ended 31 December 2018, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. The management provided the latest update on the relevant remedial measures taken or to be taken which have been considered, recommended and agreed by the Audit Committee after its critical review of the management's position under the section "Update on remedial measures" on page 9 of this annual report.

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

MANAGEMENT FUNCTIONS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

On 1 October 2018, Ms. Chiu Lai Ling, Shirley resigned as an independent non-executive Director due to her wish to focus on other business and personal affairs. Following Ms. Chiu's resignation, the Company had only two independent non-executive Directors and the two members of the Audit Committee which fell below the minimum number required under rule 3.10(1) and rule 3.21 of the Listing Rules.

On 21 December 2018, Mr. Zhao Jin has been appointed as an independent non-executive Director. Following the appointment of Mr. Zhao, the Audit Committee comprises three independent non-executive Directors, which fulfills the requirements under rule 3.10(1) and rule 3.21 of the Listing Rules and the Audit Committee's terms of reference.

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 currently comprises three independent non-executive Directors, namely Mr. Ng Kwok Pong (the chairman of the committee), Mr. Yeung Kit Lam and Mr. Zhao Jin.

The duties of the Audit Committee are, among others, to review the Company's half yearly and annual financial statements and to make recommendations to the Board on appointment and removal of the external auditor. The Audit Committee meets regularly with the Company's senior management and the auditor to consider the Company's financial reporting process, the effectiveness of internal control, the 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 four 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 pages 9 to 11;

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

3. The Audit Committee reviewed and monitored the external auditor's independence, 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

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

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/she is fully aware of his/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.

On 1 October 2018, Ms. Chiu Lai Ling, Shirley resigned as a member of the Nomination Committee. Following Ms. Chiu's resignation, the Nomination Committee did not comprise a majority of independent non-executive Directors which failed to meet the requirement under code provision A.5.1 of the CG Code. Mr. Zhao Jin has been appointed as an independent non-executive Director on 21 December 2018. The Nomination Committee currently comprises an executive Director, Mr. Yuan Weisen (the chairman of the committee) and two independent non-executive Directors, Mr. Ng Kwok Pong and Mr. Zhao Jin.

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

REMUNERATION COMMITTEE

On 1 October 2018, Ms. Chiu Lai Ling, Shirley resigned as a member of the Remuneration Committee. Following Ms. Chiu's resignation, the Remuneration Committee did not comprise a majority of independent non-executive Directors which failed to meet the requirement under rule 3.25 of the Listing Rules. On 21 December 2018, Mr. Zhao Jin has been appointed as a member of the Remuneration Committee. The Remuneration Committee currently comprises two independent non-executive Directors, namely, Mr. Ng Kwok Pong (the chairman of the committee) and Mr. Zhao Jin, and an executive Director, Mr. Yuan Weisen.

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

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

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

CORPORATE GOVERNANCE COMMITTEE

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

On 1 October 2018, Ms. Chiu Lai Ling, Shirley resigned as a member of the Corporate Governance Committee; and Mr. Zhao Jin has been appointed as a member of the Corporate Governance Committee with effect from 21 December 2018. The Corporate Governances Committee currently comprises an executive Director, Mr. Zhang Zihua and two independent non-executive Directors, namely, Mr. Ng Kwok Pong (the chairman of the committee) and Mr. Zhao Jin.

The Corporate Governance Committee held one meeting in 2018.

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

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

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

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

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

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

EXECUTIVE COMMITTEE

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

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

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

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

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

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

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

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

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

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

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

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

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

Auditor's Remuneration

For the year ended 31 December 2018, auditor's remuneration of HK$5,500,000 was incurred for the audit services provided by Mazars CPA Limited ("Mazars" or the "Auditor").

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

	HK$'000
Taxation compliance	46
Services for interim report and circulars	1,767
Total	1,813

COMPANY SECRETARY

On 23 April 2018, Mr. Lee Chi Yung resigned as a company secretary of the Company. Following Mr. Lee's resignation, Mr. Chan Sing Fai has been appointed as a company secretary of the Company effective from 23 April 2018, and is responsible for supporting the Board, ensuring good information flow within the Board and Board policies and procedures are followed, advising the Board on corporate governance matters, facilitating introduction and monitoring the training and continuous professional development of Directors. He has attained no less than 15 hours of relevant professional training during the Year. Mr. Chan's biography is set out on page 25 of this report.

INVESTOR RELATIONS

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

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

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

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

To the best knowledge of the Directors, as of 31 December 2018, details of shareholders by type and aggregate shareholding are as follow:

	Number of shares held	Percentage of shareholding	Market capitalisation (HK$ million)
Modern Agricultural	3,135,509,196	49.0%	154
Kong Zhanpeng	260,176,000	4.1%	13
Public float in Hong Kong	3,003,313,164	46.9%	147
Total	6,398,998,360	100.0%	314

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 3 July 2018, an extraordinary general meeting ("EGM") was held to approve the capital increase agreement dated 4 May 2018 entered into between Dacheng Bio-tech, Dacheng Industrial and GP in relation to Dacheng Industrial and GP becoming shareholders of the JV Company, the capital increase of the JV Company, the capital contribution to be made by Dacheng Bio-tech, Dacheng Industrial and GP and the transactions contemplated thereunder. The resolution proposed was passed by way of poll.

On 26 July 2018, an EGM was held to approve the provisional agreement for sale and purchase dated 29 May 2018 the Provisional Agreement entered into between the Vendor and the Purchaser in respect of the Property; the formal agreement for sale and purchase in respect of the Property to be entered into between the Vendor and the Purchaser pursuant to the Provisional Agreement, and the transactions contemplated thereunder. The resolution proposed was passed by way of poll.

On 14 November 2018, an EGM was held to approve the New Master Supply Agreement dated 12 September 2018 entered into between Nongtou and the Company in relation to the supply of corn kernels by members of the Nongtou Group to members of the Group, and the related annual caps; and approve the Master Sales Agreement dated 12 September 2018 entered into between Nongtou and the Company in relation to the supply of Corn Starch and Other Products by members of the Group to members of the Nongtou Group, and the related annual caps. All resolutions proposed were passed by way of poll.

On 21 December 2018, an EGM was held to approve the New Supplier Guarantees 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.

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 at 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.

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 Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous internal audit results, external auditors' comments, output from the work of the Audit Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months.

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

Copies of internal audit reports are sent to the Audit Committee, the chief executive officer and the external auditors. 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 a disinterested 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 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 trade offs while establishing strong and independent review and challenge processes.

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

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

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

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

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

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

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. The Group has documented those processes which are critical to the Group's performance. Within this exercise, key risks have been identified, along with the controls required to mitigate those risks, after which, such key risks and controls are continually reviewed and updated on an annual basis. High-risk key controls are tested annually by the management and internal auditors. Based on the results of those tests, process owners are able to represent to senior management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal auditors present findings to senior management 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 bank loans and finalise the debt-equity swap proposal
Inability to obtain adequate funding on time	Resumption of production in Harbin site and completion of relocation of sweeteners production facilities in Changchun	Closely monitor the operating cashflow and strengthen the credit control
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
Operation risks:		
Loss of key management	Keen competition for talent recruitment and retention	Investigate and review the human resource strategy on regular basis Keep track of career path for talent employee
Environmental risks:		
Outbreak of animal disease which has a material impact on the products	Outbreak of the ASF in the PRC	Research and Development work on further cost saving and adjust product mix for the market need

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 were identified, means for improvement were recommended to the Audit Committee. The Board has reviewed the effectiveness of the Group's risk management and internal control systems based on the assessment of the Audit Committee. The Company has complied with the CG Code on internal controls and risk management during the Year.

CORPORATE SOCIAL RESPONSIBILITY

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

Environmental policy and performance

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

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

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

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

3. promoting use of recycled materials and renewable resources;

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

5. promoting energy conservation;

6. minimising the impact on biodiversity and ecosystem; and

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

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

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

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

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

Compliance with applicable 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 update on the latest regulations by national and local 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 include those internal control procedures such as setting up a team to inspect the production sites from time to time, reporting any work related accidents, remedies and improvement measures to be taken to the management in a timely manner, etc. All employees are trained before they commence carrying out their duties to ensure they are fit for the job and continuous training are provided to minimise chance of work related accidents.

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

Customers and suppliers

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

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

During the year ended 31 December 2018, due to economic downturn and tighten credit policy of most PRC banks, there have been certain commercial disputes between the Group and certain of its customers and suppliers. The Group is now in the course of resolving these disputes through legal means and active negotiation with the concerned parties to seek mutually-agreed solutions.

Anti-corruption

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

Community

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2018 Environmental, Social and Governance Report ("ESG Report") will be available on or before 30 June 2019. Please view and download the ESG Report from the Company's website at http://www.globalbiochem.com under the heading "Investor Relations" or the website of the Stock Exchange.

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene an EGM

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

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

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

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

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

2. Procedures for raising enquiries

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

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

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

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

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

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

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

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

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

Report of the Directors

The Directors present their report and audited consolidated 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 principally engaged in the manufacture and sale of corn refined products and corn-based biochemical products. Details of the principal activities of the principal subsidiaries are set out in note 17 to the 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 4 to 6 and 7 to 22 of this report respectively. In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the Corporate Governance Report under section headed "Corporate social responsibility" on pages 45 to 47 of this report.

The principal risks and uncertainties are disclosed in Corporate Governance Report under section headed "Risk management and internal control" on pages 40 to 44 of 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 pages 18 to 21 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 21 of this report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 64 to 149 of this report.

The Directors do not 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 40 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 financial statements, and restated as appropriate, is set out on page 150 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 the movements in the Company's share capital during the Year are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

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

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

SHARE OPTION SCHEME

The Company operated a share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed at a shareholders' meeting held on 3 September 2007, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date. As the date of this report, share option scheme has not been renewed and no option was granted pursuant to the Scheme during the Year.

SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY

GSH operated a share option scheme (the "GSH Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of GSH Group. The GSH Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date. As the date of this report, the GSH scheme has not been renewed and no option was granted pursuant to the GSH Scheme during the Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company did not have reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the share premium of the Company of approximately HK$3,127,204,000 as at 31 December 2018 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 16.8% of the total sales for the Year and sales to the largest customer included therein accounted for 5.4% of the total sales of the Year. Purchases from the Group's five largest suppliers accounted for 16.8% of the total purchases for the Year and the purchase from the largest supplier included therein accounted for 5.0% of the total purchases for the Year.

None of the 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:

Yuan Weisen
Zhang Zihua
Liu Shuhang *(appointed on 26 January 2018)*

Non-executive Director:

Liang Wanpeng *(appointed on 21 December 2018)*

Independent non-executive Directors:

Ng Kwok Pong
Yeung Kit Lam
Chiu Lai Ling, Shirley *(resigned on 1 October 2018)*
Zhao Jin *(appointed on 21 December 2018)*

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 23 to 25 of the this report.

DIRECTORS' SERVICE AGREEMENTS AND APPOINTMENT LETTERS

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

The executive Director, Mr. Liu Shuhang entered into a service contract with the Company for an initial term of one year commencing from 26 January 2018, which shall be renewable automatically for successive terms of one year commencing from the day after the expiry of the then current term of the executive's appointment and subject to termination by either party by giving not less than three months' notice in writing.

The non-executive Director, Ms. Liang Wanpeng has entered into an appointment letter with the Company for a term of two years commencing on 21 December 2018. The independent non-executive Directors, Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Mr. Zhao Jin, have each entered into an appointment letter with the Company for a term of two years commencing on 1 March 2015, 23 April 2015 and 21 December 2018, respectively. The renewal automatically for successive terms of one year commence from the day after the expiry of the then current term of the non-executive Directors' appointment and subject to termination by either party by giving not less than three months' notice in writing.

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

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 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 ended 31 December 2018.

CONTRACT OF SIGNIFICANCE

There was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2018.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary shares of the Company:

Name of chief executive	Number of shares held, capacity and nature of interest Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of the Company's issued share capital
Kong Zhanpeng *(Note 2)*	18,256,000	241,920,000 *(Note 1)*	260,176,000	4.07

Long positions in ordinary shares of GSH:

Name of chief executive	Number of shares held capacity and nature of interest Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of GSH's issued share capital
Kong Zhanpeng *(Note 3)*	—	1,984,000 *(Note 1)*	1,984,000	0.13

Notes:

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

2. Mr. Kong Zhanpeng resigned as the chief executive officer of the Company on 1 October 2018 and Mr. Kong was appointed as the chief economist on 21 December 2018.

3. Mr. Kong Zhanpeng resigned as an executive Director of GSH with effect from 31 December 2018.

As at 31 December 2018, save as disclosed above, none of the Directors and chief executives of the Company had any interests or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company:

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

Notes:

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

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

3. The entire issued capital of Modern Agricultural is held by Modern Agricultural Industry Investment Holdings Limited which is in turn wholly owned by Jilin Province Modern Agricultural Industry Investment Fund (LLP) ("PRC LLP"). The sole general partner of PRC LLP is Jilin Province Modern Agricultural Industry Fund Limited ("GP"). As at 31 December 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 吉林省交通投資集團有限公司(Jilin Province Communication Investment Group Co., Ltd., "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, Modern Agricultural Industry Investment Holdings Limited, PRC LLP, GP, Jiaotou, Nongtou and Jilin SASAC are deemed to be interested in the interest held by the Company.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the Year, the Group had the following connected transactions or continuing connected transactions with 吉林吉糧資產供應鏈管理有限公司(Jilin Jiliang Assets Supply Chain Management Co., Ltd.) ("Jiliang") and/or Nongtou Group. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

Purchase of corn kernels

Pursuant to the master supply agreement (the "Master Supply Agreement") dated 15 May 2017, the Group appointed Jiliang as one of its suppliers for corn kernels and Jiliang agrees to supply corn kernels to members of the Group. During the Year, the Group purchased corn kernels amounting to HK$332 million from Jiliang under the Master Supply Agreement.

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

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

On 12 September 2018, the Company entered into the New Master Supply Agreement with Nongtou in relation to the supply of corn kernels by Nongtou Group to members of the Group and the Master Sales Agreement in relation to supply Corn Starch and Other Products by members of the Group to members of the Nongtou Group on an ongoing basis. During the Year, the Group purchased corn kernels amounting to HK$320 million from members of Nongtou Group under the New Master Supply Agreement and no sale of Corn starch and Other Products by members of the Group to members of the Nongtou Group under the Master Sales Agreement.

Upon the New Master Supply Agreement Effective Date, the Master Supply Agreement shall be terminated contemporaneously.

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

Pursuant to the Master Sales Agreement, members of the Nongtou Group shall enter into purchase orders or sales contracts with members of the Group from time to time during the term of the Master Sales Agreement for the purpose of confirming the purchase of Corn Starch and Other Products by the relevant members of the Nongtou Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method (if there is any delay in payment by the purchaser, interest rate of interest chargeable by the supplier shall not be lower than (a) the payment overdue interest rate charged by the Group to independent third parties from time to time; and (b) the payment overdue interest rate charged by the purchaser to the Group in other transactions), quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the Master Sales Agreement, at pricing terms and otherwise on terms in compliance with those set out in the Master Sales Agreement.

As Nongtou is interested in 49% of the entire issued share capital of the Company through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural, Nongtou is a connected person of the Company. Accordingly, the transactions contemplated under the New Master Supply Agreement and Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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

Save for the above continuing connected transactions, the related party transactions entered into by the Group in the year under review which are disclosed in note 32 to the consolidated financial statements did not fall under the definition of connected transaction or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the latest practicable date prior to the issue of this report, there was sufficient prescribed public float of the issued shares of the Company under the Listing Rules at any time during the year ended 31 December 2018.

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 each of Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, being the independent non-executive Directors, have been decreased to HK240,000 with effect from 1 January 2019.

On 1 October 2018, Mr. Kong Zhanpeng, resigned as an chief executive officer of the Company and appointed as the chief economist on 21 December 2018. Mr. Kong entered into a service contract with the Company commencing from 21 December 2018. Under the service contract, Mr. Kong is not entitled to any remuneration.

DISCLOSURE PURSUANT TO RULES 13.19 AND 13.21 OF THE LISTING RULES

Breach of Loan Agreements

Reference is made to the joint announcement of the Company and GSH dated 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 GSH, 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 12-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 GSH and certain members of the GSH 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 GSH 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 GSH 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 GSH 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 GSH 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 GSH to update the status of the waivers as and when appropriate.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

Provision of financial assistance to Dajincang

As announced by the Company on 31 March 2015, financial guarantees were first granted by certain subsidiaries of the Company and GSH 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 GSH dated 6 November 2018 and the circular of the Company dated 3 December 2018, the term of the previous loan advanced by BOC to Dajincang 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 several members of the Group and GSH Group to BOC to guarantee the obligations of Dajincang under the New Supplier Loan. The maximum principal amount guaranteed under the New Supplier Guarantees 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 New Supplier Guarantees in its interim and annual reports during the relevant periods when the New Supplier Guarantees is in effect.

SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

Change of auditor of the Company

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

Relocation of production facilities to the Xinglongshan site

Reference is made to the 2018 Interim Report, in relation to, among others, the relocation of production facilities of the Group to the Xinglongshan site.

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

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

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

Note: The expected time for relocation of production facilities are subject to the final decision of the management from time to time, 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 as and when appropriate.

AUDITOR

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

ON BEHALF OF THE BOARD

Yuan Weisen
Chairman

Hong Kong
26 March 2019

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

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Global Bio-chem Technology Group Company Limited (the "Company") and its subsidiaries (together the "Group") set out on page 64 to page 149, 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 30 to the consolidated financial statements, certain subsidiaries of the Company had jointly provided corporate guarantees to a bank in connection with banking facilities granted to a former major supplier of the Group which amounted to RMB2.5 billion at 31 December 2017 and 2018 (the "Financial Guarantee Contracts"). In addition, an indirect major shareholder 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 2018 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2017 and 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.

(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$7,724 million and HK$3,571 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK$1,299 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 the 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.

(iii) Prepayments, deposits and other receivables

Included in the Group's prepayments, deposits and other receivables at 31 December 2018 was the remaining consideration receivable from a government bureau of HK$455 million (2017: HK$482 million) in respect of the disposal of certain buildings, machineries and fixtures erected on a piece of land during the year ended 31 December 2014. We were unable to obtain sufficient appropriate audit evidence on the recoverability of the receivable. Therefore, we were unable to determine whether any adjustments to the receivable at 31 December 2017 and 2018 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2017 and 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.

(iv) Other payables and accruals

Included in the Group's other payables and accruals at 31 December 2018 were advances from an independent third party, received through a government bureau in 2015 and 2018, in aggregate of HK$428 million (2017: HK$217 million), for relocation of the Group's production facilities in Changchun. We were unable to obtain direct confirmation or sufficient appropriate audit evidence by performing alternative procedures to verify the balance of the advances at 31 December 2017 and 2018. Therefore, we were unable to determine whether any adjustments to the advances at 31 December 2017 and 2018 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2017 and 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.

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	**5,657,726**	4,397,005
Cost of sales		**(5,398,016)**	(3,787,974)
Gross profit		**259,710**	609,031
Other income and gains	5	**321,630**	198,754
Selling and distribution costs		**(584,130)**	(398,193)
Administrative expenses		**(439,187)**	(419,489)
Other expenses		**(360,098)**	(584,442)
Finance costs	6	**(565,040)**	(454,678)
LOSS BEFORE TAX	7	**(1,367,115)**	(1,049,017)
Income tax credit	10	**67,896**	158,759
LOSS FOR THE YEAR		**(1,299,219)**	(890,258)
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		**195,209**	(177,849)
Items that will not be reclassified subsequently to profit or loss:			
Gain on property revaluation, net	13	**–**	540,726
Income tax effect	27	**–**	(135,076)
		–	405,650
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**195,209**	227,801
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,104,010)**	(662,457)
LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(1,222,322)**	(837,491)
Non-controlling interests		**(76,897)**	(52,767)
		(1,299,219)	(890,258)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(1,040,349)**	(602,751)
Non-controlling interests		**(63,661)**	(59,706)
		(1,104,010)	(662,457)
LOSS PER SHARE			
Basic	12	**HK(19.1) cents**	HK(13.0) cents
Diluted	12	**HK(19.1) cents**	HK(13.0) 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	**6,496,030**	7,188,318
Prepaid land lease payments	14	**575,231**	620,865
Deposits paid for acquisition of property, plant and equipment		**65,175**	63,153
Goodwill	15	**—**	—
Intangible assets	16	**3,806**	5,358
Interests in an associate	18	**—**	—
		7,140,242	7,877,694
CURRENT ASSETS			
Inventories	19	**745,493**	592,465
Trade and bills receivables	20	**574,267**	517,402
Prepayments, deposits and other receivables	21	**1,025,886**	1,047,812
Due from an associate		**—**	17,142
Pledged bank deposits	22	**203,918**	406,209
Cash and bank balances	22	**135,033**	304,362
		2,684,597	2,885,392
CURRENT LIABILITIES			
Trade and bills payables	23	**2,162,885**	1,646,893
Other payables and accruals	24	**2,012,269**	1,915,400
Due to an associate		**2,675**	—
Interest-bearing bank and other borrowings	25	**6,127,288**	4,861,642
Tax payables		**103,237**	176,952
		10,408,354	8,600,887
NET CURRENT LIABILITIES		**(7,723,757)**	(5,715,495)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(583,515)**	2,162,199
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**1,870,716**	3,555,927
Deferred income	26	**133,759**	150,165
Deferred tax liabilities	27	**10,773**	9,561
Convertible bonds	28	**971,771**	913,070
		2,987,019	4,628,723
NET LIABILITIES		**(3,570,534)**	(2,466,524)

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	29	**639,900**	639,900
Reserves		**(4,087,781)**	(3,047,432)
Deficit attributable to owners of the Company		**(3,447,881)**	(2,407,532)
Non-controlling interests		**(122,653)**	(58,992)
TOTAL DEFICIT		**(3,570,534)**	(2,466,524)

These consolidated financial statements on pages 64 to 149 were approved and authorised for issue by the board of directors on 26 March 2019 and signed on its behalf by

Yuan Weisen
Director

Liu Shuhang
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$'000*	Convertible bond reserve *HK$'000*	Other reserve *HK$'000*	Statutory reserve fund *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2018	639,900	2,839,469	806,742	290,585	15,677	113,370	1,854,247	(8,967,522)	(2,407,532)	(58,992)	(2,466,524)
Loss for the year	–	–	–	–	–	–	–	(1,222,322)	(1,222,322)	(76,897)	(1,299,219)
Other comprehensive income for the year	–	–	–	–	–	–	181,973	–	181,973	13,236	195,209
Total comprehensive income (loss) for the year	–	–	–	–	–	–	181,973	(1,222,322)	(1,040,349)	(63,661)	(1,104,010)
Realised upon disposal	–	–	(7,104)	–	–	–	–	7,104	–	–	–
Transfer	–	–	–	–	–	574	–	(574)	–	–	–
At 31 December 2018	639,900	2,839,469*	799,638*	290,585*	15,677*	113,944*	2,036,220*	(10,183,314)*	(3,447,881)	(122,653)	(3,570,534)

* These reserve accounts comprise the negative reserves of HK$4,087,781,000 (2017: HK$3,047,432,000) in the consolidated statement of financial position.

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

SHARE PREMIUM

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

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

ASSET REVALUATION RESERVE/CONVERTIBLE BOND RESERVE/EXCHANGE RESERVE

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

STATUTORY RESERVE FUND

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

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(1,367,115)**	(1,049,017)
Adjustments for:		
Finance costs	**565,040**	454,678
Bank interest income	**(4,342)**	(2,605)
Gain on disposal of property, plant and equipment, net	**(9,043)**	(417)
Gain on disposal of prepaid land lease payments	**(155,622)**	(67,219)
Depreciation	**480,349**	397,651
Amortisation of prepaid land lease payments	**22,597**	22,078
Amortisation of intangible assets	**9**	15
Amortisation of deferred income	**(10,257)**	(10,077)
Impairment of property, plant and equipment, net	**—**	134,846
Impairment of intangible assets	**1,539**	—
Loss on revaluation of property, plant and equipment, net	**—**	2,870
(Reversal of impairment) Impairment of deposits paid for acquisition of property, plant and equipment, net	**(17,939)**	1,776
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net	**26,209**	(12,949)
(Reversal of impairment) Impairment of trade and bills receivables, net	**(7,175)**	45,675
(Reversal of write-down) Write-down of inventories, net	**(61,510)**	7,068
Waiver of payables	**(28,186)**	—
Changes in working capital:		
Inventories	**(125,350)**	(13,604)
Trade and bills receivables	**(79,250)**	(98,833)
Due from/(to) an associate	**18,843**	4,579
Prepayments, deposits and other receivables	**(62,857)**	(30,713)
Trade and bills payables	**629,436**	(24,638)
Other payables and accruals	**119,256**	506,012
Cash (used in) generated from operations	**(65,368)**	267,176
Interest received	**4,342**	2,605
Income taxes paid	**(3,471)**	(2,491)
Net cash (used in) generated from operating activities	**(64,497)**	267,290

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for prepaid land lease	**(24,193)**	—
Purchase of property, plant and equipment	**(144,541)**	(335,547)
Proceeds from disposal of prepaid land lease	**169,529**	—
Proceeds from disposal of property, plant and equipment	**18,014**	14,631
Net cash generated from (used in) investing activities	**18,809**	(320,916)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans raised	**3,966,547**	2,949,770
Repayment of bank and other loans	**(3,872,603)**	(2,806,268)
Interest paid	**(412,646)**	(399,522)
Pledged bank deposits	**202,291**	(352,641)
Net cash used in financing activities	**(116,411)**	(608,661)
Net decrease in cash and cash equivalents	**(162,099)**	(662,287)
Cash and cash equivalents at beginning of year	**304,362**	896,487
Effect of foreign exchange rate changes, net	**(7,230)**	70,162
Cash and cash equivalents at end of year (note 22)	**135,033**	304,362

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suites 2202-04, 22nd Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of corn refined products and corn based biochemical products.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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$1,299 million (2017: HK$890 million) for the year ended 31 December 2018 and as at that date, had net current liabilities of approximately HK$7,724 million (31 December 2017: HK$5,715 million) and net liabilities of approximately HK$3,571 million (31 December 2017: HK$2,467 million). In addition, any potential liabilities or obligations arising from the financial guarantee contracts as discussed in note 30 to the consolidated financial statements may have a significant negative impact on the liquidity position of the Group. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances 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)*

(a) 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 the Company, 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 on 26 March 2018, and it was proposed that the Group 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 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 and BOC have also explored the possibility of including the indebtedness of Changchun Dajincang Corn Procurement Co., Ltd.（長春大金倉玉米收儲有限公司）("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 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 and Dajincang and the introduction of strategic investor(s) in order to strengthen the capital of the 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 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 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"), and the management of the 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 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.

2.2 GOING CONCERN *(Continued)*

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

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 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 30 to the consolidated financial statements and the material uncertainty related to 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.

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

Reference is made to the Company's annual report for the year ended 31 December 2017 and interim report for the six months ended 30 June 2018, the Company, together with GSH, have been in discussion with a potential purchaser ("Potential Purchaser") in respect of the sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the buildings erected thereon (the "Relevant Properties"). The Potential Purchaser is a municipal government-owned enterprise. Pursuant to a letter of intent from the Potential Purchaser, it is expected that the Potential Purchaser shall purchase the Relevant Properties with a consideration of not less than RMB2.2 billion, subject to the price to be determined by way of auction. Given the Potential Purchaser is a municipal government-owned enterprise, the management is prudently optimistic that the disposal will be materialised. During the year ended 31 December 2018, the Group received an official document dated 28 April 2018 from the Changchun Safeguard Housing Project Leading Group（長春市保障性安居工程領導小組）in which the Relevant Properties have been confirmed as part of the subject properties for redevelopment under the PRC's Slum Redevelopment Policy. Such policy is expected to speed up the process of the disposal of the Relevant Properties through shortened procedures and exemption of certain taxes. In addition, the Group received a land resumption prepayment in the amount of approximately RMB197 million from the Potential Purchaser in June 2018, which was paid via the Changchun Municipal Government, to secure the disposal of the Relevant Properties. The Group and the municipal government have jointly engaged a professional valuer to conduct the valuation of the Relevant Properties.

2.2 GOING CONCERN *(Continued)*

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

On 27 September 2018, the Changchun Safeguard Housing Project Leading Group held another meeting in which the site location and area of the Relevant Properties had been confirmed. As at the date of this report, the valuation of the Relevant Properties is still on-going. The Group is currently awaiting for an execution notice for the redevelopment under the PRC's Slum Redevelopment Policy granted by the Changchun Municipal Government. Depending on the availability of such execution notice and the agreement on the result of the valuation among the parties, it is currently expected that the auction for a portion of the Relevant Properties will take place in 2019. If the disposal of the Relevant Properties is materialised, the Group will have additional funds to finance its operations and the capital expenditure for relocation of its production facilities in Changchun.

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

The Group has taken various measures to enhance the operational efficiency 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.

(d) Financial support from the indirect major shareholder

The Group has received a written confirmation dated 8 June 2018 from Nongtou, an entity controlled by the Jilin SASAC, an indirect major shareholder of the Company, that it would continue to provide financial support to the 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 30 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 1,200,000 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 332,000 MT of corn kernels from the subsidiaries of Nongtou which aggregately accounted for 16.5% 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 6.9% of total corn procurement of the Group.

2.2 GOING CONCERN *(Continued)*

(d) Financial support from the indirect major shareholder *(Continued)*

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, to provide synergistic effects among its various investments in the agricultural sector in Jilin Province and to provide adequate and sufficient financial support to the Group.

The validity of the going concern 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 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

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

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**	**Carrying amount under HKFRS 9 Amortised cost**
	HK$'000	*HK$'000*
Trade and bills receivables	517,402	517,402
Financial assets included in prepayments, deposits and other receivables	570,889	570,889
Due from an associate	17,142	17,142
Pledged bank deposits	406,209	406,209
Cash and bank balances	304,362	304,362
	1,816,004	1,816,004

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.

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

HKFRS 15: Revenue from Contracts with Customers *(Continued)*

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.

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 Construction 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.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is an 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 required by 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.

Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 or other comprehensive income as appropriate.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(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 6.7%
Plant and machinery	6.7%
Leasehold improvements, furniture, 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 the end of each reporting period.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Prepaid land lease payments

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

Intangible assets

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

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

Research and development costs

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

Golf club membership

Golf club membership is stated at cost less impairment losses, if any. The carrying amount of individual golf club membership is reviewed at the end of each reporting period to assess whether the recoverable amount has declined below the carrying amount. When a decline 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)*

Intangible assets *(Continued)*

Trademarks

The initial cost of acquiring trademarks is capitalised. Trademarks with indefinite useful lives are carried at cost less accumulated impairment losses. Trademarks with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives.

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) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and measurement — Applicable from 1 January 2018

Financial assets (except for trade 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) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; 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.

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.

Classification and measurement — Applicable before 1 January 2018

When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

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 direct 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 payable at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated).

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 — Applicable from 1 January 2018

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items — Applicable from 1 January 2018 *(Continued)*

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 based on the following one or more 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 — 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 instrument 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 financial guarantee contracts is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment and the Group considers the changes in the risk that the specified debtor will default on the financial guarantee contracts.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items — Applicable from 1 January 2018 *(Continued)*

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.

Simplified approach of ECL

For trade 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 includes 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items — Applicable from 1 January 2018 *(Continued)*

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 subsequent recovery is recognised in profit or loss.

Impairment of financial assets and other items — 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items — Applicable before 1 January 2018 *(Continued)*

Financial assets carried at amortised cost (Continued)

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.

Convertible bond

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on 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 expenses item, as appropriate, on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers within HKFRS 15

Revenue recognition— Applicable from 1 January 2018

Nature of goods or services

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers within HKFRS 15 *(Continued)*

Revenue recognition— Applicable from 1 January 2018 *(Continued)*

Timing of revenue recognition (Continued)

(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 based biochemical products 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.

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 or Mandatory FVOCI 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers within HKFRS 15 *(Continued)*

Revenue recognition— 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract costs *(Continued)*

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.

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.

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

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollars. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgement

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

Deferred tax liability for withholding taxes

The Group determines that no dividends are to be distributed by the PRC subsidiaries to the Company or any subsidiary outside Mainland China in the foreseeable future. Therefore, no deferred tax liability for withholding taxes has been recognised in these consolidated financial statements. Please refer to note 27 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:

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

Estimation uncertainty *(Continued)*

Loss allowance for ECL

The Group's management estimates the loss allowance for trade 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 receivables. Details of the key assumptions and inputs used in estimating ECL are set out in note 33 to the consolidated financial statements.

Fair value of property, plant and equipment

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

Useful lives and residual values of property, plant and equipment

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

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

Estimation uncertainty *(Continued)*

Impairment of property, plant and equipment and prepaid land lease payments

Determining an appropriate amount of an impairment requires an estimation of recoverable amounts of relevant property, plant and equipment, prepaid land lease payments or the respective cash-generating units ("CGU") to which the property, plant and equipment and prepaid land lease payments belong, which is the higher of value in use and fair value less cost of disposal. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the CGU to which the asset belongs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the relevant assets or the CGU and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset or the CGU for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected or there is a downward revision of future estimated cash flows due to unfavourable changes in facts and circumstances, an additional impairment loss may arise. At 31 December 2018, accumulated impairment losses of HK$3,835 million (2017: HK$4,001 million) and HK$5 million (2017: HK$5 million) have been recognised for property, plant and equipment and prepaid land lease payments respectively. The carrying amount of property, plant and equipment and prepaid land lease payments were HK$6,496 million (2017: HK$7,188 million) and HK$575 million (2017: HK$621 million).

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$252 million (2017: HK$297 million) in relation to deductible temporary difference and tax losses was recognised in the consolidated statement of financial position to the extent of the recognised taxable temporary difference. No deferred tax asset has been recognised on the remaining tax losses of HK$5,267 million (2017: HK$10,165 million) and the remaining deductible temporary difference of HK$3,624 million (2017: HK$3,853 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 four (2017: four) reportable operating segments as follows:

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION *Continued)*

(a) Segment results

Year ended 31 December 2018

	Upstream products *HK$'000*	Amino acids *HK$'000*	Corn sweeteners *HK$'000*	Polyol chemicals *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Revenue from:						
External customers	**2,710,478**	**1,794,851**	**1,121,227**	**31,170**	**–**	**5,657,726**
Intersegment	**180,487**	**–**	**55,573**	**5,287**	**(241,347)**	**–**
Revenue	**2,890,965**	**1,794,851**	**1,176,800**	**36,457**	**(241,347)**	**5,657,726**
Segment results	**(542,446)**	**(257,879)**	**(49,539)**	**(10,003)**	**–**	**(859,867)**
Bank interest income						**4,342**
Unallocated income						**220,078**
Unallocated expenses						**(166,628)**
Finance costs						**(565,040)**
Loss before tax						**(1,367,115)**
Income tax credit						**67,896**
Loss for the year						**(1,299,219)**

Year ended 31 December 2017

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Other segment information

Year ended 31 December 2018

	Upstream products *HK$'000*	Amino acids *HK$'000*	Corn sweeteners *HK$'000*	Polyol chemicals *HK$'000*	Total *HK$'000*
Capital expenditure	78,947	46,509	16,897	2,188	144,541
Depreciation	232,174	192,888	45,707	9,580	480,349
Amortisation of prepaid land lease payments	10,360	8,080	3,486	671	22,597
(Gain) Loss on disposal of property, plant and equipment, net *(note)*	(1,390)	–	140	–	(1,250)
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net	(17,939)	–	–	–	(17,939)
Write-down (Reversal of write-down) of inventories, net	18,508	(3,545)	(2,521)	(73,952)	(61,510)
Impairment (Reversal of impairment) of trade and bills receivables, net	230	3,229	(11,157)	523	(7,175)
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net	707	25,507	48	(53)	26,209
Waiver of payables	(8,877)	(18,121)	(1,188)	–	(28,186)

Note: Gain on disposal of prepaid land lease payments and property, plant and equipment amounted to HK$155,622,000 and HK$7,793,000 respectively are included in unallocated income not attributable to any of the above segments.

4. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Other segment information *(Continued)*

Year ended 31 December 2017

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

(c) Geographical information

Revenue information based on locations of customers

	2018 ***HK$'000***	2017 *HK$'000*
The PRC	**4,480,721**	3,245,601
Asian, American regions and others	**1,177,005**	1,151,404
	5,657,726	4,397,005

4. OPERATING SEGMENT INFORMATION *(Continued)*

(c) Geographical information *(Continued)*

Non-current assets information based on locations of assets

	2018 **HK$'000**	2017 *HK$'000*
The PRC	**7,138,195**	7,853,566
Hong Kong	**2,047**	24,128
	7,140,242	7,877,694

(d) Information about major customers

No revenue from any customer individually amounted to 10% or more of the Group's 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	**5,657,726**	4,397,005

The revenue from contracts with customer 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$224,929,000.

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

	2018 HK$'000	2017 HK$'000
Other income and gains		
Bank interest income	**4,342**	2,605
Government grants *(note)*	**39,771**	77,217
Amortisation of deferred income	**10,257**	10,077
Gain on disposal of prepaid land lease payments	**155,622**	67,219
Gain on disposal of property, plant and equipment, net	**9,043**	417
Foreign exchange gain, net	**16,074**	—
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net	**17,939**	—
Reversal of write-down of inventories, net	**13,631**	—
Reversal of impairment of trade and bills receivables, net	**7,175**	—
Reversal of impairment of prepayments, deposits and other receivables, net	**—**	12,949
Waiver of payables	**28,186**	—
Others	**19,590**	28,270
	321,630	198,754

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

6. FINANCE COSTS

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

	2018 HK$'000	2017 HK$'000
Interest on bank and other borrowings	**394,783**	368,189
Finance costs for discounted bills receivables	**15,357**	778
Interest on financial guarantees given by Nongtou	**11,453**	—
Interest on payables to suppliers	**84,746**	30,555
Imputed interest on convertible bonds	**58,701**	55,156
	565,040	454,678

7. LOSS BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Employee benefits expenses including directors' remuneration:			
Wages and salaries		**381,748**	298,306
Pension scheme contributions		**72,564**	56,573
		454,312	354,879
Cost of inventories sold*		**5,395,144**	3,702,300
Depreciation	13	**480,349**	397,651
Amortisation of prepaid land lease payments	14	**22,597**	22,078
Auditor's remuneration		**5,500**	6,200
Impairment of property, plant and equipment, net	13	**–**	134,846
Impairment of intangible assets	16	**1,539**	–
Loss on revaluation of property, plant and equipment, net		**–**	2,870
(Reversal of impairment) Impairment of deposits paid for acquisition of property, plant and equipment, net		**(17,939)**	1,776
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net		**26,209**	(12,949)
Research and development costs		**3,097**	10,567
(Reversal of impairment) Impairment of trade and bills receivables, net	33	**(7,175)**	45,675
Gain on disposal of prepaid land lease payments		**(155,622)**	(67,219)
Gain on disposal of property, plant and equipment, net		**(9,043)**	(417)
Foreign exchange difference, net		**(16,074)**	23,249
(Reversal of write-down) Write-down of inventories, net		**(61,510)**	7,068
Amortisation of deferred income		**(10,257)**	(10,077)
Amortisation of intangible assets	16	**9**	15
Corn subsidies, included in cost of sales		**(38,325)**	(142,352)
Operating lease payments in respect of office premises		**1,580**	460

* Cost of inventories sold includes employee benefits expenses, depreciation, amortisation of prepaid land lease payments and reversal of write-down/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.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

	2018			
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Mr. Yuan Weisen	–	–	–	–
Mr. Zhang Zihua	–	–	–	–
Mr. Liu Shuhang (appointed on 26 January 2018)	747	–	229	976
Non-executive directors				
Ms. Liang Wanpeng (appointed on 21 December 2018)	–	–	–	–
	747	–	229	976
Independent non-executive directors				
Mr. Ng Kwok Pong	480	–	–	480
Mr. Yeung Kit Lam	480	–	–	480
Ms. Chiu Lai Ling, Shirley (resigned on 1 October 2018)	360	–	–	360
Mr. Zhao Jin (appointed on 21 December 2018)	–	–	–	–
	1,320	–	–	1,320
Chief executive				
Mr. Kong Zhanpeng*	–	3,000	15	3,015

* Mr. Kong resigned as chief executive officer of the Company on 1 October 2018 and appointed as chief economist on 21 December 2018 and he is not entitled to any remuneration since 21 December 2018.

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

	2017			
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Mr. Yuan Weisen (appointed on 23 March 2017)	–	–	–	–
Mr. Zhang Zihua (appointed on 23 March 2017)	–	–	–	–
Ms. Wang Qiu (resigned on 23 March 2017)	–	–	–	–
Mr. Wang Jian (resigned on 23 March 2017)	–	–	–	–
Mr. Li Shuguang (resigned on 23 March 2017)	–	–	–	–
Non-executive directors				
Mr. Qiu Zhuang (resigned on 23 March 2017)	–	–	–	–
Mr. Xing Lizhu (resigned on 23 March 2017)	–	–	–	–
	–	–	–	–
Independent non-executive directors				
Mr. Ng Kwok Pong	480	–	–	480
Mr. Yeung Kit Lam	480	–	–	480
Ms. Chiu Lai Ling, Shirley	480	–	–	480
	1,440	–	–	1,440
Chief executive				
Mr. Kong Zhanpeng	–	4,029	25	4,054

No emolument was paid or payable by the Group to any of the directors or the chief executive 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 or the chief executive waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

9. FIVE HIGHEST PAID EMPLOYEES

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

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and benefits in kind	**4,664**	5,013
Pension scheme contributions	**60**	72
	4,724	5,085

The highest paid employees fell within the following bands:

	2018 **Number of individuals**	2017 Number of individuals
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**—**	1
	4	4

No emolument was paid or payable by the Group to any of the highest paid employees as inducement to join or upon joining the Group or as compensation for loss of office. Except that Mr. Kong Zhanpeng waived emoluments of HK$600,000 during the year ended 31 December 2018, the highest paid employees did not waive any emoluments during the years ended 31 December 2018 and 2017.

10. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the 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.

	2018 **HK$'000**	2017 HK$'000
Current tax		
The PRC enterprise income tax	**2,337**	4,141
Overseas taxes *(note)*	**(70,883)**	—
	(68,546)	4,141
Deferred tax		
Origination and reversal of temporary differences, net	**650**	(162,900)
Income tax credit	**(67,896)**	(158,759)

Note: The amount represents the reversal of a provision for tax exposure for a subsidiary in Germany upon the completion of a tax audit conducted by the German tax authority during the year ended 31 December 2018.

10. INCOME TAX CREDIT *(Continued)*

Reconciliation of income tax credit

	2018	2017
	HK$'000	*HK$'000*
Loss before tax	**(1,367,115)**	(1,049,017)
Income tax at applicable tax rate	**(317,180)**	(252,292)
Non-deductible expenses	**29,587**	61,648
Tax-exempt income	**(28,504)**	(1,010)
Unrecognised temporary difference	**(11,220)**	(20,178)
Unrecognised tax losses	**343,741**	188,149
Utilisation of previously unrecognised tax losses	**(14,516)**	(7,631)
Recognition of previously unrecognised deferred taxes and reversal of deferred taxes	**1,079**	(127,445)
Over provision in prior year	**(70,883)**	—
Income tax credit	**(67,896)**	(158,759)

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

11. DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 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$1,222,322,000 (2017: HK$837,491,000), and the weighted average number of ordinary shares in issue during the year of 6,398,998,360 (2017: 6,398,998,360) shares.

As the assumed conversion of the convertible bonds has an anti-dilutive effect, the diluted loss per share was equal to the basic loss per share for the years ended 31 December 2018 and 2017.

13. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount — Year ended 31 December 2018	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvement, furniture, equipment and motor vehicles HK$'000	Construction in-progress HK$'000	Total HK$'000
At 1 January 2018	**5,450,597**	**1,270,179**	**11,982**	**455,560**	**7,188,318**
Additions	**4,520**	**62,459**	**7,648**	**69,914**	**144,541**
Transfer	**36,388**	**70,265**	**23**	**(106,676)**	**—**
Disposals	**(8,565)**	**(53)**	**(353)**	**—**	**(8,971)**
Depreciation	**(259,368)**	**(216,574)**	**(4,407)**	**—**	**(480,349)**
Exchange realignment	**(263,943)**	**(57,218)**	**(651)**	**(25,697)**	**(347,509)**
At 31 December 2018	**4,959,629**	**1,129,058**	**14,242**	**393,101**	**6,496,030**
Reconciliation of carrying amount — Year ended 31 December 2017					
At 1 January 2017	4,564,291	1,174,451	8,942	642,814	6,390,498
Additions	779	32,448	6,974	285,639	325,840
Transfer	170,433	248,305	—	(418,738)	—
Disposals	(8,305)	(5,796)	(103)	(10)	(14,214)
Revaluation	537,856	—	—	—	537,856
Depreciation	(165,317)	(227,957)	(4,377)	—	(397,651)
Impairment losses	—	(31,350)	—	(103,496)	(134,846)
Exchange realignment	350,860	80,078	546	49,351	480,835
At 31 December 2017	5,450,597	1,270,179	11,982	455,560	7,188,318

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

	Leasehold buildings *HK$'000*	Plant and machinery *HK$'000*	Leasehold improvement, furniture, equipment and motor vehicles *HK$'000*	Construction in-progress *HK$'000*	Total *HK$'000*
At 31 December 2018					
At cost	**–**	**9,525,490**	**179,156**	**558,918**	**10,263,564**
At valuation	**5,218,169**	**–**	**–**	**–**	**5,218,169**
Accumulated depreciation and impairment losses	**(258,540)**	**(8,396,432)**	**(164,914)**	**(165,817)**	**(8,985,703)**
	4,959,629	**1,129,058**	**14,242**	**393,101**	**6,496,030**
At 1 January 2018					
At cost	–	9,902,423	187,696	631,366	10,721,485
At valuation	5,450,597	–	–	–	5,450,597
Accumulated depreciation and impairment losses	–	(8,632,244)	(175,714)	(175,806)	(8,983,764)
	5,450,597	1,270,179	11,982	455,560	7,188,318

Leasehold buildings

At 31 December 2018, the Group has not obtained building certificates for certain leasehold buildings with a total carrying amount of HK$1,575,660,000 (2017: HK$1,670,580,000).

Had the Group's leasehold buildings been carried under the cost model, their carrying amount at 31 December 2018 would have been approximately HK$4,231,352,000 (2017: HK$4,612,283,000).

The Group's leasehold buildings located in Luyuan District in Changchun held by 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 HK$540,726,000 (before deferred tax) was recognised in other comprehensive income and credited to asset revaluation reserve and a loss on revaluation of HK$2,870,000 was recognised in profit or loss during the year ended 31 December 2017.

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.

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

Leasehold buildings *(Continued)*

Valuation processes

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

Fair value hierarchy

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

	Fair value measurement at 31 December 2017/31 May 2017 using			
	Quoted prices in active market (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Recurring fair value measurement for:				
Commercial properties – Hong Kong	–	7,952	–	7,952
Industrial properties – The PRC	–	–	5,416,428	5,416,428
Residential properties – The PRC	–	1,036	25,181	26,217
	–	8,988	5,441,609	5,450,597
Carrying amount:				
31 December 2018	–	933	4,958,696	4,959,629
31 December 2017	–	8,988	5,441,609	5,450,597

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.

The commercial properties in Hong Kong and certain residential properties in the PRC were valued using the direct comparison approach at 31 December 2017 and are categorised as Level 2 fair value measurements.

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

Leasehold buildings *(Continued)*

Fair value hierarchy *(Continued)*

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

	2018 *HK$'000*	2017 *HK$'000*
At 1 January	**5,441,609**	4,557,853
Additions and transfer from construction in progress	**40,908**	171,212
Gain on revaluation, net	**—**	535,207
Depreciation	**(259,294)**	(165,218)
Disposals	**(640)**	(8,305)
Exchange realignment	**(263,887)**	350,860
At 31 December	**4,958,696**	5,441,609

The gain on revaluation for the year ended 31 December 2017 represents the total gain for the year included in other comprehensive income of HK$538,077,000 and the total loss for the year included in profit or loss of HK$2,870,000 for leasehold buildings held at 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) that are categorised as Level 3 fair value measurements:

Valuation technique	Significant unobservable inputs	Industrial properties
DRC approach	Construction cost (Renminbi ("RMB")/ sq.m.)	RMB80 — RMB5,500

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

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

Impairment assessment

The directors have performed an impairment assessment on the construction in progress of certain subsidiaries operating in Changchun and Harbin at 31 December 2017 based on a valuation performed by Roma Appraisals Limited, an independent professionally qualified valuer. The estimates of the recoverable amount, which amounted to HK$373,760,000, were based on the assets' fair value less cost of disposal, using the DRC approach. As a result of the impairment assessment, an impairment loss of HK$103,496,000 was recognised in profit or loss during the year ended 31 December 2017.

14. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
At 1 January	**640,752**	594,643
Additions	**24,193**	44,783
Amortisation	**(22,597)**	(22,078)
Disposal	**(13,907)**	(23,041)
Exchange realignment	**(33,323)**	46,445
At 31 December	**595,118**	640,752
Current portion included in prepayments, deposits and other receivables	**(19,887)**	(19,887)
Non-current portion	**575,231**	620,865

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

15. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost	**360,889**	360,889
Accumulated impairment losses	**(360,889)**	(360,889)
	–	–

16. INTANGIBLE ASSETS

	Golf club membership *HK$'000*	Trademarks *HK$'000*	Total *HK$'000*
Reconciliation of carrying amount – Year ended 31 December 2018			
At 1 January 2018	**5,284**	**74**	**5,358**
Amortisation	**—**	**(9)**	**(9)**
Impairment losses	**(1,539)**	**—**	**(1,539)**
Exchange realignment	**—**	**(4)**	**(4)**
At 31 December 2018	**3,745**	**61**	**3,806**
Reconciliation of carrying amount – Year ended 31 December 2017			
At 1 January 2017	5,284	84	5,368
Amortisation	—	(15)	(15)
Exchange realignment	—	5	5
At 31 December 2017	5,284	74	5,358
At 31 December 2018			
Cost	**5,284**	**146**	**5,430**
Accumulated amortisation and impairment losses	**(1,539)**	**(85)**	**(1,624)**
	3,745	**61**	**3,806**
At 1 January 2018			
Cost	5,284	154	5,438
Accumulated amortisation and impairment losses	—	(80)	(80)
	5,284	74	5,358

17. SUBSIDIARIES

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

Name of subsidiary	Principal place of business and place of incorporation/ registration	Particulars of registered/paid-up capital	Proportion of ownership interests held by the Group	Principal activities
GSH	Cayman Islands	HK$152,758,600	64	Investment holding
Changchun Dihao Foodstuff Development Co., Ltd.*	The PRC	Registered capital: RMB325,100,000/ Paid-up capital: RMB192,133,068	64	Manufacture and sale of corn sweeteners
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*	The PRC	US$62,504,000	64	Manufacture and sale of corn refined products
Jinzhou Dacheng Food Development Co., Ltd.*	The PRC	US$7,770,000	64	Manufacture and sale of corn sweeteners
Shanghai Hao Cheng Food Development Co., Ltd.*	The PRC	US$9,668,000	64	Manufacture and sale of corn sweeteners
Harbin Dacheng Bio-Technology Co., Ltd.*	The PRC	RMB303,000,000	100	Manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products
Changchun Wanxiang Corn Oil Co., Ltd.#	The PRC	HK$28,500,000	79	Manufacture and sale of corn oil products
Changchun Dacheng Industrial Group Co., Ltd.*	The PRC	RMB193,000,000	100	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd.*	The PRC	US$49,227,952	100	Manufacture and sale of corn based biochemical products
Changchun Dahe Bio Technology Development Co., Ltd.*	The PRC	Registered capital: US$168,450,000/ Paid-up capital: US$140,409,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-Tech Development Co., Ltd.*	The PRC	RMB2,066,150,000	100	Manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products
Changchun Dacheng Industrial Group Huicheng International Trade Co., Ltd.*	The PRC	RMB20,000,000	100	Manufacture and sale of corn based biochemical products

* Wholly foreign-owned enterprise

\# Sino-foreign enterprise

The above subsidiaries are indirectly held by the Company. The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the financial performance of the Group for the year or formed a substantial portion of the net liabilities/assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. SUBSIDIARIES *(Continued)*

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

	GSH Group	
	2018 **HK$'000**	2017 HK$'000
Percentage of equity interest held by NCI	**36%**	36%
Revenue, other income and gains	**1,981,378**	1,416,216
Costs and expenses	**(2,186,864)**	(1,558,943)
Income tax (expenses) credit	**(3,010)**	2,469
Loss for the year	**(208,496)**	(140,258)
Other comprehensive income	**18,250**	5,305
Total comprehensive loss for the year	**(190,246)**	(134,953)
Loss for the year attributable to NCI	**(75,059)**	(50,493)
Total comprehensive loss for the year attributable to NCI	**(68,489)**	(48,583)
Dividends paid to NCI	**–**	–
Current assets	**635,800**	586,922
Non-current assets	**936,467**	1,048,535
Current liabilities	**(1,659,818)**	(1,299,135)
Non-current liabilities	**(225,668)**	(459,295)
Net liabilities	**(313,219)**	(122,973)
Carrying amount of NCI	**(112,759)**	(44,270)
Net cash flows from (used in):		
Operating activities	**45,183**	54,258
Investing activities	**(28,414)**	(87,918)
Financing activities	**(162,692)**	80,932

18. INTERESTS IN AN ASSOCIATE

Interests in the associate represents 40% (2017: 40%) of the registered and paid-in capital of Changchun Dacheng Hexin Technology Development Co., Ltd. ("Dacheng Hexin"), a company incorporated in the PRC. It is principally engaged in the manufacture and sale of botanical straw based sweetener products in the PRC.

The Group has discontinued the recognition of its share of losses of Dacheng Hexin when applying the equity method because the share of losses of Dacheng Hexin exceeded the Group's interests in Dacheng Hexin and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of profit of Dacheng Hexin for the current year and share of losses cumulatively were HK$214,000 (2017: loss of HK$1,394,000) and HK$6,477,000 (2017: HK$6,691,000) respectively.

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

	2018 ***HK$'000***	2017 *HK$'000*
Gross amounts:		
Current assets	**10,280**	7,393
Non-current assets	**55,100**	57,385
Current liabilities	**(82,146)**	(83,095)
Deficit	**(16,766)**	(18,317)

	2018 ***HK$'000***	2017 *HK$'000*
Gross amounts:		
Revenue	**—**	—
Profit (Loss) and total comprehensive income (loss)	**534**	(3,485)

19. INVENTORIES

	2018 ***HK$'000***	2017 *HK$'000*
Raw materials	**467,968**	387,980
Finished goods	**277,525**	204,485
	745,493	592,465

During the year, some of the raw materials which had been written down to net realisable value and recognised in other expenses in prior years have been brought into production and resulted in reversal of write-down of inventories recognised in cost of sales and other income.

20. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**940,904**	915,290
Bills receivables	**37,444**	31,627
	978,348	946,917
Loss allowance	**(404,081)**	(429,515)
	574,267	517,402

The Group normally allows credit terms of 30 to 90 days (2017: 30 to 90 days) to established customers. An 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	**364,311**	321,131
1 to 2 months	**100,316**	131,801
2 to 3 months	**61,595**	53,886
3 to 6 months	**28,967**	8,856
Over 6 months	**19,078**	1,728
	574,267	517,402

Information about the Group's exposure to credit risks and loss allowance for trade and bills receivables is included in note 33 to the consolidated financial statements.

During the year, the Group discounted bills receivables to banks in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of bills receivables and has recognised the cash received as secured bank borrowings and included in note 25. At the end of the reporting period, the carrying amount of the bills receivables pledged for issuance of bills payables was HK$30,963,000 (2017: Nil) and the associate liability was HK$30,963,000 (2017: Nil).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Prepayments	**314,187**	212,043
Deposits and other debtors	**77,682**	41,301
PRC value-added tax ("VAT") and other tax receivables	**158,882**	264,880
Receivables from disposal of assets *(note)*	**475,135**	529,588
	1,025,886	1,047,812

Note: Included in the receivables from disposal of assets was the remaining consideration receivable from a government bureau in respect of the disposal of certain buildings, machineries and fixtures erected on a piece of land located in Luyuan District in Changchun during the year ended 31 December 2014, which amounted to HK$454,545,000 (2017: HK$481,928,000) at 31 December 2018. The Group is currently in discussion with the Potential Purchaser on the disposal of the Relevant Properties, and the transfer of the receivable to the Potential Purchaser is part of the discussion.

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**135,033**	304,362
Pledged bank deposits	**203,918**	406,209
	338,951	710,571
Less: pledged bank deposits for issuance of bills payables	**(203,918)**	(406,209)
Cash and cash equivalents	**135,033**	304,362

At the end of the reporting period, the cash and bank balances and pledged bank deposits of the Group denominated in Renminbi amounted to HK$242,676,000 (2017: HK$553,436,000). Renminbi held by subsidiaries in the PRC is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

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

(a) Cash and cash equivalents *(Continued)*

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

(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.

	Interest-bearing bank and other borrowings *HK$'000*	Convertible bonds *HK$'000*	Total *HK$'000*
At 1 January 2018	8,417,569	913,070	9,330,639
Changes from financing cash flows:			
Proceeds from new bank loans	3,966,547	–	3,966,547
Repayment of bank and other loans	(3,872,603)	–	(3,872,603)
Interest paid	(412,646)	–	(412,646)
Total changes from financing cash flows	(318,702)	–	(318,702)
Exchange realignment	(513,509)	–	(513,509)
Other changes:			
Interest expenses	412,646	58,701	471,347
At 31 December 2018	7,998,004	971,771	8,969,775

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

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

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

23. TRADE AND BILLS PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables		
— To third parties *(note (a))*	**1,484,899**	1,155,008
— To Nongtou Group *(note (b))*	**444,302**	114,271
	1,929,201	1,269,279
Bills payables	**233,684**	377,614
	2,162,885	1,646,893

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 balance payable to the State-Owned Supplier of HK$80 million (31 December 2017: Nil), which is unsecured and interest-bearing at 8.0% to 9.0% per annum after the credit periods lapsed.

Note (b): The trade payables to the subsidiaries of Nongtou are unsecured and interest-bearing at 8.0% to 12.0% per annum after the credit periods lapsed.

An ageing analysis of the trade and bills payables as 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	**738,933**	488,446
1 to 2 months	**359,794**	111,137
2 to 3 months	**131,550**	139,354
Over 3 months	**932,608**	907,956
	2,162,885	1,646,893

24. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Accruals for employee benefits	**265,989**	256,092
Advances received for relocation *(note (a))*	**428,409**	216,867
Payables for purchases of machinery	**143,037**	164,023
Receipts in advance *(note (b))*	**177,179**	238,479
Payables to Nongtou Group *(note (c))*	**463,879**	481,043
VAT and other duties payables	**125,728**	135,889
Accruals and other creditors	**408,048**	423,007
	2,012,269	1,915,400

Note (a): The balance represents advances from the Potential Purchaser, received through a government bureau in 2015 and 2018, for the disposal of the Relevant properties.

Note (b): 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	**238,479**
Recognised as revenue	**(224,929)**
Receipt of advances or recognition of receivables	**177,179**
Exchange realignment	**(13,550)**
At 31 December	**177,179**

Unsatisfied or partially unsatisfied performance obligations

All the performance obligations that were 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.

Note (c): The payables represent advances from the subsidiaries of Nongtou and guarantee charge payables to Nongtou which are unsecured, interest-bearing at 3.5% to 10.0% per annum and repayable on demand.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate %	**Maturity**	***HK$'000***	Effective interest rate %	Maturity	*HK$'000*
Current						
Short term bank loans – secured	**3.9%-8.0%**	**2019**	**2,367,500**	3.9%-8.0%	2018	1,424,806
Short term bank loans – unsecured	**3.9%-6.5%**	**2019**	**3,682,514**	3.9%-5.7%	2018	2,771,446
Long term bank loans with repayable on demand clause – unsecured	**–**	**–**	**–**	1.7%-4.2%/ HIBOR+1.5%	On demand/2021	665,390
Other loans – unsecured *(note)*	**10.0%-13.6%**	**On demand**	**77,274**	–	–	–
			6,127,288			4,861,642
Non-current						
Bank loans – secured	**7.0%**	**2020**	**182,956**	4.3%-7.0%	2019-2021	315,661
Bank loans – unsecured	**4.4%**	**2020**	**1,686,362**	4.3%-4.9%	2019-2020	3,237,350
Other loans – secured	**1.1%**	**2021**	**1,398**	2.6%	2021	2,916
			1,870,716			3,555,927
			7,998,004			8,417,569

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

Analysed into:	2018 HK$'000	2017 HK$'000
Bank loans repayable:		
Within one year or on demand	**6,050,014**	4,861,642
In the second year	**1,869,318**	1,932,530
In the third to fifth years	**—**	1,620,481
	7,919,332	8,414,653
Other borrowings repayable:		
Within one year or on demand	**77,274**	—
In the third to fifth years	**1,398**	2,916
	78,672	2,916
	7,998,004	8,417,569
Secured	**2,551,854**	1,740,467
Unsecured	**5,446,150**	6,677,102
	7,998,004	8,417,569

Note: The balance represents other loans from the subsidiaries of Nongtou and the State-Owned Supplier which are unsecured, interest-bearing at 10.0% to 13.6% per annum and repayable on demand.

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

	2018 **HK$'000**	2017 HK$'000
Additional information		
Collaterals pledged for security:		
Property, plant and equipment	**2,286,121**	2,866,705
Prepaid land lease payments	**113,653**	217,664
Corporate guarantee by:		
The Company	**6,340,681**	6,498,522
Certain subsidiaries	**527,513**	751,674
Indirect major shareholder	**568,182**	554,217
A subsidiary and independent third parties (joint guarantee)	**45,455**	118,072
Denominated in:		
Renminbi	**7,998,004**	8,402,781
Hong Kong dollars	**—**	14,788

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

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 33 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).

26. DEFERRED INCOME

	2018 HK$'000	2017 HK$'000
At 1 January	**150,165**	147,114
Addition	**1,918**	1,205
Amortisation	**(10,257)**	(10,077)
Exchange realignment	**(8,067)**	11,923
At 31 December	**133,759**	150,165

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

27. DEFERRED TAX

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

	2018 HK$'000	2017 HK$'000
At 1 January	**9,561**	30,930
Exchange realignment	**562**	6,455
Credited to profit or loss	**650**	(162,900)
Charged to equity	**—**	135,076
At 31 December	**10,773**	9,561

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Depreciation allowances	**205,288**	194,633	**12,974**	36,098
Revaluation of leasehold buildings	**—**	—	**249,841**	270,581
Impairment of trade and other receivables	**14,822**	49,918	**—**	—
Tax losses	**31,825**	34,837	**—**	—
Others	**107**	17,730	**—**	—
	252,042	297,118	**262,815**	306,679
Offsetting	**(252,042)**	(297,118)	**(252,042)**	(297,118)
Deferred tax liabilities, net	**—**	—	**10,773**	9,561

27. DEFERRED TAX *(Continued)*

Unrecognised deferred tax assets arising from:

	2018	2017
	HK$'000	*HK$'000*
Deductible temporary differences	**3,623,773**	3,852,838
Tax losses	**5,267,371**	10,164,757
	8,891,144	14,017,595

Deductible temporary differences of approximately HK$3,624 million (2017: HK$3,853 million) and tax losses arising in Hong Kong of approximately HK$438 million (2017: HK$438 million) have no expiry date under current tax legislations. Tax losses arising in the PRC of approximately HK$4,829 million (2017: HK$9,591 million) which are available for offsetting against future taxable profits of the companies in which the losses arose will expire in one to five years. The directors consider that no deferred tax assets should be recognised as the directors consider that it is uncertain whether future taxable profits can be generated by these companies to utilise these tax losses and deductible temporary differences.

Deferred tax has not been recognised for withholding taxes and other taxes that would be payable on the unremitted earnings of certain subsidiaries totaling HK$748 million at 31 December 2018 (2017: HK$855 million). The directors consider that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

28. CONVERTIBLE BONDS

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

28. CONVERTIBLE BONDS *(Continued)*

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

	2018	2017
	HK$'000	*HK$'000*
Equity component		
Fair value of the Convertible Bonds at the date of issuance	**1,086,280**	1,086,280
Fair value of the liability component at the date of issuance	**(795,695)**	(795,695)
Equity component	**290,585**	290,585
Liability component		
At 1 January	**913,070**	857,914
Imputed interest	**58,701**	55,156
At 31 December	**971,771**	913,070

29. SHARE CAPITAL

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000
Issued and fully paid:		
6,398,998,360 ordinary shares of HK$0.1 each	**639,900**	639,900

30. FINANCIAL GUARANTEE CONTRACTS

Several subsidiaries of the Company have jointly provided corporate guarantees to a bank in the PRC in respect of banking facilities granted to Dajincang starting from 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. During the year ended 31 December 2018, certain subsidiaries of the Company, as guarantors of the financial guarantee contracts, paid interest of HK$105 million (2017: HK$155 million) in respect of the bank borrowings of Dajincang, which was recorded in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

31. COMMITMENTS

(a) Capital commitments

	2018 ***HK$'000***	2017 *HK$'000*
Contracted but not provided for:		
Purchase/Construction of property, plant and equipment	**549,657**	613,784

(b) Commitments under operating leases

The Group leases its office premises 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	**3,840**	–
In the second to fifth years inclusive	**6,079**	–
	9,919	–

32. RELATED PARTY TRANSACTIONS

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

Related party relationship	Nature of transactions	2018 HK$'000	2017 HK$'000
Key management personnel	Short-term employee benefits	10,243	10,235
	Post-employment benefits	269	44
	Termination benefits	540	–
	Other long-term benefits	263	–
		11,315	10,279
Subsidiaries of Nongtou	Purchase of corn kernels	651,563	216,719
	Interest on payables	72,124	30,555
	Interest on other borrowings	9,819	–
Nongtou	Interest on financial guarantees	11,453	–

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

At 31 December 2018	Financial assets at amortised cost HK$'000
Assets as per consolidated statement of financial position	
Trade and bills receivables	574,267
Financial assets included in prepayments, deposits and other receivables	552,817
Pledged bank deposits	203,918
Cash and bank balances	135,033
	1,466,035

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

At 31 December 2018	**Financial liabilities at amortised cost** ***HK$'000***
Liabilities as per consolidated statement of financial position	
Trade and bills payables	**2,162,885**
Financial liabilities included in other payables and accruals	**1,443,373**
Due to an associate	**2,675**
Interest-bearing bank and other borrowings	**7,998,004**
Convertible bonds	**971,771**
	12,578,708

At 31 December 2017	Loans and receivables *HK$'000*
Assets as per consolidated statement of financial position	
Trade and bills receivables	517,402
Financial assets included in prepayments, deposits and other receivables	570,889
Due from an associate	17,142
Pledged bank deposits	406,209
Cash and bank balances	304,362
	1,816,004

At 31 December 2017	Financial liabilities at amortised cost *HK$'000*
Liabilities as per consolidated statement of financial position	
Trade and bills payables	1,646,893
Financial liabilities included in other payables and accruals	1,284,940
Interest-bearing bank and other borrowings	8,417,569
Convertible bonds	913,070
	12,262,472

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

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

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 with a lower cost of debt when considered appropriate.

At the end of the reporting period, if interest rates had been 100 basis point higher/lower with all other variables held constant, the Group's loss before tax would increase/decrease by HK$74,832,000 (2017: HK$78,766,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for all financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2017.

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 pledged bank deposits and cash and cash equivalents 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.

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

Credit risk *(Continued)*

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. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. Since the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances and the trade receivables are non-interest-bearing.

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 receivables using a provision matrix at 31 December 2018 is summarised below.

At 31 December 2018

	Expected loss rate %	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Credit-impaired
Not past due	0.8	535,378	(4,303)	No
1 — 30 days past due	0.8	10,247	(87)	No
31 — 90 days past due	1.9	33,662	(630)	No
Over 90 days past due	100.0	399,061	(399,061)	Yes
		978,348	(404,081)	

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

Credit risk *(Continued)*

Trade and bills receivables *(Continued)*

An 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*
Neither past due nor impaired	496,264
Less than 1 month past due	13,998
1 to 3 months past due	6,797
Over 3 months past due	343
	517,402

Receivables that were neither past due nor impaired at 31 December 2017 relate to a large number of diversified customers for whom there was no recent history of default.

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

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

At 31 December 2018, the Group recognised loss allowance of HK$404,081,000 (2017: HK$429,515,000) 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.

	2018 ***HK$'000***	2017 *HK$'000*
At 1 January	**429,515**	356,334
Increase in allowance	**6,700**	50,131
Reversal of allowance	**(13,875)**	(4,456)
Exchange realignment	**(18,259)**	27,506
At 31 December	**404,081**	429,515

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.

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

Liquidity risk

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

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

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

At 31 December 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	1,929,201	75,279	158,405	–	–	2,162,885
Financial liabilities included in other payables and accruals	1,443,373	–	–	–	–	1,443,373
Due to an associate	2,675	–	–	–	–	2,675
Interest-bearing bank and other borrowings	2,699,889	1,651,826	1,942,418	1,883,577	1,421	8,179,131
Convertible bonds	–	–	–	1,086,280	–	1,086,280
	6,075,138	1,727,105	2,100,823	2,969,857	1,421	12,874,344

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

Liquidity risk *(Continued)*

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	1,269,279	102,673	274,941	–	–	1,646,893
Financial liabilities included in other payables and accruals	1,284,940	–	–	–	–	1,284,940
Interest-bearing bank and other borrowings	704,296	611,842	3,838,868	2,036,720	1,631,369	8,823,095
Convertible bonds	–	–	–	–	1,086,280	1,086,280
	3,258,515	714,515	4,113,809	2,036,720	2,717,649	12,841,208

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

In addition, as disclosed in note 30 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).

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.

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

Capital management *(Continued)*

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.

34. LITIGATIONS

Alleged interest in the Company's shares

A writ dated 28 November 2017 was issued by a plaintiff and a statement of claim was filed with the High Court of Hong Kong on 8 December 2017 (the "Claim"). The Claim relates to, among others, a document dated 29 November 2011 alleged by the plaintiff to have been signed by and on behalf of the Company. The plaintiff alleged that according to the said document, the plaintiff should be entitled to certain interest in the Company's shares. The plaintiff has claimed for damages in the amount of approximately HK$109 million, together with loss of dividends and interest in respect thereof, as well as costs and other relief. The Company applied for a striking out application of the Claim. A hearing session took place on 1 November 2018 and the Court has granted the Company its application to strike out the plaintiff's claim on 30 November 2018 and a court order against the plaintiff to repay the Company's legal costs. No appeal application had been made by the plaintiff and as such, the claim has been finally struck out.

Delayed payments to suppliers

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

35. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries		—	—
Current assets			
Other receivables		995	345
Cash and cash equivalents		1,799	9,671
		2,794	10,016
Current liabilities			
Other payables and accruals		3,114	3,664
Financial guarantee contracts		667,133	990,670
		670,247	994,334
Net current liabilities		(667,453)	(984,318)
Total assets less current liabilities		(667,453)	(984,318)
Non-current liabilities			
Convertible bonds		971,771	913,070
Financial guarantee contracts		682,136	—
		1,653,907	913,070
NET LIABILITIES		(2,321,360)	(1,897,388)
Equity			
Share capital		639,900	639,900
Reserves	35(a)	(2,961,260)	(2,537,288)
TOTAL DEFICIT		(2,321,360)	(1,897,388)

The 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

Yuan Weisen
Director

Liu Shuhang
Director

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

35(a) Reserves

	Share premium *HK$'000*	Convertible bond reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2017	3,127,204	290,585	(5,660,896)	(2,243,107)
Loss and total comprehensive loss for the year	—	—	(294,181)	(294,181)
At 31 December 2017	3,127,204	290,585	(5,955,077)	(2,537,288)
Loss and total comprehensive loss for the year	—	—	(423,972)	(423,972)
At 31 December 2018	3,127,204	290,585	(6,379,049)	(2,961,260)

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

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

36. 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 financial statements, is set out below.

	Year ended 31 December				
	2018*	2017#	2016#	2015#	2014#
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**5,657,726**	4,397,005	3,882,840	3,352,003	6,399,205
Cost of sales	**(5,398,016)**	(3,787,974)	(3,567,018)	(3,610,572)	(7,288,927)
Gross profit (loss)	**259,710**	609,031	315,822	(258,569)	(889,722)
Other income and gains	**321,630**	198,754	187,116	138,529	432,346
Selling and distribution costs	**(584,130)**	(398,193)	(296,578)	(177,468)	(551,339)
Administrative expenses	**(439,187)**	(419,489)	(347,562)	(383,037)	(405,464)
Other expenses	**(360,098)**	(584,442)	(1,500,062)	(1,068,660)	(1,664,116)
Finance costs	**(565,040)**	(454,678)	(441,118)	(515,873)	(628,318)
LOSS BEFORE TAX	**(1,367,115)**	(1,049,017)	(2,082,382)	(2,265,078)	(3,706,613)
Income tax credit (expense)	**67,896**	158,759	170,096	(5,461)	(58,067)
LOSS FOR THE YEAR	**(1,299,219)**	(890,258)	(1,912,286)	(2,270,539)	(3,764,680)
Loss attributable to:					
Owners of the parent	**(1,222,322)**	(837,491)	(1,850,640)	(1,995,970)	(3,365,133)
Non-controlling interests	**(76,897)**	(52,767)	(61,646)	(274,569)	(399,547)
	(1,299,219)	(890,258)	(1,912,286)	(2,270,539)	(3,764,680)
TOTAL ASSETS	**9,824,839**	10,763,086	9,833,188	12,579,801	13,756,393
TOTAL LIABILITIES	**(13,395,373)**	(13,229,610)	(11,637,255)	(12,555,725)	(12,505,678)
NON-CONTROLLING INTERESTS	**122,653**	58,992	(714)	(171,560)	(435,584)
	(3,447,881)	(2,407,532)	(1,804,781)	(147,484)	815,131

* Details of the disclaimer of audit opinion are set out in the independent auditor's report on pages 61 to 63.

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.