2019 ANNUAL REPORT

GLOBAL Bio-Chem Technology Group Company Limited

大成生化科技集團有限公司*

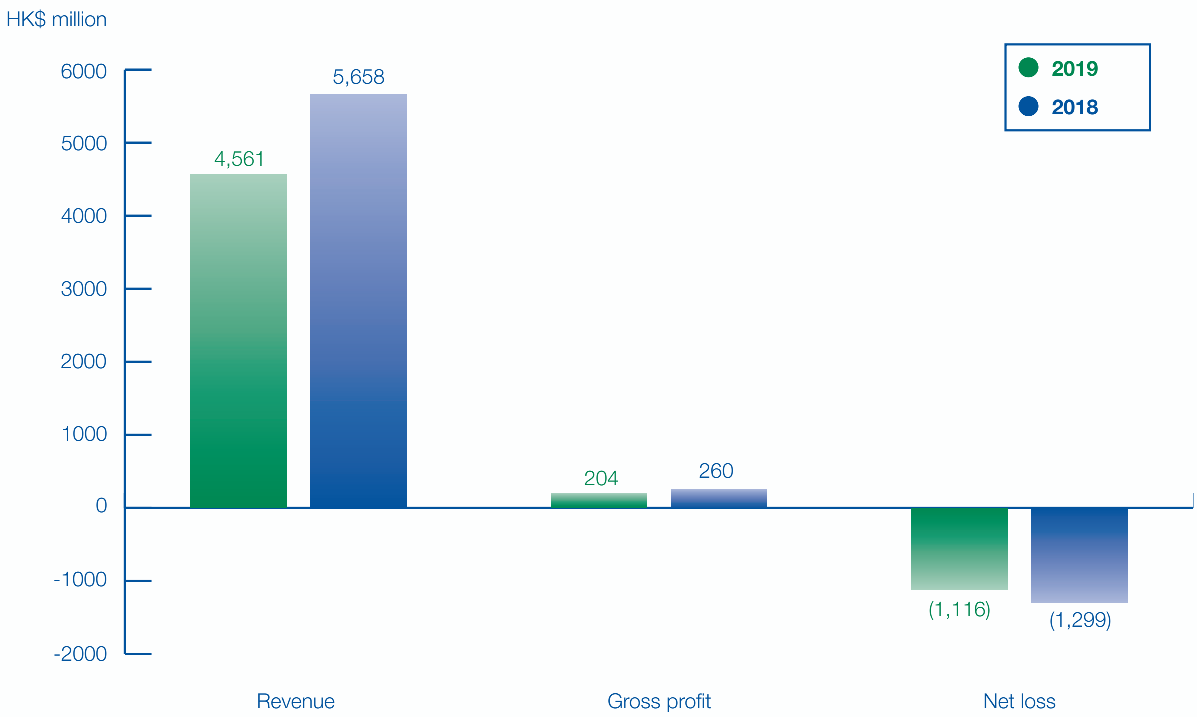
Stock Code: 00809

* For identification purpose only

Contents

Financial Highlights

FINANCIAL HIGHLIGHTS	2019	2018	Change %
Revenue (HK$'Mn)	**4,561**	5,658	(19.4)
Gross profit (HK$'Mn)	**204**	260	(21.6)
Loss for the year (HK$'Mn)	**(1,116)**	(1,299)	N/A
Loss attributable to owners of the Company (HK$'Mn)	**(1,068)**	(1,222)	N/A
Basic loss per share (HK cents)	**(15.5)**	(19.1)	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

Non-executive Director
Ms. Liang Wanpeng

Independent non-executive Directors
Mr. Ng Kwok Pong
Mr. Yeung Kit Lam
Mr. Zhao Jin

COMPANY SECRETARY

Mr. Chan Sing Fai, HKICS, HKICPA

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2202-04, 22nd Floor
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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.globalbiochem.com

STOCK CODE

00809

Message to Shareholders

Dear Shareholders,

2019 was a year full of challenges and uncertainties for businesses. During the year under review, the Group on the one hand had to cope with the severe macro environment as a result of the slowdown of domestic economic development and the trade dispute; on the other hand, it had to devote great effort to deal with the tightened cash flow and heavy debt burden. With respect to operations, the management had taken proactive measures, including optimising facility utilisation to adapt to market changes. In addition, in order to alleviate the financial pressure faced by the Group, the management had in-depth discussions with creditor bank and the relevant government bodies to facilitate the process of debt restructuring and the overall business rationalisation, and had achieved satisfactory results at the current stage.

BUSINESS REVIEW

During the year under review, the trade dispute between China and the United States continued. The situation turned around only until the phase one trade deal between the two countries was signed in mid-January 2020. The slowdown of China's economic growth, coupled with various uncertainties in the overall market condition, had weakened consumer and investment sentiment. On the other hand, the African Swine Fever epidemic in China continued, causing a significant drop in the demand for amino acid products and further intensified market competition.

During the year under review, despite the slight increase in domestic corn price, the Group managed to stabilise corn supply through the supply network of 吉林省農業投資集團有限公司(Jilin Province Agricultural Investment Group Co., Ltd.), the controlling shareholder of the Company, to maintain upstream production operations; however, due to the decrease in the sales volume of the downstream amino acid and sweetener segments, consolidated revenue dropped year-on-year. In addition, due to the decline in husbandry industry, the price of lysine products fell which exerted pressure on the gross profit. In spite of the unfavourable operating environment, benefited from the recognition of a one-off compensation for the resumption of the Relevant Properties in the amount of approximately HK$428 million during the year, the Group's net loss has been narrowed.

During the year under review, domestic corn production volume was slightly lower than the consumption volume; moreover, China's ageing corn stock had almost been digested during the past few years — both served to support the domestic corn price. International corn prices were also at a relatively high level as a result of reduced corn production in the United States and strong demand from the ethanol industry.

During the year under review, the operational efficiency of the Group's upstream corn refinery in the Jinzhou production site had been further enhanced; in addition, the local tax bureau had adopted a new basis for value-added tax assessment of corn refined products which increased the value-added tax deduction of these products — resulting in the decrease in unit cost. Furthermore, driven by the cost of the corn, the price of the Group's upstream products also increased. As such, during the year under review, although the revenue of the Group's upstream business reduced slightly, its gross profit has grown by almost 200%. Among the upstream products, the performance of other corn refined products made notable improvements, with significant reduction in gross loss.

The African Swine Fever epidemic had yet to be effectively controlled during the year under review. According to the industry's estimates, about a quarter of the world's pig population died due to the African Swine Fever. As the number of domestic live pigs continued to fall, the demand for feed products such as amino acid series products has shrunk, which put pressure on their prices. As a result, the Group's lysine business was affected.

It is expected that the domestic husbandry industry will not be able to recover quickly in the short term. As such, continued production of lysine products will not generate economic benefits for the Group, but rather will increase the financial pressure of the Group. In view of this, the Group has suspended its amino acid production facilities since August 2019 to reduce cash outflow.

The products of the independently listed corn sweetener business of the Group were affected by the intensified industry competition and declining demand; its revenue slipped during the year under review. After assessing the market situation, the production of downstream sweetener products in the Jinzhou site had been suspended since the third quarter of the year under review.

The production of the Group's polyol chemical business has been suspended for the past few years. During the year under review, the Group continued to sell its accumulated inventory. Since substantial provision in relation to the inventory of the polyol chemicals had been made in previous years, the gross profit margin of this business improved.

Over the past few years, the management has dedicated its efforts in resolving the Group's historical financial problems and sought to improve its overall cash flow position. Regarding the financial guarantee contracts provided for a former major supplier, a common understanding has been reached by the Group and the concerned parties including the creditor bank, that the outstanding debts need to be reclassified as non-performing assets of the lending banks in order to enable them to sell such debts to certain assets management companies at a relatively sharp discount as the first step of the debt restructuring plan. A portion of the debts of the Group has been transferred to the relevant assets management company as at the date of this report.

OUTLOOK

Although the outbreak of the coronavirus disease (COVID-19) epidemic has begun to be contained in China, it has spread around the world. Suspension of work and production in various industries at home and abroad, and the delays in logistics and transportation services between countries as a result make it hard to estimate at the current stage the extent of impact on the global economy. However, the recent fluctuations in the stock markets of various countries indicate that the prevailing market sentiment is rather pessimistic.

The economic growth rate in China for 2020 is expected at 5% to 6%, which is lower than 6.1% in 2019. The degree of impact of the coronavirus disease (COVID-19) epidemic on the business environment varies with different industries. But it will certainly take some time for them to gradually return to normal. On the other hand, since there is still no sign of easing of the African Swine Fever epidemic, the demand for lysine products from domestic feed suppliers will still be weak. The lysine business will continue to face severe challenges in 2020. The Group will pay close attention to the movements of the lysine market and resume production operation as soon as possible to the extent practicable. Our research and development team will continue to work on further cost reduction through optimising production process; and pursue opportunity for the development of other amino acid products complementary to current product mix to cater to different types of animals.

Message to Shareholders

For the sweeteners business, although the domestic and international sugar prices have risen due to lower production volume, production operations of the sweetener production site in Xinglongshan has been suspended at the beginning of 2020 due to lack of supply of raw materials as a result of the outbreak of the coronavirus disease (COVID-19). It is expected that the global economic depression will have an impact on sugar consumption, and the outlook for the sweeteners business will remain challenging in 2020.

During the year under review, the Company introduced new strategic investor through share subscription. The aforesaid subscription has strengthened the Group's capital base, as well as injected new energy into the Group's long term development. We hope to introduce more strategic investors in the future to facilitate the overall business restructuring of the Group.

Following the gradual progress made in debt restructuring at the beginning of 2020, the management of the Group will continue to discuss with its controlling shareholder, creditor banks and other stakeholders, and strive to find an ultimate solution to the debt of the Group as soon as possible. On the other hand, we are actively pushing forward with the disposal of the land in Luyuan District to improve the cash flow of the Group and strive to complete the disposal by the end of 2020 so as to speed up the relocation of the production facilities to Xinglongshan. The full operation of Xinglongshan production base will not only enable the Group to achieve economies of scale, but also increase product output and enhance product diversification, thereby allowing the Group to respond flexibly to and satisfy changing market needs.

Having gone through the difficult times in the past few years, the Group's business is gradually getting back on track. During this time, all of our shareholders, creditor banks and business partners have given their strong support to the Company and its management; employees at all levels of the Group are also committed to their duties. I would like to take this opportunity to express my heartfelt gratitude to all of you.

Chairman
Yuan Weisen

26 March 2020

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 2019 (the "Year"), the trade war between the People's Republic of China (the "PRC" or "China") and the United States (the "US") has dampened economic activities in the PRC and slowed down growth. Economic growth rate in the PRC dropped further to 6.1%, the slowest growth rate since 1990. On the other hand, outbreak of the African Swine Fever (the "ASF") across the PRC continued to pose impact on the husbandry and feed industries during the Year. The performance of the Group for the Year was under pressure.

Global corn production for the year 2019/20 is estimated at 1,112 million metric tonnes ("MT") (2018/19: 1,123 million MT), according to the estimates from the United States Department of Agriculture. Reduced corn production in the US and strong demand from the ethanol industry continued to fuel the demand of corn during the Year. Consequently, the international corn price soared to 608 US cents per bushel (equivalent to RMB1,670 per MT) (end of 2018: 429 US cents per bushel, equivalent to RMB1,161 per MT) by the end of the Year. In the PRC, corn harvest in 2018/19 produced approximately 261 million MT (2017/18: approximately 257 million MT), while consumption volume in 2019 was approximately 262 million MT. In addition, as the ageing corn stock in the PRC has gradually been digested in the past years, domestic corn price increased by 5.7% year-on-year from RMB1,750 per MT to RMB1,850 per MT. On the other hand, due to the improvement in operational efficiency in the upstream corn refinery in the Jinzhou site, the performance of the Group's upstream business was relatively stable. Despite this, the operating environment going forward is still expected to be challenging as the effect of the outbreak of the ASF continues to linger and the outbreak of the coronavirus disease (COVID-19) in the PRC and other parts of the world is expected to hit the global economy in 2020. The Group will continue to monitor market conditions and be cautious in making decision to resume production of certain production facilities to maintain relatively healthy cash flow while balancing its market presence.

With respect to the lysine market, the outbreak of the ASF across the country had a great impact on the swine husbandry industry during the Year. According to the estimates from the industry, about a quarter of the world's pig population have either died of the ASF or have been killed to stamp out the spread of the ASF during the Year. As a result, the demands for lysine products in both the domestic market and the overseas market have shrunk significantly. The overall utilisation rate of the lysine manufacturers in the PRC was kept low during the Year with lysine price ranging from RMB6,700 to RMB7,500 per MT throughout the Year. 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 optimised the facility utilisation in response to market changes and has suspended its production operation since August 2019 for machinery overhaul while maintaining the sales operation of the amino acid series with its inventory. As a result, the Group's lysine segment recorded a significant decrease in revenue and a gross loss for the Year.

As for the sugar market, international sugar price increased to 13.42 US cents per pound (equivalent to RMB2,070 per MT) by the end of the Year (end of 2018: 12.03 US cents per pound, equivalent to RMB1,829 per MT) due to reduced production output. In the PRC, domestic sugar production remained at similar level at 10.7 million MT in the 2019/20 harvest (2018/19: 10.8 million MT), with consumption remained at around 15.8 million MT (2018: 15.8 million MT). As a result, domestic sugar price increased to RMB5,900 per MT (end of 2018: RMB5,378 per MT) by the end of the Year. To protect local sugar producers and to narrow the huge gap between international sugar price and domestic sugar price, apart from imposing high tariff for sugar imports, the PRC government has been actively cracking down on sugar smuggling during the Year. Such measures have been effective in upholding the sugar price in China. On the other hand, a number of users in Huadong area have opted for vertical integration and expanded upstream to secure their feedstocks. Consequently, the market of sweeteners has shrunk and competition has further intensified. As economic growth slowed down, demand for sweetener products had also dropped. The effect was especially prominent in the low-profit margin region in Northeast China. As a result, both revenue and gross profit of the Group's sweetener segment have dropped during the Year. The Group will continue to leverage on its brand name to strengthen sales; and at the same time, utilise its research and development capabilities to develop products that better suit market needs.

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. The Group will continue to observe the market and take a prudent approach before resuming its polyol chemical business.

Notwithstanding that the uncertainty over the trade disputes between the PRC and the US has gradually resolved, the operating environment in 2020 will still be challenging. While the ASF will continue to hit the husbandry and feed industries, the outbreak of the coronavirus disease (COVID-19) in China as well as other parts of the world has added further uncertainty on the already lackluster market. As announced by the Company on 10 February 2020, the Group has suspended production operation of certain subsidiaries. In the short run, the Group will continue to monitor closely the development of epidemics, the market conditions as well as the financial conditions of the Group and will ensure the production operation of the Group's subsidiaries to resume as soon as possible to the extent practicable. In the long run, the Group will continue to strengthen its market position by utilising its brand name and continuing to be customers-oriented to understand better their ever-changing demand and product requirement, 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, leveraging on the synergies as a result of the introduction and participation of the resourceful shareholder with state-owned enterprise background, 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 2018 was subject to the disclaimer of opinion of the external auditor of the Company (the "Auditor") as detailed in the annual report for the year ended 31 December 2018 (the "2018 Annual Report"). Further to the management's response and relevant remedial measures taken and to be taken by the management as set out in the paragraph headed "Update on Remedial Measures" in the interim report of the Company for the six months ended 30 June 2019 (the "2019 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 (the "Audit Committee") of the Company after its critical review of the management's position:

1. Financial guarantee contracts

As detailed in the 2018 Annual Report, the previous supplier guarantees contracts (the "Previous Supplier Guarantees") given by certain subsidiaries of the Company and Global Sweeteners Holdings Limited ("GSH", together with its subsidiaries, the "GSH Group") (the "Guarantor Subsidiaries") for the benefit of 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.) ("Dajincang") were not recognised in the Group's consolidated financial statements for the year ended 31 December 2018 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 financial guarantee contracts for financial reporting purpose.

As disclosed in the 2018 Annual Report, as the term of the loan (the "Previous Supplier Loan") advanced by 中國銀行股份有限公司偉峰國際支行 (Bank of China Weifeng International Branch) ("Weifeng BOC") to Dajincang under certain loan agreements (the "Previous Supplier Loan Agreements") entered into between Dajincang and Weifeng BOC and guaranteed by the Guarantor Subsidiaries with an aggregate principal amount of RMB2.49 billion had expired, 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, new loan agreements have been entered into between Dajincang and Weifeng BOC for all indebtedness due and owing to Weifeng BOC (the "New Supplier Loan"). As a condition to the New Supplier Loan, new supplier guarantees (the "New Supplier Guarantees") should be granted by the Guarantor Subsidiaries. The amount drawn down by Dajincang as at 31 December 2019 and up to the date of this report amounted to RMB2.49 billion (31 December 2018: RMB2.49 billion).

As disclosed in the joint announcement (the "February Joint Announcement") of the Company and GSH dated 25 February 2020, Dajincang has defaulted in the repayment of New Supplier Loan and the aggregate outstanding principal amount was RMB2.49 billion together with the outstanding interest. As a result, the Guarantor Subsidiaries may be demanded to take up the full liability of RMB2.49 billion at any time so requested by Weifeng BOC.

The Group recognised the finance costs amounted to approximately HK$110.8 million (2018: HK$105.2 million) to Weifeng BOC pursuant to the New Supplier Guarantees, which was included in other expenses for the Year.

Reference is also made to the February Joint Announcement, after the submission of the Further Revised Debt-Equity Swap Proposal to the Bank of China Jilin Province Branch ("BOC Jilin Branch") and the People's Government of Jilin Province in August 2018, the principal lending banks of the Group in the PRC, 吉林省人民政府國有資產監督管理委員會 (The State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province) ("Jilin SASAC"), 吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.) ("Nongtou", together with its subsidiaries, the "Nongtou Group") (an entity controlled by Jilin SASAC and an indirect major shareholder of the Company), and the management of the Group have been actively negotiating the details of execution of the Further Revised Debt-Equity Swap Proposal. As a common understanding amongst the parties, the outstanding debts should be reclassified as non-performing assets of the principal lending banks to enable them to sell such debts to certain assets management companies at a relatively sharp discount as the first step of the debt restructuring plan. In mid-February 2020, the Company has been notified by BOC Jilin Branch that it had entered into a transfer agreement with 中國信達資產管理股份有限公司吉林省分公司 (Jilin Branch of China Cinda Asset Management Co., Ltd.) (the "New Creditor") pursuant to which BOC Jilin Branch had agreed to sell to the New Creditor, and the New Creditor had agreed to purchase, all of its rights and benefits of the loans with aggregate outstanding principal amount of RMB4,016.5 million (the "Transferred Loans") which include the loans of the Group (including the GSH Group) in the amount of RMB1,526.5 million, together with outstanding interest and the New Supplier Loan at a consideration of approximately RMB815.7 million. After the completion of the transfer of the Transferred Loans, the management of the Group and the GSH Group will continue their discussion on the next step of the debt restructuring with the New Creditor, including but not limited to repurchase of the Transferred Loans and debt to equity swap with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group. The Company will endeavour to facilitate the materialisation of the debt restructuring. The board (the "Board") of directors (the "Directors") of the Company expects that the Group (including the GSH Group) would be able to resolve all the amounts due and owing under the Transferred Loans and the indebtedness of Dajincang together with the related audit modification by the end of the year ending 31 December 2020. For further detail, 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 2018 Annual Report, the Auditor has raised fundamental uncertainties relating to the ability of the Group to continue as going concern. In addition to the remedial actions disclosed in the 2018 Annual Report, the management of the Company has taken and will take steps as outlined in note 2.2 to the consolidated financial statements of the Group for the Year to improve the financial position of the Group.

Dependent on the successful and favourable outcomes of the steps being taken as described in note 2.2 to the consolidated financial statements of the Group for the Year, the Board, including the Audit Committee, is of the view that the Group will have sufficient working capital for at least 12 months from the date of this report. Please refer to note 2.2 to the consolidated financial statements of the Group for the Year for details.

3. Prepayments, deposits and other receivables

As detailed in the 2018 Annual Report, the Group shall receive an aggregate compensation of RMB719.0 million from 長春市土地儲備中心 (Changchun Land Reserve Centre) ("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 in 2018. 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 it is subject to the completion of sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the building erected thereon (the "Relevant Properties") with a potential purchaser (the "Potential Purchaser") which is a municipal government-owned enterprise, as the Potential Purchaser shall facilitate the repayment of the receivable of RMB400.0 million to speed up the process. As notified by the Land Reserve Centre in the second half of 2019, the Land Reserve Centre had entered into a transfer agreement (the "Land Resumption and Compensation Transfer Agreement") with the Potential Purchaser on 25 July 2019, pursuant to which the Land Reserve Centre had agreed to transfer and the Potential Purchaser had agreed to take up the rights and obligations in relation to parcels of land and buildings under 長春市國有土地使用權土地收回補償合同 (Contract for Land Resumption and Compensation for State-Owned Land Use Rights in Changchun), including the outstanding payment of RMB400.0 million to a member of the Group. Subsequent to the Land Resumption and Compensation Transfer Agreement, the management of the Company has continued to negotiate actively with the Potential Purchaser for settlement of the receivables. Subsequently, the Group has received partial payment of the receivable in the first quarter of 2020. Based on the understanding of the management of the Group, the remaining balance of the receivable shall be received by the end of 2020.

The Auditor was satisfied with the audit evidence provided by the management of the Group in respect of the recoverability of the receivable and audit modification in this regard has been removed for the Year.

4. Other payables and accruals

As detailed in the 2018 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. The amount was recorded as other payables and accruals in the consolidated financial statements of the Group in 2018. The Auditor was unable to obtain sufficient appropriate audit evidence to verify the balance of the advance payment at 31 December 2018.

On 30 December 2019, the Changchun Municipal Government, the Potential Purchaser and the Company entered into a resumption compensation agreement, pursuant to which the parties confirmed, among others, the payment of RMB377.0 million made to the Group by the Potential Purchaser via the Changchun Municipal Government, and the satisfaction of the relocation progress of the Group which enabled the advance payment of RMB377.0 million to be recognised as compensation for the resumption of the Relevant Properties unconditionally. As the Auditor was satisfied with the relevant documents as audit evidence, the audit modification in relation to other payables and accruals of RMB377.0 million has been resolved as at 31 December 2019. However, the Auditor was unable to obtain direct confirmation or sufficient appropriate audit evidence by performing alternative procedures to verify the balance of the advances at 31 December 2018. Therefore, the Auditor was unable to determine whether any adjustments to the other income recognised during the Year were necessary, which may have a significant impact on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the Year.

FINANCIAL PERFORMANCE

The consolidated revenue of the Group decreased by approximately 19.4% to approximately HK$4,561.4 million (2018: HK$5,657.7 million) during the Year, which was mainly attributable to the decrease in sales volume of the Group's downstream amino acids and sweeteners segments. As for the cost of raw material, due to changes in the agricultural subsidy policy of the provincial governments, no corn procurement subsidy (2018: HK$38.3 million) was entitled to the Group during the Year. On the other hand, despite the demand for corn from the feed industry shrank as a result of the ASF, the price of corn remained stable during the Year as the supply of corn kernels tightened with the China's ageing corn stock gradually digested and the demand from the biofuel sector remained strong during the Year. The Group's corn purchasing cost still increased slightly by 3.4% during the Year. Meanwhile, due to the continuous impact of the ASF throughout the Year, the average selling price of the Group's amino acid products decreased by 10.1%. As a result, the Group's gross profit dropped by 21.6% to approximately HK$203.5 million (2018: HK$259.7 million) with gross profit margin of 4.5% (2018: 4.6%).

Due to the recognition of a one-off compensation for the resumption of the Relevant Properties in the amount of approximately HK$428.4 million during the Year, the net loss and the EBITDA (i.e. earning before interest, taxation, depreciation and amortisation) for the Year reduced to approximately HK$1,116.3 million (2018: HK$1,299.2 million) and HK$32.4 million (2018: LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) HK$299.1 million), respectively. Nevertheless, the high debt level and low facilities utilisation rate of the Group have weighed on the Group's performance. 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 to push forward the debt restructuring plan to lower the debt level of the Group; 3) ensuring a stable supply of corn kernels through the connections of Nongtou by entering into the corn procurement contracts; and 4) introducing potential investors to further strengthen the working capital and financial position of the Group.

Upstream products

(Revenue: HK$2,626.3 million (2018: HK$2,710.5 million))
(Gross profit: HK$123.2 million (2018: HK$43.3 million))

During the Year, the revenue of the Group's upstream business slightly decreased by 3.1% to approximately HK$2,626.3 million (2018: HK$2,710.5 million). Despite the negative impact of the ASF, the Group managed to optimise its operation to focus on upstream operation and lower the facility utilisation of loss-making amino acids segment. As a result, during the Year, the sales volumes of corn starch and other corn refined products were approximately 694,000 MT (2018: 687,000 MT) and approximately 431,000 MT (2018: 471,000 MT) respectively. In addition, as the PRC value-added tax ("VAT") deduction available for each MT of corn refined products increased as new basis for VAT assessment has been adopted in Jinzhou area, and the utilisation rate of the Group's upstream business was relatively stable during the Year, the gross profit margin of corn starch segment improved slightly to approximately 13.2% (2018: 12.2%) while the gross loss margin of other corn refined products segment improved to approximately 13.9% (2018: 18.5%). Consequently, the Group's upstream business recorded a gross profit of approximately HK$123.2 million (2018: HK$43.3 million) for the Year.

Internal consumption of corn starch was approximately 159,000 MT (2018: 285,000 MT), which was mainly used as raw material for the Group's downstream production.

Amino acids

(Revenue: HK$991.6 million (2018: HK$1,794.9 million))
(Gross loss: HK$53.2 million (2018: Gross profit HK$30.1 million))

The amino acids segment consists of lysine, protein lysine and threonine products. Due to the impact of the ASF, the sales volume of amino acids dropped by 117,000 MT to approximately 186,000 MT (2018: 303,000 MT), with the average selling price of amino acids down by 10.1%. As a result, the amino acids segment recorded a revenue of approximately HK$991.6 million (2018: HK$1,794.9 million) for the Year, representing 21.7% (2018: 31.7%) of the Group's revenue. Coupled with the cost pressure from the upstream corn starch segment, the amino acids segment recorded a gross loss of approximately HK$53.2 million (2018: gross profit: HK$30.1 million), with a gross loss margin of 5.4% (2018: gross profit margin: 1.7%).

While the effect of the ASF is expected to linger for a longer period of time, the outlook on feed related industry will be very challenging going forward. To cope with market changes, as announced by the Company on 16 December 2019 and 10 February 2020, the Group has suspended the production operation of the Group's amino acids production facilities since August 2019. While the Group will strive to resume production operation as soon as possible to the extent practicable, the Group's research and development team will continue 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 quickly to market changes and to offer more choices and better services to its customers.

Corn sweeteners

(Revenue: HK$918.4 million (2018: HK$1,121.1 million))
(Gross profit: HK$113.7 million (2018: HK$170.6 million))

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

During the Year, competition in the sweeteners market intensified with poor market sentiment, which was especially prominent in Northeast China region. As such, the Group has suspended the downstream production in the Jinzhou site since the third quarter of 2019 until the market conditions improve. As a result, the sales volume of corn sweeteners dropped by 19.6% to approximately 299,000 MT (2018: 372,000 MT) while revenue declined by 18.1% to approximately HK$918.4 million (2018: HK$1,121.1 million). Increased cost of upstream raw material and low facilities utilisation rate have driven up the average cost of sweetener products by 5.5% during the Year. As a result, the gross profit of the corn sweeteners segment decreased by 33.4% to approximately HK$113.7 million (2018: HK$170.6 million), with gross profit margin dropped by 2.8 percentage points to approximately 12.4% (2018: 15.2%) during the Year. As the macro economic environment is expected to be challenging in 2020, the Group will closely monitor market movements and adjust its production volume and product mix to cater to customer needs.

Polyol chemicals

(Revenue: HK$25.1 million (2018: HK$31.2 million))
(Gross profit: HK$19.8 million (2018: HK$15.7 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, although the revenue of polyol chemicals segment declined by 19.6% to approximately HK$25.1 million (2018: HK$31.2 million), the polyol chemicals segment recorded a gross profit of approximately HK$19.8 million (2018: HK$15.7 million) with gross profit margin improved to 78.9% (2018: 50.3%), as substantial provision in relation to the closing inventories of polyol chemicals has been made in previous years.

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 13.3% (2018: 20.8%) of the Group's total revenue. The Group has enhanced its capability in developing high value-added products for overseas market, the export sales of corn sweetener products increased by 13.3% to approximately HK$56.4 million (2018: HK$49.8 million). On the other hand, due to the outbreak of the ASF across Asia, the export sales of upstream products and amino acids decreased by 37.4% and 55.6% respectively to approximately HK$168.8 million (2018: HK$269.5 million) and HK$380.9 million (2018: HK$857.7 million) respectively during the Year. Consequently, the total export sales decreased by 48.5% to approximately HK$606.1 million (2018: HK$1,177.0 million) during the Year. No export sales of polyol chemicals was recorded during the Year (2018: Nil).

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

Other income and gains

During the Year, other income and gains increased by 112.8% to approximately HK$684.4 million (2018: HK$321.6 million). Such difference was mainly due to the recognition of a one-off compensation for the resumption of the Relevant Properties in the amount of approximately HK$428.4 million during the Year.

Selling and distribution costs

During the Year, the selling and distribution costs decreased by 30.2% to approximately HK$407.8 million (2018: HK$584.1 million), accounting for approximately 8.9% (2018: 10.3%) of the Group's revenue. Such decrease was mainly attributable to the decline in sales volume.

Administrative expenses

During the Year, administrative expenses kept at similar level at approximately HK$440.7 million (2018: HK$439.2 million), representing approximately 9.7% (2018: 7.8%) of the Group's revenue.

Other expenses

During the Year, other expenses increased by 41.7% to HK$510.4 million (2018: HK$360.1 million). These expenses mainly consists of expenses in relation to idle capacity of certain production facilities of the Group which amounted to approximately HK$342.7 million (2018: HK$179.7 million) and the payment of approximately HK$110.8 million (2018: HK$105.2 million) of finance costs pursuant to the New Supplier Guarantees.

Finance costs

During the Year, finance costs of the Group increased by 6.9% to approximately HK$604.1 million (2018: HK$565.0 million), which was mainly attributable to the increase in interest on payables to suppliers amounted to approximately HK$140.9 million (2018: HK$84.7 million) while the interest on bank and other borrowings dropped to approximately HK$376.3 million (2018: HK$394.8 million).

Income tax expenses (credit)

Due to the recognition of temporary differences, the Group recorded a deferred tax expense of approximately HK$39.2 million (2018: HK$0.7 million) during the Year. On the other hand, certain subsidiaries in the PRC generated net profit so PRC enterprise income tax of approximately HK$0.5 million (2018: HK$2.3 million) was recognised. As a result, the Group recorded income tax expenses of approximately HK$39.7 million (2018: tax credit: HK$67.9 million) during the Year. The income tax credit recorded in 2018 was a result of a one-off reversal of a provision for tax exposure for a subsidiary in Germany of approximately HK$70.9 million in 2018.

Loss shared by non-controlling shareholders

During the Year, GSH and an other non-wholly-owned subsidiary recorded losses of approximately HK$169.6 million (2018: HK$199.5 million), leading to loss shared by the non-controlling interests amounted to approximately HK$48.5 million (2018: HK$76.9 million).

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

The total borrowings as at 31 December 2019 decreased by approximately HK$370.2 million to approximately HK$7,627.8 million (31 December 2018: HK$7,998.0 million) as a result of net repayment of certain bank and other borrowings of approximately HK$206.8 million and approximately HK$163.4 million as a result of exchange rate adjustment as at 31 December 2019. On the other hand, the cash and bank balances and pledged bank deposits as at 31 December 2019 decreased by approximately HK$249.6 million to approximately HK$89.4 million (31 December 2018: HK$339.0 million). As a result, the net borrowings decreased only slightly by approximately HK$120.6 million to HK$7,538.4 million (31 December 2018: HK$7,659.0 million).

Structure of interest-bearing bank and other borrowings

As at 31 December 2019, the Group's interest-bearing bank and other borrowings amounted to approximately HK$7,627.8 million (31 December 2018: HK$7,998.0 million), all (2018: all) of which were denominated in Renminbi. The average interest rate during the Year was approximately 6.9% (2018: 6.2%).

The percentage of interest-bearing and other borrowing wholly repayable within one year and in the second to the fifth years were 73.2% and 26.8% (31 December 2018: 76.6% and 23.4%), respectively. As at 31 December 2019, interest-bearing bank and other borrowings amounted to approximately RMB334.0 million (31 December 2018: RMB453.0 million) have been charged at fixed interest rates ranging from 7.0% to 13.6% (31 December 2018: 6.0% to 13.6%) for terms from one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings were 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.

As announced by the Company on 19 July 2019, the Company entered into a subscription agreement (the "Subscription Agreement") with HK Bloom Investment Limited, a company established under the British Virgin Islands laws with limited liability ("HK Bloom" or "Subscriber"), pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,279,799,672 new shares (the "Subscription Shares") at the subscription price of HK$0.10 per Subscription Share (the "Subscription"). As a result of completion of the Subscription (the "Subscription Completion") on 20 August 2019, the conversion price of the outstanding Convertible Bonds was adjusted, in accordance with the terms and conditions of the Convertible Bonds, from HK$0.23 to HK$0.22 and the maximum number of shares issuable by the Company upon full conversion of the Convertible Bonds is 4,937,634,386 shares. The adjustment has taken effect from 20 August 2019. Save for the above adjustments, all other terms and conditions of the Convertible Bonds remain unchanged.

At 31 December 2019, the Convertible Bonds were divided into liability component and equity component which amounted to approximately HK$1,034.2 million and HK$290.6 million (31 December 2018: HK$971.8 million and HK$290.6 million) respectively and effective imputed interest of HK$62.5 million (2018: HK$58.7 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 21 days (31 December 2018: 37 days) due to the strengthened control on credit terms. Meanwhile, the trade payables turnover days extended to approximately 156 days (31 December 2018: 129 days) during the Year, as better credit terms have been offered by the Nongtou Group to the Group during the Year. As the Group's inventory decreased by 50.4% to HK$369.5 million (31 December 2018: HK$745.5 million) as a result of the suspension of Dehui production site and Harbin production site since second half of 2019, the inventory turnover days decreased to 31 days (31 December 2018: 50 days).

As at 31 December 2019, the current ratio and the quick ratio of the Group declined to 0.1 (31 December 2018: 0.3) and 0.1 (31 December 2018: 0.2) respectively. Such declines were mainly due to the decrease of net current assets. The Group recorded a net loss of approximately HK$1,116.3 million (2018: HK$1,299.2 million) during the Year leading to the recorded net liabilities value of approximately HK$4,346.0 million (31 December 2018: HK$3,570.5 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) increased to 232.4% (31 December 2018: 180.6%). To improve the financial position of the Group, the Company has adopted a series of strategic measures as outlined 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 13.3% (2018: 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. In spite of the China-US trade tensions and the depreciation of Renminbi during the Year, the Directors consider that there is no material unfavourable exposure to foreign exchange fluctuation in the short run. 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 Group's business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in the future as and when necessary.

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, materialise the debts restructuring plan to improve the financial position of the Group and introduce strategic investors to form business alliance for sustainable development.

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, the proceeds from the compensation of land resumption of the Relevant Properties and through collaboration with industry players. 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 2019, the Group had approximately 4,300 (2018: 4,600) full time employees in Hong Kong and the PRC. The Group appreciates the correlation between human resources and its success, and recognises the value of human resources management as a source of competitive advantage in the increasing turbulent environment. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards of its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and discretionary bonuses.

IMPORTANT EVENT AFFECTING THE GROUP SUBSEQUENT TO THE YEAR UNDER REVIEW

As announced by the Company on 10 February 2020, certain subsidiaries of the Group have suspended their production and/or sales operation due to the outbreak of the coronavirus disease (COVID-19) in early 2020. While the outbreak of the coronavirus disease (COVID-19) is gradually becoming under control in the PRC as at the date of this report, the World Health Organization declared the outbreak of the coronavirus disease (COVID-19) a pandemic on 11 March 2020 following its spread across the world. If the outbreak remains protracted, the world's economy may be adversely affected and the Group's operating environment will become increasingly challenging. The Board will continue to assess the impact of the outbreak on the Group's operation and financial performance, and will ensure that the production and/or sales operation of such subsidiaries of the Group will resume as soon as possible to the extent practicable. The Company will make further announcement(s) in accordance with the Listing Rules as and when necessary.

EXECUTIVE DIRECTORS

Mr. Yuan Weisen, aged 56, was appointed as an executive Director and 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 Nongtou, 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 50, 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 Nongtou. 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 is an executive director of GSH. He was also appointed as acting chairman of GSH on 31 December 2018.

Mr. Liu Shuhang, aged 48, 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 49, 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 27 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwok Pong, aged 47, 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 20 years' experience in auditing and accounting, including working experience in listed companies in Hong Kong. Mr. Ng is currently a regional finance director of Momentum Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 01152).

Mr. Yeung Kit Lam, aged 57, 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 25 years of post-qualification experience in the legal field, and has various experiences in litigation and commercial practices.

Mr. Zhao Jin, aged 38, 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 Stock Exchange and the Shanghai Stock Exchange. Mr. Zhao is currently a senior vice president of investment banking committee of CITIC Securities Company Limited.

SENIOR MANAGEMENT

Mr. Chan Sing Fai, aged 36, was appointed as the company secretary and financial controller of the Company on 23 April 2018, and has over 12 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 honours 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 is also the company secretary and financial controller of GSH and an independent non-executive director of Asia Energy Logistics Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00351).

Mr. Chu Lalin, aged 58, holds a Bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 24 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. Mr. Chu is also the chief engineer of the Group.

Mr. Wang Guicheng, aged 52, 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 and the GSH Group in December 2018.

Mr. Zheng Guichen, aged 58, 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 THE MODEL CODE

Save as disclosed below, in the opinion of the Directors, the Company has complied with all other code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Year.

Code provision E.1.2 of the CG Code stipulates, among other things, that the chairman of the board should attend the annual general meeting. Mr. Yuan Weisen, the chairman of the Company did not attend the annual general meeting of the Company held on 28 June 2019 due to prior business engagement.

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:

	Meetings held and attended						
Name of Directors	Board meeting	Audit Committee meeting	Nomination committee meeting	Remuneration committee meeting	Corporate governance committee meeting	Executive committee meeting (Note 1)	Annual general meeting
Executive Directors							
Yuan Weisen	8/11		0/1	0/1		–	0/1
Zhang Zihua	11/11				1/1	–	1/1
Liu Shuhang	11/11					–	1/1
Non-executive Director							
Liang Wanpeng	10/11						1/1
Independent non-executive Directors							
Ng Kwok Pong	10/11	3/3	1/1	1/1	1/1		1/1
Yeung Kit Lam	11/11	3/3					1/1
Zhao Jin	9/11	3/3	1/1	1/1	1/1		1/1

Note:

1. No executive committee meeting was held during the Year and all resolutions proposed to executive committee (“Executive Committee”) of the Company were passed by way of written resolutions.

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 19 to page 20 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 specialises and embraces the benefits of building a diverse and inclusive Board and has adopted the board diversity policy in order to achieve and maintain its sustainable development and competitive advantage.

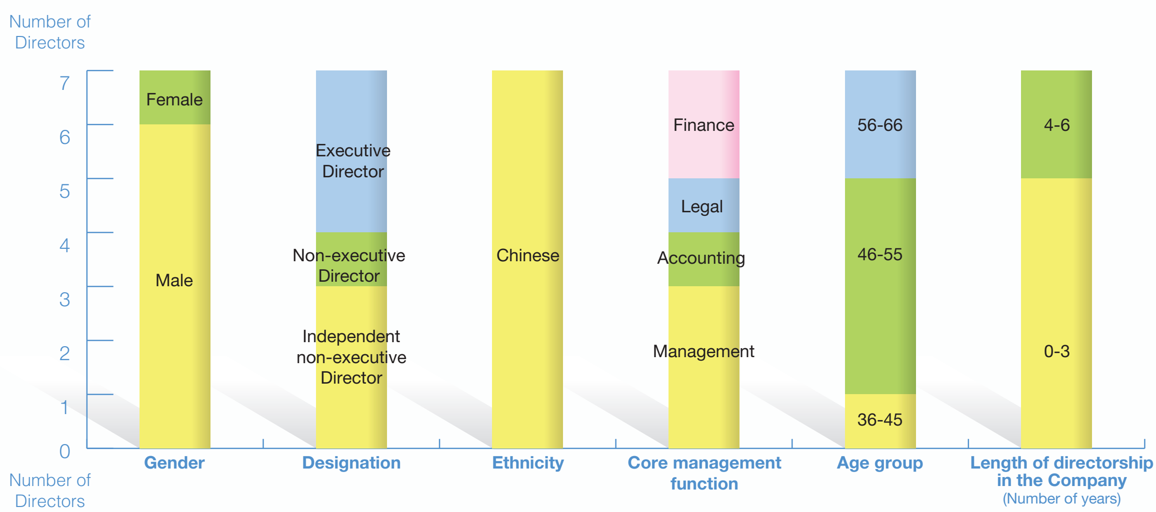
The board diversity policy has been considered from a range of diversity perspectives, including but not limited to race, gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining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

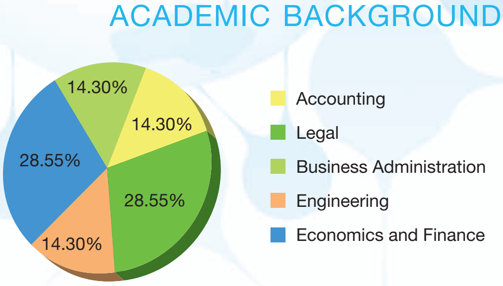
Underpinned by meritocracy, the Board appointments will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

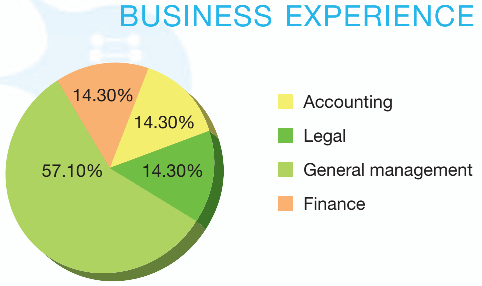
The Board annually discusses and establishes measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

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 ("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:







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.

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

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

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		✓
Non-executive Director		
Liang Wanpeng		✓
Independent non-executive Directors		
Ng Kwok Pong		✓
Yeung Kit Lam		✓
Zhao Jin		✓

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 the 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. Mr. Wang Guicheng is the chief operating officer and responsible for overseeing the operation management and product development of the Group.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Ms. Liang Wangpeng was appointed as non-executive Director on 21 December 2018. Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Mr. Zhao Jin were appointed as independent non-executive Directors on 1 March 2015, 23 April 2015 and 21 December 2018, 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 AGM 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 the Directors and the 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:

	2019 HK$'000	2018 HK$'000
Fees	**1,479**	2,067
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**—**	—
Performance related bonuses	**—**	—
Equity-settled share option expenses	**—**	—
Pension scheme contributions	**228**	229
	228	229
Total	**1,707**	2,296

(a) Independent non-executive Directors

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

	2019 HK$'000	2018 HK$'000
Ng Kwok Pong	**240**	480
Yeung Kit Lam	**240**	480
Chiu Lai Ling, Shirley (Note 1)	**—**	360
Zhao Jin (Note 2)	**136**	—
Total	**616**	1,320

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 (2018: Nil).

(b) Non-executive Director

Ms. Liang Wanpeng was appointed as a non-executive Director on 21 December 2018 and no emoluments were payable to the non-executive Director during the Year (2018: 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*
2019						
Yuan Weisen (Note 1)	–	–	–	–	–	–
Zhang Zihua (Note 1)	–	–	–	–	–	–
Liu Shuhang	863	–	–	–	228	1,091
Total	863	–	–	–	228	1,091
2018						
Yuan Weisen	–	–	–	–	–	–
Zhang Zihua	–	–	–	–	–	–
Liu Shuhang	747	–	–	–	229	976
Total	747	–	–	–	229	976

Note:

1. According to the Directors' service contracts entered into between the Company and Mr. Yuan Weisen and Mr. Zhang Zihua, Mr. Yuan and Mr. Zhang are not entitled to any basic salary or management bonus.

(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 2019, 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 2019, 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 to page 11 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 respectively, 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 management of the Group include the preparation of annual and interim accounts for the Board's approval, the implementation of strategies approved by the Board, the monitoring of operating budgets, the assessment of risk management system, the 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 the Audit Committee, the Nomination Committee, a remuneration committee (the "Remuneration Committee") of the Company and a corporate governance committee (the "Corporate Governance Committee") of the Company with clearly defined written terms of reference adopted in compliance with the CG code. The Company also set up the Executive Committee for the purpose of effective and timely management of the day to day activities of the Group on 23 March 2017.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal 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, internal audit team and the external 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 three meetings during the Year.

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

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

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

3. Reviewed and monitored the external auditor's independence, objectivity and the effectiveness of audit process in accordance with applicable standards;

4. 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. Discussed the proposed scope of work and approach of the audit with the external auditor prior to the actual commencement of the audit. 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. Recommended to the Board regarding the appointment and remuneration of the external auditor;

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

8. 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. 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 audit team and external consultant and discussions with the Board; and

10. 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 team, 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 makes recommendations on any proposed changes to the Board and on the selection of individuals nominated for directorships, and reviews the board diversity policy adopted by the Company. For more information on the Company's policy on board diversity, please refer to the section headed "Board diversity" in this report.

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

The Board has adopted procedures for nomination of new directors, pursuant to which (i) interviews will be conducted with the prospective candidates; and (ii) the Board will consider and, if thought fit, approve the appointment of the new directors by way of board meeting or written resolution. To ensure a proper understanding of the operations and businesses of the Company and that he/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/her appointment.

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 one meeting to review and make recommendations to the Board about the nomination of proposed candidates to fill the vacancy of the Board.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises an executive Director, Mr. Yuan Weisen and two independent non-executive Directors, namely, Mr. Ng Kwok Pong (the chairman of the committee) and Mr. Zhao Jin.

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 one meeting to review and make recommendations to the Board on the individual executive Directors' and senior management's remuneration packages.

The Board has adopted remuneration policy of the Directors on the basis of their merit, qualification and competence with reference to the market benchmarks.

CORPORATE GOVERNANCE COMMITTEE

The duties of the Corporate Governance Committee are, among others, to determine, develop and 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.

The Corporate Governance 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 2019.

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 training and continuous professional development of Directors and senior management;

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

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

5. Ensured that good corporate governance practices and procedures are established and applied.

Save as disclosed in this report, the Corporate Governance Committee considered that the Company has complied with all other 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;

(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 of the Company and/or a Director;

(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.

Auditor's Remuneration

For the year ended 31 December 2019, Auditor's remuneration of HK$5,500,000 was incurred for the audit services provided by Mazars CPA Limited.

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

	HK$'000
Taxation compliance	49
Services for interim report and circulars	896
Total	945

COMPANY SECRETARY

The company secretary of the Company, Mr. Chan Sing Fai, 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 21 of this report.

INVESTOR RELATIONS

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

The AGM provides 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 2019, 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	40.8%	470.3
HK Bloom (Note 1)	1,279,799,672	16.7%	192.0
Public float in Hong Kong	3,263,489,164	42.5%	489.5
Total	7,678,798,032	100.0%	1,151.8

Note:

1. On 27 September 2019, the Company entered into the Second Subscription Agreement with HK Bloom, pursuant to which HK Bloom has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 1,228,607,685 shares of the Company at the subscription price of HK$0.1080 per share under specific mandate. Due to the delay in making fund transfer by HK Bloom for the payment of the subscription price for the Second Subscription as a result of the outbreak of the coronavirus disease (COVID-19), the Second Subscription is yet to be completed as at the date of this report. The parties to the Second Subscription Agreement have agreed to extend the payment date by which HK Bloom shall make payment for the subscription price. Upon completion of the Second Subscription, HK Bloom will be interested in an aggregate of 2,508,407,357 shares, representing approximately 28.2% of the total issued share capital of the Company.

The 2019 AGM was held on 28 June 2019 to approve the 2018 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 12 December 2019, an extraordinary general meeting ("EGM") was held to ratify, confirm and approve the subscription agreement (the "Second Subscription Agreement") dated 27 September 2019 entered into between the Company and the Subscriber in respect of the issue of 1,228,607,685 new shares (the "Second Subscription Shares") of the Company at the subscription price of HK$0.1080 per Second Subscription Share (the "Second Subscription") and the transaction contemplated thereunder, and the granting of a specific mandate to the Directors to allot and issue the Second Subscription Shares pursuant to the terms and conditions of the Second Subscription Agreement. The resolution proposed was passed by way of poll. Despite all conditions precedent to the Second Subscription (the "Second Subscription Completion") have been fulfilled or waived, due to the delay in the Subscriber making fund transfer for the payment of the subscription price for the Second Subscription as a result of the outbreak of the coronavirus disease (COVID-19), the Second Subscription is yet to be completed as at the date of this report. The parties to the Second Subscription Agreement have agreed to extend the date by which the Subscriber shall make payment for the subscription price.

The 2020 AGM will be held on 24 June 2020 to approve, among others, the 2019 audited consolidated financial statements, grant of the new issue mandate and the repurchase mandate and the re-election of Directors.

DIVIDEND POLICY

The Board has suggested to adopt a dividend policy to provide the shareholders with regular dividends. The Company considers stable and sustainable returns to shareholders to be our goal and endeavours to maintain a progressive dividend policy. The Board shall take the following factors when considering the declaration and payment of dividends, inter alia:

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 the 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 the management and internal audit team, 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 audit team is 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 senior management and the external auditors. Management is called upon to present action plans in response to internal audit team's recommendations.

Inside information

With respect to the 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 ("SFO") 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 SFO safe harbours. 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. The senior management 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 the 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 audit team. Based on the results of those tests, process owners are able to present to the senior management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal audit team presents findings to the senior management and the Audit Committee that controls have been working properly or that changes have been made to ensure the integrity of the financial statements. The external auditor also understands 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 2019	Key risk mitigations
Financial risks:		
Liquidity risk of inadequate funding	The Group was in an imminent need of cash	To speed up the disposal of land located in Luyuan District to obtain additional fund
Inability to renew the bank borrowings on time	Substantial amount of bank borrowings were required to renew	Actively negotiate with local government and principal lending banks to drive on the debt restructuring proposal
Compliance risks:		
Non-compliance with the Listing Rules and other ordinances	—	Periodic review of internal control system and testing were carried out following the recommendations from internal audit department
		Sufficient training have been provided to the PRC and Hong Kong staff to enhance their knowledge and communciation among staff in order to avoid the non-compliance
Operation risks:		
Ageing production plants	Productivity lowered with ageing production facilities	Maintain productivity with minimum input
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 to cater to market need

In 2019, 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 and considered them effective and adequate. 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 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, SOCIAL AND GOVERNANCE REPORT

The 2019 Environmental, Social and Governance Report (the "ESG Report") will be available on or before 30 June 2020. 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 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 Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

2. Procedures for raising enquiries

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

2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at 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 that 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 that 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 the consolidated financial statements of the Group for the Year.

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 page 4 to page 6 and page 7 to page 18 of this report respectively. In addition, discussions on the Group's environmental policies and performance, compliance with the relevant laws and regulations that have a significant impact on the Group and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the ESG Report.

The principal risks and uncertainties are disclosed in Corporate Governance Report under section headed "Risk management and internal control" on page 40 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 event affecting the Group subsequent to the Year under review" on page 18 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 18 of this report.

RESULTS AND DIVIDENDS

The Group's loss for the Year and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on page 59 to page 149 of this report.

The Directors do not recommend the payment of a final dividend for the Year (2018: Nil).

The Company adopts a dividend policy which is set out on page 36 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 consolidated financial statements, and restated as appropriate, is set out on page 150 of this report. This summary does not form part of the 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 32 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 39 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2019, 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 2019 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 16.5% of the total sales for the Year and sales to the largest customer included therein accounted for 4.0% of the total sales of the Year. Purchases from the Group's five largest suppliers accounted for 14.4% of the total purchases for the Year and the purchase from the largest supplier included therein accounted for 4.0% 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 during the Year and up to the date of this report were:

Executive Directors:

Yuan Weisen
Zhang Zihua
Liu Shuhang

Non-executive Director:

Liang Wanpeng

Independent non-executive Directors:

Ng Kwok Pong
Yeung Kit Lam
Zhao Jin

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. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Zhang Zihua, Mr. Ng Kwok Pong and Mr. Zhao Jin will retire as Directors. Mr. Zhang Zihua, Mr. Ng Kwok Pong 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 the senior management of the Group are set out on page 19 to page 21 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 terms of the executive's appointments 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 terms of service of the non-executive Directors shall be renewable automatically for successive terms of one year commencing from the day after the expiry of the then current terms of the non-executive Directors' appointments 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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed elsewhere in this report, no Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts 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 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 the Directors and officers arising out of corporate activities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section "Connected transactions" on page 49 of this report, there was no other contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the Year.

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

As at 31 December 2019, none of the Directors or chief executives of the Company has any interests and short positions, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 2019, 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**
HK Bloom	1	2,508,407,357	32.67
Modern Agricultural	2	8,073,143,582	105.14

Notes:

1. Among these 2,508,407,357 shares, 1,279,799,672 of which represents shares registered in the name of and beneficially owned by HK Bloom and 1,228,607,685 of which represents the subscription shares which the subscription completion is yet to take place. HK Bloom is beneficially owned as to 50.0% and 50.0% by Mr. Li Zhenhao ("Mr. Li") and Ms. Sun Zhen ("Ms. Sun"), respectively. Under the SFO, each of Mr. Li and Ms. Sun is deemed to be interested in all the shares interested by HK Bloom.

2. (a) 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 the date of this report, 60% of the investment capital of PRC LLP is owned 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 Jilin SASAC. Each of Modern Agricultural, Modern Agricultural Industry Investment Holdings Limited, PRC LLP, GP, Nongtou and Jilin SASAC are deemed to be interested in the interest held by the Company.

   (b) Amongst 8,073,143,582 shares of the Company held by Modern Agricultural, 4,937,634,386 shares represented shares which may be issued to it upon full conversion of the Convertible Bonds. As such, as at 31 December 2019, Modern Agricultural was the beneficial owner of 3,135,509,196 shares of the Company, representing approximately 40.8% of the issued share capital of the Company. Upon full conversion of the Convertible Bonds, Modern Agricultural will become the holder of 8,073,143,582 shares of the Company, representing approximately 64.0% of the issued share capital of the Company as enlarged by the allotment and issue of conversion shares under the Convertible Bonds. As approved by the shareholders at the extraordinary general meeting of the Company held on 8 October 2015, Modern Agricultural has obtained a waiver under Note 1 on dispensations from Rule 26 of The Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code"), therefore, no offer under Rule 26 of the Takeovers Code would arise upon full conversion of the Convertible Bonds by Modern Agricultural.

As at 31 December 2019, none of the Directors or chief executives of the Company 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

On 12 September 2018, the Company entered into the new master supply agreement ("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 ("Master Sales Agreement") in relation 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") by members of the Group to members of the Nongtou Group on an ongoing basis. During the Year, the Group purchased corn kernels amounted to HK$774 million from members of Nongtou Group under the New Master Supply Agreement and sale of Corn starch and Other Products by members of the Group to members of the Nongtou Group under the Master Sales Agreement amounted to HK$4 million.

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 a controlling shareholder 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 New Master Supply Agreement and Master Sale Agreement are fair and reasonable, and the continuing connected transactions as contemplated under the 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 external 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 other related party transactions entered into between the Group and the Nongtou Group which are disclosed in note 36 to the consolidated financial statements also constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and such transactions are fully exempted from the shareholders' approval, annual review and all disclosure requirements 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 is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the Directors were appointed as Directors to represent the interests of the Company and/ or the Group.

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.

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 reduced to HK240,000 with effect from 1 January 2019.

DISCLOSURE PURSUANT TO RULES 13.19 AND 13.21 OF THE LISTING RULES

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 錦州大成食品發展有限公司(Jinzhou Dacheng Food Development Co., Ltd.) ("Jinzhou Dacheng"), which is an indirect wholly-owned subsidiary of GSH, and 中國銀行股份有限公司錦州港支行(Jinzhou Port Branch of Bank of China) (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.

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 in other loan agreements entered into by the GSH Group.

Certain financial covenants under the Loan Agreement have yet to be fulfilled and has yet to receive a waiver from the Lender in respect of the breach under the Loan Agreement with the outstanding principal amount of approximately RMB19.8 million as at the date of this report.

As disclosed in the February Joint Announcement dated 25 February 2020, the Group has defaulted in the repayment of the certain loans and the aggregate outstanding principal amount under such loans (excluding loans of the GSH Group) is approximately RMB3.7 billion together with outstanding interest as at the date of this report. The maximum liability guaranteed by the Group is approximately RMB3.9 billion, being the principal amount, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements. Certain subsidiaries of the Group have also provided securities to secure the loans. Meanwhile, the GSH Group has defaulted in the repayment of the certain loans and the aggregate outstanding principal amount under such loans is RMB198.6 million, together with outstanding interest as at the date of this report. The maximum liability guaranteed by the Company is approximately RMB199.0 million, being the principal amount, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements.

Furthermore, Dajincang has defaulted in the repayment of loans with aggregate outstanding principal amount of RMB2.49 billion together with outstanding interest as at the date of this report. Certain subsidiaries of the Group and the GSH Group have provided guarantees to Weifeng BOC to secure the obligations of Dajincang under the relevant loan agreements. The default in repayment of loans by the Group and the GSH Group may also trigger cross default of other loan agreements entered into by the Group and the GSH Group.

Up to the date of this report, the Group and the GSH Group have not received any waiver or demand for the immediate repayment from any of the respective creditors in respect of the default of repayment of loans as mentioned above.

In mid-February 2020, the Company and GSH have been notified by BOC Jilin Branch that it has entered into a transfer agreement with the New Creditor, pursuant to which BOC Jilin Branch has agreed to sell to the New Creditor, and the New Creditor has agreed to purchase, all of its rights and benefits of the Transferred loans which include the loans of the Group and the GSH Group above which amounted to approximately RMB1.3 billion and RMB198.6 million respectively, together with outstanding interest and the indebtedness of Dajincang at a consideration of approximately RMB815.7 million. As a common understanding amongst the parties involved in the discussion in relation to the Further Revised Debt-Equity Swap Proposal, the outstanding debts should be reclassified as non-performing assets of the principal lending banks to enable them to sell such debts to certain assets management companies at a relatively sharp discount as the first step of the debt restructuring plan. As such, the Group and the GSH Group have not been renewing the bank borrowings with their respective banks mentioned above. The default in the repayment of the loans as mentioned above was intended to push forward the execution of the debt restructuring. After the completion of the transfer of the Transferred Loans, the management of the Group and the GSH Group will continue their discussion on the next step of the debt restructuring with the New Creditor, including but not limited to repurchase of the Transferred Loans and debt to equity swap with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group and the GSH Group.

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 the Guarantor Subsidiaries in respect of the indebtedness of Dajincang due to Weifeng 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 Weifeng 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 Weifeng BOC for the New Supplier Loan. New Supplier Guarantees with the maximum guaranteed amount of RMB2.5 billion were granted by the Guarantor Subsidiaries to Weifeng 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.

Similar to the disclosure under the section “Disclosure Pursuant to Rules 13.19 and 13.21 of the Listing Rules”, the New Supplier Guarantees is expected to be resolved by the end of the year ending 31 December 2020 through debt restructuring.

FUNDRAISING ACTIVITIES

Subscription of new shares under the general mandate

In order to raise capital to facilitate the general working capital and further strengthen the financial position of the Group, the Company entered into the Subscription Agreement with the Subscriber on 19 July 2019, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,279,799,672 new ordinary shares at the subscription price of HK$0.10 per Subscription Share. The gross proceeds from the Subscription amounted to approximately HK$127,980,000. The net proceeds from the Subscription, after the deduction of relevant expenses, was approximately HK$127,900,000. The Subscription Shares represent 20.0% of the total issued share capital of the Company immediately before the completion of the Subscription and approximately 16.7% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. All conditions precedent to the Subscription have been fulfilled or waived and the Subscription Completion took place on 20 August 2019.

The following table sets out the detailed breakdown and description of the use of the net proceeds from the Subscription:

Intended use of proceeds	Timeline of use	Amount for the intended use of net proceeds (HK$) (approx.)	Amount actually used for the intended purpose (HK$) (approx.)
Repayment of interest of bank borrowings of the Group	August 2019 — September 2019	31,000,000	31,000,000
Daily administrative and operational expenses of the Group	August 2019 — October 2019	62,500,000	62,500,000
Repayment of trade and other payables of the Group's PRC subsidiaries	August 2019	20,000,000	20,000,000
Procurement of corn and other general working capital	August 2019 — October 2019	14,400,000	14,400,000

Subscription of new shares under the specific mandate

As disclosed in the circular of the Company date 22 November 2019, the Group is in an imminent need of cash. On the other hand, the Subscriber had expressed its confidence in the future development of corn related industry and the Group, and its interest to further invest in the Group. On 27 September 2019, the Company entered into the Second Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,228,607,685 new ordinary shares at the subscription price of HK$0.1080 per Second Subscription Share. The gross proceeds from the Second Subscription will amount to approximately HK$132,690,000. The net proceeds from the Second Subscription, after the deduction of relevant expenses, will be approximately HK$132,000,000. The Second Subscription Shares represent 16.0% of the total issued share capital of the Company immediately before the Second Subscription Completion and approximately 13.8% of the total issued share capital of the Company as enlarged by the allotment and issue of the Second Subscription Shares. Despite all conditions precedent to the Second Subscription Completion have been fulfilled or waived, due to the delay in the Subscriber making fund transfer for the payment of the subscription price for the Second Subscription as a result of the outbreak of the coronavirus disease (COVID-19), the Second Subscription is yet to be completed as at the date of this report. The parties to the Second Subscription Agreement have agreed to extend the date by which the Subscriber shall make payment for the subscription price.

The following table sets out the detailed breakdown and description of the use of the net proceeds from the Second Subscription:

Intended use of proceeds	Original expected timeline of use	Updated timeline of use	Amount for the intended use of net proceeds (HK$) (approx.)
Repayment of trade and other payables of the Group's PRC subsidiaries	December 2019 – February 2020	April 2020 – May 2020	56,000,000
Procurement of corn and other operational expenses	December 2019 – February 2020	April 2020 – May 2020	76,000,000

SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

Updates on the suspension of certain subsidiaries of the Group

Reference is made to the announcements of the Company dated 24 September 2019 and 16 December 2019. Due to poor market sentiment and the impacts of the ASF, the production operations of certain subsidiaries of the Group have been suspended to minimise cash outflow. As at the date of this report, the production operation of such subsidiaries remained suspended. The management of the Group is closely monitoring the market conditions, the financial conditions of the Group and in particular, the development of the recent outbreak of the coronavirus disease (COVID-19), and will ensure that the production operation of such subsidiaries will resume as soon as possible to the extent practicable.

Relocation of production facilities to the Xinglongshan site

Reference is made to the 2019 Interim Report and the circular of the Company dated 22 November 2019, 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, the proceeds from the compensation of the land resumption of the Relevant Properties and through collaboration with industry players. 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 2021
Modified starch — food grade (phase 1)	the Xinglongshan site	20,000	June 2019 – December 2020
Modified starch (phase 2)	the Xinglongshan site	60,000	Pending the availability of capital and favourable market condition
Corn oil	the Xinglongshan site	63,000	June 2019 – December 2020
Lysine	the Xinglongshan site/ Dehui City of Changchun	100,000	Pending the availability of capital and favourable market condition
Corn refinery	Dehui City of Changchun	600,000	Pending the availability of capital and favourable market condition
Amino acids (other varieties of amino acids complementary to current product mix with smaller capacity)	the Xinglongshan site	20,000	Pending the availability of capital and favourable market condition

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 will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Yuan Weisen
Chairman

Hong Kong
26 March 2020

MAZARS

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 59 to page 149, which comprise the consolidated statement of financial position at 31 December 2019, 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, among others, a disclaimer of opinion was expressed by us in our report dated 26 March 2019 on the consolidated financial statements of the Group for the year ended 31 December 2018.

(i) Financial guarantee contracts

As mentioned in notes 2.2 and 34 to the consolidated financial statements, certain subsidiaries of the Company had jointly provided corporate guarantees to a bank in connection with financing facilities granted to a former major supplier of the Group which amounted to RMB2.5 billion at 31 December 2018 and 2019 (the "Financial Guarantee Contracts"). In addition, an indirect major shareholder of the Company provided a 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 2018 and 2019 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2018 and 2019, 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 2019.

(ii) Material uncertainty related to going concern

As discussed in note 2.2 to the consolidated financial statements, at 31 December 2019, the Group had net current liabilities and capital deficiency of HK$8,877 million and HK$4,346 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK$1,116 million for the year ended 31 December 2019. 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.

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 2019. 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) 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, for relocation of the Group's production facilities in Changchun. As mentioned in note 26(a) to the consolidated financial statements, the advances in the amount of HK$428 million were written back as "other income" during the year ended 31 December 2019 pursuant to an agreement entered into between the Group, the independent third party and the government bureau. However, 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 2018. Therefore, we were unable to determine whether any adjustments to the other income recognised during the year ended 31 December 2019 were necessary, which may have a significant impact on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2019.

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 2020

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 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**4,561,391**	5,657,726
Cost of sales		**(4,357,862)**	(5,398,016)
Gross profit		**203,529**	259,710
Other income and gains	5	**684,375**	321,630
Selling and distribution costs		**(407,789)**	(584,130)
Administrative expenses		**(440,695)**	(439,187)
Other expenses		**(510,420)**	(360,098)
Share of loss of a joint venture	19	**(1,541)**	—
Finance costs	6	**(604,076)**	(565,040)
LOSS BEFORE TAX	7	**(1,076,617)**	(1,367,115)
Income tax (expenses) credit	10	**(39,717)**	67,896
LOSS FOR THE YEAR		**(1,116,334)**	(1,299,219)
OTHER COMPREHENSIVE INCOME			
Items that are reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside Hong Kong		**95,923**	195,209
Reclassification adjustment in respect of exchange reserve upon deemed disposal of a subsidiary		**(975)**	—
		94,948	195,209
Items that will not be reclassified subsequently to profit or loss:			
Gain on properties revaluation, net		**157,313**	—
Income tax effect	31	**(39,329)**	—
	13	**117,984**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**212,932**	195,209
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(903,402)**	(1,104,010)
LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(1,067,819)**	(1,222,322)
Non-controlling interests		**(48,515)**	(76,897)
		(1,116,334)	(1,299,219)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(877,929)**	(1,040,349)
Non-controlling interests		**(25,473)**	(63,661)
		(903,402)	(1,104,010)
LOSS PER SHARE			
Basic	12	**HK(15.5) cents**	HK(19.1) cents
Diluted	12	**HK(15.5) cents**	HK(19.1) cents

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**6,151,537**	6,496,030
Prepaid land lease payments	14	**—**	575,231
Right-of-use assets	15	**563,682**	—
Deposits paid for acquisition of property, plant and equipment		**58,502**	65,175
Intangible assets	16	**3,751**	3,806
Interests in an associate	18	**—**	—
Interests in a joint venture	19	**4,336**	—
Equity investment at fair value through other comprehensive income ("Designated FVOCI")	20	**208**	—
		6,782,016	7,140,242
CURRENT ASSETS			
Inventories	21	**369,496**	745,493
Trade and bills receivables	22	**267,870**	574,267
Prepayments, deposits and other receivables	23	**721,852**	1,025,886
Due from a joint venture		**4,270**	—
Pledged bank deposits	24	**9,916**	203,918
Cash and bank balances	24	**79,509**	135,033
		1,452,913	2,684,597
CURRENT LIABILITIES			
Trade and bills payables	25	**1,551,476**	2,162,885
Other payables and accruals	26	**2,047,566**	2,012,269
Due to an associate		**1,593**	2,675
Tax payables		**107,967**	103,237
Interest-bearing bank and other borrowings	27	**5,583,337**	6,127,288
Lease liabilities	28	**3,700**	—
Convertible bonds	29	**1,034,246**	—
		10,329,885	10,408,354
NET CURRENT LIABILITIES		**(8,876,972)**	(7,723,757)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(2,094,956)**	(583,515)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**2,044,444**	1,870,716
Lease liabilities	28	**2,188**	—
Deferred income	30	**120,294**	133,759
Deferred tax liabilities	31	**84,109**	10,773
Convertible bonds	29	**—**	971,771
		2,251,035	2,987,019
NET LIABILITIES		**(4,345,991)**	(3,570,534)

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CAPITAL AND RESERVES			
Share capital	32	**767,880**	639,900
Reserves		**(4,965,745)**	(4,087,781)
Deficit attributable to owners of the Company		**(4,197,865)**	(3,447,881)
Non-controlling interests		**(148,126)**	(122,653)
TOTAL DEFICIT		**(4,345,991)**	(3,570,534)

These consolidated financial statements on page 59 to page 149 were approved and authorised for issue by the board of directors on 26 March 2020 and signed on its behalf by

Yuan Weisen
Director

Liu Shuhang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Properties 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 2019 as previously reported	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)
Changes in accounting policy on adopting HKFRS16 (note 2.3)	–	–	–	–	–	–	–	(35)	(35)	–	(35)
As restated	639,900	2,839,469	799,638	290,585	15,677	113,944	2,036,220	(10,183,349)	(3,447,916)	(122,653)	(3,570,569)
Loss for the year	–	–	–	–	–	–	–	(1,067,819)	(1,067,819)	(48,515)	(1,116,334)
Other comprehensive income for the year											
– Gain on properties revaluation, net of deferred tax	–	–	98,937	–	–	–	–	–	98,937	19,047	117,984
– Exchange differences on translation of financial statements of operations outside Hong Kong	–	–	–	–	–	–	91,727	–	91,727	4,196	95,923
– Reclassification adjustment in respect of exchange reserve upon deemed disposal of a subsidiary	–	–	–	–	–	–	(774)	–	(774)	(201)	(975)
Total comprehensive income (loss) for the year	–	–	98,937	–	–	–	90,953	(1,067,819)	(877,929)	(25,473)	(903,402)
Transactions with owners:											
Issue of share capital	127,980	–	–	–	–	–	–	–	127,980	–	127,980
Total transactions with owners	127,980	–	–	–	–	–	–	–	127,980	–	127,980
Transfer	–	–	–	–	–	90	–	(90)	–	–	–
At 31 December 2019	767,880	2,839,469*	898,575*	290,585*	15,677*	114,034*	2,127,173*	(11,251,258)*	(4,197,865)	(148,126)	(4,345,991)

* These reserve accounts comprise the negative reserves of HK$4,965,745,000 (2018: HK$4,087,781,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Properties 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)

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" together with its subsidiaries, the "GSH Group"), 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.

PROPERTIES 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 of the Company which were established in the People's Republic of China (the "PRC" or "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.

OTHER RESERVE

The other reserve includes the difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received, on changes in the Group's interests in subsidiaries that do not result in the Group losing control.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	2019 *HK$'000*	2018 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(1,076,617)**	(1,367,115)
Adjustments for:		
Finance costs	**604,076**	565,040
Bank interest income	**(1,000)**	(4,342)
Loss (Gain) on disposal of property, plant and equipment, net	**755**	(9,043)
Gain on disposal of prepaid land lease payments	**—**	(155,622)
Amortisation of intangible assets	**3**	9
Amortisation of deferred income	**(13,857)**	(10,257)
Depreciation of property, plant and equipment	**479,343**	480,349
Depreciation of right-of-use assets	**25,605**	—
Amortisation of prepaid land lease payments	**—**	22,597
Impairment of intangible assets	**—**	1,539
Write-back of properties revaluation deficits charged to profit or loss in previous years	**(54,619)**	—
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net	**(113)**	(17,939)
Impairment of prepayments, deposits and other receivables, net	**13,322**	26,209
Reversal of impairment of trade and bills receivables, net	**(9,701)**	(7,175)
Waiver of payables	**(38,981)**	(28,186)
Reversal of write-back of inventories, net	**(59,700)**	(61,510)
Share of loss of a joint venture	**1,541**	—
Gain on disposal of right-of-use assets	**(4,334)**	—
Gain on deemed disposal of a subsidiary	**(42,973)**	—
Government compensation for relocation	**(428,409)**	—
Changes in working capital:		
Inventories	**424,941**	(125,350)
Trade and bills receivables	**309,098**	(79,250)
Prepayments, deposits and other receivables	**253,047**	(62,857)
Trade and bills payables	**(569,308)**	629,436
Other payables and accruals	**398,466**	119,256
Due to an associate	**(1,045)**	18,843
Due from a joint venture	**1,640**	—
Cash generated from (used in) operations	**211,180**	(65,368)
Interest received	**1,000**	4,342
Income taxes paid	**(864)**	(3,471)
Net cash generated from (used in) operating activities	**211,316**	(64,497)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	2019 *HK$'000*	2018 *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for prepaid land lease	**–**	(24,193)
Investment in Designated FVOCI	**(208)**	—
Purchases of property, plant and equipment	**(51,203)**	(144,541)
Deposits paid for acquisition of property, plant and equipment	**(225)**	—
Proceeds from disposal of prepaid land lease	**–**	169,529
Proceeds from disposal of property, plant and equipment	**5,297**	18,014
Net cash outflow on deemed disposal of a subsidiary	**(6,131)**	—
Net cash (used in) generated from investing activities	**(52,470)**	18,809
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares	**127,980**	—
Proceeds from new interest-bearing bank and other borrowings	**3,572,155**	3,966,547
Repayment of interest-bearing bank and other borrowings	**(3,778,983)**	(3,872,603)
Repayment of lease liabilities	**(3,839)**	—
Interest paid	**(374,230)**	(412,646)
Pledged bank deposits	**193,777**	202,291
Net cash used in financing activities	**(263,140)**	(116,411)
Net decrease in cash and cash equivalents	**(104,294)**	(162,099)
Cash and cash equivalents at beginning of year	**135,033**	304,362
Effect of foreign exchange rate changes, net	**48,770**	(7,230)
Cash and cash equivalents at end of year (note 24)	**79,509**	135,033

1. CORPORATE INFORMATION

Global Bio-chem Technology Group Company Limited (the "Company", together with its subsidiaries, the "Group") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability. The principal activity of the Company is investment holding. 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, 22^{nd} Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

The Group is principally engaged in the manufacture and sale of corn refined products and corn based biochemical products. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

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 and Designated FVOCI which are measured at revalued amounts/fair value, 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 2018 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$1,116 million (2018: HK$1,299 million) for the year ended 31 December 2019 and as at that date, had net current liabilities of approximately HK$8,877 million (31 December 2018: HK$7,724 million) and net liabilities of approximately HK$4,346 million (31 December 2018: HK$3,571 million). In addition, any potential liabilities or obligations arising from the financial guarantee contracts as discussed in note 34 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 (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 financial position of the Group:

(a) Active negotiations with banks to obtain adequate bank borrowings and lower the debt ratio of the Group

As disclosed in the interim report of the Company for the six months ended 30 June 2019 (the "2019 Interim Report"), the management of the Company has been actively negotiating with the banks in the PRC for their continuous support to the Group. The Further Revised Debt-Equity Swap Proposal has also been submitted to the Bank of China Jilin Province Branch ("BOC Jilin Branch") and the People's Government of Jilin Province which proposed, among others, the conversion of debt due to banks to equity in order to lower the debt ratio of the Group, the introduction of strategic investor(s) in order to strengthen the capital of the Group and other alternatives to resolve the audit modification in respect of the financial guarantee contracts, such as the option to include the indebtedness of 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.) ("Dajincang") in the debt-equity swap proposal.

On 1 February 2019, a meeting amongst the representatives of the principal lending banks of the Group in the PRC, 吉林省人民政府國有資產監督管理委員會 (The State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province) ("Jilin SASAC"), 吉林省地方金融監督管理局 (Jilin Province Local Financial Supervision Administration), 吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.) ("Nongtou", together with its subsidiaries, the "Nongtou Group") (an entity controlled by Jilin SASAC and an indirect major shareholder of the Company) 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 the cash flow of the Group.

2.2 GOING CONCERN *(Continued)*

(a) Active negotiations with banks to obtain adequate bank borrowings and lower the debt ratio of the Group *(Continued)*

Subsequent to the meeting on 1 February 2019, the parties continued with the negotiation about the Further Revised Debt-Equity Swap Proposal and as disclosed in the joint announcement of the Company and GSH dated 25 February 2020, as a common understanding amongst the parties, the outstanding debts should be reclassified as non-performing assets of the principal lending banks to enable them to sell such debts to certain assets management companies at a relatively sharp discount as the first step of the debt restructuring plan. In mid-February 2020, the Company has been notified by BOC Jilin Branch that it had entered into a transfer agreement with 中國信達資產管理股份有限公司吉林省分公司 (Jilin Branch of China Cinda Asset Management Co., Ltd.) (the "New Creditor") pursuant to which BOC Jilin Branch had agreed to sell to the New Creditor, and the New Creditor had agreed to purchase, all of its rights and benefits of the loans with aggregate outstanding principal amount of approximately RMB4,017 million (the "Transferred Loans") which include the loans of the Group (including the GSH Group) in the amount of approximately RMB1,527 million, together with the outstanding interest and the indebtedness of Dajincang that was guaranteed by certain subsidiaries of the Group and the GSH Group (the "Guarantor Subsidiaries") at a consideration of approximately RMB816 million. After the completion of the transfer of the Transferred Loans, the management of the Group will continue their discussion on the next step of the debt restructuring with the New Creditor, including but not limited to repurchase of the Transferred Loans and debt to equity swap with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group and the GSH Group. The board of directors believes that once the Transferred Loans have been resolved by way of the debt restructuring plan as mentioned above, the other major outstanding debts could be resolved under similar debt restructuring plans.

The debt restructuring plan is also well-supported by the government. On 5 March 2020, an official document titled《關於商請各金融機構支持大成集團改革脱困化解債務風險的函》(Letter of Request to Financial Institutions to Support the Reform of the GBT Group to Resolve Risks Associated With Debts) was issued by Jilin SASAC to all the relevant banks and financial institutions, in which it reiterated the debt restructuring and the stable operation of the Group have always been the priorities of both the provincial and municipal governments; and urged the other principal lending banks in Changchun to follow the debt restructuring plans of BOC Jilin Branch.

The Company will endeavour to facilitate the materialisation of the debt restructuring. The board of directors expects that the Group (including the GSH Group) would be able to resolve all the amounts due and owing under the Transferred Loans and the indebtedness of Dajincang by the end of the year ending 31 December 2020.

2.2 GOING CONCERN *(Continued)*

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

Reference is made to the joint announcement of the Company and GSH dated 2 March 2017 and the 2019 Interim Report. The Company and GSH have been in discussion with a potential purchaser (the "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"). 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.

As disclosed in the 2019 Interim Report, the Group has received an official document dated 28 April 2018 from 長春市保障性安居工程領導小組 (Changchun Safeguard Housing Project Leading Group) 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 Changchun Safeguard Housing Project Leading Group also confirmed the site location and area of the Relevant Properties at a meeting on 27 September 2018. An execution announcement for the redevelopment under the PRC's Slum Redevelopment Policy dated 30 October 2019 has also been issued by the Changchun Municipal Government. The Group has received a land resumption prepayment in the amount of approximately RMB377 million from the Potential Purchaser which was subsequently recognised as compensation for the resumption of the Relevant Properties pursuant to an agreement entered into between the Group, the Potential Purchaser and the Changchun Municipal Government in the last quarter of 2019 confirming that the Potential Purchaser and the Changchun Municipal Government were satisfied with the progress of the relocation.

A professional valuer has been jointly engaged by the Group and the Changchun Municipal Government to conduct the valuation of the Relevant Properties. As at the date of this report, the valuation for the Relevant Properties is still on-going. The result of the valuation will be one of the references to determine the final consideration which is subject to the agreement among the parties. It is currently expected that the realisation of a portion of the Relevant Properties will take place in 2020.

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.

2.2 GOING CONCERN *(Continued)*

(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 2019, the Group has optimised its production and suspended the operation of certain production facilities in order to minimise operating cash outflows.

(d) Financial support from the indirect major shareholder

The Group has received a renewed written confirmation dated 30 June 2019 from Nongtou 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 34 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 950,000 metric tonnes ("MT") of corn kernels with the Nongtou Group in January 2019 to ensure a stable supply of corn kernels. During the year ended 31 December 2019, the Group purchased approximately 408,000 MT of corn kernels from the subsidiaries of Nongtou which aggregately accounted for approximately 30.0% of total corn procurement of the Group.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value at 31 December 2019 amounted to approximately RMB2,102 million. It is tasked to consolidate the state-owned investments in the agricultural sector in the Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group, provide synergistic effects among its various investments in the agricultural sector in the Jilin Province and provide adequate and sufficient financial support to the Group.

2.2 GOING CONCERN *(Continued)*

(e) Introducing potential investors to the Company

The management of the Company has also actively negotiated with a number of potential investors to inject capital to the Company during the year ended 31 December 2019. As announced by the Company on 19 July 2019, the Company entered into a subscription agreement (the "Subscription Agreement") with HK Bloom Investment Limited, a company established under the British Virgin Islands laws with limited liability (the "Subscriber"), pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,279,799,672 new shares (the "Subscription Shares") at the subscription price of HK$0.10 per Subscription Share (the "Subscription"). Completion of the Subscription (the "Subscription Completion") took place on 20 August 2019. The net proceeds from the Subscription in the amount of approximately HK$127,900,000 have been utilised as general working capital of the Group.

On 27 September 2019, the Company entered into another subscription agreement (the "Second Subscription Agreement") with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 1,228,607,685 new shares at the subscription price of HK$0.1080 per subscription share (the "Second Subscription"). On 12 December 2019, the Second Subscription was passed by way of poll at an extraordinary general meeting. By entering into the Second Subscription, the Group could raise fund for its general working capital purposes and further strengthen its financial position, within a relatively shorter time frame and without any additional interest burden. Due to the delay in making fund transfer by the Subscriber for the payment of the subscription price for the Second Subscription as a result of the outbreak of the coronavirus disease (COVID-19), the Second Subscription is yet to be completed as at the date of this report. The parties to the Second Subscription Agreement have agreed to extend the payment date by which the Subscriber shall make payment for the subscription price.

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 will have sufficient working capital 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.

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2018 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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Employee benefits
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to HKFRSs	2015-2017 Cycle

Except for HKFRS 16 which is explained below, the adoption of the new/revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the Year and prior years.

HKFRS 16 "Leases"

HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation (and, if applicable, impairment loss) of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows applying HKAS 7.

HKFRS 16 substantially carries forward the lessor accounting requirements of the superseded HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has opted for the modified retrospective application permitted by HKFRS 16. Accordingly, HKFRS 16 has been applied for the periods from 1 January 2019 (i.e. the date of initial application) onwards and the cumulative impact of adoption of HKFRS 16 was recognised in equity at 1 January 2019.

2.3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16 "Leases" *(Continued)*

The adjustments resulted from the initial application of HKFRS 16 at 1 January 2019 are set out below. The prior period amounts were not adjusted.

	31 December 2018	Transfer	Contract capitalisation	1 January 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Prepaid land lease payments	575,231	(575,231)	—	—
Prepayments, deposits and other receivables	1,025,886	(19,887)	—	1,005,999
Right-of-use assets	—	595,118	9,467	604,585
	1,601,117	—	9,467	1,610,584
Liabilities				
Lease liabilities	—	—	9,502	9,502
Deficit				
Accumulated losses	(10,183,314)	—	(35)	(10,183,349)

The reconciliation of operating lease commitments to lease liabilities is set out below:

	HK$'000
Operating lease commitments at 31 December 2018 and gross lease liabilities at 1 January 2019	9,919
Discounting	(417)
Lease liabilities at 1 January 2019	9,502

Modified retrospective application of HKFRS 16 requires the Group to recognise a lease liability at the date of initial application for leases previously classified as an operating lease under the superseded HKAS 17, measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. As a practical expedient under HKFRS 16, the Group has not reassessed whether a contract is, or contains, a lease at the date of initial application. Instead, the Group applied HKFRS 16 only to contracts that were previously identified as leases applying the superseded HKAS 17. The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics for determination of present value of the remaining lease payments. The right-of-use assets have been recognised, on a lease-by-lease basis, at respective carrying amounts as if HKFRS 16 had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate at the date of initial recognition is 2.4%.

2.3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16 "Leases" *(Continued)*

Based on the practical expedients under HKFRS 16, the Group has elected not to apply of HKFRS 16 in respect of recognition of lease liability and right-of-use asset to leases for which the lease term ends within twelve months of the date of initial application.

2.4 NEW AND REVISED HKFRSs NOT YET ADOPTED

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 3	Definition of a Business[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The effective date to be determined

Except for the amendments to HKFRS 3 and the amendments to HKFRS 10 and HKAS 28 which are explained below, the other new/revised HKFRSs are not expected to be relevant to the Group.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.5 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

Fair value measurement

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of the parent of the Group.

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

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property are dealt with as movements in the properties 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 properties 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

Before 1 January 2019, 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. From 1 January 2019, those payments are accounted for as right-of-use assets.

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.

Leases — *Applicable from 1 January 2019*

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises;

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the Group; and

(d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases — *Applicable from 1 January 2019* *(Continued)*

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option – in which case depreciation is provided over the estimated useful life of the underlying asset) as follows:

Land	11-52 years
Office premises	3 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate;

(c) amounts expected to be payable under residual value guarantees;

(d) exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, the Group remeasures the lease liability using a revised discount rate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases — *Applicable from 1 January 2019* *(Continued)*

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

(a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above.

(b) the Group determines the lease term of the modified contract.

(c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term.

(d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss.

(e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases — *Applicable before 1 January 2019*

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.

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.

Classification and measurement

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 fair value through profit or loss ("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 ("FVOCI"); (iii) Designated FVOCI; or (iv) measured at FVPL.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets measured at amortised cost

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

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

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

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

Designated FVOCI

Upon initial recognition, the Group may make an irrevocable election to present subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies in other comprehensive income. The classification is determined on an instrument-by-instrument basis.

These equity investments are subsequently measured at fair value and are not subject to impairment. Dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains or losses are recognised in other comprehensive income and shall not be subsequently reclassified to profit or loss.

The Group's financial assets measured at FVOCI include the Group's equity interests in an equity investment which is not held for trading.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items

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.

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.

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 *(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 *(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 *(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.

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 recognition

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The Group engages in the manufacture and sale of corn refined products and corn 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 recognition *(Continued)*

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

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 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 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 JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments, 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.

Judgments

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

Deferred tax liability for withholding taxes

The Group determines that no dividends are to be distributed by the PRC subsidiaries to the Company or any subsidiary outside the PRC in the foreseeable future. Therefore, no deferred tax liability for withholding taxes has been recognised in these consolidated financial statements. Please refer to note 31 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 JUDGMENTS 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 37 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 JUDGMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of property, plant and equipment, right-of-use assets and prepaid land lease payments

Determining an appropriate amount of an impairment requires an estimation of recoverable amounts of relevant property, plant and equipment, right-of-use assets, prepaid land lease payments or the respective cash-generating units ("CGU") to which the property, plant and equipment, right-of-use assets, 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.

Write-down of inventories

The Group reviews ageing analysis and condition of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving items that are no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Income taxes

At 31 December 2019, a deferred tax asset of approximately HK$316 million (2018: HK$252 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$6,476 million (2018: HK$5,267 million) and the remaining deductible temporary difference of HK$2,820 million (2018: HK$3,624 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 (2018: 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 2019

	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	**2,626,291**	**991,591**	**918,390**	**25,119**	**–**	**4,561,391**
Intersegment	**84,879**	**–**	**–**	**2,372**	**(87,251)**	**–**
Revenue	**2,711,170**	**991,591**	**918,390**	**27,491**	**(87,251)**	**4,561,391**
Segment results	**(504,286)**	**(355,700)**	**(66,097)**	**(3,307)**	**–**	**(929,390)**
Bank interest income						**1,000**
Unallocated income						**546,584**
Unallocated expenses						**(89,194)**
Share of loss of a joint venture						**(1,541)**
Finance costs						**(604,076)**
Loss before tax						**(1,076,617)**
Income tax expenses						**(39,717)**
Loss for the year						**(1,116,334)**

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)

4. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Other segment information

Year ended 31 December 2019

	Upstream products *HK$'000*	Amino acids *HK$'000*	Corn sweeteners *HK$'000*	Polyol chemicals *HK$'000*	Total *HK$'000*
Capital expenditure	**31,444**	**6,819**	**17,491**	**703**	**56,457**
Depreciation of property, plant and equipment	**237,163**	**187,701**	**43,509**	**10,970**	**479,343**
Depreciation of right-of-use assets (a)	**9,869**	**8,103**	**3,298**	**671**	**21,941**
(Gain) Loss on disposal of property, plant and equipment, net	**(58)**	**–**	**813**	**–**	**755**
Reversal of write-down of inventories, net	**(49,509)**	**(3,113)**	**–**	**(7,078)**	**(59,700)**
Impairment (Reversal of impairment) of deposits paid for acquisition of property, plant and equipment, net	**26**	**(139)**	**–**	**–**	**(113)**
(Reversal of impairment) Impairment of trade and bills receivables, net	**(24,746)**	**15,664**	**(619)**	**–**	**(9,701)**
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net	**10,743**	**47**	**2,881**	**(349)**	**13,322**
Waiver of payables	**(33,829)**	**(3,612)**	**(1,540)**	**–**	**(38,981)**
Write-back of properties revaluation deficits charged to profit or loss in previous years	**(54,619)**	**–**	**–**	**–**	**(54,619)**

Remark:

(a) Depreciation of right-of-use assets that was not attributable to any of the above segments which amounted to HK$3,664,000 was included in unallocated expenses.

4. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Other segment information *(Continued)*

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 of property, plant and equipment	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 (b)	(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)

Remark:

(b) Gains on disposal of prepaid land lease payments and property, plant and equipment that were not attributable to any of the above segments which amounted to HK$155,622,000 and HK$7,793,000 respectively were included in unallocated income.

(c) Geographical information

Revenue information based on locations of customers

	2019 ***HK$'000***	2018 *HK$'000*
The PRC	**3,955,273**	4,480,721
Asia, the Americas and other regions	**606,118**	1,177,005
	4,561,391	5,657,726

4. OPERATING SEGMENT INFORMATION *(Continued)*

(c) Geographical information *(Continued)*

Non-current assets information based on locations of assets

	2019 *HK$'000*	2018 *HK$'000*
The PRC	**6,771,670**	7,138,195
Hong Kong	**5,802**	2,047
	6,777,472	7,140,242

(d) Information about major customers

No revenue from any customer individually accounted for to 10% or more of the Group's revenue for the Year (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

	2019 *HK$'000*	2018 *HK$'000*
Revenue from contracts with customers within HKFRS 15		
Sale of goods	**4,561,391**	5,657,726

The revenue from contracts with customers within HKFRS 15 is based on fixed price and recognised at a point in time. The amount of revenue recognised for the year ended 31 December 2019 that was included in the contract liabilities at the beginning of the year was HK$177,179,000 (2018: HK$224,929,000).

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

	Notes	2019 HK$'000	2018 HK$'000
Other income and gains			
Bank interest income		**1,000**	4,342
Government grants (a)		**37,170**	39,771
Amortisation of deferred income		**13,857**	10,257
Gain on disposal of prepaid land lease payments		**—**	155,622
Gain on disposal of property, plant and equipment, net		**—**	9,043
Foreign exchange gain, net		**—**	16,074
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net		**113**	17,939
Reversal of write-down of inventories, net		**19,896**	13,631
Reversal of impairment of trade and bills receivables, net		**9,701**	7,175
Gain on disposal of right-of-use assets		**4,334**	—
Gain on deemed disposal of a subsidiary	33	**42,973**	—
Waiver of payables		**38,981**	28,186
Government compensation for relocation	26(a)	**428,409**	—
Write-back of properties revaluation deficits charged to profit or loss in previous years		**54,619**	—
Net profit arising from supplying utilities services		**8,853**	11,088
Others		**24,469**	8,502
		684,375	321,630

Remark:

(a) Government grants represented rewards to certain subsidiaries of the Company located in the PRC with no further obligations and conditions to be complied with.

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank and other borrowings	**376,262**	394,783
Finance costs for discounted bills receivables	**4,106**	15,357
Interest on financial guarantees given by Nongtou	**20,115**	11,453
Interest on payables to suppliers	**140,893**	84,746
Imputed interest on convertible bonds	**62,475**	58,701
Interest on lease liabilities	**225**	—
	604,076	565,040

7. LOSS BEFORE TAX

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

	Note	2019 HK$'000	2018 HK$'000
Employee benefits expenses including Directors' remuneration:			
Wages and salaries		**293,803**	381,748
Pension scheme contributions		**68,300**	72,564
		362,103	454,312
Cost of inventories sold (a)		**4,338,229**	5,395,144
Depreciation of property, plant and equipment		**479,343**	480,349
Depreciation of right-of-use assets		**25,605**	—
Amortisation of prepaid land lease payments		**—**	22,597
Amortisation of intangible assets		**3**	9
Amortisation of deferred income		**(13,857)**	(10,257)
Auditor's remuneration		**5,500**	5,500
Impairment of intangible assets		**—**	1,539
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net		**(113)**	(17,939)
Impairment of prepayments, deposits and other receivables, net		**13,322**	26,209
Research and development costs		**17,625**	3,097
Reversal of impairment of trade and bills receivables, net		**(9,701)**	(7,175)
Gain on disposal of prepaid land lease payments		**—**	(155,622)
Loss (Gain) on disposal of property, plant and equipment, net		**755**	(9,043)
Foreign exchange difference, net		**6,976**	(16,074)
Gain on deemed disposal of a subsidiary		**(42,973)**	—
Gain on disposal of right-of-use assets		**(4,334)**	—
Reversal of write-down of inventories, net (b)		**(59,700)**	(61,510)
Government compensation for relocation	26(a)	**(428,409)**	—
Corn subsidy, included in cost of sales		**—**	(38,325)
Write-back of properties revaluation deficits charged to profit or loss in previous years		**(54,619)**	—

Remarks:

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

(b) Reversal of write-down of inventories were included in other income and cost of sales in the amounts of HK$19,896,000 and HK$39,804,000 (2018: HK$13,631,000 and HK$47,879,000) respectively.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

	2019			
	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	863	–	228	1,091
Non-executive director				
Ms. Liang Wanpeng	–	–	–	–
	863	–	228	1,091
Independent non-executive directors				
Mr. Ng Kwok Pong	240	–	–	240
Mr. Yeung Kit Lam	240	–	–	240
Mr. Zhao Jin	136	–	–	136
	616	–	–	616

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

	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 director				
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 (a)	–	3,000	15	3,015

Remark:

(a) 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. The employment contract of chief economist expired on 20 December 2019.

No emolument was paid or payable by the Group to any of the directors or 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 2019 and 2018.

9. FIVE HIGHEST PAID EMPLOYEES

One (2018: One) of the five highest paid employees during the year ended 31 December 2019 is a director or a chief executive of the Company, details of his remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2018: four) highest paid employees who are neither a director nor a chief executive of the Company are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Salaries, allowances and benefits in kind	**3,434**	4,664
Pension scheme contributions	**69**	60
	3,503	4,724

The highest paid employees fell within the following bands:

	2019 *Number of individuals*	2018 *Number of individuals*
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	4	4

No emolument was paid or payable by the Group to any of the highest paid non-director employees as inducement to join or upon joining the Group or as compensation for loss of office. The highest paid non-director employees did not waive any emoluments during the years ended 31 December 2019 and 2018.

10. INCOME TAX EXPENSES (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 2019 (2018: Nil). The PRC enterprise income tax has been provided at the rate of 25% (2018: 25%) on the estimated assessable profits of subsidiaries operating in the PRC.

	2019 HK$'000	2018 HK$'000
Current tax		
The PRC enterprise income tax	**478**	2,337
Overseas taxes (a)	**—**	(70,883)
	478	(68,546)
Deferred tax		
Origination and reversal of temporary differences, net	**39,239**	650
Income tax expenses (credit)	**39,717**	(67,896)

Remark:

(a) 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.

Reconciliation of income tax expenses (credit)

	2019 HK$'000	2018 HK$'000
Loss before tax	**(1,076,617)**	(1,367,115)
Income tax at applicable tax rate	**(229,822)**	(317,180)
Non-deductible expenses	**32,205**	29,587
Tax-exempt income	**(54,748)**	(28,504)
Unrecognised temporary difference	**8,352**	(11,220)
Unrecognised tax losses	**303,936**	343,741
Utilisation of previously unrecognised tax losses	**—**	(14,516)
Recognition of previously unrecognised deferred taxes and reversal of deferred taxes	**(20,206)**	1,079
Over provision in prior years	**—**	(70,883)
Income tax expenses (credit)	**39,717**	(67,896)

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

11. DIVIDENDS

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year ended 31 December 2019 attributable to owners of the Company of approximately HK$1,067,819,000 (2018: HK$1,222,322,000), and the weighted average number of ordinary shares in issue during the year ended 31 December 2019 of 6,868,842,623 (2018: 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 2019 and 2018.

13. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount — Year ended 31 December 2019	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 2019	**4,959,629**	**1,129,058**	**14,242**	**393,101**	**6,496,030**
Additions	**528**	**23,372**	**5,596**	**26,961**	**56,457**
Transfer	**443**	**4,486**	**275**	**(5,204)**	**–**
Disposals	**(123)**	**(4,948)**	**(961)**	**(20)**	**(6,052)**
Deemed disposal of a subsidiary	**(4,892)**	**(9,309)**	**–**	**–**	**(14,201)**
Gain on properties revaluation, net	**211,932**	**–**	**–**	**–**	**211,932**
Depreciation	**(264,732)**	**(210,634)**	**(3,977)**	**–**	**(479,343)**
Exchange realignment	**(86,212)**	**(17,923)**	**(338)**	**(8,813)**	**(113,286)**
At 31 December 2019	**4,816,573**	**914,102**	**14,837**	**406,025**	**6,151,537**
Reconciliation of carrying amount — Year ended 31 December 2018					
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

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 2019					
At cost	**–**	**9,330,021**	**176,670**	**568,157**	**10,074,848**
At valuation	**4,816,573**	**–**	**–**	**–**	**4,816,573**
Accumulated depreciation and impairment losses	**–**	**(8,415,919)**	**(161,833)**	**(162,132)**	**(8,739,884)**
	4,816,573	**914,102**	**14,837**	**406,025**	**6,151,537**
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

Leasehold buildings

At 31 December 2019, the Group has not obtained building certificates for certain leasehold buildings with a total carrying amount of HK$1,933,066,000 (2018: HK$1,575,660,000).

Had the Group's leasehold buildings been carried under the cost model, their carrying amount at 31 December 2019 would have been approximately HK$3,996,619,000 (2018: HK$4,231,352,000).

The Group's leasehold buildings were revalued individually at 31 December 2019 by Roma Appraisals Limited, an independent professionally qualified valuer, at an aggregate open market value of HK$4,816,573,000 based on their existing use. A gain on properties revaluation of HK$117,984,000 (after income tax effect) was recognised in other comprehensive income and credited to properties revaluation reserve and a gain on properties revaluation of approximately HK$54,619,000 was recognised in profit or loss during the year ended 31 December 2019.

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 or a more frequent valuation is necessary. Discussion of the valuation process and results with the Audit Committee is held twice a year, to coincide with the reporting dates.

Fair value hierarchy

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

	Fair value measurement at 31 December 2019 using			
	Quoted prices in active market (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Recurring fair value measurement for:				
Industrial properties — The PRC	–	–	4,793,462	4,793,462
Residential properties — The PRC	–	1,222	21,889	23,111
	–	1,222	4,815,351	4,816,573

During the years ended 31 December 2019 and 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

Leasehold buildings *(Continued)*

Fair value hierarchy *(Continued)*

Certain residential properties in the PRC were valued using the direct comparison approach at 31 December 2019 and were categorised as Level 2 fair value measurements. The other properties in the PRC were valued using the DRC approach and were categorised as Level 3 fair value measurements. The movements in Level 3 fair value measurements during the year are as follows:

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**4,958,696**	5,441,609
Additions and transfer from construction in progress	**971**	40,908
Gain on properties revaluation, net	**211,659**	-
Depreciation	**(264,666)**	(259,294)
Disposals	**(123)**	(640)
Deemed disposal of a subsidiary	**(4,892)**	-
Exchange realignment	**(86,294)**	(263,887)
At 31 December	**4,815,351**	4,958,696

The gain on properties revaluation for the year represents the total gain included in other comprehensive income and profit or loss for leasehold buildings held at the end of the reporting period.

Below is a summary of the valuation technique and the key inputs used in the valuation of the leasehold buildings that are categorised as Level 3 fair value measurements:

Valuation technique	**Significant unobservable inputs**	**Industrial properties**	**Residential properties**
DRC approach	Construction cost (Renminbi/square meter)	RMB650 - RMB3,900	RMB690 - RMB2,200

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.

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

Impairment assessment

The business performance of a subsidiary, which manufactures lysine products in Changchun, has been severely affected by the African Swine Fever, which indicates that the property, plant and equipment and right-of-use assets of that subsidiary may have impaired. The directors have therefore performed an impairment assessment on the CGU related to the manufacturing and sale of lysine products at 31 December 2019 based on a valuation performed by Roma Appraisals Limited, an independent professionally qualified valuer.

The estimates of the recoverable amount, which amounted to HK$387,897,000, were based on the CGU's value in use, using a discount rate of 19.81%. As a result of the impairment assessment, no impairment loss was recognised in profit or loss during the year ended 31 December 2019.

14. PREPAID LAND LEASE PAYMENTS

	2019 *HK$'000*	2018 *HK$'000*
At 1 January as previously reported (including current portion)	**595,118**	640,752
Changes in accounting policies on adopting HKFRS 16 — Transfer to right-of-use assets (note 2.3)	**(595,118)**	—
As restated	**–**	640,752
Additions	**–**	24,193
Amortisation	**–**	(22,597)
Disposal	**–**	(13,907)
Exchange realignment	**–**	(33,323)
At 31 December	**–**	595,118
Current portion included in prepayments, deposits and other receivables	**–**	(19,887)
Non-current portion	**–**	575,231

At 31 December 2018, prepaid land lease payments represent cost paid for leasehold land in the PRC that were classified as an operating lease. The cost was amortised over the leasehold period and the leasehold land was granted with remaining lease terms ranging from 12 to 53 years. Upon the adoption of HKFRS 16, the prepaid land lease payments are presented under right-of-use assets.

15. RIGHT-OF-USE ASSETS

	Land HK$'000	Office premises HK$'000	Total HK$'000
Reconciliation of carrying amount — Year ended 31 December 2019			
At 1 January 2019 — Upon adoption of HKFRS 16 (note 2.3)	595,118	9,467	604,585
Deemed disposal of a subsidiary	(3,584)	—	(3,584)
Depreciation	(21,941)	(3,664)	(25,605)
Exchange realignment	(11,714)	—	(11,714)
At 31 December 2019	557,879	5,803	563,682
At 31 December 2019			
Cost	849,156	10,993	860,149
Accumulated depreciation and impairment losses	(291,277)	(5,190)	(296,467)
	557,879	5,803	563,682

The leasehold land is granted with remaining lease terms ranging from 11 to 52 years and is situated in the PRC.

The Group leases an office premise for its daily operations. The lease term is 3 years, with no option for both lessor and lessee to terminate or renew the lease after expiration of the lease term.

Restrictions or covenants:

For lease of office premise, the lease imposes a restriction that, unless approval is obtained from the lessor, the premise can only be used by the Group and the Group is prohibited from selling or pledging the underlying premises. In addition, the Group is required to keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

16. INTANGIBLE ASSETS

	Golf club membership HK$'000	Trademarks HK$'000	Total HK$'000
Reconciliation of carrying amount — Year ended 31 December 2019			
At 1 January 2019	**3,745**	**61**	**3,806**
Amortisation	**—**	**(3)**	**(3)**
Deemed disposal of a subsidiary	**—**	**(52)**	**(52)**
Exchange realignment	**6**	**(6)**	**—**
At 31 December 2019	**3,751**	**—**	**3,751**
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
At 31 December 2019			
Cost	**5,290**	**—**	**5,290**
Accumulated amortisation and impairment losses	**(1,539)**	**—**	**(1,539)**
	3,751	**—**	**3,751**
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

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: RMB284,791,163	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 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	Sale of corn based biochemical products

Wholly foreign-owned 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 ended 31 December 2019 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	
	2019 *HK$'000*	2018 *HK$'000*
Percentage of equity interest held by NCI	**36%**	36%
Revenue, other income and gains	**1,975,191**	1,981,378
Costs and expenses	**(2,155,165)**	(2,186,864)
Income tax credit (expenses)	**17,404**	(3,010)
Loss for the year	**(162,570)**	(208,496)
Other comprehensive income	**64,565**	18,250
Total comprehensive loss for the year	**(98,005)**	(190,246)
Loss for the year attributable to NCI	**(58,525)**	(75,059)
Total comprehensive loss for the year attributable to NCI	**(35,282)**	(68,489)
Dividends paid to NCI	**–**	–
Current assets	**459,571**	635,800
Non-current assets	**939,403**	936,467
Current liabilities	**(1,570,867)**	(1,659,818)
Non-current liabilities	**(239,518)**	(225,668)
Net liabilities	**(411,411)**	(313,219)
Carrying amount of NCI	**(148,108)**	(112,759)
Net cash flows from (used in):		
Operating activities	**21,574**	45,183
Investing activities	**(18,549)**	(28,414)
Financing activities	**8,165**	(162,692)

18. INTERESTS IN AN ASSOCIATE

Interests in the associate represents 40% (2018: 40%) of the registered and paid-in capital of Changchun Dacheng Hexin Technology Development Co., Ltd. ("Dacheng Hexin"), a company incorporated in the PRC. It is principally engaged in the manufacture and sale of botanical straw based sweetener products in the PRC.

The Group has discontinued the recognition of its share of losses of Dacheng Hexin when applying the equity method because the share of losses of Dacheng Hexin exceeded the Group's interests in Dacheng Hexin and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of Dacheng Hexin for the year ended 31 December 2019 and share of losses cumulatively were HK$980,000 (2018: profit HK$214,000) and HK$7,457,000 (2018: HK$6,477,000) respectively.

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

	2019 ***HK$'000***	2018 *HK$'000*
Gross amounts:		
Current assets	**8,743**	10,280
Non-current assets	**53,876**	55,100
Current liabilities	**(81,408)**	(82,146)
Net liabilities	**(18,789)**	(16,766)

	2019 ***HK$'000***	2018 *HK$'000*
Gross amounts:		
Revenue	**—**	—
(Loss) profit and total comprehensive (loss) income	**(2,451)**	534

19. INTERESTS IN A JOINT VENTURE

	2019 ***HK$'000***
Goodwill	**12,115**
Share of net liabilities	**(5,656)**
Unrealised portion of the gain on disposal of a parcel of land	**(2,123)**
	4,336

Interests in the joint venture represents 43.5% of the registered and paid-in capital of Changchun Wanxiang Corn Oil Co., Ltd. ("Wanxiang"), a company incorporated in the PRC. It is principally engaged in the manufacture and sale of corn oil products in the PRC.

19. INTERESTS IN A JOINT VENTURE *(Continued)*

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

	2019 *HK$'000*
Gross amounts:	
Current assets	**6,478**
Non-current assets	**33,014**
Current liabilities	**(52,494)**
Net liabilities	**(13,002)**
Included in above:	
Cash and cash equivalents	**102**
Financial liabilities (excluding trade and other payables and provisions)	**(53,810)**
Reconciliation:	
Gross amount of net liabilities	**(13,002)**
Group's ownership interests	**43.5%**
Group's share of net liabilities	**(5,656)**
Goodwill	**12,115**
Unrealised portion of the gain on disposal of a parcel of land	**(2,123)**
Carrying amount of interests	**4,336**

	2019 *HK$'000*
Gross amounts:	
Revenue	**1,392**
Loss and total comprehensive loss	**(3,542)**
Included in above:	
Depreciation and amortisation	**(2,725)**
Interest income	**4**
Interest expense	**(1,254)**
Group's share of loss of a joint venture	**(1,541)**

20. DESIGNATED FVOCI

	2019 HK$'000	2018 HK$'000
Unlisted equity securities, at fair value	**208**	–

The balance represents the Group's equity interests in Changchun Dacheng Trading Company Limited, a company incorporated in the PRC with limited liabilities. The Group has designated the unlisted equity securities as Designated FVOCI because these equity securities represent investments that the Group intends to hold for long term for strategic purposes. The Group considers the accounting treatments under this classification provide more relevant information for those investments.

No Designated FVOCI has been disposed of during the year ended 31 December 2019. There was no transfers of any cumulative gain or loss arising from Designated FVOCI during the year ended 31 December 2019.

21. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**210,092**	467,968
Finished goods	**159,404**	277,525
	369,496	745,493

22. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**648,479**	940,904
Bills receivables	**2,907**	37,444
	651,386	978,348
Loss allowance	**(383,516)**	(404,081)
	267,870	574,267

The Group normally allows credit terms of 30 to 90 days (2018: 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:

	2019 HK$'000	2018 HK$'000
Within 1 month	**176,294**	364,311
1 to 2 months	**46,925**	100,316
2 to 3 months	**9,760**	61,595
3 to 6 months	**14,214**	28,967
Over 6 months	**20,677**	19,078
	267,870	574,267

Information about the Group's exposure to credit risks and loss allowance for trade and bills receivables is included in note 37 to the consolidated financial statements.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management of the Group.

Trade and bills receivables are non-interest-bearing. At the end of the reporting period, the Group had no significant concentration of credit risk as the total trade and bills receivables due from the Group's largest customer and the five largest customers accounted for 11% (2018: 13%) and 33% (2018: 30%), of the Group's trade and bills receivables respectively.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	**57,762**	314,187
Deposits and other debtors	**93,198**	77,682
PRC value-added tax ("VAT") and other tax receivables	**106,316**	158,882
Receivables from disposal of assets (a)	**464,576**	475,135
	721,852	1,025,886

Remark:

(a) Included in the receivables from disposal of assets was the remaining consideration receivable from the Land Reserve Centre 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$444,444,000 (2018: HK$454,545,000) at 31 December 2019. The Group is currently in discussion with the Potential Purchaser on the disposal of the Relevant Properties. On 25 July 2019, the Land Reserve Centre and the Potential Purchaser entered into a transfer agreement pursuant to which the Land Reserve Centre agreed to transfer and the Potential Purchaser agreed to take up the rights and obligations in relation to the receivable.

24. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**79,509**	135,033
Pledged bank deposits	**9,916**	203,918
	89,425	338,951
Less: pledged bank deposits for issuance of bills payables	**(9,916)**	(203,918)
	79,509	135,033

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$44,361,000 (2018: HK$242,676,000). 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.

24. 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*	Lease liabilities *HK$'000*	Total *HK$'000*
Year ended 31 December 2019				
At 1 January 2019 – Upon adoption of HKFRS 16 (note 2.3)	7,998,004	971,771	9,502	8,979,277
Changes from financing cash flows:				
Proceeds from new interest-bearing bank and other borrowings	3,572,155	–	–	3,572,155
Repayment of interest-bearing bank and other borrowings	(3,778,983)	–	–	(3,778,983)
Repayment of lease liabilities	–	–	(3,839)	(3,839)
Interest paid	(374,230)	–	–	(374,230)
Total changes from financing cash flows	(581,058)	–	(3,839)	(584,897)
Exchange realignment	(163,395)	–	–	(163,395)
Other changes:				
Interest expenses	374,230	62,475	225	436,930
At 31 December 2019	7,627,781	1,034,246	5,888	8,667,915

24. 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*
Year ended 31 December 2018			
At 1 January 2018	8,417,569	913,070	9,330,639
Changes from financing cash flows:			
Proceeds from new interest-bearing bank and other borrowings	3,966,547	—	3,966,547
Repayment of interest-bearing bank and other borrowings	(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

25. TRADE AND BILLS PAYABLES

	2019 ***HK$'000***	2018 *HK$'000*
Trade payables		
— To third parties (a)	**1,174,565**	1,484,899
— To the Nongtou Group (b)	**372,467**	444,302
	1,547,032	1,929,201
Bills payables	**4,444**	233,684
	1,551,476	2,162,885

The Group normally obtains credit terms ranging from 30 to 90 days (2018: 30 to 90 days) from its suppliers.

25. TRADE AND BILLS PAYABLES *(Continued)*

Remarks:

(a) At 31 December 2019, the trade payables to third parties included a balance payable to a state-owned supplier of HK$66.8 million (2018: HK$79.7 million), which is unsecured and interest-bearing at 8.0% to 9.0% per annum (2018: 8.0% to 9.0% per annum) after the lapse of the credit periods. Subsequent to the end of the reporting period, Nongtou acquired 100.0% equity interest of the state-owned supplier.

(b) The trade payables to the subsidiaries of Nongtou are unsecured and interest-bearing at 7.2% to 12.0% per annum (2018: 8.0% to 12.0% per annum) after the lapse of the credit periods.

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:

	2019 *HK$'000*	2018 *HK$'000*
Within 1 month	**319,900**	738,933
1 to 2 months	**113,490**	359,794
2 to 3 months	**32,609**	131,550
Over 3 months	**1,085,477**	932,608
	1,551,476	2,162,885

26. OTHER PAYABLES AND ACCRUALS

	2019 *HK$'000*	2018 *HK$'000*
Accruals for employee benefits	**274,352**	265,989
Advances received for relocation (a)	**—**	428,409
Payables for purchases of machinery	**123,518**	143,037
Receipts in advance (b)	**187,005**	177,179
Payables to the Nongtou Group (c)	**559,850**	463,879
VAT and other duties payables	**133,098**	125,728
Accruals and other creditors (d)	**769,743**	408,048
	2,047,566	2,012,269

Remarks:

(a) The balance represents advances from the Potential Purchaser, received through the Changchun Municipal Government in 2015 and 2018, for relocation of the Group's production facilities in Changchun. Such advance payment was recognised as compensation for the resumption of the Relevant Properties pursuant to an agreement entered into between the Group, the Potential Purchaser and the Changchun Municipal Government in the last quarter of 2019 confirming that the Potential Purchaser and the Changchun Municipal Government were satisfied with the progress of the relocation.

26. OTHER PAYABLES AND ACCRUALS *(Continued)*

(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 years are as follows:

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**177,179**	238,479
Recognised as revenue	**(177,179)**	(224,929)
Receipt of advances or recognition of receivables	**187,005**	177,179
Exchange realignment	**–**	(13,550)
At 31 December	**187,005**	177,179

Unsatisfied or partially unsatisfied performance obligations

All the performance obligations that were unsatisfied (or partially unsatisfied) at 31 December 2019 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.

(c) The payables represent advances from the subsidiaries of Nongtou which are unsecured, interest-bearing at 7.2% to 12.0% per annum (2018: 8.0% to 12.0% per annum) which are repayable on demand and guarantee charge payables to Nongtou, which charged interest at 3.5% per annum (2018: 3.5% per annum).

(d) At 31 December 2019, accruals and other creditors included payables to a state-owned supplier amounted to approximately HK$25,470,000 (2018: HK$13,473,000) which are unsecured, interest-bearing at 8.0% to 12.0% per annum (2018: 8.0% to 12.0% per annum) after the lapse of the credit periods and are repayable on demand.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate %	**Maturity**	***HK$'000***	Effective interest rate %	Maturity	HK$'000
Current						
Short term bank borrowings – secured	**3.9%-8.0%**	**On demand/ 2020**	**3,018,445**	3.9%-8.0%	2019	2,367,500
Short term bank borrowings –unsecured	**4.3%-10.0%**	**2020**	**836,556**	3.9%-6.5%	2019	3,682,514
Other borrowings – secured	**3.92%**	**On demand**	**1,651,667**	–	–	–
Other borrowings – unsecured (a)	**12.0%-13.6%**	**On demand**	**76,669**	10.0%-13.6%	On demand	77,274
			5,583,337			6,127,288
Non-current						
Bank borrowings – secured	**4.3%**	**2021**	**644,444**	7.0%	2020	182,956
Bank borrowings – unsecured	**4.3%**	**2021**	**1,400,000**	4.4%	2020	1,686,362
Other borrowings – secured			**–**	1.1%	2021	1,398
			2,044,444			1,870,716
			7,627,781			7,998,004

Analysed into:	**2019** ***HK$'000***	2018 *HK$'000*
Bank borrowings repayable:		
Within one year or on demand	**3,855,001**	6,050,014
In the second year	**2,044,444**	1,869,318
	5,899,445	7,919,332
Other borrowings repayable:		
Within one year or on demand	**1,728,336**	77,274
In the third to fifth years	**–**	1,398
	1,728,336	78,672
	7,627,781	7,998,004
Secured	**5,314,556**	2,551,854
Unsecured	**2,313,225**	5,446,150
	7,627,781	7,998,004

Remark:

(a) The balance represents other borrowings from the subsidiaries of Nongtou and a state-owned supplier which are unsecured, interest-bearing at 12.0% to 13.6% (2018: 10.0% to 13.6%) per annum and are repayable on demand.

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

	2019 HK$'000	2018 HK$'000
Additional information		
Collaterals pledged for security:		
Property, plant and equipment	**2,301,172**	2,286,121
Prepaid land lease payments	**—**	113,653
Receivables from disposal of assets	**444,444**	454,545
Right-of-use-assets	**105,888**	—
Corporate guarantee by:		
The Company	**6,187,474**	6,340,681
Certain subsidiaries	**513,637**	527,513
Nongtou	**555,556**	568,182
A subsidiary and independent third parties (joint guarantee)	**55,556**	45,455
Denominated in Renminbi	**7,627,781**	7,998,004

Certain of the banking facilities are subject to the fulfillment of covenants relating to certain ratios based on the borrowing subsidiaries' statement of financial position, as are commonly found in lending arrangements with financial institutions. If the entities were to breach the covenants, the drawn down facilities would become repayable on demand. These borrowings were classified as current liabilities even though the directors do not expect that the lenders would exercise their rights to demand immediate repayment.

The directors regularly monitor its compliance with these covenants and do not consider it probable that the lenders will exercise their discretion to demand immediate repayment so long as the Group continues to make payments according to the schedule of the loans. Further details of the Group's management of liquidity risk are set out in note 37 to the consolidated financial statements. At 31 December 2019, covenants relating to drawn down facilities amounting to approximately HK$22 million (2018: HK$28 million) had been breached. In addition, the Group has defaulted in the repayment of certain bank loans of aggregate outstanding principal amount of approximately RMB2,206 million (2018: Nil) which have fallen due and become immediately payable. Such breach and default in repayment may also trigger cross default provisions in other loan agreements.

28. LEASE LIABILITIES

	2019 HK$'000	2018 HK$'000
Current portion	**3,700**	—
Non-current portion	**2,188**	—
	5,888	—

29. 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. The effective interest rate of the liability component is 6.4% per annum. As announced by the Company on 19 July 2019, the Company entered into the Subscription Agreement with Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, at the subscription price of HK$0.10 per Subscription Share. As a result of the Subscription Completion on 20 August 2019, the conversion price of the outstanding Convertible Bonds was adjusted, in accordance with the terms and conditions of the Convertible Bonds, from HK$0.23 to HK$0.22 and the maximum number of shares issuable by the Company upon full conversion of the Convertible Bonds is 4,937,634,386 Shares. The adjustment has taken effect from 20 August 2019.

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

	2019 *HK$'000*	2018 *HK$'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	**971,771**	913,070
Imputed interest	**62,475**	58,701
At 31 December	**1,034,246**	971,771

30. DEFERRED INCOME

	2019 HK$'000	2018 HK$'000
At 1 January	**133,759**	150,165
Addition	**3,056**	1,918
Amortisation	**(13,857)**	(10,257)
Exchange realignment	**(2,664)**	(8,067)
At 31 December	**120,294**	133,759

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.

31. DEFERRED TAX

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

	2019 HK$'000	2018 HK$'000
At 1 January	**10,773**	9,561
Charged to profit or loss	**39,239**	650
Charged to equity	**39,329**	—
Exchange realignment	**(5,232)**	562
At 31 December	**84,109**	10,773

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Depreciation allowances	**252,189**	205,288	**12,202**	12,974
Revaluation of properties	**—**	—	**297,914**	249,841
Impairment of trade and other receivables	**142**	14,822	**—**	—
Tax losses	**63,378**	31,825	**—**	—
Others	**—**	107	**89,702**	—
	315,709	252,042	**399,818**	262,815
Offsetting	**(315,709)**	(252,042)	**(315,709)**	(252,042)
Deferred tax liabilities, net	**—**	—	**84,109**	10,773

31. DEFERRED TAX *(Continued)*

Unrecognised deferred tax assets arising from:

	2019 *HK$'000*	2018 *HK$'000*
Deductible temporary differences	**2,820,140**	3,623,773
Tax losses	**6,475,570**	5,267,371
	9,295,710	8,891,144

Deductible temporary differences of approximately HK$2,820 million (2018: HK$3,624 million) and tax losses arising in Hong Kong of approximately HK$438 million (2018: HK$438 million) have no expiry date under current tax legislations. Tax losses arising in the PRC of approximately HK$6,037 million (2018: HK$4,829 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$683 million at 31 December 2019 (2018: HK$748 million). The directors consider that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

32. SHARE CAPITAL

	2019 *HK$'000*	2018 *HK$'000*
Authorised: 20,000,000,000 (31 December 2018: 20,000,000,000) ordinary shares of HK$0.1 each	**2,000,000**	2,000,000

Issued and fully paid:	2019 No. of shares	2019 *HK$'000*	2018 No. of shares	2018 *HK$'000*
At 1 January	6,398,998,360	639,900	6,398,998,360	639,900
New shares issued (a)	1,279,799,672	127,980	—	—
At 31 December	7,678,798,032	767,880	6,398,998,360	639,900

Remarks:

(a) On 20 August 2019, the Company issued 1,279,799,672 new shares to a Subscriber pursuant to a Subscription Agreement at the subscription price of HK$0.10 per Subscription Share, with an aggregate net proceed of approximately HK$127,980,000.

(b) On 27 September 2019, the Company entered into the second subscription agreement with the Subscriber pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 1,228,607,685 new shares at the subscription price of HK$0.1080 per subscription share, at an aggregate consideration of HK$132,690,000. The second subscription agreement and the transaction contemplated thereunder were approved by the independent shareholders of the Company on 12 December 2019. At the end of the reporting period, the transaction is yet to be completed.

33. DEEMED DISPOSAL OF A SUBSIDIARY AND DEEMED ACQUISITION OF A JOINT VENTURE

On 2 January 2019, the Group entered into a capital increase agreement ("Capital Contributions") with a third party (the "Investor"), pursuant to which the Group shall make contribution in kind of HK$8,000,000 by way of transferring land use rights of a parcel of land in Changchun and the Investor shall make contribution in cash of approximately HK$26,902,000 to Wanxiang.

Following the completion of the Capital Contributions on 1 May 2019, the Group's equity interest in Wanxiang was diluted from 100% to 51% and Wanxiang ceased to be a subsidiary of the Company. Although a majority of board members of Wanxiang shall be nominated by the Group, the decision of certain key matters shall be approved by both the Group and the Investor. Therefore, Wanxiang becomes a joint venture of the Group upon the completion of the Capital Contributions.

The details are as follows:

(i) Interests in a joint venture at initial recognition

	HK$'000
Goodwill	12,115
Share of net liabilities, at initial recognition	(4,115)
Unrealised portion of the gain on disposal of a parcel of land	(2,123)
	5,877

(ii) Goodwill

	HK$'000
Fair value of a parcel of land contributed to a joint venture	8,000
Share of net liabilities, at initial recognition	4,115
	12,115

33. DEEMED DISPOSAL OF A SUBSIDIARY AND DEEMED ACQUISITION OF A JOINT VENTURE *(Continued)*

(iii) Gain on deemed disposal of a subsidiary

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	14,201
Intangible assets	52
Inventories	2,107
Trade receivables	808
Prepayments, deposits and other receivables	1,703
Cash and bank balances	6,131
Interest-bearing bank borrowings	(45,455)
Trade payables	(1,085)
Other payables and accruals	(13,409)
Amount due to ultimate holding company	(7,051)
Total identifiable net liabilities	(41,998)
Reclassification adjustment in respect of exchange reserve upon deemed disposal of a subsidiary	(975)
Gain on deemed disposal of a subsidiary	42,973
Consideration	–
Satisfied by:	
Investment retained in a joint venture (former subsidiary), at fair value	–

(iv) Analysis of net outflow of cash and cash equivalents in respect of deemed disposal of a subsidiary:

	HK$'000
Cash and cash equivalents deemed disposed of	(6,131)
Net outflow of cash and cash equivalents in respect of deemed disposal of a subsidiary	(6,131)

34. FINANCIAL GUARANTEE CONTRACTS

Several subsidiaries of the Company have jointly provided corporate guarantees to a bank in the PRC in respect of financing facilities granted to Dajincang starting from year 2010. The maximum amount of the financing facilities was RMB2.5 billion at 31 December 2019 (2018: 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 management of the Group was 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 2019, certain subsidiaries of the Company, as guarantors of the financial guarantee contracts, paid interest of HK$111 million (2018: HK$105 million) in respect of the borrowings of Dajincang, which was recorded in “other expenses” in the consolidated statement of profit or loss and other comprehensive income.

35. COMMITMENTS

(a) Capital commitments

	2019	2018
	HK$'000	*HK$'000*
Contracted but not provided for:		
Purchase/Construction of property, plant and equipment	**537,703**	549,657

(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
Within one year	3,840
In the second to fifth years inclusive	6,079
	9,919

The Group is the lessee in respect of a property, held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balance at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2.3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2.3 and are no longer disclosed as commitments under operating leases.

36. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year and at the end of the reporting period, the Group had the following transactions/balances with related parties:

(a) Transactions with related parties

Related party relationship	Nature of transactions	2019 HK$'000	2018 HK$'000
Key management personnel	Short-term employee benefits	6,046	10,243
	Post-employment benefits	256	269
	Termination benefits	65	540
	Other long-term benefits	—	263
		6,367	11,315
Subsidiaries of Nongtou	Purchase of corn kernels	774,220	651,563
	Sale of corn starch and other products	(4,405)	—
	Interest on payables	129,027	72,124
	Interest on other borrowings	7,928	9,819
Nongtou	Interest on financial guarantees	20,115	11,453

(b) Balances with related parties

	2019 HK$'000	2018 HK$'000
Due from a joint venture (a)	4,270	—
Due to an associate (a)	(1,593)	(2,675)
Trade payables to the Nongtou Group (b)	(372,467)	(444,302)
Other payables to the Nongtou Group (c)	(559,850)	(463,879)
Other borrowings from the Nongtou Group (d)	(56,833)	(58,126)

Remarks:

(a) The balances are unsecured, non-interest bearing and have no fixed repayment terms.

(b) The trade payables to the Nongtou Group are unsecured, interest-bearing at 7.2% to 12.0% per annum (2018: 8.0% to 12.0% per annum) after the lapse of credit periods.

(c) The amount represented other payables to the Nongtou Group which are unsecured, interest-bearing at 7.2% to 12.0% per annum (2018: 8.0% to 12.0% per annum) which are repayable on demand and guarantee charge payables to Nongtou, which are charged interest at 3.5% per annum (2018: 3.5% per annum).

(d) The other borrowings from the Nongtou Group are unsecured, interest-bearing at 13.64% per annum (2018: 13.64% per annum) and are repayable on demand.

37. 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:

	2019 *HK$'000*	2018 *HK$'000*
Financial assets at amortised cost		
Trade and bills receivables	**267,870**	574,267
Financial assets included in prepayments, deposits and other receivables	**557,774**	552,817
Due from a joint venture	**4,270**	—
Pledged bank deposits	**9,916**	203,918
Cash and bank balances	**79,509**	135,033
	919,339	1,466,035
Financial liabilities at amortised cost		
Trade and bills payables	**1,551,476**	2,162,885
Financial liabilities included in other payables and accruals	**1,453,111**	1,443,373
Due to an associate	**1,593**	2,675
Interest-bearing bank and other borrowings	**7,627,781**	7,998,004
Convertible bonds	**1,034,246**	971,771
Lease liabilities	**5,888**	—
	11,674,095	12,578,708

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

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing bank and other 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 points higher/lower with all other variables held constant, the Group's loss before tax would have increased/decreased by HK$72,567,000 (2018: HK$74,832,000).

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 points 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 2018.

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.

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.

Cash and cash equivalents and pledged bank deposits

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 Hong Kong and the PRC, which management considers they are without significant credit risk.

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 (2018: 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.

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

Credit risk *(Continued)*

Trade and bills receivables *(Continued)*

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 during the year ended 31 December 2019.

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

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Credit-impaired
At 31 December 2019				
Not past due	**0.3 – 0.7**	**231,186**	**(1,566)**	**No**
1 — 30 days past due	**0.5 – 0.7**	**5,493**	**(39)**	**No**
31 — 90 days past due	**1.3 – 1.5**	**33,216**	**(420)**	**No**
Over 90 days past due	**100.0**	**381,491**	**(381,491)**	**Yes**
		651,386	**(383,516)**	
At 31 December 2018				
Not past due	0.8	535,378	(4,326)	No
1 — 30 days past due	0.8	10,247	(87)	No
31 — 90 days past due	1.9	33,662	(607)	No
Over 90 days past due	100.0	399,061	(399,061)	Yes
		978,348	(404,081)	

The Group does not hold any collateral over trade receivables at 31 December 2019 (2018: Nil).

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

Credit risk *(Continued)*

Trade and bills receivables *(Continued)*

At 31 December 2019, the Group recognised loss allowance of HK$383,516,000 (2018: HK$404,081,000) on the trade and bills receivables. The movement in the loss allowance for trade and bills receivables during the years ended 31 December 2019 and 2018 is summarised below.

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**404,081**	429,515
Increase in allowance	**14,257**	6,700
Reversal of allowance	**(23,958)**	(13,875)
Exchange realignment	**(10,864)**	(18,259)
At 31 December	**383,516**	404,081

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.

Other receivables

The Group performs impairment assessment on other receivables from various parties based on 12-month ECL. The credit risk of the Group's other receivables arises from default of the counterparties, with maximum exposure equal to the carrying amounts of these receivables. Individual credit limits are set based on the assessments of the credit quality.

In estimating the ECL, the Group has taken into account the historical actual credit loss experience and the financial position of the counterparties, past collection history, current creditworthiness, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. There was no change in the estimation techniques or significant assumptions made during the year ended 31 December 2019.

As at 31 December 2019, the Group recognised loss allowance of HK$72,035,000 (2018: HK$69,252,000) on the balances.

37. 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:

	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*
At 31 December 2019						
Trade and bills payables	1,547,032	4,444	–	–	–	1,551,476
Financial liabilities included in other payables and accruals	1,453,111	–	–	–	–	1,453,111
Due to an associate	1,593	–	–	–	–	1,593
Interest-bearing bank and other borrowings	76,669	4,724,979	996,963	2,088,144	–	7,886,755
Convertible bonds	–	–	1,086,280	–	–	1,086,280
Lease liabilities	–	960	2,880	2,240	–	6,080
	3,078,405	4,730,383	2,086,123	2,090,384	–	11,985,295

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

Liquidity risk *(Continued)*

	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*
At 31 December 2018						
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

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 34 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 2019 (2018: RMB2.5 billion).

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

38. LITIGATIONS

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 the PRC have been involved in litigations 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 judgment. 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.

39. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2019 *HK$'000*	2018 *HK$'000*
Non-current assets			
Investments in subsidiaries		**–**	–
Current assets			
Other receivables		**621**	995
Cash and cash equivalents		**1,784**	1,799
		2,405	2,794
Current liabilities			
Other payables and accruals		**4,262**	3,114
Financial guarantee contracts		**573,942**	667,133
Convertible bonds		**1,034,246**	–
		1,612,450	670,247
Net current liabilities		**(1,610,045)**	(667,453)
Total assets less current liabilities		**(1,610,045)**	(667,453)
Non-current liabilities			
Convertible bonds		**–**	971,771
Financial guarantee contracts		**615,964**	682,136
		615,964	1,653,907
NET LIABILITIES		**(2,226,009)**	(2,321,360)
Equity			
Share capital		**767,880**	639,900
Reserves	39(a)	**(2,993,889)**	(2,961,260)
TOTAL DEFICIT		**(2,226,009)**	(2,321,360)

The statement of financial position was approved and authorised for issue by the board of directors on 26 March 2020 and signed on its behalf by

Yuan Weisen
Director

Liu Shuhang
Director

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

(a) Reserves

	Share premium HK$'000	Convertible bond reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	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)
Profit and total comprehensive income for the year	—	—	(32,629)	(32,629)
At 31 December 2019	3,127,204	290,585	(6,411,678)	(2,993,889)

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.

40. EVENT AFTER THE REPORTING PERIOD

Since January 2020, the Group's business activities in Changchun have been suspended until further notice as a result of the outbreak of COVID-19. Although operations in Shanghai and Jinzhou resumed during February to March 2020, the scale was limited due to implementation of various measures to prevent the epidemic, such as, home office arrangements for office staff and maintaining only minimum number of workers in production lines.

At the date of authorisation for issue of these consolidated financial statements, the Group was not able to estimate the financial impact of these events.

41. 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 2020.

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				
	2019*	2018#	2017#	2016#	2015#
	HK$'000	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**4,561,391**	5,657,726	4,397,005	3,882,840	3,352,003
Cost of sales	**(4,357,862)**	(5,398,016)	(3,787,974)	(3,567,018)	(3,610,572)
Gross profit (loss)	**203,529**	259,710	609,031	315,822	(258,569)
Other income and gains	**684,375**	321,630	198,754	187,116	138,529
Selling and distribution costs	**(407,789)**	(584,130)	(398,193)	(296,578)	(177,468)
Administrative expenses	**(440,695)**	(439,187)	(419,489)	(347,562)	(383,037)
Other expenses	**(510,420)**	(360,098)	(584,442)	(1,500,062)	(1,068,660)
Share of loss of a joint venture	**(1,541)**	—	—	—	—
Finance costs	**(604,076)**	(565,040)	(454,678)	(441,118)	(515,873)
LOSS BEFORE TAX	**(1,076,617)**	(1,367,115)	(1,049,017)	(2,082,382)	(2,265,078)
Income tax (expenses) credit	**(39,717)**	67,896	158,759	170,096	(5,461)
LOSS FOR THE YEAR	**(1,116,334)**	(1,299,219)	(890,258)	(1,912,286)	(2,270,539)
Loss attributable to:					
Owners of the parent	**(1,067,819)**	(1,222,322)	(837,491)	(1,850,640)	(1,995,970)
Non-controlling interests	**(48,515)**	(76,897)	(52,767)	(61,646)	(274,569)
	(1,116,334)	(1,299,219)	(890,258)	(1,912,286)	(2,270,539)
TOTAL ASSETS	**8,234,929**	9,824,839	10,763,086	9,833,188	12,579,801
TOTAL LIABILITIES	**(12,580,920)**	(13,395,373)	(13,229,610)	(11,637,255)	(12,555,725)
NON-CONTROLLING INTERESTS	**148,126**	122,653	58,992	(714)	(171,560)
	(4,197,865)	(3,447,881)	(2,407,532)	(1,804,781)	(147,484)

* Details of the disclaimer of audit opinion are set out in the independent auditor's report on page 56 to page 58.

Disclaimer of audit opinion was issued in respect of the Group's consolidated financial statements for the years ended 31 December 2018, 2017, 2016 and 2015. Please refer to the Company's 2018, 2017, 2016 and 2015 annual reports for details.