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GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

SUBSCRIPTION AGREEMENT FOR THE ISSUE OF ORDINARY SHARES AND CONVERTIBLE BONDS PROPOSED GRANT OF SPECIFIC MANDATE PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL APPLICATION FOR THE GRANT OF THE WHITEWASH WAIVER AND NOTICE OF EGM

Financial adviser to the Company



**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter of advice from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 37 to 38 of this circular. A letter of advice from the Independent Financial Adviser, New Spring Capital Limited, containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 93 of this circular.

A notice convening the EGM to be held on 8 October 2015 at 11:00 a.m. at Aberdeen, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 236 to 239 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice of EGM and complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

* For identification purpose only

21 September 2015

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings.

“acting in concert”	has the meaning ascribed to it by the Takeovers Code and the expression “concert part(ies)” shall be construed accordingly
“Announcement”	the announcement dated 30 August 2015 of the Company in relation to the Transactions
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bonds
“Business Day”	a day on which banks are generally open for business in Hong Kong (other than a Saturday, Sunday or a public holiday or a day on which a tropical cyclone warning No. 8 or above or a “black” rainstorm warning signal is or remains hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“BVI”	the British Virgin Islands
“CB Consideration”	HK\$1,086,279,565, being the Hong Kong dollar cash amount equal to the balance of the Total Consideration after subtracting therefrom the Subscription Monies
“Company”	Global Bio-chem Technology Group Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 00809)
“Conversion Date”	the date on which the Conversion Rights are exercised
“Conversion Rights”	the rights attached to the Convertible Bonds to convert the principal amount of the Convertible Bonds or part thereof into Conversion Shares
“Conversion Shares”	the new Shares which may be issued upon exercise by the holder(s) of the Convertible Bonds of the Conversion Rights under the Convertible Bonds
“Convertible Bonds”	convertible bonds in an aggregate principal amount of the CB Consideration to be issued by the Company pursuant to the terms of the Subscription Agreement

DEFINITIONS

“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 11:00 a.m. on 8 October 2015 at Aberdeen, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong, the notice of which is set out on pages 236 to 239 of this circular, and any adjournment thereof for the purpose of considering, and if thought fit, approving the EGM Matters
“EGM Matters”	the matters to be put forward to the Independent Shareholders for consideration and, if thought fit, approval at the EGM which include the Subscription Agreement and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver and to the Shareholders for the Share Capital Increase
“Exchange Rate”	the exchange rate of HK\$1 = RMB0.8299, being the definitive exchange rate for conversion of RMB into Hong Kong dollar as agreed between the Company and the Subscriber with reference to the exchange rate fixed under a forward contract bought by the Subscriber from Bank of China Limited on 28 August 2015
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“GSH”	Global Sweeteners Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the non-wholly owned subsidiary of the Company and the shares of which are listed on the Stock Exchange (stock code: 03889)
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors (namely Mr. Chan Chi Wai, Benny, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam) established for making recommendation as to whether each of the EGM Matters is, or is not, fair and reasonable and as to voting

DEFINITIONS

“Independent Financial Adviser” or “New Spring Capital”	New Spring Capital Limited, a licensed corporation permitted to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of, among others, the EGM Matters
“Independent Shareholders”	Shareholders other than (i) the Subscriber and parties acting in concert with it; (ii) Mr. Liu Xiaoming; (iii) Mr. Cheung Chak Fung; (iv) Mr. Kong Zhanpeng; and (v) any other parties involved in or interested in the Transactions
“Initial Conversion Price”	the initial conversion price of the Convertible Bonds being HK\$0.23 (subject to adjustments) per Share
“Jiaotou”	吉林省交通投資集團有限公司 (Jilin Province Communication Investment Group Co., Ltd.), a limited liability company incorporated in the People’s Republic of China, which is 71.43% owned by 吉林省人民政府國有資產監督管理委員會 (Stated-owned Assets Supervision & Administration Commission of the People’s Government of Jilin Province) and 28.57% owned by 吉林省投資集團有限公司 (Jilin Province Investment Group Co., Ltd.) which is wholly owned by 吉林省發展和改革委員會 (Jilin Province Development and Reform Commission)
“June Announcement”	the announcement made by the Company on 10 June 2015 in relation to the Letter of Intent
“Latest Practicable Date”	18 September 2015, being the latest practicable date for ascertaining certain information contained in this circular
“Letter of Intent”	the letter of intent dated 9 June 2015 entered into between the Company and Jiaotou setting out the preliminary understanding in relation to the Subscription
“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LOI Last Trading Day”	30 April 2015, being the last trading day for the Shares prior to the halt of trading of Shares on 4 May 2015 pending the release of the June Announcement

DEFINITIONS

“Long Stop Date”	31 December 2015 (or such other date as may be agreed by the Subscriber and the Company in writing)
“Maturity Date”	the date falling on the fifth anniversary of the issue of the Convertible Bonds
“Outstanding Options”	the options granted by the Company to subscribe for an aggregate of 3,100,000 new Shares under the Share Option Scheme, which were outstanding as at the Latest Practicable Date
“PRC”	the People’s Republic of China
“PRC LLP”	Jilin Province Modern Agricultural Industry Investment Fund (LLP)
“Proposed New LPs”	Jilin Changjitu Investment Co., Ltd., Yinhua Wealth and Capital Management (Beijing) Co., Ltd. and Changchun Emerging Industry Equity Investment Fund Co., Ltd.
“Public Float Requirement”	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules
“Relevant Period”	the period between 10 December 2014 (being the date falling six months prior to 10 June 2015, the date of publication of the Announcement pursuant to Rule 3.2 of the Takeovers Code) and the Latest Practicable Date (both dates inclusive)
“Reorganisation”	the arrangements between the Group and some of its principal banks in relation to the restructuring of certain bank borrowings of the Group
“Reorganisation Documents”	the documents in relation to the Reorganisation in such form as shall be agreed between the Subscriber and the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share Capital Increase”	the proposed increase in the authorised share capital of the Company from HK\$1,000,000,000 to HK\$2,000,000,000

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Option Scheme”	the share option scheme currently in force and adopted by the Company on 3 September 2007
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	a specific mandate to allot, issue or otherwise deal in additional Shares to be sought from the Independent Shareholders to satisfy the allotment and issue of the Subscription Shares to the Subscriber upon completion of the Subscription and the Conversion Shares upon exercise of the conversion rights of the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Modern Agricultural Industry Investment Limited, a company incorporated in the British Virgin Islands which is an indirect wholly-owned subsidiary of Jilin Province Modern Agricultural Industry Investment Fund (LLP), which is an agricultural fund established in the PRC
“Subscription”	the issuance by the Company of, and the subscription by the Subscriber for, the Subscription Shares and the Convertible Bonds on and subject to the terms and conditions set out in the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 30 August 2015 entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Completion”	completion of the Subscription
“Subscription Completion Date”	the first Business Day following the notification of the satisfaction or waiver of all the Subscription Conditions (or such other date as the parties may agree)
“Subscription Conditions”	the conditions precedent to completion of the Subscription as set out in the Subscription Agreement and summarized in this circular
“Subscription Last Trading Day”	28 August 2015, being the last trading day immediately before the date of the Subscription Agreement
“Subscription Monies”	the cash amount of HK\$721,167,115, being the Subscription Price multiplied by the number of Subscription Shares

DEFINITIONS

“Subscription Price”	HK\$0.23 per Subscription Share
“Subscription Shares”	the new Shares to be issued to the Subscriber pursuant to the Subscription
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Total Consideration”	HK\$1,807,446,680, being the Hong Kong dollar equivalent of RMB1,500,000,000 (calculated at the Exchange Rate)
“Transactions”	the Reorganisation, the Subscription, the Whitewash Waiver, the Specific Mandate and the Share Capital Increase and the transactions so contemplated
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber and parties acting in concert with it to make a mandatory general offer for all the relevant securities of the Company not already owned or acquired by the Subscriber and parties acting in concert with it under Rule 26 of the Takeovers Code which would otherwise arise as a result of (i) the Subscriber subscribing for the Subscription Shares and the Convertible Bonds under the terms of the Subscription Agreement and (ii) the Subscriber obtaining 4,722,954,631 Conversion Shares upon full exercise of the conversion rights of the Convertible Bonds at the Initial Conversion Price
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

For the purpose of this circular, the Exchange Rate has been used for currency conversions, which does not constitute a representation that any amounts in RMB and HK\$ have been, could have been or may be converted at such rate or any other exchange rate.

LETTER FROM THE BOARD



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

Executive Directors:

Mr. Liu Xiaoming (*Chairman*)

Ms. Xu Ziyi

Mr. Li Weigang

Mr. Wang Yongan

Mr. Ji Jianping

Mr. Cheung Chak Fung

Registered office:

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

Independent non-executive Directors:

Mr. Chan Chi Wai, Benny

Mr. Ng Kwok Pong

Mr. Yeung Kit Lam

*Head office and principal place of
business in Hong Kong:*

Unit 1104

Admiralty Centre

Tower 1

18 Harcourt Road

Hong Kong

21 September 2015

To the Shareholders

Dear Sir or Madam,

**SUBSCRIPTION AGREEMENT FOR THE ISSUE OF ORDINARY SHARES
AND CONVERTIBLE BONDS
PROPOSED GRANT OF SPECIFIC MANDATE
PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL
APPLICATION FOR THE GRANT OF THE WHITEWASH WAIVER**

1. INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Transactions.

* *For identification purpose only*

LETTER FROM THE BOARD

The primary purpose of this circular is to:

- (a) provide you with further information relating to the Transactions;
- (b) set out (i) the recommendation of the Independent Board Committee after having considered the advice of the Independent Financial Adviser (namely, New Spring Capital Limited) as to whether the EGM Matters are, or are not, fair and reasonable and as to voting; and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee (comprising all the independent non-executive Directors) and the Independent Shareholders on whether the EGM Matters are, or are not, fair and reasonable and as to voting;
- (c) the financial information of the Group;
- (d) other information as required under the Listing Rules and the Takeovers Code; and
- (e) give you notice of the EGM to consider and, if thought fit, approve the EGM Matters.

2. SUBSCRIPTION AGREEMENT FOR THE ISSUE OF NEW SHARES AND CONVERTIBLE BONDS

Date

30 August 2015

Issuer

The Company

Subscriber

Modern Agricultural Industry Investment Limited

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Subscription

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe at the Total Consideration for an aggregate of:

- (i) an aggregate of 3,135,509,196 Subscription Shares that upon the Subscription Completion will represent approximately 49% of the issued Share as enlarged by the allotment and issue of the Subscription Shares; and

LETTER FROM THE BOARD

- (ii) the Convertible Bonds in the aggregate principal amount of the CB Consideration, which may be converted into 4,722,954,631 Conversion Shares based on the Initial Conversion Price upon full conversion.

The aggregate nominal value of the Subscription Shares (with a par value of HK\$0.10 each) is HK\$313,550,919.60. Based on the Initial Conversion Price, a total of 4,722,954,631 Conversion Shares will be issued upon full conversion of the Convertible Bonds and the aggregate nominal value of the Conversion Shares to be issued shall be HK\$472,295,463.10.

Subscription Price and Initial Conversion Price

The Subscription Price is HK\$0.23 per Subscription Share and the Initial Conversion Price is HK\$0.23 per Conversion Share, which represents:

- (i) a discount of approximately 31.34% over the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Subscription Last Trading Day;
- (ii) a discount of approximately 25.08% over the average closing price of approximately HK\$0.307 per Share for the last five trading days up to and including the Subscription Last Trading Day;
- (iii) a discount of approximately 29.88% over the average closing price of approximately HK\$0.328 per Share for the last ten trading days up to and including the Subscription Last Trading Day;
- (iv) a discount of approximately 40.71% over the average closing price of approximately HK\$0.388 per Share for the three-month period up to and including the Subscription Last Trading Day;
- (v) a discount of approximately 23.85% over the average closing price of approximately HK\$0.302 per Share for the twelve-month period up to and including the Subscription Last Trading Day;
- (vi) a discount of approximately 8.73% over the audited net asset value attributable to the equity owners per Share of approximately HK\$0.252 per Share as at 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up, without taking into account the Subscription;
- (vii) the Group recorded a negative unaudited net asset value attributable to the equity owners as at 30 June 2015; and
- (viii) a discount of approximately 25.81% over the closing price of HK\$0.310 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

The Subscription Price and the Initial Conversion Price also represent:

- (i) a discount of approximately 52.08% over the closing price of HK\$0.480 per Share as quoted on the Stock Exchange on the LOI Last Trading Day;
- (ii) a discount of approximately 45.75% over the average closing price of approximately HK\$0.424 per Share for the last five trading days up to and including the LOI Last Trading Day;
- (iii) a discount of approximately 39.87% over the average closing price of approximately HK\$0.383 per Share for the last ten trading days up to and including the LOI Last Trading Day;
- (iv) a discount of approximately 8.90% over the average closing price of approximately HK\$0.252 per Share for the three-month period up to and including the LOI Last Trading Day; and
- (v) a discount of approximately 19.38% over the average closing price of approximately HK\$0.285 per Share for the twelve-month period up to and including the LOI Last Trading Day.

The Subscription Price and the Initial Conversion Price were determined after arm's length negotiation between the Company and the Subscriber with reference to various factors, including but not limited to (i) the average closing price of the Shares for the three months, respectively, and twelve months immediately before 30 April 2015, being the LOI Last Trading Day; and (ii) the financial situation of the Company. The Directors (including the independent non-executive Directors whose views have been given after taken into account the advice from the Independent Financial Adviser which has been disclosed in the Letter from New Spring Capital) consider that in view of the serious financial difficulties of the Group, the Subscription Price, the Initial Conversion Price and the significant discount of the Subscription Price and the Initial Conversion Price to the closing price of the Shares on the Subscription Last Trading Day and LOI Last Trading Day are fair and reasonable.

The total subscription monies of the Subscription Shares and the Convertible Bonds amount to the Total Consideration.

LETTER FROM THE BOARD

Disposal and lock-up restriction

The Subscriber has undertaken and agreed that, subject to and conditional upon the Subscription Completion, it shall not, without the prior written consent of the Company, and whether directly or indirectly, at any time during the period of ten months immediately following the Subscription Completion Date:

- (a) offer, pledge charge, sell, mortgage, lend, create, transfer or otherwise dispose of any legal or beneficial interest (including by the creation of or an agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase) in the Subscription Shares, the Convertible Bonds, the Conversion Shares or any securities convertible into or exercisable or exchangeable for such Subscription Shares, Convertible Bonds or Conversion Shares, or contract to do so, whether directly or indirectly, or;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such Subscription Shares, Convertible Bonds, Conversion Shares or securities,

in each case, whether any of the foregoing transactions is to be settled by delivery of Shares, Convertible Bonds or such other securities convertible into Shares, cash or otherwise dispose of any of the Subscription Shares, the Convertible Bonds, the Conversion Shares or any interest in any company or entity holding (directly or indirectly) any of the Subscription Shares, the Convertible Bonds or the Conversion Shares, and provided that the restrictions set out above shall not prohibit or restrict any sale, transfer or disposal of the Subscription Shares, the Convertible Bonds or the Conversion Shares (or transaction, agreement or contract referred to above) among the Subscriber and its wholly-owned subsidiaries and such transferee(s) agrees to receive and hold the Subscription Shares, the Convertible Bonds or the Conversion Shares subject to the above provisions.

Indemnities

Under the Subscription Agreement, the Company undertakes to pay to the Subscriber on demand an amount equal to all losses (including all claims, liabilities, damages, losses and any direct or indirect consequential losses, costs and expenses) suffered or incurred by the Subscriber which arise (directly or indirectly) as a result of or in connection with the following:

- (a) alleged infringement of EP 1.664.318 (entitled “L-amino acid-producing microorganism and method for producing L-amino acid”);
- (b) any further liabilities in connection with the infringement of EP 0.773.710 (entitled “Process for Producing L-Lysine by Fermentation”), EP 0.733.712 (entitled “Process for Producing Substance”) and EP 0.796.912 (entitled “Novel Lysine

LETTER FROM THE BOARD

Decarboxylase Gene and Process for Producing L-Lysine”) to the extent that the provision of which has not been adequately made in the audited consolidated accounts of the Company for the year ended 31 December 2014;

- (c) any liabilities in connection with the litigations as set out in the disclosure letter to the Subscription Agreement to the extent that the provision of which has not been adequately made in the audited consolidated accounts of the Company for the year ended 31 December 2014;
- (d) failure and/or inability to obtain the relevant land use rights certificates and/or building ownership certificates for any of the owned properties of the Group which have not obtained such certificates as at the date of the Subscription Agreement; and
- (e) suspension and/or delisting of the Company and/or GSH from the Main Board of the Stock Exchange due to the non-compliance of the Listing Rules by the Company and/or GSH and/or their directors which occurred before the Subscription Completion Date.

Please refer to pages 17 to 19 of the annual report of the Company for the year ended 31 December 2014, the announcement of the Company dated 7 August 2015 and the paragraph headed “7. Material Litigation” in Appendix II on pages 228 to 230 of this circular for the latest development of the alleged infringements of the patents as referred to in paragraphs (a) and (b) above.

The Reorganisation

As set out in the paragraph headed “Conditions Precedent” below, as one of the conditions precedent to the Subscription Completion, the Subscription Completion is conditional upon, among others, the entering into of each of the Reorganisation Documents by the parties thereto and the Reorganisation having been completed in accordance with the terms of the Reorganisation Documents.

It is intended that the Group and some of its principal banks will enter into certain agreement(s) and/or undertaking(s) in relation to the restructuring of certain bank borrowings of the Group. As at the Latest Practicable Date, the terms of the Reorganisation Documents are yet to be agreed between the parties thereto. However, it is intended that the terms of the Reorganisation Documents will include the lowering of applicable rates of interests payable, rescheduling of interest payment periods and conditional and continuous use of the bank borrowings of the Group.

Change in members or composition of the Board

Subject to Subscription Completion having taken place, all executive Directors will resign as directors of the Company with effect from the Subscription Completion Date.

LETTER FROM THE BOARD

In place of the above resigning Directors, the Subscriber intends to nominate six new Directors to the Board and such appointment will take effect on and from the Subscription Completion Date.

Details of the proposed new Directors as at the Latest Practicable Date are set out below:

Mr. QIU Zhuang, aged 59, is the secretary of the Party Committee and the chairman of Jiaotou. Mr. QIU had held various positions in Jilin Province Communication Investment and Development Company (吉林省交通投資開發公司) from April 1994 to December 2011, including as the deputy general manager, general manager and chairman. Mr. QIU graduated from Jilin Province Communication School in July 1975. Mr. QIU holds the qualification of senior economist.

Mr. LI Shuguang, aged 52, is the deputy secretary of the Party Committee and the secretary of discipline inspection commission of Jiaotou. Mr. Li holds a Master of Laws degree from Jilin University.

Ms. WANG Qiu, aged 39, is the deputy general manager and the chief financial officer of Jiaotou, chairman of the supervisory board of Jilin Changjitu Development Construction Cultural Industry Development Co., Ltd. (吉林省長吉圖開發建設文化產業發展有限公司), chairman of the supervisory board of Jilin Changjitu Development Construction and Modern Agriculture Investment Co., Ltd. (吉林省長吉圖開發建設現代農業投資有限公司) and general manager of Jilin Changjitu Investment Co., Ltd. (吉林省長吉圖投資有限公司). Ms. WANG had held various positions in Jilin Province Communication Investment and Development Company (吉林省交通投資開發公司) from July 1999 to November 2012, including as the financial accountant, head of the Finance Department, chief accountant and assistant to the general manager. Ms. WANG holds a Bachelor of Laws degree and a Master of Laws degree from Changchun Tax College, and a PhD degree in economics from Jilin University. Ms. WANG holds the qualification of senior auditor and the qualification of senior accountant.

Mr. WANG Jian, aged 41, is the assistant to the general manager, head of Asset Operation Department and employee supervisor of Jiaotou. Mr. WANG had held various positions in Jilin Province Communication Investment and Development Company (吉林省交通投資開發公司) from 1996 to 2012, including as the deputy head of the Corporate Planning Department, deputy director of the General Office, deputy director of the Office of the Party Committee and head of Asset Operation Department. Mr. WANG holds a Bachelor degree in economics from Jilin University.

Ms. LIU Fang, aged 42, is the head of the Finance Department of Jiaotou and the Chief Financial Officer of Jilin Changjitu Development Construction Cultural Industry Development Co., Ltd. (吉林省長吉圖開發建設文化產業發展有限公司). Ms. LIU had held various positions from August 1998 to November 2012, including as cashier of Jilin Province Communication Investment and Development Company (吉林省交通投資開發公司) and

LETTER FROM THE BOARD

accountant in charge of Jiaotou. Ms. LIU holds a Bachelor of Economy degree from Changchun Tax College and a Master of Accounting degree from Jilin University. Ms. LIU holds the qualification of senior accountant.

Mr. XING Lizhu, aged 40, is the secretary of the board of directors and director of the General Office of Jiaotou. Mr. XING had held various positions from April 2003 to November 2012, including as deputy head, head and secretary of the sub-division of Party Committee of Changan Toll Station of Jiaotou. Mr. XING graduated from Changchun Tax College, majoring in accounting, in December 1997. Mr. XING holds the qualification of senior accountant.

As at the Latest Practicable Date:

- (a) none of these proposed new Directors holds any position in the Group;
- (b) no service contract or appointment letter has been entered into between the Company and any of these proposed new Directors;
- (c) save as disclosed above, none of these proposed new Directors held any other directorships in the last three years in any publicly listed companies in Hong Kong, the PRC or other places;
- (d) none of these proposed new Directors is related with any other proposed Directors, or with any existing Directors, senior management or substantial or controlling shareholders of the Company;
- (e) none of these proposed new Directors has any interest in any shares or underlying shares of the Company or its associated corporations within the meaning of Part XV of the SFO;
- (f) save as disclosed above, there is no other information relating to these proposed new Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

The candidates of the above proposed new Directors may be subject to change. Further announcement(s) will be made in accordance with the Listing Rules upon formal appointment of the proposed new Directors.

Conditions Precedent

Completion of the Subscription is conditional on, among others, the following Subscription Conditions being fulfilled or, if applicable, waived by the Long Stop Date:

- (a) the Executive having granted the Whitewash Waiver;
- (b) all conditions attached to the Whitewash Waiver having been satisfied;

LETTER FROM THE BOARD

- (c) the Independent Shareholders having at the EGM approved the Subscription, the Whitewash Waiver, the Specific Mandate and the transactions contemplated thereunder;
- (d) the Shareholders having at the EGM approved the Share Capital Increase and the transactions contemplated thereunder;
- (e) the Company having obtained the approval from the Stock Exchange for the listing of and permission to deal in the Subscription Shares and the Shares to be issued upon the full conversion of the Convertible Bonds on the Main Board of the Stock Exchange;
- (f) that the Subscription Completion would not result in the Company not meeting the Public Float Requirement on the Subscription Completion Date;
- (g) all other regulatory consents and authorisations of any governmental or regulatory body which are necessary and required for the purpose of implementing and completing the Transactions having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in any relevant jurisdiction;
- (h) the written approval from or the filing for inspection with the State-owned Assets Supervision and Administration Commission of the People's Government of Jilin Province for the Subscription Agreement and the transactions (including the subscription for the Convertible Bonds) with the terms and conditions contemplated thereunder having been obtained or completed;
- (i) each of the Reorganisation Documents having been duly entered into by the parties thereto and the Reorganisation having been completed in accordance with the terms of the Reorganisation Documents;
- (j) the Subscriber having completed its due diligence review on the Group (including but not limited to the business, operation, financials and legal aspects of the relevant members of the Group) and at its sole and absolute discretion being satisfied with the results of such due diligence review and having confirmed this to the Company in writing;
- (k) (where applicable or necessary) the Company having obtained any necessary and required consents and given any necessary and required notifications (or having caused all relevant members of the Group to obtain such consents or give such notifications) for the Transactions under any loan agreements or security documents to which any relevant member of the Group is a borrower or an obligor; and
- (l) the Company having complied with all of its undertakings under the Subscription Agreement in all material respects.

LETTER FROM THE BOARD

Save for the conditions set out in paragraphs (h) to (l) above which may be waived only by the Subscriber, none of the other Subscription Conditions can be waived by any party to the Subscription Agreement.

If the Subscription Conditions have not been satisfied or waived (as the case may be) on or before the Long Stop Date, then the Subscription Agreement shall automatically terminate (other than in respect of certain surviving provisions including confidentiality, costs, waivers, rights and remedies). In such event, none of the parties (nor any of their respective affiliates) shall have any claim under the Subscription Agreement of any nature whatsoever against any other parties (or any of their respective affiliates) except in respect of any rights and liabilities which have accrued before termination or under any of the surviving provisions.

As at the Latest Practicable Date, none of the Subscription Conditions has been fulfilled or waived (as the case may be).

Completion

Completion of the Subscription shall take place on the Subscription Completion Date.

Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares to be issued upon full conversion of the Convertible Bonds on the Stock Exchange.

The Company will not apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Convertible Bonds on the Stock Exchange.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Interest

The Convertible Bonds shall carry coupon interest at the rate of 0.01% per annum payable quarterly in arrears.

Maturity and redemption

Without prejudice to the paragraph headed “Events of Default” below, the Company may, subject to prior agreement with the Bondholders, redeem at any time prior to the Maturity Date all or part of the outstanding principal amount (unless previously converted, redeemed or cancelled) of the Convertible Bonds (together with accrued and unpaid interest, if any, in respect of the Convertible Bonds to be redeemed up to and including the redemption date) on a specified redemption date at 100% of the principal amount of the Convertible Bonds to be redeemed, by giving the Bondholders no less than 30 days’ notice of the date fixed for such redemption and the principal amount and interest amount to be redeemed.

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The outstanding principal amount of the Convertible Bonds (unless previously converted into Shares or repaid in accordance with the conditions of the Convertible Bonds) and all outstanding interest payable in relation to the Convertible Bonds, shall be repaid by the Company to the Bondholders subject to and in accordance with the terms of the Convertible Bonds on the Maturity Date at 100% of the outstanding principal amount of the Convertible Bonds. The Convertible Bonds may not be repaid or redeemed otherwise than in accordance with the conditions of the Convertible Bonds.

Ranking of the Conversion Shares

The Convertible Bonds will be convertible into the Conversion Shares, which shall rank *pari passu* in all respects with all other existing Shares outstanding at the Conversion Date and the Bondholder shall be entitled in respect of its Conversion Shares to all dividends and other distributions the record date of which falls on a date on or after the Conversion Date.

Conversion Period

The Bondholders 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 their Convertible Bonds into 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 shall not be less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares at the relevant time in compliance with the Listing Rules.

Initial Conversion Price

The price at which Conversion Shares will be issued upon exercise of a Conversion Right will be HK\$0.23 (subject to adjustments) per Share.

LETTER FROM THE BOARD

Adjustment of Initial Conversion Price

Subject to the terms and conditions of the Convertible Bonds, the Initial Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of the following provisions, it shall fall within the first of the applicable provisions to the exclusion of the remaining provisions:

(i) *Consolidation, subdivision or reclassification:*

If and whenever there shall be an alteration to the share capital of the Company as a result of consolidation, subdivision or reclassification, the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the number of issued Shares immediately before such alteration; and

B is the number of issued Shares immediately after such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(ii) *Capitalisation of profits or reserves:*

If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves, other than Shares issued in lieu of the whole or any part of a cash dividend (the “Relevant Cash Dividend”), being a dividend which the Shareholders concerned would or could otherwise have received in cash (“Scrip Dividend”), the Initial Conversion Price shall be adjusted in the case of an issue of Shares other than by way of Scrip Dividend by multiplying the Initial Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the number of issued Shares immediately before such issue; and

B is the number of issued Shares immediately after such issue; and

LETTER FROM THE BOARD

in the case of an issue of Shares by way of a Scrip Dividend the Current Market Price of which Shares exceeds 120 per cent. of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a capital distribution, by multiplying the Initial Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of issued Shares immediately before such issue;

B is the number of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount per Share of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the number of Shares issued in respect of each existing Share in lieu of the whole, or the relevant part of the Relevant Cash Dividend; and

C is the number of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an approved merchant bank or the auditors of the Company shall certify to the Company is fair and reasonable and is acceptable to the Bondholders concerned.

Such adjustment shall become effective on the date of issue of such Shares.

(iii) *Capital distribution:*

If and whenever the Company shall pay or make any capital distribution to the Shareholders (except where the Initial Conversion Price falls to be adjusted under sub-paragraph (ii) above or falls within sub-paragraph (ii) above but no adjustment falls to be made), the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately prior to such capital distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the dealing day last preceding the date on which the capital distribution is publicly announced; and

LETTER FROM THE BOARD

B is the fair market value on the date of such announcement, as determined in good faith by an approved merchant bank or the auditors of the Company, of the portion of the capital distribution attributable to one Share.

Such adjustment shall become effective on the date that such capital distribution is actually made.

(iv) *Rights issues of Shares or options over Shares:*

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 90 per cent. of the Current Market Price per Share on the last dealing day preceding the date of the announcement of the terms of the issue or grant, the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would subscribe for or purchase at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

(v) *Rights issues of other securities:*

If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights of any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other

LETTER FROM THE BOARD

rights to subscribe for or purchase Shares), the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last dealing day preceding the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement as determined in good faith by an approved merchant bank or the auditors of the Company, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

(vi) *Issues at less than Current Market Price:*

If and whenever the Company shall issue (otherwise than as mentioned in sub-paragraph (iv) above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or on the issue or grant of (otherwise than as mentioned in sub-paragraph (iv) above) options, warrants or other rights to subscribe for or purchase Shares in each case at a price per Share which is less than 90 per cent. of the Current Market Price on the dealing day last preceding the date of announcement of the terms of such issue, the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for or purchase any Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

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C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

(vii) *Other issues at less than Current Market Price:*

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (vii), if and whenever the Company or any Subsidiary (otherwise than as mentioned in sub-paragraphs (iv), (v) or (vi) above), or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other person shall issue wholly for cash any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares (or grant any such rights in respect of any existing securities so issued) to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 90 per cent. of the Current Market Price per share on the last dealing day preceding the date of announcement of the terms of issue of such securities, the Initial Conversion Price shall be adjusted, by multiplying the Initial Conversion Price in force immediately prior to such issue (or grant) by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue (or grant);

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or subscription for or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued upon conversion into or subscription for exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

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Such adjustment shall become effective on the date of issue (or grant) of such securities.

(viii) *Modification of rights of conversion etc:*

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in subparagraph (vii) above (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 90 per cent. of the Current Market Price per share on the last dealing day preceding the date of announcement of the proposals for such modification, the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

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(ix) *Other offers to Shareholders:*

If and whenever the Company or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other person issues, sells or distributes any securities in connection with an offer by or on behalf of the Company or any Subsidiary or such other person pursuant to which offer all or substantially all the Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Initial Conversion Price falls to be adjusted under sub-paragraphs (iv) to (vii) above), the Initial Conversion Price shall be adjusted by, multiplying the Initial Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last dealing day preceding the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an approved merchant bank or the auditors of the Company, of the portion of the relevant offer attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

(x) *Other events:*

If the Company considers that it would be appropriate for an adjustment to be made to the Initial Conversion Price as a result of one or more events or circumstances not referred to above, the Company shall at its own expense, request an approved merchant bank or the auditors of the Company to determine (acting as experts) as soon as practicable what adjustment (if any) to the Initial Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (provided that the adjustment would result in a reduction in the Initial Conversion Price) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph if the approved merchant bank or the auditors of the Company is so requested to make such a determination; provided that where the circumstances giving rise to any adjustment pursuant to the events as set out above have already resulted or will result in an adjustment to the Initial Conversion Price or where other circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Initial Conversion

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Price, such modification (if any) shall be made to the operation of the above provisions as may be advised by the approved merchant bank or the auditors of the Company in question to be in their opinion appropriate to give the intended result.

The above adjustment event is to cater for circumstances which are currently unforeseen, whereby it will provide a mechanism for the Company to adjust the Conversion Price, which adjustment may result in an increase or a reduction of the Conversion Price, and since an adjustment shall only be made if determined by an approved merchant bank or the auditors of the Company as fair and reasonable, the Directors consider that the above adjustment event is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

For the purpose of the above price adjustment events, “Current Market Price” means, in respect of a Share at a particular date the average of the closing prices published in the Stock Exchange’s daily quotations sheet for one Share (assuming a transaction in a board lot) for the five consecutive dealing days ending on and including the dealing day last preceding such date; provided that if at any time during the said five dealing days the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

- (i) if the Shares to be issued will not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; and
- (ii) if the Shares to be issued will rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Shares on each of the relevant five dealing days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share.

Voting rights

The Bondholders will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of being Bondholders even if the relevant Bondholder(s) is/are at the same time Shareholder(s).

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Events of default

Pursuant to the Subscription Agreement, if any of the events specified below occurs, the Company shall within 10 days of such event occurring give notice to the Bondholders. Within 10 days after the Company despatches the notice, any Bondholder holding, or one or more Bondholders together holding, at least 76% of the then outstanding principal amount of the Convertible Bonds may give notice to the Company that the Convertible Bonds are immediately due and payable, whereupon they shall become immediately due and payable in the amounts which would otherwise be due on the Maturity Date:

- (a) a default is made for more than seven days in the payment of any principal or interest relating to the Convertible Bonds when and as the same ought to be paid in accordance with the conditions of the Convertible Bonds;
- (b) a default is made by the Company in the performance or observance of any covenant, condition or provision of the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal of the Convertible Bonds) and such default continues for the period of 30 days next following the service by a Bondholder, or Bondholders together, holding at least 51% of the then outstanding principal amounts of Convertible Bonds on the Company of notice requiring such default to be remedied;
- (c) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by a Bondholder, or Bondholders together, holding at least 51% of the then outstanding principal amounts of Convertible Bonds;
- (d) an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertaking of the Company or any of its subsidiaries;
- (e) a distress, execution or seizure order before judgement is levied or enforced upon or sued out against the whole or a material part of the property of the Company or any of its subsidiaries (as the case may be) and is not discharged within 40 days thereof;
- (f) the Company or any of its subsidiaries is unable to pay its debts (save and except for such debts as set out in the disclosure letter to the Subscription Agreement) as and when they fall due or the Company or any of its subsidiaries shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make an assignment for the benefit of, or enter into any composition with, its creditors;

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- (g) early termination of any of the Reorganisation Documents or any breach or default by the Company and/or any Subsidiary (as the case may be) in the performance or observance of any undertaking, covenant, condition or provision of the Reorganisation Documents;
- (h) proceedings shall have been initiated against the Company or any of its subsidiaries under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 60 days;
- (i) any event occurs which has an analogous effect to any of the events referred to in paragraphs (a) to (h) above;
- (j) the listing of the Shares of the Company is withdrawn from the Stock Exchange; or
- (k) trading of the Shares of the Company are suspended for a consecutive period of more than 90 Business Days.

Transfer

The Convertible Bonds are freely assignable and transferrable by the Bondholders subject to the applicable laws and regulations and the Listing Rules, provided that the Convertible Bonds may not be transferred by the Bondholders, without the prior written consent of the Company, to any connected person (as defined in the Listing Rules) of the Company. Any transfer of any Convertible Bond shall be in respect of the whole of the outstanding principal amount or multiples of units of principal amount of HK\$1,000,000 of that Convertible Bond.

Form and denomination

The Convertible Bonds will be issued in registered form in the denomination of HK\$1,000,000 and integral multiples thereof.

Information on the Subscriber

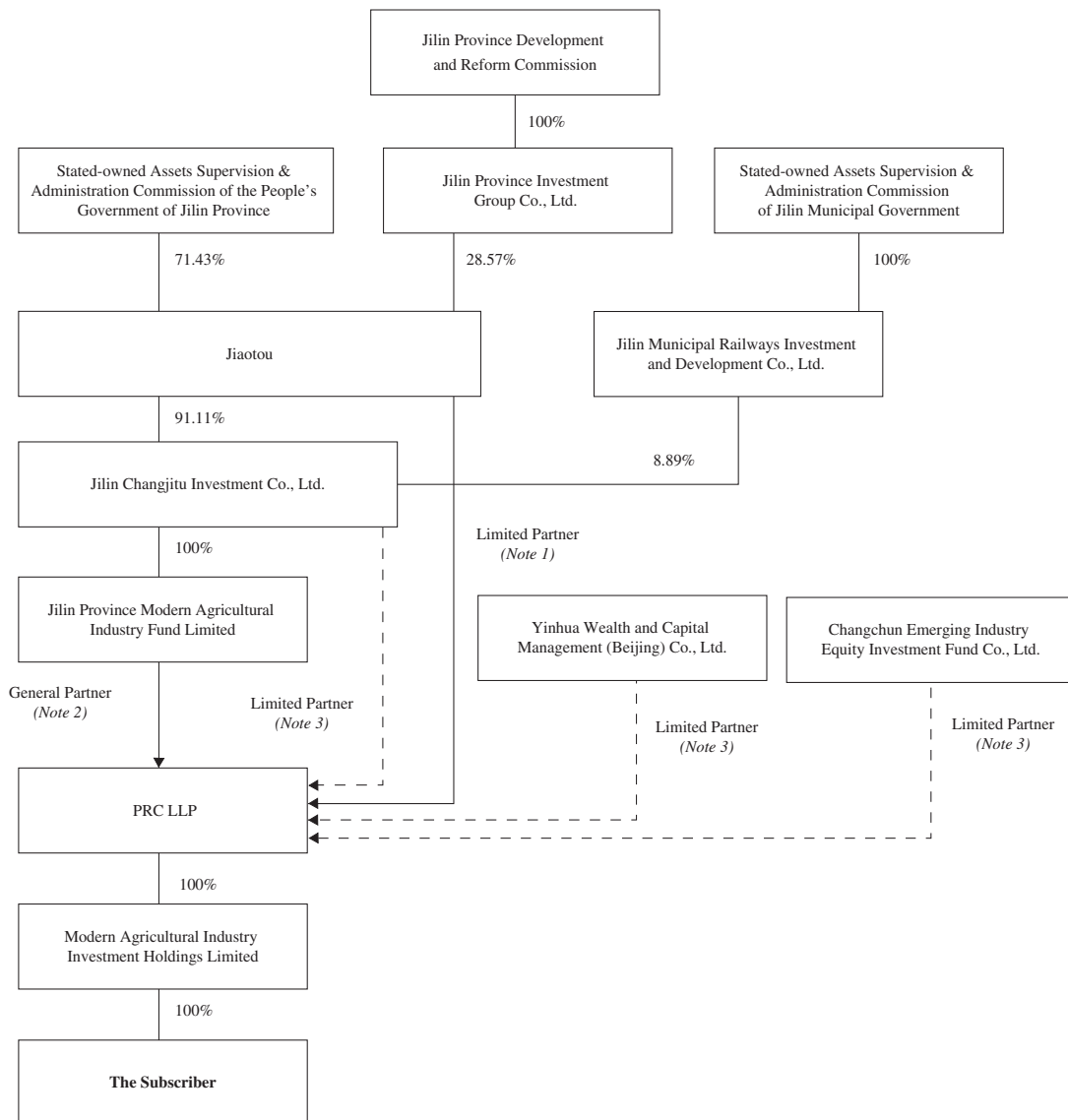
The Subscriber is a company incorporated in the British Virgin Islands on 13 July 2015 and is directly wholly owned by Modern Agricultural Industry Investment Holdings Limited which is an investment holding company directly wholly-owned by the PRC LLP, which is an agricultural fund established in the PRC and whose sole general partner is Jilin Province Modern Agricultural Industry Fund Limited. Jilin Province Modern Agricultural Industry Fund Limited is wholly owned by Jilin Changjitu Investment Co., Ltd., a limited company established in the PRC which is owned by Jiaotou and Jilin Municipal Railways Investment and Development Co., Ltd. as to 91.11% and 8.89%, respectively. Jiaotou is 71.43% owned by 吉林省人民政府國有資產監督管理委員會 (Stated-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province) and 28.57% owned by 吉林省投資集團有限公司 (Jilin Province Investment Group Co., Ltd.) which is wholly owned by 吉林省發展和改革委員會 (Jilin Province Development and Reform Commission).

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Jilin Municipal Railways Investment and Development Co., Ltd. is wholly owned by 吉林省國有資產監督管理委員會 (State-owned Assets Supervision & Administration Commission of Jilin Municipal Government).

As at the Latest Practicable Date, Jiaotou is the only limited partner of the PRC LLP. It is currently intended that Jilin Changjitu Investment Co., Ltd., Yinhua Wealth and Capital Management (Beijing) Co., Ltd. and Changchun Emerging Industry Equity Investment Fund Co., Ltd. will become limited partners of the PRC LLP and the relevant amendments to the limited partnership agreement of the PRC LLP and the relevant registration with the local industrial and commerce bureau are expected to be made and completed before Subscription Completion.

Set out below is the shareholding structure of the Subscriber immediately after the Proposed New LPs becoming the limited partners of PRC LLP as mentioned above:



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Notes:

1. As at the Latest Practicable Date, Jiaotou is the sole limited partner of the PRC LLP. Jiaotou's direct holding in the PRC LLP will be reduced upon the Proposed New LPs becoming the limited partners of the PRC LLP, which percentage is yet to be fixed as at the Latest Practicable Date.
2. As at the Latest Practicable Date, Jilin Province Modern Agricultural Industry Fund Limited is the sole general partner of PRC LLP. The direct holding of Jilin Province Modern Agricultural Industry Fund Limited in the PRC LLP will be reduced upon the Proposed New LPs becoming the limited partners of the PRC LLP, which percentage is yet to be fixed as at the Latest Practicable Date.
3. The alternation registration of the Proposed New LPs with the local bureau for industrial and commerce are expected to be completed before the Subscription Completion.

The Subscriber currently intends that, following completion of the Group will continue to operate and develop its existing business, and it has no intention to introduce any material changes in the business (including any redeployment of the fixed assets of the Group) or terminate the continued employment of the employees of the Group save for the change of directors as set out in the paragraph headed "Change in members or composition of the Board" above.

Reasons for the Subscription

The Group is principally engaged in the manufacture and sale of corn refined products and corn based biochemical products.

The Board is of the view that equity financing by way of the Subscription is the most appropriate mean of raising additional capital as (i) it is more practicable and direct under a volatile market and the uncertain global market conditions currently prevailing; and (ii) it is less costly and minimal financial burden is imposed given that the Company is only required to pay interest to the Subscriber for the Convertible Bonds at a rate of 0.01% per annum on the outstanding principal.

The Board is of the view that it is in the interest of the Group and the Shareholders as a whole to raise funds by the Subscription, which allows the Group to (i) improve its liquidity and to meet its ongoing working capital requirements, strengthen its capital position and equip the Group with the financial flexibility to achieve the Group's business objectives; (ii) bring in a controlling shareholder whose parent group has a strong background which will provide support to the Group and potentially lower the financing costs of the Group; (iii) leverage on the investment experience of the Subscriber's parent group and its extensive business and governmental network in the PRC to develop the Group's business; and (iv) further raise the profile of the Group in the Jilin Province, and allow the Group to potentially benefit from the strong support and resources of the Subscriber's parent group such as its network in the business, financial and governmental sectors in the PRC.

The Directors (including the independent non-executive Directors whose views have been given after taken into account the advice from the Independent Financial Adviser which has been disclosed in the Letter from New Spring Capital) consider that as the terms of the Subscription Agreement were negotiated on an arm's length basis between the parties by taking into account of, among others, the financial situation of the Company and the findings of the Subscriber in its due diligence review in relation to the Group, the terms of the

LETTER FROM THE BOARD

Subscription Agreement, including the indemnities to be provided by the Company as set out in the paragraph headed “Indemnities” above, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Use of Proceeds

The gross proceeds of the Subscription will amount to approximately HK\$1.81 billion and the net proceeds from the Subscription, after the deduction of the professional and other related expenses, are estimated to be approximately HK\$1.79 billion, representing a net issue price of approximately HK\$0.23 per Subscription Share and approximately HK\$0.23 per Conversion Share.

The Board intends to apply the net proceeds for business development, expenses in relation to the relocation of the Group’s production facilities in Lu Yuan District, Changchun to the new production facilities in Xinglongshan, Changchun which is in response to the call of the local government to industrial companies to move their factories away from central districts of the city and general working capital purpose of the Group.

As announced by the Company on 7 January 2014, 13 January 2014 and 27 August 2014, the Group entered into certain compensation agreements with the local authority in Changchun for the resumption of land on the west side of Xihuancheng Road, Changchun and the buildings and fixtures erected thereon, and the Group was in the course of negotiation with the local authority on the terms of the resumption of the land located on the east side of Xihuancheng Road, Changchun. As at the Latest Practicable Date, no formal agreement had been entered into between the parties in relation to the resumption of the land located on the east side of Xihuancheng Road, Changchun but the parties had reached a preliminary understanding on the intention of the resumption of land and the Directors were also given to understand that compensation shall be receivable by the Group from the local governmental authority(ies) although the compensation amount and basis of calculation of compensation are yet to be negotiated and to be agreed as at the Latest Practicable Date. The relocation of the Group’s production facilities is currently in progress and, barring any unforeseen circumstances, is currently expected to be completed by the end of 2017. It is expected that the relocation shall be financed partly by the net proceeds from the Subscription, and partly by the compensation receivable by the Group from the local governmental authority(ies) for the resumption and the internal resources of the Group.

The detailed plans for future business development and relocation, as well as the breakdown of the capital expenditure required for the future business development, relocation and general working capital will be decided by the new Board which will comprise of new members to be appointed with effect from the Subscription Completion, after considering and evaluating, among others, the business and financial conditions of the Group, the industry environment and market situation. For particulars of the proposed new Board members, please refer to the paragraph headed “Change in members or composition of the Board” above.

Based on the Subscriber’s initial assessment taking into account, amongst other factors, the Group’s operational and financial conditions and current market conditions, it is the Subscriber’s intention that, subject to the final decision of the new Board which will comprise

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of new members to be appointed with effect from the Subscription Completion, approximately 7%, 27% and 66% of the net proceeds will be allocated for business development, relocation expenses and general working capital purpose of the Group, respectively.

Fund Raising Activity of the Company in the 12 Months Immediately Preceding the Latest Practicable Date

The Company had not undertaken any fund raising exercise in the 12 months immediately prior to the Latest Practicable Date.

LETTER FROM THE BOARD

Effect on the Shareholding Structure

For illustration purpose only, the effect of the Subscription on the shareholding structure of the Company immediately upon (i) completion of the Subscription; (ii) conversion of the Convertible Bonds at the Initial Conversion Price; and (iii) full exercise of the subscription rights attaching to the Outstanding Options is as follows:

Shareholders	As at the date of the Latest Practicable Date (No. of Shares)	Assuming (i) completion of the Subscription; (ii) no conversion of the Convertible Bonds; and (iii) full exercise of the subscription rights attaching to the Outstanding Options were not exercised at all			Assuming (i) completion of the Subscription; (ii) conversion of the Convertible Bonds to the extent that the Public Float Requirement shall be met immediately after such conversion and (iii) the subscription rights attaching to the Outstanding Options were not exercised at all			Assuming (i) completion of the Subscription; (ii) conversion of the Convertible Bonds to the extent that the Public Float Requirement shall be met immediately after such conversion and (iii) the subscription rights attaching to the Outstanding Options were not exercised at all						
		(%)	(No. of Shares)	(%)	(%)	(No. of Shares)	(%)	(%)	(No. of Shares)	(%)	(No. of Shares)	(%)		
Subscriber and its concert parties	—	—	3,135,509,196	48.98	3,135,509,196	49.00	7,858,463,827	70.64	7,858,463,827	70.66	6,688,702,992	67.19	6,691,802,992	67.22
Director(s):														
Mr. Liu Xiaoming (Note 1)	508,138,400	15.57	508,138,400	7.94	508,138,400	7.94	508,138,400	4.57	508,138,400	4.57	508,138,400	5.10	508,138,400	5.10
Ms. Xu Ziyi (Note 2)	5,646,000	0.17	5,646,000	0.09	5,646,000	0.09	5,646,000	0.05	5,646,000	0.05	5,646,000	0.06	5,646,000	0.06
Mr. Ji Jianping (Note 3)	660,000	0.02	660,000	0.01	660,000	0.01	660,000	0.01	660,000	0.01	660,000	0.01	660,000	0.01
Mr. Cheung Chak Fung	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00
Other connected person(s):														
Mr. Kong Zhanpeng (Note 4)	260,176,000	7.97	260,176,000	4.06	260,176,000	4.07	260,176,000	2.34	260,176,000	2.34	260,176,000	2.61	260,176,000	2.61
Mr. Nie Zhiguo (Note 5)	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00
Public:														
Grantees of Outstanding Options (Notes 6 and 7)	—	—	3,100,000	0.05	—	—	3,100,000	0.03	—	—	3,100,000	0.03	—	—
Other public Shareholders	2,488,823,039	76.26	2,488,823,039	38.88	2,488,823,039	38.89	2,488,823,039	22.37	2,488,823,039	22.37	2,488,823,039	25.00	2,488,823,039	25.00
Total	3,263,489,164	100.00	6,402,098,360	100.00	6,398,998,360	100.00	11,125,052,991	100.00	11,121,952,991	100.00	9,955,292,156	100.00	9,955,292,156	100.00

LETTER FROM THE BOARD

- Note 1:* Among these Shares, 489,048,000 of which are held by LXM Limited, the entire issued capital of which is owned by Mr. Liu Xiaoming.
- Note 2:* Among these interests, 5,576,000 Shares are held by Ms. Xu Ziyi as beneficial owner, and 70,000 Shares are held by the personal representative of the late spouse of Ms. Xu Ziyi.
- Note 3:* Among these shares, 280,000 of which are held by Mr. Ji Jianping as beneficial owner and 380,000 of which are held by Mr. Ji Jianping as beneficiary under the trust, The Bright Balance Unit Trust.
- Note 4:* Mr. Kong Zhanpeng is a connected person of the Company by virtue of him being an executive director of GSH. Among these Shares, 241,920,000 of which are held by Hartington Profits Limited, the entire issued capital of which is owned by Mr. Kong Zhanpeng.
- Note 5:* Mr. Nie Zhiguo is a connected person of the Company by virtue of him being an executive director of GSH. Among these Shares, 28,400 of which are held by Mr. Nie Zhiguo as beneficial owner and 16,000 of which are held by Mr. Nie Zhiguo as beneficiary under the trust, The Bright Balance Unit Trust.
- Note 6:* None of these grantees of the Outstanding Options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates or parties acting in concert with the Subscriber.
- Note 7:* Under the Share Option Scheme, the exercise price of the Outstanding Options will not be subject to any adjustment as a result of the issue of the Subscription Shares and the Convertible Bonds.

(3) PROPOSED GRANT OF SPECIFIC MANDATE

The Company will seek the grant of the Specific Mandate from the Independent Shareholders at the EGM to cater for the allotment and issue of the Subscription Shares and the Conversion Shares upon full exercise of the conversion rights of the Convertible Bonds. The general mandate to allot and issue Shares granted at the annual general meeting of the Company held on 1 June 2015 by the then Shareholders will not be utilized for the allotment and issue of the Subscription Shares and the Conversion Shares.

(4) PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the Company has an authorised share capital of HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each, and of which 6,736,510,836 Shares are unissued. For the purpose of the proposed issue of the Subscription Shares and the Conversion Shares upon full exercise of the conversion rights of the Convertible Bonds, the Board proposes to increase the authorized share capital of the Company from HK\$1,000,000,000 (divided into 10,000,000,000 Shares) to HK\$2,000,000,000 (divided into 20,000,000,000 Shares).

The proposed increase of the authorized share capital of the Company will be approved by the Shareholders at the EGM by poll.

LETTER FROM THE BOARD

(5) APPLICATION FOR THE GRANT OF THE WHITEWASH WAIVER

As illustrated in the table under the section headed “*Effect on the Shareholding Structure*” above, assuming successful completion of the Subscription, the allotment and issue of the Subscription Shares and/or the Conversion Shares at the Initial Conversion Price to the Subscriber would result in the shareholding of the Shares of the Subscriber and parties acting in concert with it being increased:

- (a) from nil to approximately 48.98% (assuming no exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were exercised in full);
- (b) from nil to approximately 49.00% (assuming no exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were not exercised at all);
- (c) from nil to approximately 70.64% (assuming full exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were exercised in full); and
- (d) from nil to approximately 70.66% (assuming full exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were not exercised at all).

Consequently, this will render the Subscriber together with parties acting in concert with it to be obliged to make an unconditional mandatory general offer for all the Shares not already owned or will be acquired by the Subscriber (together with its concert parties) under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 has been obtained from the Executive.

An application has been made by the Subscriber to the Executive for the grant of the Whitewash Waiver to waive the obligations of the Subscriber to make a mandatory general offer for all the issued relevant securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it which would otherwise arise as a result of (i) the issue of the Subscription Shares to the Subscriber pursuant to the Subscription Agreement; and (ii) the issue of the Conversion Shares to the Subscriber upon the exercise of the conversion rights of the Convertible Bonds at the Initial Conversion Price. The Whitewash Waiver, if granted by the Executive, will be subject to, among others, the approval of the Independent Shareholders at the EGM by way of poll.

The Subscriber and parties acting in concert with it, Mr. Liu Xiaoming, Mr. Cheung Chak Fung, Mr. Kong Zhanpeng and any other Shareholder who is involved in or interested in the Transactions will abstain from voting on the resolutions to be proposed at the EGM to approve, among others, the Transactions.

LETTER FROM THE BOARD

The Subscriber and the parties acting in concert with it (including but without limitation the Proposed New LPs) have confirmed that they have not acquired any voting rights in the Company in the six-month period prior to the date of the June Announcement and up to the Latest Practicable Date but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Subscription contemplated under the Subscription Agreement and the Whitewash Waiver.

The Executive may or may not grant the Whitewash Waiver. The Subscription contemplated under the Subscription Agreement will not proceed if the Whitewash Waiver is not granted to the Subscriber.

If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Subscriber and parties acting in concert with it in the Company will exceed 50% after completion of the Subscription. The Subscriber and parties acting in concert with it may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

EGM

Set out on pages 236 to 239 of this circular is a notice convening the EGM to be held at Aberdeen, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 8 October 2015 at 11:00 a.m. at which ordinary resolutions will be proposed to the Independent Shareholders to approve the EGM Matters.

For the resolutions to be proposed at the EGM, Mr. Liu Xiaoming (an executive Director), Mr. Cheung Chak Fung (an executive Director) and Mr. Kong Zhanpeng (an executive director of GSH) will abstain from voting as they were involved in the Transactions. Any other parties who are involved or interested in the Transactions shall also abstain from voting at the EGM.

Ms. Xu Ziyi and Mr. Ji Jianping, being the executive Directors who are also Shareholders as at the Latest Practicable Date and who are not required to abstain from voting at the EGM, have indicated that they are intended to vote in favour of the resolutions to be proposed at the EGM.

To the best of the knowledge, information and belief of the Board having made all reasonable enquiries, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any of the Subscriber, its associates and parties acting in concert with any of them; and (ii) no obligation or entitlement of the Subscriber, its associates and parties acting in concert with any of them as at the Latest Practicable Date by which any of them has or may have temporarily or permanently passed control over the exercise of the voting right in respect of any of their Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Tricor Tengis Limited, the Hong Kong branch share registrar and transfer office of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

LETTER FROM THE BOARD

as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof.

In accordance with Rule 13.39(4) of the Listing Rules, the chairman of the meeting will direct that the proposed resolutions set out in the notice convening the EGM be voted by poll.

An announcement on the results of the EGM will be made by the Company after the conclusion of the EGM in accordance with the Takeovers Code and the Listing Rules.

RECOMMENDATION

Your attention is drawn to:

- (1) the letter from the Independent Board Committee (comprising Mr. Chan Chi Wai, Benny, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, all being the independent non-executive Directors) set out on page 37 to page 38 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders as to whether the EGM Matters are, or are not, fair and reasonable and as to voting; and
- (2) the letter from the Independent Financial Adviser set out on page 39 to page 93 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as to whether the EGM Matters are, or are not, fair and reasonable and the principal factors and reasons considered by the Independent Financial Adviser and on which its advice is based and as to voting

Having considered the above principal factors and reasons, the Directors (including the independent non-executive Directors whose views have been given after taken into account the advice from the Independent Financial Adviser which has been disclosed in the Letter from New Spring Capital) are of the views that the Transactions are in the interests of the Company and the Independent Shareholders. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve, ratify and/or confirm (as the case may be) the EGM Matters.

FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular and the notice of the EGM.

Yours faithfully
For and on behalf of the Board
Global Bio-chem Technology Group Company Limited
Liu Xiaoming
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the EGM Matters.



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

21 September 2015

To the Independent Shareholders

Dear Sir or Madam,

**(I) SUBSCRIPTION AGREEMENT FOR THE ISSUE OF
ORDINARY SHARES AND CONVERTIBLE BONDS
(II) PROPOSED GRANT OF SPECIFIC MANDATE
(III) PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL
AND
(IV) APPLICATION FOR THE GRANT OF WHITEWASH WAIVER**

We refer to the circular dated 21 September 2015 of the Company (the “**Circular**”) of which this letter forms part.

Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider (i) the Subscription pursuant to the terms and conditions contained in the Subscription Agreement together with the transactions contemplated thereunder; (ii) the grant of the Specific Mandate; (iii) the Share Capital Increase; and (iv) the Whitewash Waiver (collectively, the “EGM Matters”) and to advise the Independent Shareholders as to whether, in our opinion, the EGM Matters are fair and reasonable so far as the Independent Shareholders are concerned.

New Spring Capital Limited has been approved and appointed by the Independent Board Committee as the independent financial adviser for giving advice to the Independent Board Committee and the Independent Shareholders as to whether the EGM Matters are, or are not, fair and reasonable and as to voting.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board set out on pages 7 to 36 of the Circular which contains, among others, information on the EGM Matters as well as the letter from the Independent Financial Adviser set out on pages 39 to 93 of the Circular which contains its advice in respect of the EGM Matters.

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser as set out in the letter from the Independent Financial Adviser, we consider that the EGM Matters are fair and reasonable, entered into on normal commercial terms, and in the interests of the Company and the Independent Shareholders.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the EGM Matters.

Yours faithfully
The Independent Board Committee

Mr. Chan Chi Wai, Benny **Mr. Ng Kwok Pong** **Mr. Yeung Kit Lam**
Independent Non-Executive Directors

LETTER FROM NEW SPRING CAPITAL

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from New Spring Capital Limited, the Independent Financial Adviser, setting out their opinion in respect of the terms of the Subscription Agreement, the grant of the Specific Mandate, the Share Capital Increase and the application for the grant of the Whitewash Waiver for the purpose of inclusion in this circular.



NEW SPRING
CAPITAL LIMITED

Unit 2108, China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

21 September 2015

*To the Independent Board Committee and the Independent Shareholders of
Global Bio-chem Technology Group Company Limited*

Dear Sirs,

**(I) SUBSCRIPTION AGREEMENT FOR THE ISSUE OF
ORDINARY SHARES AND CONVERTIBLE BONDS
(II) PROPOSED GRANT OF SPECIFIC MANDATE
(III) PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL
AND
(IV) APPLICATION FOR THE GRANT OF THE WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) the Subscription and transactions contemplated thereunder; (ii) the grant of the Specific Mandate; (iii) the proposed Share Capital Increase; and (iv) the application for the grant of the Whitewash Waiver, details of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 21 September 2015 (the “**Circular**”). Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 30 August 2015, the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe at the Total Consideration for (i) an aggregate of 3,135,509,196 Subscription Shares that upon the Subscription Completion will represent approximately 49.0% of the issued Shares as enlarged by the allotment and issue of the

LETTER FROM NEW SPRING CAPITAL

Subscription Shares; and (ii) the Convertible Bonds in the aggregate principal amount of the CB Consideration of HK\$1,086,279,565, which may be converted into 4,722,954,631 Conversion Shares based on the Initial Conversion Price upon full conversion. The Subscription Price is HK\$0.23 per Subscription Share and the Initial Conversion Price is HK\$0.23 per Conversion Share.

It is noted from the Company that the Total Consideration of RMB1.5 billion is equivalent to approximately HK\$1.81 billion, whereby (i) the Subscription Monies of HK\$721,167,115, being the Subscription Price multiplied by the number of Subscription Shares, will be used for the subscription of the Subscription Shares; and (ii) the CB Consideration of HK\$1,086,279,565, being the Hong Kong dollar cash amount equal to the balance of the Total Consideration in Hong Kong dollars after subtracting therefrom the Subscription Monies, will be used for the subscription of the Convertible Bonds. The issue of the Subscription Shares and the Convertible Bonds will be subject to the terms and conditions of the Subscription Agreement, details of which are set out in the Letter from the Board.

As stated in the Letter from the Board, the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, (the Independent Shareholders should note that the Proposed New LPs will become the parties acting in concert with the Subscriber upon the completion of the alteration in the registration of the PRC LLP with the local industrial and commerce bureau in the PRC. As at the Latest Practicable Date, the alteration in registration has not been completed but is expected to be completed before the Subscription Completion) have confirmed that they have not acquired any voting rights in the Company in the six-month period prior to the date of the June Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Subscription contemplated under the Subscription Agreement and the Whitewash Waiver.

Assuming successful completion of the Subscription and upon the allotment and issue of the Subscription Shares and/or the Convertible Bonds to the Subscriber, the aggregate shareholding of the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, would be increased from nil to (i) approximately 48.98% (assuming no exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were exercised in full); (ii) approximately 49.00% (assuming no exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were not exercised at all); (iii) approximately 70.64% (assuming full exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were exercised in full); and (iv) approximately 70.66% (assuming full exercise of the conversion rights of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were not exercised at all).

Under Rule 26.1 of the Takeovers Code, the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, are requested to make an unconditional mandatory general offer to the Shareholders for all the Shares not already owned or will be acquired by the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, unless the Whitewash Waiver is obtained. In this regard, the Subscriber has

LETTER FROM NEW SPRING CAPITAL

applied to the Executive for the grant of the Whitewash Waiver to waive the obligations of the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, to make a mandatory general offer for all the relevant issued securities of the Company not already owned or agreed to be acquired by the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, which would otherwise arise as a result of (i) the issue of the Subscription Shares to the Subscriber pursuant to the Subscription Agreement; and (ii) the issue of the Conversion Shares to the Subscriber upon the exercise of the Conversion Rights of the Convertible Bonds.

The Whitewash Waiver, if granted by the Executive, will be subject to, among others, approval by the Independent Shareholders at the EGM by way of poll. For the resolutions to be proposed at the EGM, (i) the Subscriber, the parties acting in concert with it, including but not limited to the Proposed New LPs, and (ii) Mr. Liu Xiaoming, Mr. Cheung Chak Fung, Mr. Kong Zhanpeng and any other parties who are involved or interested in the Transactions shall abstain from voting at the EGM. In the event that the Executive does not grant the Whitewash Waiver and/or the Independent Shareholders who are allowed to vote under the Listing Rules and the Takeovers Code do not approve the grant of the Whitewash Waiver and the Subscription Agreement and the transactions contemplated thereunder, the Subscription and the transactions contemplated thereunder the Subscription Agreement will not proceed.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Chan Chi Wai, Benny, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, has been established to advise the Independent Shareholders on (1) whether the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the grant of Specific Mandate, the Share Capital Increase and the application for the grant of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders; and (4) the voting action that should be taken by the Independent Shareholders at the EGM. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulation our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, among others, (i) the Circular; (ii) the annual reports of the Company for the years ended 31 December 2012, 2013 and 2014 (the “**2012 Annual Report, 2013 Annual Report and 2014 Annual Report**”, respectively and collectively the “**Annual Reports**”) and the interim report of the Company for the six months ended 30 June 2015 (the “**2015 Interim Report**”); (iii) the other relevant announcements and/or circulars of the Company in relation to the Transactions; and (iv) the Subscription Agreement and other documents relevant to the Transactions.

LETTER FROM NEW SPRING CAPITAL

We have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. The Independent Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Subscriber or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information provided.

We consider that we have performed all the necessary steps as required under Rule 13.80 of the Listing Rules to enable us to reach an informed view and to justify our reliance on the information provided and representations made to us so as to form a reasonable basis for our opinions. We have not, however, for the purpose of this exercise, conducted any independent detailed verification or audit into the business and affairs or the prospects of the Company, the Group or any of their respective associates. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

We are not associated or connected with the Company, the Subscriber or any of their respective associates or any party acting, or presumed to be acting in concert with any of them, including but not limited to the Proposed New LPs, and accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders on the Subscription Agreement, the Specific Mandate, the Share Capital Increase and the application for the grant of the Whitewash Waiver. Apart from normal professional fees payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber or any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

I. THE SUBSCRIPTION AGREEMENT

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the transactions contemplated thereunder the Subscription Agreement, we have taken into consideration the following principal factors and reasons:

1. Business overview of the Group

The Group is a PRC corn-based biochemical refinery principally engaging in the manufacture and sale of corn refined products categorised into three major business segments, namely, amino acids, polyol chemicals and corn sweeteners segments. The Group engages in (i) the manufacture and sale of a series of amino acid products including lysine, protein lysine, threonine and tryptophan which are commonly used as additives for the production of animal feeds so as to enable the animals to have a more balanced diet; (ii) the manufacture and sale of a series of polyol chemical products including glycols, resins, hydrogen, and ammonia which are important intermediates for the production of compound plasticizer and widely applicable to the manufacture of automobile antifreeze and de-icing fields; and (iii) the manufacture and sale of the corn based sweetener products substantially through GSH, a Hong Kong listed non-wholly owned subsidiary of the Company, including glucose, maltose, dextrin and solid sweeteners for enhancing and preserving the flavor and colour of food and beverage in the food processing industry.

We have reviewed the Annual Reports and the 2015 Interim Report and understand that the Group's principal business and operations have been adversely affected by the unfavourable environment during the 2012, 2013 and 2014 fiscal years ("**FY2012, FY2013 and FY2014**") respectively and collectively the "**Past Three Fiscal Years**"). During the periods the sales volume and profit margins of the Group's business segments were severely pressurised attributable to the following reasons: (i) the increasing cost of corn kernel owing to the continuing protective government policy towards the sector and corn farmers; (ii) sluggish demand for lysine products was hampered by the drop of meat prices and unfavourable market sentiment in the animal feed industry as a result of the outbreak of H7N9 bird flu during 2013; and (iii) the overcapacity of lysine production facilities and unsold inventories severely suppressed the average selling price of the products.

In response to the adverse environment, the Group has tried to strengthen its management and operational efficiency by streamlining its business segments through various measures. For the lysine segment, the Group had scaled down the production volume at the production site located at Dehui District, Changchun ("**Dehui District**") and suspended the production facilities located at Lu Yuan District, Changchun ("**Lu Yuan District**") for the purposes of minimising the possible loss incurred in this segment and consolidating the entire lysine production facilities at Dehui District so as to capitalise on the advanced facilities installed in that production site. For the polyol chemicals segment, the Group determined to

LETTER FROM NEW SPRING CAPITAL

suspend its production facilities located at Lu Yuan District since 2013 as the contribution of the polyol chemicals products to the Group was insignificant in terms of revenue and profit in recent fiscal years. For the Group's corn sweeteners segments, the Group relocated its production facilities located at Lu Yuan District to the production site located at Xinglongshan District, Changchun ("**Xinglongshan District**"). Such arrangement serves to minimise the administration and logistic costs as well as to enhance the management and operational efficiency of the Group as a whole. As at 30 June 2015, the Group's amino acid products, polyol chemical products and the corn sweetener products represented approximately 38.4%, approximately 2.9% and approximately 58.7% of the Group's revenue, respectively.

Although the Group took actions to suspend and scale down the production facilities located at different production sites in Changchun during the Past Three Fiscal Years and the six months ended 30 June 2015 ("**6-Month 2015**") in order to minimise the loss incurred by the Group's business, the reduction of utilisation rate of the Group's production facilities imposed additional pressure on margin as a result of the increased operating cost of overhead items. Given the unfavourable external environment, the Group's profitability for those relevant periods/years was thus adversely affected. Based on the 2015 Interim Report, we note that the Group's principal business is still on the downslope of its business cycle without a sign of recovery or retrieval.

As advised by the Directors, the Group will evaluate the industry environment and the market conditions of each business segment closely and resume its production or expand the production capacity when such product line has returned to commercial viability.

Industry overview of the Group's business segments

Nowadays, China is the world largest production and consumption country of lysine products where Europe and the United States of America rank the second and third respectively. In addition, it is estimated that the demand and production capacities for lysine products in China has been growing at a faster pace than its two counterparts.

The Group was founded in 1994 and is a pioneer in the manufacture and sale of corn refined and corn-based products in Asia. The major products of the Group include amino acids, polyol chemicals and corn sweeteners. China is currently the largest consumer for lysine and accounted for about one third of the world market. The lysine industry is occupied by a number of global players. According to the Company, the Group held a market share in the lysine industry of about 70% in China and about 30% worldwide in 2012. However, there is no update information regarding the market share of the Group in the lysine industry after the Group reduced its production in lysine products. Among the major products of amino acids of the Group, lysine contributed most of the operation of the Group which accounted for approximately 65.5%, 57.7% and 53.1% of the Group's revenue for the Past Three Fiscal Years.

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Since 2012, the lysine industry in China has gone through an enormous market consolidation and is currently residing at the downside of the business cycle without an obvious sign of recovery or retrieval. The consolidation was induced by the rapid expansion of the production capacities of the lysine manufacturers in early 2010s resulted in an overcapacity of the lysine products and unsold inventories in the market. Over the past years, the excess supply, together with the outbreak of new strain of bird flu and the sluggish market sentiment of the animal feed industry had set back the lysine consumption and subsequently drove down the average selling prices of the lysine products and eventually caused substantial loss to the lysine manufacturers in the industry.

The Directors are of the view that the prolonged contraction of the lysine industry has undoubtedly imposed a significant impact on the financial performance and liquidity of the entire manufacturers in the industry during the downside of the business cycle and will not recover in the near future. As a result, it will inevitably eliminate a number of small to medium size of manufacturers out of the industry. However, in a longer term, only the sizeable manufacturers who have abundant source of funding for supporting their working capital and daily operations can endure the prolonged industry contraction and eventually benefit from a consolidated environment with lesser competition, larger market shares and stable average selling prices.

The corn-sweetener products in China was affected by the increasing cost of raw materials due to the adoption of certain measures by the PRC government to stabilise corn price since the end of 2013, which caused upward pressure on the cost of the Group's corn-sweetener products. Moreover, the abundant supply of cane sugar, a substitute of the corn-sweetener products, exerted competing pressure on the demand for the Group's corn sweetener products. The polyol chemical products also faced a hard time due to the high raw material cost but the low crude oil price that pressured on the selling prices of polyol chemicals and affected the commercial viability of the industry.

In view of the slack demand for the lysine products, the fierce competition in the corn-sweetener products and the low selling price of polyol chemical products, we are of the view that the Group's business segments remain in uncertain and difficult conditions.

Having considered the industry prospect, we agree with the Directors that the Subscription will provide additional funding to the Group in support of its daily operations and working capital in order to sustain its operation in the prolonged industry contraction. Independent Shareholders should note that, in spite of the additional funding from the Subscription, a further prolonged contraction of the lysine industry may cause the Group to require further funding in future and may increase the uncertainties of the Group that can affect its sustainability. The benefits and reasons for the Subscription will be elaborated more in the paragraph headed "Reasons for the Subscription" under the section headed "3. Background to and reasons for the Subscription and the use of proceeds" in this letter.

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2. Financial information of the Group

Financial results of the Group

Set out below is certain key financial information of the Group extracted from the Annual Reports and the 2015 Interim Report, details of which are set out as follows:

	For the six months ended		For the year ended 31 December		
	30 June		2014	2013	2012
	2015	2014	2014	2013	2012
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CONTINUING OPERATIONS					
Revenue	1,585,972	3,642,847	6,399,205	9,686,643	11,908,082
Gross profit/(loss)	(169,957)	(490,322)	(889,722)	(900,887)	1,531,991
Other income and gains	41,510	334,387	426,090	588,049	107,237
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss before tax from continuing operations	(1,028,819)	(1,421,608)	(3,712,868)	(6,014,293)	(553,287)
Income tax expense	(1,749)	(9,159)	(58,067)	(222,584)	(11,062)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DISCONTINUED OPERATION					
Loss for the year/period from a discontinued operation	—	—	—	(5,397)	(119,819)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss for the year/period	<u>(1,030,568)</u>	<u>(1,430,767)</u>	<u>(3,770,935)</u>	<u>(6,242,274)</u>	<u>(684,168)</u>

For the year ended 31 December 2013

As disclosed in the 2013 Annual Report, the Group recorded a decrease in revenue from approximately HK\$11.9 billion in FY2012 to approximately HK\$9.7 billion in FY2013, which represented a drop of approximately 18.7% in revenue on a year-over-year basis. The decline in revenue was mainly due to the decline in the average selling prices and demand for the Group's products, particular in the lysine products due to the outbreak of the new bird flu strain, which subsequently setback the market sentiment in the animal feed industry resulted in a plunge in lysine consumption.

The net loss of the Group increased from approximately HK\$684.2 million in FY2012 to approximately HK\$6.2 billion in FY2013, which represented an increase of approximately 812.4% on a year-over-year basis. The significant increase in net loss of the Group was primarily due to the decrease in gross profit arising from the decline in the average selling price and demand for the Group's products together with the impairment loss of property, plant and equipment made by the Group for FY2013.

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The Group's net loss for FY2013 in approximately of HK\$6.2 billion which included, the gross loss in the amount of HK\$900.9 million in productions, together with aggregate of expenses in the selling and distribution expenses in the amount of HK\$762.5 million, the administration expenses in the amount of HK\$717.5 million, the finance cost in the amount of HK\$673.4 million and an amount of approximately HK\$3.5 billion in other expenses of which was primarily due to the impairment loss made by the Group for (i) the inventories of the amino acid and polyol chemical products due to the decrease of average selling prices; (ii) an approximately HK\$2.0 billion for the suspension in the polyol chemicals production facilities in Xinglongshan District, Changchun; (iii) certain upstream production facilities of approximately HK\$125 million in Dehui District, Changchun and Harbin; and (iv) certain utility facilities of approximately HK\$1.2 billion in Xinglongshan District, Changchun due to insufficiency of cash flow generated from the existing production lines which led to the present value of which is lesser than the book value of such facilities.

For the year ended 31 December 2014

As disclosed in the 2014 Annual Report, the Group further recorded a decrease in revenue from approximately HK\$9.7 billion in FY2013 to approximately HK\$6.4 billion in FY2014, which represented a further drop of approximately 33.9% in revenue on a year-over-year basis. For the amino acids segment which mainly in lysine products, the revenue decreased by approximately 40%, attributable to the heavy pressure on average selling price due to decreasing demand for and excess supply of the products simultaneously. For the polyol chemicals segment, the revenue decreased by approximately 46.1% as a result of the reduction of utilisation rate of the production facilities and the suspension of the production of polyol chemicals since FY2013. For the corn sweeteners segment, the sales volume dropped by approximately 32% and the revenue decreased by approximately 30% as compared to FY2013, respectively. Such decreases were primarily attributable to the deterioration of the corn sweeteners market as a result of the increase in raw material costs during the year. Moreover, the difference between domestic and international sugar prices encouraged imports, which is a substitute of the Group's corn sweetener products, put further pressure on the prices of and demand for the Group's corn sweetener products.

Due to the continuing efforts of the Group to take various measures in controlling its production cost and enhancing operational efficiency, the gross loss of the Group did not further deteriorate and recorded only a slight decrease from approximately HK\$900.9 million in FY2013 to approximately HK\$899.7 million in FY2014, which represented a drop of approximately 1.2% over the previous year. Although the industry cycle does not have any obvious indication of bounding back or improvement, it shows the gross loss in production has been stabilized at such level after the adoption of the Group's production strategies in cost controlling during FY2014. In such regard, the net loss of the Group decreased from approximately HK\$6.2 billion in FY2013 to approximately HK\$3.8 billion in FY2014, which represented a drop of approximately 39.5% on a year-over-year

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basis. Excluding the impairment losses of the Group for FY2013 and FY2014 in the amount of approximately HK\$3.4 billion and HK\$1.2 billion respectively, the Group still recorded losses from the continuing operations before the tax expenses of approximately HK\$2.6 billion and HK\$2.5 billion respectively, both were still higher than the losses from the continuing operations before tax expenses for FY2012 of approximately HK\$553.3 million. It indicated that the adverse industry environment of the Group and the reduction of production of the Group since 2013 were still adversely affecting the Group's business. Together with the continuous excess capacities of lysine in the market and the lackluster product price recovery, the Group was still facing a difficult period in lysine market.

For the six months ended 30 June 2015

For the 6-Month 2015, the market environment continued to be challenging as negative impacts have been brought forward from the FY2014, the lysine segment of the Group continued to be hampered by overcapacity and weak product average selling price during the period of the 6-Month 2015. The Group recorded a drop of approximately HK\$2.0 billion in revenue from approximately HK\$3.6 billion for the six months ended 30 June 2014 (the “**6-Month 2014**”) to approximately HK\$1.6 billion for the 6-Month 2015, which represented a drop in revenue of approximately 56.5% on a year-over-year basis. For amino acids segment, the revenue decreased by approximately 69%, which was mainly attributable to the heavy pressure on the average selling prices and decreasing demand since FY2012. For the polyol chemicals segment, the revenue generated from the polyol chemical products decreased by approximately 99% after most of the production was suspended since 2013 in response to the decline in market prices and unfavourable market conditions. The business environment of the Group's corn sweetener products continued to be depressed by the increase of raw material costs and the competition among the substitute products of corn sweeteners during the 6-Month 2015. The sales volume and the revenue of corn sweeteners segment decreased by approximately 38% and 38% respectively as compared to the 6-Month 2014, respectively.

The net loss of the Group was decreased by approximately HK\$400.2 million from approximately HK\$1.4 billion for the 6-Month 2014 to approximately HK\$1.0 billion for the 6-Month 2015, which represented a drop of approximately 28.0% over the relevant period. The decrease in net loss was primarily due to the decrease in gross loss of approximately HK\$320.4 million for the 6-Month 2015 after taking measures to tighten up and control over various production costs and expenses.

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Financial position of the Group

	As at 30 June 2015 (Unaudited) HK\$'000	2014 (Audited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000	2012 (Audited) HK\$'000
Non-current assets	9,159,674	9,578,327	10,724,616	14,978,986
Current assets	3,403,294	4,178,066	8,060,124	7,955,348
Cash and cash equivalents ¹	322,844	478,780	1,309,997	1,266,470
Current liabilities	9,889,469	9,438,646	8,451,608	6,579,531
Interest-bearing bank borrowings ²	6,521,382	6,008,438	4,954,609	3,403,591
Net current assets/(liabilities)	(6,486,175)	(5,260,580)	(391,484)	1,375,817
Non-current liabilities	2,444,109	3,059,857	5,238,224	5,116,627
Net assets	229,390	1,257,890	5,094,908	11,238,176
Net assets value/(Negative net assets value) attributable to the equity owners	(150,584)	822,306	4,252,638	9,670,169

Notes:

1. Cash and cash equivalents are included in current assets.
2. Interest-bearing bank borrowings repayable within one year are included in current liabilities. The rest of the interest-bearing bank borrowings amounted to approximately HK\$2.1 billion are included in non-current liabilities.

As at 31 December 2012, the Group had audited net current assets of approximately HK\$1.4 billion, with cash and cash equivalents amounted to approximately HK\$1.3 billion, and audited net assets of approximately HK\$11.2 billion. As at 31 December 2013, the Group incurred audited net current liabilities of approximately HK\$391.5 million, with cash and cash equivalents amounted to approximately HK\$1.3 billion, and audited net assets of approximately HK\$5.1 billion. The change from net current assets position to net current liabilities position was mainly attributable to an increase in short-term bank borrowings during FY2013 whereas the decrease in the Group's net assets value was mainly due to the impairment losses made by the Group for certain properties, plants and equipment as well as an increase in bank borrowings during FY2013.

As at 31 December 2014, the Group continued to record audited net current liabilities of approximately HK\$5.3 billion, with cash and cash equivalents of approximately HK\$478.8 million, and audited net assets of approximately HK\$1.3 billion. The increase in the Group's net current liabilities value was mainly attributable to the decrease in cash and cash equivalents and the decrease in inventories of approximately HK\$2.5 billion from approximately HK\$2.3 billion as at 31 December 2013. The cash and cash equivalents decreased by approximately 63.5% from approximately HK\$1.3 billion as at 31 December 2013 to approximately HK\$478.8 million as at 31 December 2014. The decline in cash and cash equivalents was mainly due to the increase in net cash used in financing activities of approximately HK\$1.0 billion resulted from the repayment of bank loans of approximately HK\$5.0 billion by the Group. The Group's net assets further decreased to approximately HK\$1.3 billion primarily because of the repayment of bank loans and impairment losses made by the Group for certain properties, plants and equipment due to the suspension of polyol chemicals production facilities during FY2013.

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As at 30 June 2015, the Group continued to record unaudited net current liabilities of approximately HK\$6.5 billion, with cash and cash equivalents of approximately HK\$322.8 million, and net assets of approximately HK\$229.4 million. The increase in net current liabilities position of approximately HK\$1.2 billion was mainly attributable to the decrease in inventories and trade and bills receivables of approximately HK\$555.0 million and increase in interest-bearing bank borrowings repayable within one year of approximately HK\$512.9 million.

Opinions of the auditors

Having reviewed the 2013 Annual Report, we note that the independent auditors of the Group, being Ernst & Young, has issued qualified opinion and emphasis of matter on the consolidated financial statements for FY2013, which was mainly related to the fact that a judgment concluded by the court subsequent to the reporting date that the Company and the subsidiaries were in violation of an injunction and a penalty was imposed and no sufficient appropriate evidence could be obtained to determine whether adequate provision was made for the penalty as at 31 December 2013. The auditors also drew attentions of the Shareholders on material uncertainties being the net loss and net current liabilities position of the Group that related to the going concern basis of accounting adopted by the Group.

Having reviewed the 2014 Annual Report, we also note that the independent auditors has issued disclaimer of opinion on the consolidated financial statements for FY2014, which was mainly related to the scope limitations on various elements making up the consolidated financial statements, due to the reasons that, including among others, (i) lack of sufficient appropriate evidence could be obtained to assess the impairment of non-current assets, the fair value of the financial guarantee contracts, the provision of inventory losses, the penalty of litigation and the impairment of investments in subsidiaries and amounts due from subsidiaries as at 31 December 2014; (ii) lack of sufficient supporting documents for the prepayment and other receivable, inventories and accounts payable as at 31 December 2014; and (iii) fundamental uncertainties being the Group's existing financial positions that related to the going concern basis of accounting adopted by the Group.

As set out in the paragraph headed "LITIGATIONS" in the 2015 Interim Report and the announcement dated 7 August 2015 in relation to the infringements of three European patents by the Company and certain of its wholly-owned subsidiaries (the "Relevant Group Members"), the Relevant Group Members received a demand for damages of over 2.2 million Euros (equivalent to approximately HK\$19.4 million) and for payment of the cost of the independent auditor. Independent Shareholders should note that once if, the provisions in relation to the litigations were made, the Group's financial position and net asset value may be adversely affected.

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Based on the audit opinions, the Group issued guarantees to banks in connection with facilities granted to a major supplier which amounted to RMB3 billion, RMB3.35 billion, RMB2.85 billion and RMB2.85 million as at 31 December 2012, 2013 and 2014 and 30 June 2015 and these financial guarantee contracts were not recognised in the Group's financial statements. Had these financial guarantee contracts been recognised, the Group's financial position and net asset value would have been materially affected as at 30 June 2015 and the net loss for 6-Month 2015.

Moreover, any adjustments found to be necessary to the amount provided for the impairment of non-current assets, prepayments and other receivables and equipment leasing would have an effect on the Group's net asset value as at 30 June 2015 and the net loss for 6-Month 2015.

In response to the above audit opinions in FY2013 and FY2014, the Company intended to take certain remedial actions as set out in the paragraph headed "Management response to the Independent Auditor's Report and remedial measures to be taken" in the 2014 Annual Report. The Company has engaged an independent specialist in risk advisory services in October 2014, to conduct a review of the effectiveness of the system of the internal control of the Group. The Group has further updated in the 2015 Interim Report about the remedial measures including the aspects in the impairment of non-current assets, entering of financial guarantee contracts, provision of inventory losses, provision of supporting documents for the ownership of inventories, assessments on the prepayment and other receivables, confirmation of accounts payable. Although we have not performed independent assessment on the internal control of the Group, we note that the Company will conduct impairment assessment on the buildings, machinery and fixtures by independent valuer and engage an internal control expert to review the internal control procedures relevant to the approval and reporting of guarantees and pledges of assets. We consider that the Group should also engage such internal control expert to review the inventory control, prepayment and other receivables and accounts payable, which include but not limited to records and confirmation, regarding the respective issues of the Group.

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Major actions taken by the Group in improving its financial performance and liquidity position

In view of the continuing adverse environment of the industry, the loss making results as well as the net current liabilities position for FY2013, FY2014 and the 6-Month 2015, we have been advised that the Group has tried its best endeavors to rescue and improve the operations and financial position of the Group through various measures, including among others:

(a) *Streamlining the operations*

For the polyol chemicals segment, the production of polyol chemicals had been suspended since 2013 due to unfavourable market conditions in the chemical industry. Since the production of polyol chemicals was insignificant to the Group in terms of revenue and profit in recent years, the suspension does not have material adverse impact on the operations and financial position of the Group.

For the lysine production, the Group had scaled down the production volume at the production site located at Dehui District and also suspended the manufacturing facilities located at Lu Yuan District in order to minimise the loss incurred in the lysine business sector. Accordingly, the lysine production facilities operated by Changchun Baocheng Bio-chem Development Co, Ltd. with an annual production capacity of 200,000 metric tonnes were suspended since April 2014. The halt of the Group's lysine production was expected to decline the lysine inventory which, in turn, helped stabilize the lysine products' average selling prices.

(b) *Resumption of the land and production facilities in Lu Yuan District*

As announced by the Company on 7 January 2014, 13 January 2014 and 27 August 2014, the Group entered into an agreement with the Changchun Land Reserve Center (長春土地儲備中心), a stated-owned entity affiliated with the Ministry of Land and Resources of the People's Republic of China engaging in land acquisition, storage, transfer and development in accordance with the urban planning and overall need for land use of the municipal government ("**Land Reserve Centre**"), for the resumption of land on the west side of Xihuancheng Road, Changchun and building and fixtures erected thereon ("**Phase One of the Resumption**") in response to the request of the local government for the industrial companies to move their factories away from the central districts of the city which has been developing rapidly. The Group was in the course of negotiation with the Land Reserve Centre on the terms of the resumption of the land located on the east side of Xihuancheng Road, Changchun ("**Phase Two of the Resumption**")

For the Phase One of the Resumption, formal contracts was signed by the Company and the Land Reserve Centre whereby compensation in cash would be settled as follows: (a) approximately RMB202 million upon the resumption of the

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parcel of land; and (b) approximately RMB806 million upon the disposal of the related buildings and fixtures. The relocation had commenced in FY2014 and the Group received cash compensation of approximately RMB608 million and the management expects the remaining compensation of approximately RMB400 million would be received from the government by the end of 2015.

For the Phase Two of the Resumption, the Directors have been actively negotiating with the Land Reserve Centre to agree on the respective compensation. As disclosed in the 2015 Interim Report, preliminary understanding have been reached by the parties whereby the compensation in cash will be settled with reference to the depreciated replacement cost of the land, buildings, machineries and fixtures amounting to RMB2.45 billion in aggregate as of 31 July 2014 as appraised by an independent valuer appointed by the Land Reserve Centre. It is expected that formal land resumption compensation agreements will be entered into between the Group and the Land Reserve Centre after the finalization of terms and conditions between the parties.

We note that the remaining compensation of approximately RMB400 million from Phase One of the Resumption would be received from the government by the end of year 2015 which would increase the bank balance and cash of the Group and support the working capital. Moreover, as disclosed in the 2015 Interim Report, the instalment compensation of RMB2.45 billion from Phase Two of the Resumption will be received from the government by the end of year 2015 and 2016. As advised by the Directors, the compensation from Phase One of the Resumption and Phase Two of the Resumption would bring a positive impact on the cash position and working capital position of the Group accordingly.

Independent Shareholders should note that if the Land Reserve Centre fails to pay the agreed amount to the Group at the agreed payment date or defer its payment of compensation to the Group beyond the agreed payment date, the Group's financial position may be adversely affected. However, as the Land Reserve Centre is a state-owned entity which is affiliated with the Ministry of Land and Resources of the PRC and the Phase One of the Resumption is close to completion, we are advised by the Company that the chance for the Land Reserve Centre to breach the agreement for the resumption program or failure in payment of compensation is minimal. As at the Latest Practicable Date, the Group does not have any plan or entered into any negotiation for other resumption program of its production facilities with the Land Reserve Centre, save as the aforementioned existing resumption program.

We also understand from the management of the Company that they have been actively negotiating with the banks in the PRC so as to secure the renewals of the Group's short term bank loans and long term bank loans so as to meet its liabilities when fall due. On the other hand, the Group strives to further lower its gearing

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through debt repayment, with proceeds from the disposal of certain unused assets and land reserve. As at the Latest Practicable Date, as advised by the Directors, the Group is still in the process of discussion with the banks in respect of the renewal of the bank loans of the Group.

Taking into account that (i) the decrease in revenue of the Group given the current unfavourable market conditions; (ii) the deteriorating of bank balance and cash and liquidity position; (iii) the decrease in net asset value attributable to the owners of the Company during the during the Past Three Fiscal Years and the 6-Month 2015; and (iv) the uncertainties on the adjustment on the financial results and the financial position of the Group, we consider that the Group would have material uncertainties relating to its financial strength and working capital sufficiency unless the Group could (i) receive the compensation from the resumption of the land and production facilities in Lu Yuan District by the end of year 2015 and 2016; (ii) secure the renewals of the bank loans with the banks in the PRC; and (iii) obtain the proceeds from the Subscription, which will immediately strengthen the cash position and the financial position of the Group.

(c) *Exploring new business opportunities*

The Group's established leading position in the lysine market and profound expertise in bio-chemical processing have made it a unique choice of partnership with formidable players. The Group is seeking to team up with major global, as well as local conglomerates for either strategic or equity collaboration. As at the Latest Practicable Date, as advised by the Directors, no major global or local conglomerate has entered into any negotiation with the Group for partnership.

Prospects of the Group

Despite of the unfavourable external environment which adversely affected the Group's financial performance during the Past Three Fiscal Years and the 6-Month 2015, and the actions taken by the Group to rescue and improve the operations and financial position of the Group through various measures, we consider that the Group has taken the best effort to enhance the performance of its operations, as evidenced by the stabilised gross loss of the Group in FY2014 and the decrease of net loss of the Group by approximately HK\$400.2 million from approximately HK\$1.4 billion for the 6-Month 2014 to approximately HK\$1.0 billion for the 6-Month 2015 after the tightening in the control of cost and expenses of the Group.

We also note that the Subscriber will subscribe for the Subscription Shares and the Convertible Bonds with an aim to achieve expansion into one of the leading players in the agricultural processing industry in Jilin Province and gain access to the agricultural industry. Also, the Subscription Shares and the Convertible Bonds to be subscribed by the Subscriber and the Conversion Shares upon conversion are subject to lock-up restriction which indicates the commitment of the Subscriber to the investment in the Group.

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Taking into account the Subscription will provide the Group with working capital to develop the Group's business, the efforts of the management to improve the financial performance of the Group and positive intention from the Subscriber to the Group's business, we are of the view that the Group will benefit from the Subscription in the course of improving its future financial performance.

3. Background to and reasons for the Subscription and the use of proceeds

Information of the Subscriber

As disclosed in the Circular, we understand that the Subscriber is a company incorporated in the British Virgin Islands on 13 July 2015 as an investment holding company. The Subscriber is an indirect wholly-owned subsidiary of PRC LLP, which is an agricultural fund established in the PRC whose sole general partner is Jilin Province Modern Agricultural Industry Fund Limited. Jilin Province Modern Agricultural Industry Fund Limited is wholly owned by Jilin Changjitu Investment Co., Ltd., a PRC company owned by Jiaotou as to 91.11% and by Jilin Municipal Railways Investment and Development Co., Ltd. as to the remaining 8.89%.

Jiaotou is one of the key state-owned enterprises in Jilin Province in the PRC which is principally engaged in investment and development of transportation infrastructure, agriculture, culture and logistics projects with total assets of approximately RMB28 billion as of 31 December 2014. Jiaotou is owned as to 71.43% by 吉林省人民政府國有資產監督管理委員會 (Stated-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province) and as to 28.57% by 吉林省投資(集團)有限公司 (Jilin Province Investment Group Co., Ltd.) which is wholly owned by 吉林省發展和改革委員會 (Jilin Province Development and Reform Commission).

Jilin Municipal Railways Investment and Development Co., Ltd. is wholly-owned by 吉林市國有資產監督管理委員會 (State-owned Assets Supervision & Administration Commission of Jilin Municipal Government). As at the Latest Practicable Date, Jiaotou is the only limited partner of the PRC LLP. It is currently intended that Jilin Changjitu Investment Co., Ltd., Yinhua Wealth and Capital Management (Beijing) Co., Ltd. and Changchun Emerging Industry Equity Investment Fund Co., Ltd. will become limited partners of the PRC LLP and the relevant amendments to the limited partnership agreement of the PRC LLP and the relevant registration with the local industrial and commerce bureau are expected to be made and completed before Subscription Completion. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are independent third parties of the Company and its connected persons.

Please refer the details of the shareholding structure of the Subscriber immediately after the Proposed New LPs becoming the limited partners of PRC LLP to the Letter of the Board.

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Subscriber's intention regarding to the Group

We have obtained from the Company certain background information of Jiaotou and note that the Subscriber considers that (i) the Company is one of the leading agricultural products processing enterprises in Jilin Province; and (ii) the Group obtains profound expertise in corn-based bio-chemical processing industry. It is therefore, the Subscriber intended to subscribe for the Subscription Shares and the Convertible Bonds of the Company with an aim to achieve expansion into one of the leading players in the agricultural processing industry in Jilin Province and gain access to the agricultural industry. Following the completion of the Subscription, we are advised by the Company that the Subscriber intends to maintain, operate and develop the Group's existing business.

Reasons for the Subscription

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in a controlling shareholder which has investment experience in agricultural sector, and an extensive business and governmental network in the PRC. The Directors consider that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group; (iii) meet its ongoing working capital requirements, strengthen its capital position; (iv) enhance its capability to negotiate with the government and banks; (v) equip the Company with the financial flexibility necessary for the Group's future fund raising activities; and (vi) enhance the capability to capture any prospective investment opportunity leveraging on the Subscriber's investment experience and network as and when it arises. We are the view that the Subscriber will bring in additional resources and investment opportunities to the Company which are beneficial to the Company and the Independent Shareholders.

The Independent Shareholders should note that the total Subscription Monies and the CB Consideration in a sum of HK\$1.79 billion (excluding the professional fees and other expenses), is an additional funding for the Company to improve its financial and liquidity position. Given the lysine industry is still on its downslope without sign of recovery, a continued reduction on the cash position as a result of the net loss would be foreseeable. In order to sustain its business, the Group has to focus on improving its financial performance and considering on future fund raising activities as and when it arises. Save as the Subscription, we are advised by the Directors that there is no concrete plan for the Company to engage in any fund raising exercise or invest in any new business at the current stage as at the Latest Practicable Date.

Use of proceeds

As stated in the Letter from the Board, the gross aggregate proceeds of the Subscription is estimated to be RMB1.50 billion, which is equivalent to approximately HK\$1.81 billion (based on the definitive Exchange Rate for conversion of RMB into

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Hong Kong dollar as fixed by a forward exchange contract dated 28 August 2015 with reference to the then relevant prevailing market rate for conversion) and the net aggregate proceeds is estimated to be approximately HK\$1.79 billion after deducting the professional and other related expenses.

The application of the net proceeds from the Subscription will be based on the evaluation of the Subscriber on the financial conditions of the Group and current market condition and subject to the final decision of the new Board which will consist of new members to be appointed with effect from the Subscription Completion, it is the intention of the Subscriber that approximately 7%, 27% and 66% of the net proceeds will be allocated for business development, relocation expenses and general working capital purpose of the Group, respectively.

We note that a substantial portion of the proceeds from the Subscription will be applied in the working capital of the Group. In considering the reasonableness of the use of proceeds proposed by the Directors, we have taken into account (i) the Group's current financial position; (ii) the negotiation between the Group and the local government on the resumption compensation; and (iii) the negotiation between the Group and the banks on the renewals of the Group's short term and long term bank loans. As at the Latest Practicable Date, the Group has not entered into any formal agreement with the local government and banks regarding the respective matters. As the proceeds will strengthen the cash position of the Group which enables the Group to continue its negotiation with the local government and banks, we consider that the application of the proceeds of the Subscription for the working capital of the Group is fair and reasonable and is in the interests of the Group and the Independent Shareholders.

Having considered the above factors, in particular, the introduction of a State-owned fund management company with extensive network in agricultural sector and the benefit from funding the Group to strengthen its liquidity position as discussed in details above, we consider that the entering into the Subscription is in the interests of the Company and the Independent Shareholders.

4. Principle terms of the Subscription Agreement

Subscription Price, Initial Conversion Price, Subscription Shares and Conversion Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe at the Total Consideration for (i) an aggregate of 3,135,509,196 Subscription Shares that upon the Subscription Completion will represent approximately 49.0% of the issued Shares as enlarged by the allotment and issue of the Subscription Shares; and (ii) the Convertible Bonds in the aggregate principal amount of the CB Consideration of

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HK\$1,086,279,565, which may be converted into the 4,722,954,631 Conversion Shares based on the Initial Conversion Price upon full conversion pursuant to the terms and conditions of the Convertible Bonds.

Referring to the Letter from the Board, the Subscription Price of HK\$0.23 per Subscription Share and the Initial Conversion Price of HK\$0.23 per Conversion Share represent:

- (a) a discount of approximately 31.34% over the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Subscription Last Trading Day;
- (b) a discount of approximately 25.08% over the average closing price of approximately HK\$0.307 per Share for the last five trading days up to and including the Subscription Last Trading Day;
- (c) a discount of approximately 29.88% over the average closing price of approximately HK\$0.328 per Share for the last ten trading days up to and including the Subscription Last Trading Day;
- (d) a discount of approximately 40.71% over the average closing price of approximately HK\$0.388 per Share for the three-month period up to and including the Subscription Last Trading Day;
- (e) a discount of approximately 23.85% over of the average closing price of approximately HK\$0.302 per Share for the twelve-month period up to and including the Subscription Last Trading Day;
- (f) a discount of approximately 8.73% over the audited net asset value attributable to the equity owners per Share of approximately HK\$0.252 per Share as at 31 December 2014, being the date to which published audited consolidated financial statements of the Group were made up, without taking into account the Subscription;
- (g) the Group recorded a negative unaudited net asset value attributable to the equity owners as at 30 June 2015; and
- (h) a discount of approximately 25.81% over the closing price of HK\$0.310 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price and Initial Conversion Price also represent:

- (a) a discount of approximately 52.08% over the closing price of HK\$0.480 per Share as quoted on the Stock Exchange on the LOI Last Trading Day;

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- (b) a discount of approximately 45.75% over the average closing price of approximately HK\$0.424 per Share for the last five trading days up to and including the LOI Last Trading Day;
- (c) a discount of approximately 39.87% over the average closing price of approximately HK\$0.383 per Share for the last ten trading days up to and including the LOI Last Trading Day;
- (d) a discount of approximately 8.90% over the average closing price of approximately HK\$0.252 per Share for the three-month period up to and including the LOI Last Trading Day; and
- (e) a discount of approximately 19.38% over the average closing price of approximately HK\$0.285 per Share for the twelve-month period up to and including the LOI Last Trading Day.

As advised by the Directors and referred to the Letter from the Board, the Subscription Price and Initial Conversion Price were arrived at after arm's length negotiation between the Company and the Subscriber with reference to various factors, including but not limited to (i) the audited consolidated net asset value attributable to the Shareholder per Share of approximately HK\$0.252 per Share as at 31 December 2014; (ii) the liquidity and the financial performance and position of the Company for the Past Three Fiscal Years; (iii) the average closing price of the Shares for the three-month period and twelve-month period, respectively, up to and including the LOI Last Trading Day; and (iv) the average closing price of the Shares for the period from the LOI Last Trading Day up to and including the Subscription Last Trading Day.

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Shares. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares to be issued upon full exercise of the conversion rights of the Convertible Bonds on the Stock Exchange.

Principal terms of the Convertible Bonds

A summary of the principal terms of the Convertible Bonds is set out as below:

Interest

The Convertible Bonds shall carry coupon interest at the rate of 0.01% per annum payable quarterly in arrears.

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Maturity and redemption

Without prejudice to the paragraph headed “Events of Default” in the Letter from the Board, it is noted that the Company may, subject to prior agreement with the Bondholders, redeem at any time prior to the Maturity Date all or part of the outstanding principal amount (unless previously converted, redeemed or cancelled) of the Convertible Bonds (together with accrued and unpaid interest, if any, in respect of the Convertible Bonds to be redeemed up to and including the redemption date) on a specified redemption date at 100% of the outstanding principal amount of the Convertible Bonds to be redeemed, by giving the Bondholders no less than 30 days’ notice of the date fixed for such redemption and the principal amount and interest amount to be redeemed.

The outstanding principal amount of the Convertible Bonds (unless previously converted into Shares or repaid in accordance with the conditions of the Convertible Bonds) and all outstanding interest payable in relation to the Convertible Bonds, shall be repaid by the Company to the Bondholders subject to and in accordance with the terms of the Convertible Bonds on the Maturity Date at 100% of the outstanding principal amount of the Convertible Bonds. The Convertible Bonds may not be repaid or redeemed other than in accordance with the conditions of the Convertible Bonds.

Ranking of the Conversion Shares

The Convertible Bonds will be convertible into the Conversion Shares, which shall rank *pari passu* in all respects with all other existing Shares outstanding at the Conversion Date and the Bondholder shall be entitled in respect of its Conversion Shares to all dividends and other distributions the record date of which falls on a date on or after the Conversion Date.

Conversion Period

The Bondholders 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 their Convertible Bonds into 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 shall not be less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares at the relevant time in compliance with the Listing Rules.

Initial Conversion Price

The price at which Conversion Shares will be issued upon exercise of a Conversion Right will be HK\$0.23 (subject to adjustments) per Share.

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Subject to the terms and conditions of the Convertible Bonds, the Initial Conversion Price shall from time to time be adjusted in accordance with the relevant provisions as set out in the Subscription Agreement. Please refer to the section headed “PRINCIPAL TERMS OF THE CONVERTIBLE BONDS — Adjustment of Initial Conversion Price” in the Letter from the Board in the Circular for further details of the adjustments events.

Voting rights

The Bondholders will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of being Bondholders.

Events of default

Pursuant to the Subscription Agreement, if any of the events specified below occurs, the Company shall within 10 days of such event occurring give notice to the Bondholders. Within 10 days after the Company despatches the notice, any Bondholder holding, or one or more Bondholders together holding, 76% or more of the then outstanding principal amount of the Convertible Bonds may give notice to the Company that the Convertible Bonds are immediately due and payable, whereupon they shall become immediately due and payable in the amounts which would otherwise be due on the Maturity Date:

- (a) a default is made for more than seven days in the payment of any principal or interest relating to the Convertible Bonds when and as the same ought to be paid in accordance with the conditions of the Convertible Bonds;
- (b) a default is made by the Company in the performance or observance of any covenant, condition or provision of the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal of the Convertible Bonds) and such default continues for the period of 30 days next following the service by a Bondholder, or Bondholders together, holding at least 51% of the then outstanding principal amounts of Convertible Bonds on the Company of notice requiring such default to be remedied;
- (c) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by a Bondholder, or Bondholders together, holding at least 51% of the then outstanding principal amounts of Convertible Bonds;

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- (d) an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertaking of the Company or any of its subsidiaries;
- (e) a distress, execution or seizure order before judgement is levied or enforced upon or sued out against the whole or a material part of the property of the Company or any of its subsidiaries (as the case may be) and is not discharged within 40 days thereof;
- (f) the Company or any of its subsidiaries is unable to pay its debts (save and except for such debts as set out in the disclosure letter to the Subscription Agreement) as and when they fall due or the Company or any of its subsidiaries shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make an assignment for the benefit of, or enter into any composition with, its creditors;
- (g) early termination of any of the Reorganisation Documents or any breach or default by the Company and/or any Subsidiary (as the case may be) in the performance or observance of any undertaking, covenant, condition or provision of the Reorganisation Documents;
- (h) proceedings shall have been initiated against the Company or any of its subsidiaries under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 60 days;
- (i) any event occurs which has an analogous effect to any of the events referred to in paragraphs (a) to (h) above;
- (j) the listing of the Shares of the Company is withdrawn from the Stock Exchange; or
- (k) trading of the Shares of the Company are suspended for a consecutive period of more than 90 Business Days.

Transfer

The Convertible Bonds are freely assignable and transferrable by the Bondholders subject to the applicable laws and regulations and the Listing Rules, provided that the Convertible Bonds may not be transferred by the Bondholders, without the prior written consent of the Company, to any connected person (as defined in the Listing Rules) of the Company. Any transfer of any Convertible Bond shall be in respect of the whole of the outstanding principal amount or multiples of units of principal amount of HK\$1,000,000 of that Convertible Bond.

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Form and denomination

The Convertible Bonds will be issued in registered form in the denomination of HK\$1,000,000 and integral multiples thereof.

Conditions precedent and other principal terms of the Subscription Agreement

As disclosed in the Letter from the Board, the Subscription Completion is conditional on, among others, the following Subscription Conditions being fulfilled or, if applicable, waived by the Long Stop Date:

- (a) the Executive having granted the Whitewash Waiver;
- (b) all conditions attached to the Whitewash Waiver having been satisfied;
- (c) the Independent Shareholders having at the EGM approved the Subscription, the Whitewash Waiver, the Specific Mandate and the transactions contemplated thereunder;
- (d) the Shareholders having at the EGM approved the Share Capital Increase and the transactions contemplated thereunder;
- (e) the Company having obtained the approval from the Stock Exchange for the listing of and permission to deal in the Subscription Shares and the Shares to be issued upon the full conversion of the Convertible Bonds on the Main Board of the Stock Exchange;
- (f) that the Subscription Completion would not result in the Company not meeting the Public Float Requirement on the Subscription Completion Date;
- (g) all other regulatory consents and authorisations of any governmental or regulatory body which are necessary and required for the purpose of implementing and completing the Transactions having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in any relevant jurisdiction;
- (h) the written approval from or the filing for inspection with the State-owned Assets Supervision and Administration Commission of the People's Government of Jilin Province for the Subscription Agreement and the transactions (including the subscription for the Convertible Bonds) with the terms and conditions contemplated thereunder having been obtained or completed;
- (i) each of the Reorganisation Documents having been duly entered into by the parties thereto and the Reorganisation having been completed in accordance with the terms of the Reorganisation Documents;

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- (j) the Subscriber having completed its due diligence review on the Group (including but not limited to the business, operation, financials and legal aspects of the relevant members of the Group) and at its sole and absolute discretion being satisfied with the results of such due diligence review and having confirmed this to the Company in writing;
- (k) (where applicable or necessary) the Company having obtained any necessary and required consents and given any necessary and required notifications (or having caused all relevant members of the Group to obtain such consents or give such notifications) for the Transactions under any loan agreements or security documents to which any relevant member of the Group is a borrower or an obligor; and
- (l) the Company having complied with all of its undertakings under the Subscription Agreement in all material respects.

Save for the conditions set out in paragraphs (h) to (l) above which may be waived only by the Subscriber, none of the other Subscription Conditions can be waived by any party to the Subscription Agreement.

If the Subscription Conditions have not been satisfied or waived (as the case may be) on or before the Long Stop Date, then the Subscription Agreement shall automatically terminate (other than in respect of certain surviving provisions including confidentiality, costs, waivers, rights and remedies). In such event, none of the parties (nor any of their respective affiliates) shall have any claim under the Subscription Agreement of any nature whatsoever against any other parties (or any of their respective affiliates) except in respect of any rights and liabilities which have accrued before termination or under any of the surviving provisions.

As at the Latest Practicable Date, none of the Subscription Conditions has been fulfilled or waived (as the case may be).

Disposal and lock-up restriction

Pursuant to the Subscription Agreement, the Subscriber has undertaken and agreed that, subject to and conditional upon the Subscription Completion, it shall not, without the prior written consent of the Company and whether directly or indirectly, at any time during the period of ten months immediately following the Subscription Completion Date:

- (a) offer, pledge, charge, sell, mortgage, lend, create, transfer or otherwise dispose of any legal or beneficial interest (including by the creation of or an agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase) in the Subscription Shares, the Convertible Bonds, the Conversion Shares or any securities

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convertible into or exercisable or exchangeable for such Subscription Shares, Convertible Bonds, Conversion Shares, or contract to do so, whether directly or indirectly; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such Subscription Shares, Convertible Bonds, Conversion Share or securities,

in each case, whether any of the foregoing transactions is to be settled by delivery of Shares, Convertible Bonds or such other securities convertible into Shares, cash or otherwise dispose of any of the Subscription Shares, the Convertible Bonds, the Conversion Shares or any interest in any company or entity holding (directly or indirectly) any of the Subscription Shares, the Convertible Bonds, the Conversion Shares, and provided that the restrictions set out above shall not prohibit or restrict any sale, transfer or disposal of the Subscription Shares, the Convertible Bonds or the Conversion Shares (or transaction, agreement or contract referred to above) among the Subscriber and its wholly-owned subsidiaries and such transferee(s) agrees to receive and hold the Subscription Shares, the Convertible Bonds or the Conversion Shares subject to the above provisions. We consider that the lock-up arrangement demonstrates the commitment of the Subscriber to its long term investment in the Company and is favourable to the Independent Shareholders.

Indemnities

Under the Subscription Agreement, the Company undertakes to pay to the Subscriber on demand an amount equal to all losses (including all claims, liabilities, damages, losses and any direct or indirect consequential losses, costs and expenses) suffered or incurred by the Subscriber which arise (directly or indirectly) as a result of or in connection with the following:

- (a) alleged infringement of EP 1.664.318 (entitled “L-amino acid-producing microorganism and method for producing L-amino acid”);
- (b) any further liabilities in connection with the infringement of EP 0.773.710 (entitled “Process for Producing L-Lysine by Fermentation”), EP 0.733.712 (entitled “Process for Producing Substance”) and EP 0.796.912 (entitled “Novel Lysine Decarboxylase Gene and Process for Producing L-Lysine”) to the extent that the provision of which has not been adequately made in the audited consolidated accounts of the Company for the year ended 31 December 2014;
- (c) any liabilities in connection with the litigations as set out in the disclosure letter to the Subscription Agreement to the extent that the provision of which has not been adequately made in the audited consolidated accounts of the Company for the year ended 31 December 2014;

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- (d) failure and/or inability to obtain the relevant land use rights certificates and/or building ownership certificates for any of the owned properties of the Group which have not obtained such certificates as at the date of the Subscription Agreement; and
- (e) suspension and/or delisting of the Company and/or GSH from the Main Board of the Stock Exchange due to the non-compliance of the Listing Rules by the Company and/or GSH and/or their directors which occurred before the Subscription Completion Date.

Please refer to pages 17 to 19 of the 2014 Annual Report, the announcement of the Company dated 7 August 2015 and the paragraph headed “7. Material Litigation” in Appendix II on pages 228 to 230 of this circular for the latest development of the alleged infringements of the patents as referred to in paragraphs (a) and (b) above.

As mentioned in the paragraph headed “Opinions of the auditors” under the section headed “2. Financial Information of the Group” in this letter, the consolidated financial statements for FY2013 and FY2014 was audited by Ernst & Young, whom has given qualified opinion, emphasis of matter and disclaimer of opinion respectively.

We have noted that the qualified opinion, emphasis of matter and disclaimer of opinion made by Ernst & Young on the consolidated financial statements of the Company for FY2013 and FY2014 respectively have demonstrated the fact that the current financial position of the Group might not be truly or fairly reflected. As such, all losses to be suffered or incurred by the Subscriber as referred to in paragraphs (a) to (e) above would be undertaken by the Company to pay on demand. We consider that such indemnities arrangement aims to provide a protection on the Subscriber’s investment in the Company, which if exercise may adversely affect the financial position of the Company.

In assessing the fairness and reasonableness of the indemnities under the Subscription Agreement, Independent Shareholders should note that (i) the current financial position of Company with an unaudited net current liabilities of approximately HK\$6.5 billion, with cash and cash equivalents of only approximately HK\$322.8 million as at 30 June 2015; (ii) the reliance of the Group to support its working capital by increasing its borrowing from banks whilst a continued reduction on the cash and cash equivalents as a result of net losses for the Past Three Fiscal Years and the 6-Month 2015; and (iii) the probability of insolvency of the Company given the current interest-bearing bank borrowings payable within one year of approximately HK\$6.5 billion, of which approximately HK\$2.2 billion will be due in 2015 and HK\$4.3 billion will be called on demand by the banks if renewal of bank loans is not successful. Taking into account the above financial conditions of the Group, we consider that the Group has limited option or ability to raise funding through conventional debt or equity financing in

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the financial market. If the Subscription does not proceed, the Company would probably not be able to meet its short term obligations and such worsened liquidity position could be a material uncertainty affecting the going concern basis.

We also consider the commitment of the Subscriber on the Subscription given the possible financial risks that may be incurred in the investment in the Company, which are summarised as (i) the Group recorded negative unaudited NAV per Share as at 30 June 2015; (ii) the Group recorded net loss of approximately HK\$0.7 billion, HK\$6.2 billion, HK\$3.8 billion and HK\$1.0 billion for FY2012, FY2013, FY2014 and 6-Months 2015, respectively; (iii) the unaudited outstanding short terms bank borrowing payable within a year of approximately HK\$6.5 billion and long terms bank borrowing of approximately HK\$2.1 billion; (iv) the lackluster lysine industry which have no sign of recovery; and (v) the contingent liabilities as referred to alleged infringements as disclosed in the 2013 Annual Report and inadequate provisions as referred to the impairment of non-current assets, the fair value of the financial guarantee contracts, the penalty of litigation and impairment of investments in subsidiaries and amount due from subsidiaries, the prepayment and other receivable, inventories and accounts payable as disclosed in the 2014 Annual Report. Taking into account the above-mentioned risks which may be borne by the Subscriber, it is commercially understandable for the Subscriber to request for the indemnities under the Subscription Agreement aiming to request for a protection on its investment in the Company, since liabilities referred to the alleged litigations and inadequate provisions as disclosed in annual reports for the Past Three Fiscal Years cannot be quantified accurately.

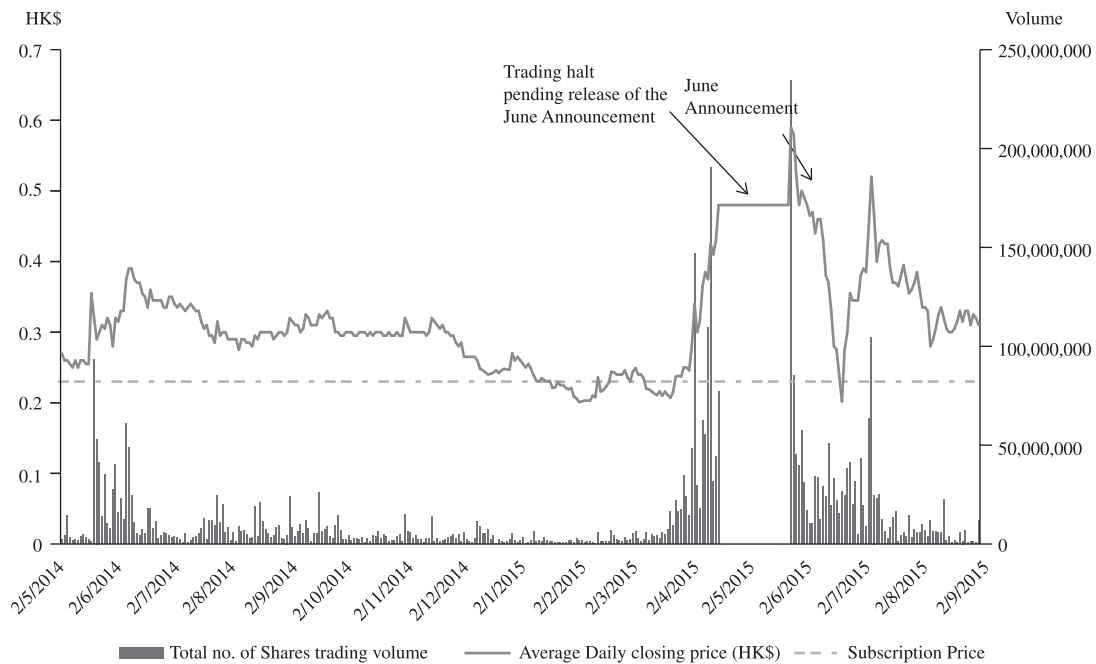
We are advised by the Directors that the indemnities was arrived at arm's length negotiation between the Subscriber and the Company which reflects the interests, benefits and risks of both parties involved in the Subscription. Although the unlimited indemnities is not commonly used in agreement for the subscription of shares or convertible securities in the financial market but from the perspective of the Subscription, the possible distressed position of the Company, the urge of new investment monies for settling the Company's short term bank borrowing, we understand that the Company has to consider a balance between the benefit generated from the Subscription and other unfavourable terms of agreement. Unless other investor or subscriber is available, we consider the indemnities, though providing an unfavourable term to the Company, are acceptable to the Company after taking into consideration the additional funding provided by the Subscription and the possible distressed position of the Company.

5. Evaluation of the Subscription Price and Initial Conversion Price

Historical share price performance and trading volume analysis

The following chart set out the trading price performance and trading volume of the Shares as quoted on the Stock Exchange during the period commencing from (i) 1 May 2014 (being the first trading day of the twelve-month period) up to and including 30 April 2015 (being the LOI Last Trading Day) (the “**Pre-Announcement Period**”), and (ii) from 10 June 2015 (being the date of the June Announcement) to the Latest Practicable Date (the “**Post-Announcement Period**”) (from 1 May 2014 and up to the Latest Practicable Date as the “**Review Period**”) (Note: trading in the Shares was suspended from 4 May 2015 to 9 June 2015 during the Review Period).

Trading price performance and trading volume during the Review Period



Source: Bloomberg

As demonstrated in the above chart, during the Pre-Announcement Period from 1 May 2014 to 30 April 2015 (being the LOI Last Trading Day), the Shares traded at a price ranging from HK\$0.200 to HK\$0.490 (of which the market capitalisation ranged between HK\$652.7 million and HK\$1,599.1 million respectively). The average closing price per Share during the Pre-Announcement Period was approximately HK\$0.285 (representing an average market capitalisation of approximately HK\$931.0 million). We consider a twelve-month period up to and including the LOI Last Trading Day for our analysis is appropriate as it covers different market conditions and sentiments prior to the June Announcement while being still recent enough for references.

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On 10 June 2015, being the date of the June Announcement, the closing price per Share was HK\$0.590 as quoted on the Stock Exchange, representing an increase of approximately 107.0% as compared to the average closing price of HK\$0.285 during the Pre-Announcement Period, and the market capitalisation was HK\$1,925.5 million. During the Post-Announcement Period from 10 June 2015 to the Latest Practicable Date, the Shares traded at a price ranging from HK\$0.190 to HK\$0.700, with an average closing price of HK\$0.374, represented an increase of approximately 31.0% as compared to the average closing price of HK\$0.285 during the Pre-Announcement Period. The average market capitalisation was approximately HK\$1,219.2 million during the Post-Announcement Period, represented an increase of approximately 31.0% as compared to the average market capitalisation of HK\$931.0 million during the Pre-Announcement Period.

Immediately after the release of June Announcement, the closing price and trading volume of the Shares increased significantly as illustrated above, which we consider that is mainly due to the market anticipation of the Subscription that would possibly be materialised. However, the closing price of the Shares commenced to decline gradually after 10 June 2015 and hit its bottom in early July 2015, where the price movement of the Shares was in fact aligned with the fluctuation of Hang Seng Index (“HSI”). The drop of the HSI after 10 June 2015 as reported by the market commentary was triggered by, among others, the sharply fall of the China equities markets in early June 2015 as a result of deleveraging and anticipated economic slowdown. The HSI was further rebound from early July 2015 till late July 2015, as reported, was stimulated by, among others, the general expectation of the Chinese government to take steps to stabilize the China equities markets. However, HSI retreated substantially again from late July 2015 to the end of August 2015 in response to the sharp plunge of the China equities markets due to further deterioration of China’s economic data.

Given that there was no other announcement made by the Company during the Post-Announcement Period that may materially influence the trading price of the Shares, we are of the view that the then market sentiment during the Post-Announcement Period from June 2015 to August 2015 was speculative and may have prompted the general public to trade in the stock market based on speculation instead of fundamental analysis. As a result, we consider the Share price movement during the Post-Announcement Period which may not be the most appropriate for our analysis on the fairness and reasonableness of Subscription Price and Initial Conversion Price and hence, we consider that the discounts of the Subscription Price and Initial Conversion Price over the closing prices on and during the Pre-Announcement Period are more relevant to the Independent Shareholders for the purpose of comparing the Share prices with the Subscription Price and Initial Conversion Price.

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The following table shows the average daily trading volume of the Shares per month, and the respective percentages of the Shares' average daily trading volume as compared to the total number of issued Shares at the end of the respective month, during the Review Period (Note: trading in the Shares was suspended from 4 May 2015 to 9 June 2015 during the Review Period):

Average daily trading volume of the Shares during the Review Period

Month	Total no. of Shares trading volume (HK\$)	No. of Trading Days in each month (note)	Average daily trading volume (Approximate)	Total no. of Shares in issue	Average daily trading volume over Shares in issue (Approximate %)
2015					
September (up to Latest Practicable Date)	38,734,200	13	2,979,554	3,263,489,164	0.09%
August	169,128,800	21	8,053,752	3,263,489,164	0.25%
July	610,429,600	22	27,746,800	3,263,489,164	0.85%
June	714,866,803	15	47,657,787	3,263,489,164	1.46%
May		0		3,263,489,164	0.00%
April	967,950,267	19	50,944,751	3,263,489,164	1.56%
March	84,203,517	22	3,827,433	3,263,489,164	0.12%
February	28,506,000	18	1,583,667	3,263,489,164	0.05%
January	41,009,600	21	1,952,838	3,263,489,164	0.06%
2014					
December	80,128,596	21	3,815,647	3,263,489,164	0.12%
November	80,662,000	20	4,033,100	3,263,489,164	0.12%
October	64,861,600	21	3,088,648	3,263,489,164	0.09%
September	174,887,100	21	8,327,957	3,263,489,164	0.26%
August	145,804,000	21	6,943,048	3,263,489,164	0.21%
July	155,570,113	22	7,071,369	3,263,489,164	0.22%
June	331,216,300	20	16,560,815	3,263,489,164	0.51%
May	328,032,800	20	16,401,640	3,263,489,164	0.50%
Average during the Pre-Announcement Period			10,092,813		0.31%
Average during the Post-Announcement Period			21,593,794		0.66%

Source: Bloomberg

During the Pre-Announcement Period, the daily trading volume ranged from 38,000 to 190,195,827 Shares, and the average daily trading volume during such period was approximately 10,092,813 Shares. As revealed in the above table, from 1 May 2014 to 30 April 2015 (being the LOI Last Trading Day), the average daily trading volume of the Shares for each of the respective months was ranging from approximately 1,583,667 Shares to 50,944,571 Shares (of which accounted for approximately 0.05% to 1.56% of the total number of Shares in issued for the respective months). We therefore note that the average daily trading volume of the Shares per month during the Pre-Announcement

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Period normally only accounted for less than 2% of the total number of Shares in issued for the respective months, which suggested a generally thin trading volume of the Shares during the Pre-Announcement Period.

On 10 June 2015, being the day of the June Announcement, the daily trading volume increased to 234,216,803 Shares, representing approximately 7.18% of the total number of issued Shares. The average daily trading volume increased to 21,593,794 Shares during the Post-Announcement Period, which represented an increase of 113.95% as compared to that during the Pre-Announcement Period.

We are therefore of the view that the liquidity of the Shares, as measured by the average daily trading volume, has been improved since the release of the June Announcement, which is likely to be largely related to the market expectation that the Subscription would possibly be materialised. However, Independent Shareholders should take note that should the Subscription is not complete, the Shares may not be able to sustain at the present price level and trading volume level.

In light of the above analysis on historical performance of share price and trading volume, though the Subscription Price and Initial Conversion Price (being HK\$0.23 per Subscription Share and Conversion Share, respectively) is below the trading price of the Shares most of the time during the Pre-Announcement Period, we consider that it is commercially reasonable for the Subscriber to request for a discount over the trading price of the Shares during the term negotiation, give that (i) the Group has been facing financial difficulties during recent years, in particular, the net loss of the Group was approximately HK\$3.8 billion in FY2014 and net current liabilities was approximately HK\$5.3 billion as at 31 December 2014; and (ii) the trading volume of the Shares was generally thin with less than 2% over Shares in issue during the Pre-Announcement Period. Regarding the fairness and reasonableness on the extent of discounts of the Subscription Price and the Initial Conversion Price over the trading price of the Shares, Independent Shareholders are reminded to refer to the section headed “6. Fairness and reasonableness of the Subscription Price and Initial Conversion Price” of this letter for our advice in detailed.

6. Fairness and reasonableness of the Subscription Price and Initial Conversion Price

Comparable share issues

To further assess the fairness and reasonableness of the issue of the Subscription Shares and the Convertible Bonds, we have conducted an analysis by reviewing all the comparable share issues initially announced during the Review Period (from 1 May 2014 and up to the Latest Practicable Date) by companies listed on the Stock Exchange (the “**Comparables**”) involving (i) subscription of new shares and/or convertible securities of the listed companies by the subscribers; and (ii) applications of whitewash waivers made by the subscribers and those applications had been approved (the “**Comparable Share Issues**”), and identified an exhaustive list of 17 Comparables. We consider that a review period of twelve calendar months prior and up to the Latest Practicable Date is appropriate to capture the recent market practice because the Comparables are considered for the purpose of taking a general indication for the recent market practice in relation to the subscription price with those of the comparable share issues in the recent stock market environment and with the similar market sentiment.

Independent Shareholders should note that the Comparables are not identical to the Company in terms of principal business, operations and financial position, and that the determination of subscription prices of the share subscription exercises under specific mandates were made reference to the arm’s length commercial negotiation between the companies and the subscribers, the share price performance, financial positions of the companies and the then prevailing market conditions. However, given that this analysis is aiming at comparing the respective subscription prices towards their prevailing market prices in order to take a market general reference from the recent market practice in relation to the average discount rate of other proposed issues of new shares which would trigger mandatory general offers and with whitewash waivers, we consider that our comparable analysis on the Subscription Price and Initial Conversion Price without limiting to companies that are engaged in the same principal business as that of the Group is fair and reasonable and useful for the Independent Shareholders’ information and reference.

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Set out below is the details of the Comparables:

Company	Date of announcement	Transaction type	Premium/(discount) of issue price/subscription price/initial conversion price over/(to)					Maximum dilution effect on Public Shareholders		
			the closing price of the last trading day	the average closing price of the last 5 trading days	the average closing price of the last 10 trading days	the average closing price for the last three-month period	the average closing price for the last twelve-month period	Shareholding of public before subscription	Shareholding of public upon completion of subscription	
			(approximate %)	(approximate %)	(approximate %)	(approximate %)	(approximate %)	(%)	(%)	(approximate %)
Kong Sun Holdings Limited ("Kong Sun") (Stock code: 295) (note 1)	10/6/2014	Subscription of new shares	(1.37)	(6.25)	3.30	54.51	129.30	100.00	21.26	78.74
KuangChi Science Limited (Stock code: 439)	13/6/2014	Issue of new shares and new preferred shares	(76.12)	(74.92)	(75.16)	(72.22)	(68.50)	40.75	13.97	26.78
Ko Yo Chemical (Group) Limited (Stock code: 827)	14/8/2014	Issue of new shares and convertible bonds	(41.82)	(28.25)	(25.41)	(18.78)	(25.58)	41.80	12.43	29.37
China Financial International Investments Limited (Stock code: 721)	4/9/2014	Subscription of new shares	(66.67)	(65.40)	(63.96)	(63.83)	(55.26)	75.15	20.61	54.54
Fortunet e-Commerce Group Limited (Stock code: 1039)	10/10/2014	Subscription of new shares	(29.03)	(23.26)	(21.43)	(18.72)	(22.17)	34.88	18.21	16.67
Nanjing Sample Technology Company Limited (Stock code: 1708)	21/10/2014	Subscription of new shares	(5.81)	(6.31)	(7.03)	(16.74)	(20.34)	40.96	28.98	11.98
Lajin Entertainment Network Group Limited (Stock code: 8172)	18/12/2014	Subscription of new shares and new preferred shares	(71.43)	(64.35)	(63.47)	(51.81)	(42.82)	84.06	25.00	59.06
Good Resources Holdings Limited (Stock code: 109)	29/1/2015	Issue of new shares and convertible bonds	(31.41)	(20.76)	(20.61)	(19.89)	(0.68)	69.35	14.20	55.15
Beijing Enterprises Clean Energy Group Limited (Stock code: 1250)	2/2/2015	Issue of new shares and preference shares	(43.57)	(41.91)	(38.76)	(37.30)	(26.85)	25.00	1.58	23.42
China Fire Safety Enterprise Group Limited ("China Fire") (Stock code: 445) (note 2)	27/2/2015	Subscription of consideration shares	(46.67)	(41.35)	(36.51)	(23.81)	11.42	43.69	30.58	13.11
South East Group Limited (Stock code: 726)	9/3/2015	Subscription of new shares and convertible bonds	(42.86)	(35.06)	(31.27)	(17.36)	(43.98)	82.02	27.14	54.88
Chiho-Tiande Group Limited (Stock code: 976)	27/3/2015	Subscription of new shares	33.88	55.88	65.63	117.27	169.20	29.76	20.74	9.02
Shougang Concord Grand (Group) Limited (Stock code: 730)	15/4/2015	Subscription and placing of new shares	(7.87)	(6.18)	(3.07)	4.59	6.22	49.68	21.42	28.26
21 Holdings Limited (Stock code: 1003) (note 3)	13/5/2015	Subscription of new shares	(66.94)	(66.83)	(65.72)	(63.80)	(58.72)	75.08	18.77	56.31

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Company	Date of announcement	Transaction type	Premium/(discount) of issue price/subscription price/initial conversion price over/(to)					Maximum dilution effect on Public Shareholders		
			the closing price of the last trading day <i>(approximate %)</i>	the average closing price of the last 5 trading days <i>(approximate %)</i>	the average closing price of the last 10 trading days <i>(approximate %)</i>	the average closing price for the last three-month period <i>(approximate %)</i>	the average closing price for the last twelve-month period <i>(approximate %)</i>	Shareholding of public before subscription <i>(%)</i>	Shareholding of public upon completion of subscription <i>(%)</i>	<i>(approximate %)</i>
China Rundong Auto Greenland Group Limited ("China Rundong") (Stock code: 1365) <i>(note 4)</i>	17/5/2015	Subscription of new shares and convertible preference shares	(15.00)	(13.73)	(14.24)	(14.62)	(16.57)	22.00	14.00	8.00
China City Railway Transportation Technology Holdings Company Limited ("China City") (Stock code: 1522) <i>(note 5)</i>	20/5/2015	Subscription of new shares	(15.41)	(11.82)	(2.98)	(0.29)	1.66	44.30	27.75	16.55
World Wide Touch Technology (Holdings) Limited ("World Wide") (Stock code: 1282) <i>(note 6)</i>	4/6/2015	Issue of new shares	(40.98)	(36.84)	(32.36)	(18.92)	(35.25)	30.11	4.12	25.99
	Average		(33.47)	(28.69)	(25.47)	(15.40)	(5.82)			33.40
	Maximum		33.88	55.88	65.63	117.27	169.20			78.74
	Minimum		(76.12)	(74.92)	(75.16)	(72.22)	(68.50)			8.00
The Company (Stock code: 809) <i>(note 7)</i>			(52.08)	(45.75)	(39.87)	(8.90)	(19.38)	76.26	22.37	53.89

Source: Announcements in relation to the Comparables are sourced from the website of the Stock Exchange; historical share prices of the relevant listed companies are sourced from Bloomberg

Notes:

- As stated in the announcement of Kong Sun dated 10 June 2014, the subscription price of HK\$0.36 per share was arrived at with reference to, among other things, the then prevailing market prices of the shares of Kong Sun prior to the memorandum of understanding dated 29 March 2014. Accordingly, we have taken 28 March 2014 (i.e. the last day of trading immediately prior to 29 March 2014) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 28 March 2014.
- As stated in the announcement of China Fire dated 27 February 2015, the subscription price of HK\$0.4 per share was determined with reference to, among others, the then prevailing market prices of the shares prior to the memorandum of understanding dated 19 November 2014. Accordingly, we have taken 18 November 2014 (i.e. the last day of trading immediately prior to 19 November 2014) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 18 November 2014.
- As stated in the circular of 21 Holdings Limited, the trading in the shares was suspended with effect from 1:00 pm on 1 April 2015 pending the release of inside information announcement dated 13 April 2015 in relation to the possible subscription of shares of 21 Holdings Limited. The closing price of the shares surged to HK\$1.920 per share, representing an increase of approximately 58.7% comparing to the closing price of HK\$1.210 per share on 1 April 2015. Trading in the shares of 21 Holdings Limited was suspended from 2 April 2014. Accordingly, we

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have taken 1 April 2015 (i.e. the last day of trading immediately prior to 13 April 2015) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 1 April 2015.

4. China Rundong was listed on the Stock Exchange on 12 August 2014 and the average closing price for the last twelve-month period was calculated from 12 August 2014 to 16 April 2015.
5. Pursuant to the announcement of China City dated 20 May 2015, the subscription price of HK\$2.081 per share was arrived at with reference to, among other things, the then prevailing market prices of the shares of China City prior to the memorandum of understanding dated 13 April 2015. Accordingly, we have taken 10 April 2015 (i.e. the last day of trading immediately prior to 13 April 2014) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 10 April 2014.
6. As stated in the announcement of World Wide dated 4 June 2015, the subscription price of HK\$0.18 per share was determined on or about the date of signing the memorandum of understanding dated 14 April 2015. Trading in the shares of World Wide was halted with effect from 9:00 a.m. on 14 April 2015 pending the release of an announcement in relation to the aforesaid memorandum of understanding. Accordingly, we have taken 13 April 2015 (i.e. the last day of trading immediately prior to 14 April 2015) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 13 April 2015.
7. As set out in the paragraph headed “Historical share price performance and trading volume analysis” above in the section headed “5. Evaluation of the Subscription Price and Initial Conversion Price”, trading in the Shares was suspended on 4 May 2015 (i.e. the date of June Announcement). Following the June Announcement, trading in the Shares resumed on 10 June 2015 and the closing price surged to HK\$0.59 per Share, representing an increase of approximately 107.0% as compared to the average closing price of HK\$0.285 during the Pre-Announcement Period. We consider that analyses based on the closing price on or before the LOI Last Trading Day are more relevant to the Independent Shareholders for the purpose of comparing the price with the Subscription Price and Initial Conversion Price. Accordingly, the Subscription Price and Initial Conversion Price are compared to the closing price of the Shares on the LOI Last Trading Day; the average closing prices for each of the 5 and 10 trading days up to and including the LOI Last Trading Day and the average closing prices for three-month and twelve-month periods up to and including the LOI Last Trading Day.

As shown in the above table, the subscription/placing/issue prices of the Comparable Share Issues ranged from:

- (i) a premium of approximately 33.88% to a discount of approximately 76.12% over the respective closing prices of their shares on their respective last trading day(s) prior to the release of the relevant announcement(s) in relation to such subscription/placement/issue or the relevant agreement date(s) relating to the respective subscription/placement/issue, with an average discount of approximately 33.47%. Under such comparison, 16 out of 17 Comparables have discounts and 4 of them have higher discounts than the Subscription;
- (ii) a premium of approximately 55.88% to a discount of approximately 74.92% over the respective average closing prices of their shares over the last five consecutive trading days up to and including the share last trading day, with

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an average discount of approximately 28.69%. Under such comparison, 16 out of 17 Comparables have discounts and 4 of them have higher discounts than the Subscription;

- (iii) a premium of approximately 65.63% to a discount of approximately 75.16% over the respective average closing prices of their shares over the last 10 consecutive trading days up to and including the share last trading day, with an average discount of approximately 25.47%. Under such comparison, 15 out of 17 Comparables have discounts and 4 of them have higher discounts than the Subscription;
- (iv) a premium of approximately 117.27% to a discount of approximately 72.22% over the respective average closing prices for the three-months period up to and including the share last trading day, with an average discount of approximately 15.40%. Under such comparison, 14 out of 17 Comparables have discounts and 13 of them have higher discounts than the Subscription; and
- (v) a premium of approximately 169.20% to a discount of approximately 68.50% over the respective average closing prices for the twelve-month period up to and including the share last trading day, with an average discount of approximately 5.82%. Under such comparison, 12 out of 17 Comparables have discounts and 11 of them have higher discounts than the Subscription.

Although, the discounts of the Subscription Price and Initial Conversion Price over (i) the closing price of the Share on the LOI Last Trading Day; (ii) the average closing price of the Share for the last five trading days; (iii) the average closing price of the Share for the last ten trading days; and (iv) the average closing price of the Share for the twelve-month period of around 52.08%, 45.75%, 39.87% and 19.38% respectively are all higher than the average discounts of the Comparable Share Issues for the respective periods, but were all within the maximum and minimum range of the Comparable Share Issues for the respective period. Taking into accounts that (i) the Group recorded negative unaudited NAV per Share as at 30 June 2015, while the Subscription Price and Initial Conversion Price represent a premium over the unaudited NAV per Share as at the same date; (ii) the Group recorded significant amounts of net losses for the period from FY2012 to the 6-Months 2015, while the Subscription would strengthen and improve the Group's financial position; and (iii) the Subscriber's intention in maintaining and developing the Group's existing business, we agree with the Directors that the above discounts of the Subscription Price and Initial Conversion Price are justifiable, and the Subscription Price and Initial Conversion Price are fair and reasonable so far as the Independent Shareholders are concerned.

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Comparison of the terms (excluding the Initial Conversion Price) of the Convertible Bonds

Company	Date of announcement	Principal amount approximately (HK\$ million)	Maturity (years)	Interest rate (% per annum)
New Focus Auto Tech Holdings Limited (Stock code: 360)	26/6/2013	379.74 ^(Note)	5.0	0.00%
Yanchang Petroleum International Limited (Stock code: 346)	18/9/2013	1,600.00	3.0	0.00%
Intime Retail (Group) Company Limited (Stock code: 1833)	31/3/2014	3,706.07	3.0	1.50%
Ko Yo Chemical (Group) Limited (Stock code: 827)	14/8/2014	832.00	10.0	7.00%
Good Resources Holdings Limited (Stock code: 109)	29/1/2015	1,843.80	5.0	0.00%
South East Group Limited (Stock code: 726)	9/3/2015	200.00	3.0	0.00%
	Average		4.8	1.42%
	Maximum		10.0	7.00%
	Minimum		3.0	0.00%
	Convertible Bonds	1,086.28	5.0	0.01%

Source: Bloomberg

Note: For the above table, the translation of US\$ into HK\$ is based on the average exchange rate of US\$1.00 to HK\$7.8 for illustration purpose only.

During the Review Period, there were only three companies issued convertible bonds among the Comparable Share Issues. To further assess the terms of the Convertible Bonds, we have extended the review period into two years which commences from 1 May 2013, by reviewing all the comparable share issues initially announced since 1 May 2013 and up to the Latest Practicable Date by companies listed on the Stock Exchange involving (i) subscription of convertible bonds of the listed companies by the subscribers; and (ii) applications of whitewash waivers made by the subscribers and those applications had been approved (the “**Convertible Bonds Comparables**”) and identified an exhaustive list of 6 Convertible Bonds Comparables.

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We note that the maturity term of the Convertible Bonds of 5 years is above the average of the Convertible Bonds Comparables. We consider a longer maturity term could delay the one-off repayment of principal amount of the Convertible Bonds and increase the probability of the Bondholder(s) for conversion which may help to reduce the financial burden of the Group in the upcoming 5 years' period. Independent Shareholders should also take note that although (i) the Bondholders have the right to convert the Convertible Bonds into Conversion 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, subject to the Public Float Requirement; and (ii) the Subscriber has current intention to continue to operate and develop the Group's existing business, the Bondholders may or may not convert any of the Convertible Bonds before the Maturity Date. In the event that the Bondholders convert the whole or any part of the Convertible Bonds, it will help to reduce certain financial burden of the Group in the coming 5 years' period, but the shareholding of the Shares held by existing public Shareholders (excluding the Subscriber) would be diluted from 76.26% to a maximum extent into 25%.

We also note that the Convertible Bonds carry 0.01% interest rate per annum which is lower than average of the Convertible Bonds Comparables being approximately 1.42%. We consider that the issue of Convertible Bonds allows the Group to raise a considerable amount of fund at a relatively low finance cost.

Having considered the size, the maturity term and the interest rate of the Convertible Bonds which are favourable to the Group, we consider the terms of the Convertible Bonds are in the interest of the Company and the Independent Shareholders.

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Peer comparison

In further assessing the fairness and reasonableness of the Subscription Price and Initial Conversion Price, we have attempted to make reference to the price-to-earnings ratio (“**P/E Ratio**”) and price-to-book ratio (“**P/B Ratio**”) of all the companies listed on the Stock Exchange which are (i) principally engaged in business similar to that of the Group, namely the manufacture and sale of industrial organic chemical products, with over 80% of the revenue generated from such principal business and with profit-making records; and (ii) with a market capitalisation of approximate HK\$1.1 billion or below as at the Latest Practicable Date with reference to the average market capitalisation of the Company in approximately HK\$931.0 million during the Pre-Announcement Period (the “**Peer Comparables**”). However, due to the fact that the Group recorded net loss of approximately HK\$3.8 billion for the year ended 31 December 2014, we consider that P/E Ratio is not applicable for our analysis. We therefore use P/B Ratio in our comparison analysis and have identified an exhaustive list of 4 Peer Comparables according to the aforementioned criteria. Details of P/B Ratio are set out as below:

Company	Principal Business	Closing share price on the Latest Practicable Date HK\$ (note 1)	Market capitalisation at the Latest Practicable Date HK\$ million (note 1)	Net asset value attributable to equity holders HK\$ million (note 2)	P/B Ratio times (note 2)
Tiande Chemical Holdings Limited (Stock code: 609)	Research and development, production and sale of fine chemical products	1.33	1,126.3	1,265.3	0.89
EcoGreen International Group Limited (Stock code: 2341)	Research and development, production and sale of fine chemicals products from natural resources for use in aroma chemicals and pharmaceutical products, and the trading of fine chemicals products and natural materials	1.90	1,027.0	1,686.7	0.61
China Starch Holdings Limited (Stock code: 3838)	Manufacture and sale of cornstarch, lysine, starch-based sweetener, modified starch, and ancillary corn-based and corn-refined products and sales of electricity and steam	0.155	929.4	2,384.1	0.39
Chia Tai Enterprises International Limited (Stock code: 3839)	Manufacture and sale of chlortetracycline products, trading of caterpillar products and manufacture and sale of carburetors and automotive parts	3.31	796.8	1,151.8	0.69
				Average	0.65
				Maximum	0.89
				Minimum	0.39

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Company	Principal Business	Closing share price on the Latest Practicable Date HK\$ (note 1)	Market capitalisation at the Latest Practicable Date HK\$ million (note 1)	Net asset value attributable to equity holders HK\$ million (note 2)	P/B Ratio times (note 2)
The Company (Stock code: 809)		0.23 (Note 3)	750.6 (Note 4)	822.3 (Note 5)	0.91 (Note 6)

Source: Bloomberg

Notes:

1. The closing share price and market capitalisation of the Peer Comparables as at the Latest Practicable Date are sourced from the website of the Stock Exchange. The market capitalisation of the Peer Comparables is calculated based on their respective closing share price and number of issued shares as at the Latest Practicable Date.
2. The historical P/B Ratio of the Peer Comparables are calculated based on their latest audited consolidated net asset value attributable to owners and their market capitalisations as at the Latest Practicable Date.
3. Being the Subscription Price and Initial Conversion Price of HK\$0.23 per Subscription Share and Conversion Share, respectively.
4. Theoretical market capitalisation of the Company being the sum of the Subscription Price times 3,263,489,164 Shares in issue as at the Latest Practicable Date.
5. Being the consolidated net assets value attributable to owners of the Company as at 31 December 2014 which is extracted from the 2014 Annual Report.
6. The P/B Ratio of the Company is calculated based on (i) its theoretical market capitalisation; and (ii) the consolidated net asset value attributable to owners of the Company as at 31 December 2014.
7. For the above table, the translation of RMB into HK\$ and US\$ into HK\$ is based on the average exchange rate of RMB 1.00 to HK\$1.20 and US\$ 1.00 to HK\$7.8 respectively for illustration purpose only.

As at the Latest Practicable Date, the P/B Ratio of the Peer Comparables ranged from approximately 0.39 time to 0.89 times, with an average of 0.65 times. The P/B Ratio of the Company represented by the Subscription Price and Initial Conversion Price over the audited NAV as at 31 December 2014 of approximately 0.91 times is higher than the maximum P/B Ratio of the Peer Comparables, which is considered in line with the Peer Comparables. However, the Group recorded negative unaudited NAV as at 30 June 2015, hence the P/B Ratio analysis is for reference only. Also, based on the opinions given by Ernst & Young in the 2014 Annual Report, the Group's net assets would have been adversely affected by any adjustments found to be necessary in respect of the carrying amount of certain

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matters, including among others, non-current assets, financial guarantee contracts, inventories, prepayment and other receivable, account payables, provisions on potential penalties of litigations and investments in subsidiaries and amounts due from subsidiaries. In the event that any of the above adjustments taken, the net assets value of the Group would have be further lowered and subsequently the P/B Ratio of the Company will be higher.

The Subscription Price and Initial Conversion Price as compared to (i) the price of the Share on the LOI Last Trading Day; (ii) the average closing price of the Share for the last five trading days; (iii) the average closing price of the Share for the last ten trading days; and (iv) the average closing price of the Share for the twelve-month period, represented discount of approximately 52.08%, 45.75%, 39.87% and 19.38% respectively which are all higher than the average discount but within the maximum and minimum range of the Comparable Share Issues over the respective periods which are considered favourable to the Company. However, attention should be drawn to the Independent Shareholders that,

1. the cash injection by the Subscriber would strengthen the Group's cash position in view of the unaudited net current liabilities of the Group amounted to approximately HK\$6.5 billion as at 30 June 2015 and, at the same time, improve the gearing ratio of the Group;
2. the positive reaction in view of the uplift of the closing price and trading volume of the Shares following the publication of the June Announcement which is beneficial to the Independent Shareholders.

Based on the comparable analysis by the Comparable Share Issues and the Convertible Bonds Comparable, we are of the view that the Subscription Price and Initial Conversion Price are commercially acceptable and justifiable, and the terms of the Subscription Agreement, including the Subscription Price and Initial Conversion Price, are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

7. Financial Health of the Group

As set out in the section headed "2. Financial information of the Group" above, the overall business and financial performance of the Group has been deteriorating in recent years, while it is anticipated by the management that the Group's lysine business is still on the downslope of the business cycle which has no obvious sign of recovery.

(i) Significant decrease in revenue

The Group recorded a decrease in revenue from approximately HK\$11.9 billion in FY2012 to approximately HK\$9.7 billion in FY2013, which represented a drop of approximately 18.7% in revenue on a year-over-year basis. The decline in revenue was

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mainly due to the decline in the average selling prices and demand for the Group's products, particularly in the lysine products due to the outbreak of the new bird flu strain which was caused by the declining demand from animal feed market. In FY2014, the Group further recorded a decrease of approximately 33.9% in revenue to approximately HK\$6.4 billion as compared to the revenue of approximately HK\$9.7 billion in FY2013.

The Group recorded a decrease of approximately 56.5% in revenue from approximately HK\$3.6 billion for the 6-Month 2014 to the revenue of approximately HK\$1.6 billion for the 6-Month 2015. The decrease in revenue of the Group during the Past Three Fiscal Years and the 6-Month 2015 was primarily due to the decline in demand for the Group's products and the intensified market competition.

(ii) *Continuing losses incurred during recent financial years*

The Group's net loss for FY2013 in approximately of HK\$6.2 billion which included, the gross loss in the amount of HK\$900.9 million in productions, together with aggregate of expenses in the selling and distribution expenses in the amount of HK\$762.5 million, the administration expenses in the amount of HK\$717.5 million, finance cost in the amount of HK\$673.4 million and an amount of approximately HK\$3.5 billion in other expenses of which was primarily due to the impairment loss made by the Group for (i) the inventories of the amino acid and polyol chemical products due to the decrease of average selling prices; (ii) an approximately HK\$2.0 billion for the suspension in the polyol chemicals production facilities in Xinglongshan, Changchun; (iii) certain upstream production of approximately HK\$125 million in Dehui, Changchun and Harbin; and (iv) certain utility facilities of approximately HK\$1.2 billion in Xinglongshan, Changchun due to insufficiency of cash flow generated from existing production lines to support the present value of such facilities. The net loss of the Group decreased from approximately HK\$6.2 billion for FY2013 to approximately HK\$3.8 billion in FY2014. The decrease in net loss was primarily due to the decrease in impairment loss of approximately HK\$2.9 billion made by the Group in FY2014.

The net loss of the Group decreased from approximately HK\$1.4 billion for 6-Month 2014 to approximately HK\$1.0 billion for 6-Month 2015. The decrease in net loss was primarily due to the decrease in gross loss of approximately HK\$320.4 million after tightening the costs and expenses of the Group.

As a result of continuing losses incurred by the Group in recent years, we noted that the Group's financial health had been worsening.

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(iii) Depleting bank balances and cash

Bank balances and cash of the Group had persistently decreased over the past financial years from approximately HK\$1.27 billion as at 31 December 2012 to HK\$322.8 million as at 30 June 2015, primarily as a result of continual net cash outflow arising from the net losses of the Group incurred for the recent financial years and the lack of new financing.

(iv) Decreasing net asset value attributable to the owners of the Company

As a result of ongoing losses incurred by the Group, net assets value attributable to the owners of the Company had decreased from approximately HK\$4.25 billion as at 31 December 2013 to a negative net worth attributable to the owners of the Company of approximately HK\$150.6 million as at 30 June 2015.

Given the deteriorating financial health of the Group, we are of the view that the net proceeds in relation to the Subscription, which is expected to be approximately HK\$1.79 billion, would improve the financial strength and cash flows of the Group to sustain the existing business during the prolong contraction of the industry engaged by the Group.

8. Financial Impacts of the Subscription

Cash flow

As at 30 June 2015, the aggregate balance of bank balances and cash was approximately HK\$322.8 million. Upon Subscription Completion, the liquidity and cash position of the Group will be significantly improved by the net proceeds from the Subscription in approximately of HK\$1.79 billion. Accordingly, the Subscription would bring a positive impact on the cash position of the Group.

Net asset value

As at 30 June 2015, the Group recorded negative unaudited NAV of approximately HK\$150.6 million and its negative unaudited NAV per Share was approximately HK\$0.046. Upon the Subscription Completion, the Company would raise net proceeds of approximately HK\$1.79 billion after deducting related professional fees and all related expenses which will be borne by the Company under the Subscription. The Subscription will constitute an increase in cash, by the amount of the net proceeds from the Subscription. Based on the Subscription Monies of approximately HK\$721.2 million and as advised by the Company, the Group's NAV after the issue of Subscription Shares would become positive and increase by roughly such amount after deducting all related expenses borne by the Group. Based on the CB Consideration of approximately HK\$1,086.3 million and the Convertible Bonds consisting of a liability component and an equity component when recognised and advised by the Company, the Group's NAV

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after the issue of the Convertible Bonds will be improved as a result of the allocation of equity component. It is noted that the allocation of liability and equity components could not be ascertained at the current stage, until reliable estimations of the Convertible Bonds' values could be made at the issue date of the Convertible Bonds. In light, the NAV and NAV per Share will be improved after the Subscription Completion, which is beneficial to the Company and the Independent Shareholders

In the event that the conversion rights attaching to the Convertible Bonds are to be exercised, it will constitute an increase in the Group's total equity, with the value of the Convertible Shares being converted at Initial Conversion Price deducted by the relevant amount of Convertible Bonds, and simultaneously a decrease in the Group's liabilities. Therefore, the Group's NAV is expected to be increased in such event. However, it is also advised that the exact results of financial impacts to the Group's NAV per Share could not be ascertained until reliable estimations have been made on the exact number of Shares to be issued and the value of the Convertible Bonds to be converted, upon exercise of the conversion rights attaching to the Convertible Bonds. Upon full exercise of the conversion rights attached to the Convertible Bonds, we are advised by the Company that the Group's net asset value per Share are estimated to be decreased accordingly but still with positive value.

Liquidity

As at 30 June 2015, the aggregated cash and cash equivalents of the Group was approximately HK\$322.8 million. Upon the Subscription Completion, the Company would raise net proceeds of approximately HK\$1.79 billion after deducting related professional fees and all related expenses which will be borne by the Company under the Subscription. The cash and cash equivalents of the Group is expected to increase to approximately HK\$2.11 billion, as advised by the Company, the Convertible Bonds will be treated as non-current liabilities and hence the current liabilities position will remain unchanged. As such, the net current assets and current ratio of the Company will be improved accordingly.

Gearing

As at 30 June 2015, the Group had total equity of approximately HK\$229.4 million and the net debts of approximately HK\$8.59 billion. Net debt of the Group includes total interest-bearing bank and other borrowings less cash and cash equivalents plus pledged deposits. The gearing ratio of the Group, being the ratio of net debts to total equity, was approximately 3,744.8% as at the same date. Upon the Subscription Completion, the Company would raise net proceeds of approximately HK\$1.79 billion after deducting related professional fees and all related expenses which will be borne by the Company under the Subscription. The cash and cash equivalents of the Group is expected to increase to approximately HK\$2.11 billion. As stated in the foregoing, the Convertible Bonds will constitute a liability component and equity component in the consolidated financial statements of the Group.

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As the allocation of liability and equity components could not be ascertained at the current stage, the extent of the impact on gearing level of the Group could not be ascertained. However, on one hand, the increase of liability component of the Convertible Bonds will be offset by the increase in cash under the Subscription; on the other hand, the equity component of the Subscription will improve the total equity of the Group, which in turn improve the gearing level of the Group as a whole.

Earnings

It is advised by the Company that the Subscription would not have material adverse effect to the earnings of the Group immediately upon Subscription Completion. However, immediately upon completion of the Subscription and assuming no conversion of the Convertible Bonds during its tenure, the Convertible Bonds would charge an interest expense to the Company at the rate of 0.01% per annum on the outstanding principal amount of the Convertible Bonds. In addition, for the subsequent reporting periods, we are advised by the Directors that the liability portion of the Convertible Bonds will be carried at amortised cost using effective interest method, and the effective interest expenses of the Convertible Bonds will be charged to the Group's consolidated statement of profit or loss and other comprehensive income subsequent to the Subscription Completion until the conversion of the Convertible Bonds in full or at the maturity date of the Convertible Bonds. As the carrying amounts of the Convertible Bonds on initial recognition will be recorded at its initial value, no gain or loss arises from the initial recognition to the components of the Convertible Bonds. Save for the re-measurement of the fair value of the liability component of the Convertible Bonds at the end of each financial year, no other gain or loss will be recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

In the event that the conversion rights attaching to the Convertible Bonds are to be exercised, we are advised by the Directors that there may have immaterial financial impacts to the Group's consolidated statement of profit or loss and other comprehensive income due to the difference between the fair value and the carrying value in the liability component of the Convertible Bonds being converted. However, it is noted that the Group's earnings per Share will be negatively affected, due to the increase in the number of issued Shares, upon exercise of the conversion rights attaching to the Convertible Bonds.

Based on the above analysis, having considered that the Subscription would improve the cash flow, net asset value, the liquidity and gearing ratio of the Group, we are of the view that the Subscription will bring an overall positive effect to the Group's financial position and hence the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders. However, we would also like to draw the attention of the Independent Shareholders on the qualified opinion, emphasis of matter and disclaimer of opinion issued by the independent auditors of the Group on its consolidated financial statements for FY2013 and FY2014, which set out certain matters that may have an adverse effect on the Group's net assets and consequently net loss for the year then ended, including among others, impairment of non-current assets, entering

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into of financial guarantee contracts, provision of inventory losses, ownership of certain inventories, assessment on prepayment and other receivable, confirmation on account payables, potential penalties of litigations and impairment of investments in subsidiaries and amounts due from subsidiaries. It is noted that any adjustments found to be necessary in respect of the carrying amount of the abovementioned matters would have a significant effect on the Group's financial position, which have not been ascertained as at the Latest Practicable Date. Therefore, Independent Shareholders should note that the aforesaid analyses on the financial impacts of the Subscription do not take into consideration of the qualified opinion, emphasis of matter and disclaimer of opinion issued by the independent auditors of the Group and are for illustrative purpose only and do not purport to represent the financial positions of the Group upon the Subscription Completion.

9. Alternative Methods to Raise Funds

We have also evaluated other alternative fund raising methods for the Group to raise substantial amount of financing, and are of the view that the Subscription is a relatively more realistic financing method in light of the following key considerations:

- (i) for debt financing through bank borrowings, it is noted that commercial banks typically consider the ability of the potential borrower to repay the loan, including its financial performance, cash inflow, size of the loan and collateral availability, when assessing whether or not to grant a loan. Since the Group has incurred substantial net losses and net current liabilities for FY2013, FY2014 and as of 30 June 2015, the overall gearing of the Group is relatively high (as discussed in the above section). Therefore, we consider that the Group is in a relatively weak position to secure debt financing through bank borrowings. In addition, given the relatively weak and deteriorating financial health of the Group, we also consider that debt financing through bank borrowings, if any, would result in substantial interest expenses being incurred and hence, impose additional financial burden to the Group's future cash flows. In view of above, we consider that fund raising by way of the Subscription which may help improve the Group's gearing position is an appropriate financing method.
- (ii) as mentioned above, the average closing price and average daily trading volume of the Shares for the Pre-Announcement Period was only HK\$0.285 per Share and approximately 10,092,813 Shares, respectively. Given the thin liquidity of the Shares and the weak financial position of the Group before the June Announcement, the Group considers it to be challenging to find a placing agent and/or underwriter to conduct a share or convertible bond placement to raise funds. Even if the Group could engage a placing agent and/or underwriter to carry out such a placement, it would be difficult to raise any substantial amount of funds as comparable to the Subscription given the low closing price and thin liquidity of the Shares before the June Announcement and the financial difficulties of the Group.

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- (iii) in relation to the viability of a rights issue or an open offer, we consider that even though these would allow the Independent Shareholders a chance to maintain their respective pro-rata shareholdings and strengthen the capital base of the Group, such fund raising exercises would require the Group to procure an underwriter. Due to the thin liquidity of the Shares, the weak financial position of the Group and the relatively longer time to carry out rights issue or open offer as compared with the Subscription, the Group considers it to be relatively difficult to find an underwriter to conduct a rights issue or an open offer.

We therefore consider that the Group has limited options or ability to raise financing through conventional debt or equity fund raising. We also consider that it is a sensible consideration to make reference to the then financial position of the Group in order to decide on financing method for the future development of the Group. The Board is of the view that the Subscription is the most appropriate mean of raising additional capital as (i) it is more practicable and direct under a volatile market and the uncertain corn-based refinery business conditions currently prevailing; and (ii) it is less costly and minimal interest burden will be imposed given that the Company is only required to pay interest to the Subscriber for the Convertible Bonds at a rate of 0.01% per annum on the outstanding principal.

10. Potential cooperation and synergy with the Subscriber

Jiaotou is a State-owned enterprise in Jilin Province in the PRC which is principally engaged in investment and development of transportation infrastructure, agriculture, culture and logistics projects with total assets of approximately RMB28 billion as of 31 December 2014. As a State-owned investment company, Jiaotou is not only simply maximising economic benefit which can be generated from a particular project, but also considering the social benefit which may contribute to the general public or the economy as a whole. Since its inception, Jiaotou has been participating and investing in certain railroad projects in Jilin Province and further expanded into certain agriculture projects in the area.

Taking into account that (i) the Group is one of the leading players in the agricultural processing industry and a major amino acid products manufacturer in Jilin Province; (ii) its strategic location in Changchun where massive of corn and corn refined products are supplied; and (iii) its possession of advanced technology and R&D achievement in the corn refinery sector, Jiaotou is of the view that the Group has a strong base in the industry with inherited investment value even though the Group has incurred an enormous financial burden in recent years. From a socio-economic perspective, the Subscription by Jiaotou, under the support of the local provincial government, will help prevent the decline of the production capability of corn refinery sector in Jilin Province, a traditional business well developed in the province or avoid a shortage of corn refined products, which subsequently may uplift the price of corn refined products, should the Group was unfortunately close down. It is the intention of Jiaotou to re-vitalize the business and operation of the Group by way of the Subscription.

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in a controlling shareholder which has investment experience in agricultural sector, and an extensive business and governmental network in the PRC. The

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Directors consider that entering into the Subscription Agreement will strengthen the financial position of the Group, further raise the profile of the Group in the Jilin Province, and allow the Group to benefit from the strong support and resources of the Subscriber and its parent company, Jiaotou, including but not limited to its network of both business, financial and governmental sectors.

We are of the view that the Subscription will also lead to synergistic effects between the Group and the Subscriber with potential opportunities in the following areas related to the business of the Group:

- (i) in the long term, the Subscription, enabling Jiaotou as the controlling shareholder of the Group, will allow the Company to regain its financial flexibility for the Group's future financing activities, including but not limited to, facilitating low-cost financing arrangements, guarantees, loans, line of credits or other financing measures to strengthen the credit of the Group and assisting the Group to broaden its financing channels;
- (ii) the Subscriber and the Group can strategically align and share market information and intelligent of the agriculture processing industry;
- (iii) the Group can capture more prospective investment opportunities by leveraging on the Subscriber's investment experience and extensive network as and when they arise; and
- (iv) The Subscriber can leverage on the fund raising capability of the Group and its subsidiary, GSH, as listed platforms are considered achieving a stronger fund raising capability with more fund raising alternatives when compared with unlisted vehicles, which will allow the Group to facilitate any future business expansion and to capture any possible future merger and acquisition opportunity in a more efficient and effective manner.

Independent Shareholders should however note that no definitive proposals, terms or timetable have been determined for any such possible synergistic effect between the Group and the Subscriber and the above analyses are for illustrative purpose only and do not purport to represent the possible synergistic effects will be materialised upon the Subscription Completion.

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11. Potential dilution to the shareholding of the Shareholders

As referred to the Letter from the Board and for illustration purpose only, the effect of the Subscription on the shareholding structure of the Company immediately upon (i) completion of the Subscription; (ii) full conversion of the Convertible Bonds at the Initial Conversion Price; (iii) full exercise of the subscription rights attaching to the Outstanding Options; and (iv) conversion of the Convertible Bonds to extent that the Public Float Requirement shall be met immediately upon such conversion, (assuming there is no other change in the issued share capital of the Company) is as follows:

Shareholders	As at the Latest Practicable Date (No. of Shares)	Assuming (i) completion of the Subscription (ii) no conversion of the Convertible Bonds; and (iii) full exercise of the subscription rights attaching to the Outstanding Options were not exercised at all			Assuming (i) completion of the Subscription (ii) full conversion of the Convertible Bonds; and (iii) full exercise of the subscription rights attaching to the Outstanding Options were not exercised at all			Assuming (i) completion of the Subscription; (ii) conversion of the Convertible Bonds to the extent that the Public Float Requirement shall be met immediately after such conversion; and (iii) the exercise of the subscription rights attaching to the Outstanding Options were not exercised at all				
		(No. of Shares)	(%)	(No. of Shares)	(No. of Shares)	(%)	(No. of Shares)	(%)	(No. of Shares)	(%)	(No. of Shares)	(%)
Subscriber and its concert parties including but not limited to the Proposed New LPs	—	48.98	3,135,509,196	49.00	7,858,463,827	70.64	7,858,463,827	70.66	6,688,702,992	67.19	6,691,802,992	67.22
Director(s):												
Mr. Liu Xiaoming (Note 1)	508,138,400	15.57	508,138,400	7.94	508,138,400	4.56	508,138,400	4.56	508,138,400	5.10	508,138,400	5.10
Ms. Xu Ziyi (Note 2)	5,646,000	0.17	5,646,000	0.09	5,646,000	0.05	5,646,000	0.05	5,646,000	0.06	5,646,000	0.06
Mr. Ji Jianping (Note 3)	660,000	0.02	660,000	0.01	660,000	0.01	660,000	0.01	660,000	0.01	660,000	0.01
Mr. Cheung Chak Fung	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00	1,325	0.00
Other connected person(s):												
Mr. Kong Zhiheng (Note 4)	260,176,000	7.97	260,176,000	4.07	260,176,000	2.34	260,176,000	2.34	260,176,000	2.61	260,176,000	2.61
Mr. Nie Zhiguo (Note 5)	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00	44,400	0.00
Public:												
Grantees of Outstanding Options (Note 6 and 7)	—	—	3,100,000	—	3,100,000	0.03	—	—	3,100,000	0.03	—	—
Other public Shareholders	2,488,823,039	76.26	2,488,823,039	38.88	2,488,823,039	22.37	2,488,823,039	22.38	2,488,823,039	25.00	2,488,823,039	25.00
Total	3,265,489,164	100.00	6,402,098,360	100.00	11,125,052,991	100.00	11,121,952,991	100.00	9,955,292,156	100.00	9,955,292,156	100.00

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Notes:

1. Among these Shares, 489,048,000 of which are held by LXM Limited, the entire issued capital of which is owned by Mr. Liu Xiaoming.
2. Among these interests, 5,576,000 Shares are held by Ms. Xu Ziyi as beneficial owner, and 70,000 Shares are held by the personal representative of the late spouse of Ms. Xu Zuyi.
3. Among these shares, 280,000 of which are held by Mr. Ji Jianping as beneficially owner and 380,000 of which are held by Mr. Ji Jianping as beneficiary under the trust, The Bright Balance Unit Trust.
4. Mr. Kong Zhanpeng is a connected person of the Company by virtue of him being an executive director of GSH. Among these Shares, 241,920,000 of which are held by Hartington Profits Limited, the entire issued capital of which is owned by Mr. Kong Zhanpeng.
5. Mr. Nie Zhiguo is a connected person of the Company by virtue of him being an executive director of GSH. Among these Shares, 28,400 of which are held by Mr. Nie Zhiguo as beneficial owner and 16,000 of which are held by Mr. Nie Zhiguo as beneficiary under the trust, The Bright Balance Unit Trust.
6. None of these grantees of the Outstanding Options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates or parties acting in concert with the Subscriber.
7. Under the Share Option Scheme, the exercise price of the Outstanding Options will not be subject to any adjustment as a result of the issue of the Subscription Shares and the Convertible Bonds.

Assuming completion of the Subscription and upon the allotment and issue of the Subscription Shares and the Convertible Bonds to the Subscriber, the shareholding of the Shares held by existing public Shareholders (excluding the Subscriber) would be diluted from 76.26% to (i) approximately 38.88% (assuming no conversion of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were exercised in full); (ii) approximately 38.89% (assuming no conversion of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were not exercised at all); (iii) approximately 22.37% (assuming full conversion of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were exercised in full); (iv) approximately 22.38% (assuming full conversion of the Convertible Bonds and the subscription rights attaching to the Outstanding Options were not exercised at all); (v) approximately 25.00% (assuming conversion of the Convertible Bonds to extent that the Public Float Requirement shall be met immediately after such conversion and the subscription rights attaching to the Outstanding Options were exercised in full); and (vi) approximately 25.00% (assuming conversion of the Convertible Bonds to extent that the Public Float Requirement shall be met immediately after such conversion and the subscription rights attaching to the Outstanding Options were not exercised at all).

Upon the full conversion of Convertible Bonds, the public float of the Company may fall below the minimum 25% threshold as requested under Rule 8.08(1)(a) of the Listing Rules. Under the terms of the Convertible Bonds, the Company's obligation to effect conversion of fully paid Convertible Bonds into Conversion Shares shall be subject to the Company's

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compliance with the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules. In the event the Convertible Bonds are held by more than one holder and the headroom for conversion by the Company is insufficient to enable all of such Convertible Bonds be converted in one batch, the Convertible Bonds held by the relevant holders shall be converted by the Company on a pro-rata basis. The Company will ensure its compliance with the public float requirements under the Listing Rules at all times.

We note that the shareholding interest of the existing Public Shareholders is subject to dilution of the aforementioned extents as a result of the Subscription. However, with considerations of (i) shareholding interest of the existing public Shareholders will be diluted upon completion of the Subscription by 53.89% (from 76.26% to 22.37%), of which the dilution was slightly higher than the average of, but within the range of the Comparable Share Issues. Please refer to the table set out in the paragraph headed “Comparable share issues” under the section headed “6. Fairness and reasonableness of the Subscription Price and Initial Conversion Price” for more information; (ii) the continuing loss making position of the Group since the year ended 31 December 2012; (iii) the need of funding to the working capital and daily operations of the Group; (iv) the possibility of the Group to use the proceeds for seeking future possible new business; (v) the Subscription enabling the Company to benefit from long-term development and broadening the Company’s equity base, offering a good opportunity to raise additional funds to strengthen the financial position and enhancing its existing business operations; and (vi) the positive impact on the Group’s liquidity, gearing position and net asset value as discussed below, we consider that the possible dilution effect on the shareholding interests of the other public Shareholders is acceptable.

II. WHITEWASH WAIVER

Upon the Subscription Completion, the interests of the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, together are interested in 49.0% of the enlarged issued share capital of the Company (assuming that there is no conversion of any Convertible Bonds, no exercise of the subscription rights attaching to the Outstanding Options or no change in the issued share capital of the Company other than the issue of the Subscription Shares). Upon full conversion of the Convertible Bonds at the Initial Conversion Price, the Subscriber will in aggregate be interested in 7,858,463,827 Shares, representing 70.66% of the Shares as enlarged by the Subscription Shares and the Conversion Shares. Under Rule 26 of the Takeovers Code, the acquisition of voting rights from less than 30% to 30% or more will trigger an obligation on the Subscriber to make a general offer for all the securities of the Company, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM by way of poll. In this regard, the Subscriber have made an application to the Executive for the Whitewash Waiver in respect of the non-compliance with Rule 26.1 of the Takeovers Code for the obligation of making a mandatory general offer to the Shareholders. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll. The granting by the Executive of the Whitewash Waiver and the approval of the same by the Independent Shareholders at the EGM are parts of the conditions of the Subscription which cannot be waived. In the event the Whitewash

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Waiver is not granted or not approved by the Independent Shareholders and that the Subscriber would be obliged to make a mandatory general offer to the Shareholders and other securities holders of the Company for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and the parties acting in concert with it, including but not limited to the Proposed New LPs, the Subscription will not proceed.

The completion of the Subscription is conditional upon, among other matters, the grant of the Whitewash Waiver by the Executive and the approval of the Independent Shareholders at the EGM. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved at the EGM, the Subscription will not proceed.

Despite the dilution effect on the shareholdings of the public Shareholders in the Company as a result of the Subscription, taking into account that (i) the Group would use the proceeds to general working capital of the Group, business development and relocation; (ii) the Subscription will benefit the Company's long-term development and broaden the Company's equity base, offer a good opportunity to raise additional funds to strengthen the financial position, and enhance its existing business operations and will further enable it to make investments in new acquisitions or business ventures when suitable opportunities arise in the future; and (iii) the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders; we consider that the grant of the Whitewash Waiver (the granting of which being one of the conditions precedent to the completion of the Subscription) is fair and reasonable, and in the interests of the Company and the Independent Shareholders.

OPINION AND RECOMMENDATION

We note that the lysine and corn sweeteners business segments remain difficult and there is no sign of recovery yet. Based on the financial results for the Past Three Fiscal Years and the 6-Month 2015, we also note that the Group has incurred substantial losses during the period under review. The financial performance of the Group is deteriorating and the outstanding short term bank loans of approximately HK\$6.5 billion will fall due in 2015 or on demand if the renewal of the bank loans is not complete before they fall due. In the absence of the Subscription, the Group is likely to become insolvent.

Based on the existing financial conditions of the Group as explained above, we note that the Subscriber, whose ultimate investors are State-owned enterprises and have an extensive investment experience in the agricultural sector and governmental network in the PRC. As at the Latest Practicable Date, the Subscriber does not have a concrete business plan for the future development of the Group, but has promised to formulate a plan after the formal appointment of the new proposed Directors after the Subscription Completion.

Although (i) the Subscription Price and the Conversion Price under the Subscription are mostly below the Share price during the Review Period; (ii) the completion of the Subscription and the full conversion of the Convertible Bonds would impose a massive dilution on the shareholding interest of the existing Shareholders; (iii) the indemnities undertaken by the Group to pay to the

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Subscriber on demand equal to all losses relating to certain contingent liabilities as stated in the Subscription Agreement, the Subscription enables the Group to raise additional funds for the Company to improve its financial position and liquidity of the Group and meet its ongoing working capital requirement. In addition, the Subscription provides an opportunity to the Group with time to carry on its negotiation with the local government for the compensation and discussion with the banks for the renewal of bank loans. In a long term, the Subscription may provide a financial flexibility to the Group for further fund raising activities or capture any new prospective investment opportunity leveraging on the Subscriber's investment experience and network.

Having considered all factors discussed above, on balance, we are of the view that the terms of the Subscription and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders. As such, we also consider the grant of the Specific Mandate and the Share Capital Increase to be fair and reasonable and in the interests of the Company and the Independent Shareholders.

Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and transactions contemplated thereunder, the Specific Mandate, the Share Capital Increase and the Whitewash Waiver.

Yours faithfully,

For and on behalf of

NEW SPRING CAPITAL LIMITED

Keith Tsang
Managing Director

Paul Lui
Managing Director

Tina Tian
Director

Note: Mr. Keith Tsang, Mr. Paul Lui and Ms. Tina Tian are licensed persons registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and have over 18 years, 18 years and 8 years of experience in corporate finance industry respectively.

[#] In this letter, the translated English names of the Chinese entities, if those entities do not have an official names in English, are unofficial translation for identification purposes only, and in the event of any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the consolidated results and financial information of the Group for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, details of which were extracted from the annual reports of the Company for each of the years ended 31 December 2012, 2013 and 2014 and the interim report of the Company for the six months ended 30 June 2015.

Consolidated Statement of profit or loss and other comprehensive income

	For the six months ended 30 June		For the year ended 31 December	
	2015	2014	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)
CONTINUING OPERATIONS				
REVENUE	1,585,972	6,399,205	9,686,643	11,908,082
Cost of sales	<u>(1,755,929)</u>	<u>(7,288,927)</u>	<u>(10,587,530)</u>	<u>(10,376,091)</u>
Gross loss	(169,957)	(889,722)	(900,887)	1,531,991
Other income and gains	41,510	426,090	588,049	107,237
Selling and distribution expenses	(111,181)	(551,339)	(762,459)	(770,380)
Administrative expenses	(362,682)	(836,170)	(717,477)	(458,799)
Other expenses	(135,461)	(1,233,409)	(3,520,221)	(367,371)
Finance costs	(291,048)	(628,318)	(673,399)	(585,295)
Share of losses of joint ventures	—	—	—	(1,324)
Share of losses of associates	—	—	(27,899)	(9,346)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(1,028,819)	(3,712,868)	(6,014,293)	(553,287)
Income tax expense	<u>(1,749)</u>	<u>(58,067)</u>	<u>(222,584)</u>	<u>(11,062)</u>
LOSS FOR THE PERIOD/YEAR FROM CONTINUING OPERATIONS	(1,030,568)	(3,770,935)	(6,236,877)	(564,349)
DISCONTINUED OPERATION				
Loss for the period/year from a discontinued operation	<u>—</u>	<u>—</u>	<u>(5,397)</u>	<u>(119,819)</u>
LOSS FOR THE PERIOD/YEAR	<u>(1,030,568)</u>	<u>(3,770,935)</u>	<u>(6,242,274)</u>	<u>(684,168)</u>

	For the six months ended		For the year ended 31 December	
	30 June	2014	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)
OTHER COMPREHENSIVE INCOME				
FOR THE PERIOD/YEAR, NET OF TAX	<u>(5,147)</u>	<u>(66,083)</u>	<u>97,340</u>	<u>134,342</u>
TOTAL COMPREHENSIVE LOSS				
FOR THE PERIOD/YEAR	<u>(1,035,715)</u>	<u>(3,837,018)</u>	<u>(6,144,934)</u>	<u>(549,826)</u>
LOSS ATTRIBUTABLE TO:				
Owners of the parent	(970,600)	(3,371,388)	(6,081,097)	(554,508)
Non-controlling interests	<u>(59,968)</u>	<u>(399,547)</u>	<u>(161,177)</u>	<u>(129,660)</u>
	<u>(1,030,568)</u>	<u>(3,770,935)</u>	<u>(6,242,274)</u>	<u>(684,168)</u>
TOTAL COMPREHENSIVE LOSS				
ATTRIBUTABLE TO:				
Owners of the parent	(975,747)	(3,430,332)	(6,003,018)	(438,659)
Non-controlling interests	<u>(59,968)</u>	<u>(406,686)</u>	<u>(141,916)</u>	<u>(111,167)</u>
	<u>(1,035,715)</u>	<u>(3,837,018)</u>	<u>(6,144,934)</u>	<u>(549,826)</u>
LOSS PER SHARE ATTRIBUTABLE TO				
ORDINARY EQUITY HOLDERS				
OF THE PARENT				
Basic				
— For loss for the period/year	<u>HK\$(0.30)</u>	<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>	<u>HK\$(0.17)</u>
— For loss from continuing operations	<u>HK\$(0.30)</u>	<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>	<u>HK\$(0.15)</u>
Diluted				
— For loss for the period/year	<u>HK\$(0.30)</u>	<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>	<u>HK\$(0.17)</u>
— For loss from continuing operations	<u>HK\$(0.30)</u>	<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>	<u>HK\$(0.15)</u>

Save for the financial statements of the Group for the year ended 31 December 2013 and 2014 whereby the auditors of the Company have issued qualified opinion and disclaimer opinion respectively as extracted below, the auditors of the Company for each of the years ended 31 December 2012, 2013 and 2014 did not issue any qualified opinion on the financial statements of the Group for each of the years ended 31 December 2012, 2013 and 2014. The Group did not have any items which are exceptional because of size, nature or incidence for each of the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015. There was no payment of dividends by the Company for each of the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015. Hence dividends per share of the Company for each of the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015 was inapplicable.

Consolidated financial statements of the Group for the year ended 31 December 2014

In relation to the consolidated financial statements of the Group for the year ended 31 December 2014, due to the matters described below in the below paragraph headed “Extracts from Independent Auditor’s Report”, the auditors of the Company has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, the auditors of the Company did not express an opinion on the consolidated financial statements for the year ended 31 December 2014 as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group’s loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Extracts from Independent Auditor’s Report

The following is the extract of the independent auditor’s report from Ernst & Young, the external auditors of the Company, on the Group’s consolidated financial statements for the year ended 31 December 2014:

“Basis for Disclaimer of Opinion

Impairment of non-current assets

As at 31 December 2014, the Group had an aggregate amount of non-current assets of HK\$8,200 million, included within its total non-current assets of HK\$9,577 million, which comprised property, plant and equipment of HK\$7,568 million (net of depreciation and impairment), prepaid land lease payments of HK\$520 million, deposits paid for the acquisition of property, plant and equipment and prepaid land lease payments of HK\$4 million, goodwill of HK\$106 million, and intangible assets of HK\$2 million. In view of the losses sustained by the Group, the management should have performed an impairment assessment on these assets in accordance with Hong Kong Accounting Standard (“HKAS”) 36: *Impairment of Assets* issued by the Hong Kong Institute of Certified Public Accountants to ascertain whether these

assets have been impaired. The management has not performed an impairment assessment on these assets as at 31 December 2014. We are unable to ascertain whether these assets have been impaired as at 31 December 2014.

Financial guarantee contracts

During the course of our audit, we identified that the Group and the Company had issued guarantees to banks in connection with facilities granted to a major supplier which amounted to RMB3 billion at 31 December 2010, 2011 and 2012, RMB3.35 billion as at 31 December 2013 and RMB2.85 billion as at 31 December 2014. These financial guarantee contracts were not recognised in the Group's and the Company's financial statements. As the management has not assessed the fair value of these guarantees, as required by HKAS 39 *Financial Instruments: Recognition and Measurement* issued by the Hong Kong Institute of Certified Public Accountants, we are unable to quantify the impact of this departure on the financial statements.

As at 31 December 2014, the Company recognised financial guarantee contracts of HK\$706 million in respect of the financial guarantees granted to banks in connection with facilities granted to the Company's subsidiaries. The amounts of such financial liability contracts included in the statement of financial position of the Company were carried forward from the balance as at 1 January 2014 without re-measurement at 31 December 2014, as is required by HKAS 39 *Financial Instruments: Recognition and Measurement*. Had these financial guarantee contracts been remeasured in the current year, the amount of the financial liability recorded in the statement of financial position of the Company would have been materially affected. It is not practicable to quantify the financial effect of not remeasuring the financial guarantees at 31 December 2014.

Inventory losses

As disclosed in note 6 to the financial statements, for the year ended 31 December 2014, the Group recorded the following (i) in cost of sales a loss of HK\$223 million for the disposal of certain corn kernels with deteriorated quality; (ii) in cost of sales a provision of HK\$32 million against certain corn kernels with significant reduction in production yield; and (iii) in other expenses a stock loss amounting to HK\$30 million arising from coal being scrapped. We have not been provided with sufficient supporting documents for these transactions and we are unable to ascertain whether these transactions recorded in the consolidated statement of profit or losses were fairly stated. Any adjustments found to be necessary would have an effect on the Group's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Inventories

Included in the Group's inventories balance as at 31 December 2014 were corn kernels of HK\$39 million and coal of HK\$31 million, which were kept at locations outside of the Group's premises. We were unable to perform effective audit procedures and to obtain

sufficient appropriate audit evidence to verify the ownership of these inventories. Any adjustments found to be necessary would have an effect on the Group's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Prepayment and other receivable

Included in the Group's prepayment, deposit and other receivable balance as at 31 December 2014 was an outstanding prepayment made to and other receivable from a major supplier for the purchases of corn kernels with a total amount of HK\$793 million. Included in this amount, HK\$628 million arose from the return of certain corn kernels to the supplier recorded by the Group during the year. We have not been provided with sufficient supporting documents for the inventories returned to the supplier and we are unable to ascertain whether the sales return was fairly stated. Furthermore, we were unable to obtain sufficient audit evidence to verify the nature of the balance and the recoverability of the outstanding balance due from the supplier. Any adjustments found to be necessary would have an effect on the Group's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Accounts payable

Included in the Group's trade and bills payables balance as at 31 December 2014 were aggregate accounts payable of HK\$2,001 million. We were unable to obtain adequate confirmation responses up to the date of our report. Any adjustment to the accounts payable balances found to be necessary should our circularization procedures have been satisfactorily completed would have an effect on the Group's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Impairment of non-current assets

As at 31 December 2014, an aggregate amount of non-current assets amounting to HK\$9,577 million which of comprised property, plant and equipment of HK\$8,762 million (net of depreciation and impairment), prepaid land lease payments of HK\$697 million, deposits paid for the acquisition of property, plant and equipment and prepaid land lease payments of HK\$6 million, goodwill of HK\$106 million, and intangible assets of HK\$6 million were included in the Group's consolidated statement of financial position. Based on the management's assessment of impairment, a provision for impairment losses of HK\$501 million was made in the year ended 31 December 2014. However, due to the continued significant losses sustained by the Group, we were unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the directors' impairment estimation. Any adjustments found to be necessary to the amount provided for the impairment would have an effect on the Group's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Litigation

As explained in note 40 to the consolidated financial statements, the Company and certain subsidiaries of the Group were involved in litigation relating to certain infringed patents. During the year, a judgment was concluded by the court that the Company and these subsidiaries were in violation of an injunction and a penalty was imposed. We have been unable to obtain sufficient appropriate evidence to determine whether adequate provision has been made for the penalty as at 31 December 2014 in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*. Any adjustment found to be necessary would affect the Group's net loss for the year ended 31 December 2014 and the Company's and the Group's net assets as at that date, and the related disclosures in the financial statements. Due to the same limitation of scope, we expressed a qualified opinion in our audit report in respect of the consolidated financial statements of the Group for the prior year ended 31 December 2013 and the Company's statement of financial position as at 31 December 2013.

Impairment of investments in subsidiaries and amounts due from subsidiaries

As at 31 December 2014, the Company had recorded investments in subsidiaries of HK1,219 million and amounts due from subsidiaries of HK\$2,968 million, in the statement of financial position. Due to the significant losses sustained by the subsidiaries during the year, we were unable to obtain sufficient appropriate evidence to assess whether these investments and amounts due from subsidiaries were impaired at 31 December 2014. Any provision for impairment found to be necessary would have an effect on the Company's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the financial statements.

Fundamental uncertainties relating to going concern

As disclosed in note 2.1 to the consolidated financial statements, the Group incurred a net loss of HK\$3,771 million during the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by HK\$5,261 million. These conditions, along with other matters as set forth in note 2.1 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

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 directors of the Company as described in note 2.1. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation and classification of non-current assets and noncurrent liabilities that may be necessary if the Group is unable to continue as a going concern.

We were unable to obtain sufficient appropriate audit evidence regarding the use of going concern assumption in the preparation of these financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated and the company statements of financial position as at 31 December 2014. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

Management's response and remedial measures

In relation to the management response to the auditors' disclaimer opinion and the relevant remedial measures taken and to be taken by the management of the Group, please refer to the paragraph headed "Management's Response to the Independent Auditor's Report and Remedial Measures to be taken" in the Management Discussion and Analysis section of the 2014 annual report of the Company published on 28 April 2015 and the paragraph headed "Update on Remedial Measures" in the interim report of the Company published on 16 September 2015.

Consolidated financial statements of the Group for the year ended 31 December 2013

In relation to the consolidated financial statements of the Group for the year ended 31 December 2013, the opinions of the auditors of the Company on the consolidated financial statements of the Group for the year ended 31 December 2013 were qualified. According to the opinion of the auditors of the Company, except for the possible effects of the matter described in the below paragraph headed "Extracts from Independent Auditor's Report", the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Extracts from Independent Auditor's Report

The following is the extract of the independent auditor's report from Ernst & Young, the external auditors of the Company, on the Group's consolidated financial statements for the year ended 31 December 2013:

“Basis for Qualified Opinion

As explained in note 44 to the consolidated financial statements, the Company and certain subsidiaries of the Group were involved in litigations relating to certain infringed patents. Subsequent to the reporting date, a judgment was concluded by the court that the Company and these subsidiaries were in violation of an injunction and a penalty was imposed. We have been unable to obtain sufficient appropriate evidence to determine whether adequate provision has been made for the penalty as at 31 December 2013 in accordance with Hong Kong Accounting Standard 37 *Provision, Contingent Liabilities and Contingent Assets* issued by the Hong Kong Institute of Certified Accountants (“HKAS 37”). Any adjustment found to be necessary would affect the Group’s statement of profit or loss for the year ended 31 December 2013 and the Company’s and the Group’s statements of financial position as at that date, and the related disclosures in the financial statements.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group’s loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements which indicates that the Group incurred a consolidated net loss of HK\$6,242 million during the year ended 31 December 2013 and, as of that date, the Group’s current liabilities exceeded its current assets by HK\$391 million. These conditions, along with other matters as set forth in note 2.1 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group’s and Company’s ability to continue as a going concern.”

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2014

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2014 as extracted from the annual report of the Company for the year ended 31 December 2014.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
CONTINUING OPERATIONS			
REVENUE	5	6,399,205	9,686,643
Cost of sales		<u>(7,288,927)</u>	<u>(10,587,530)</u>
Gross loss		(889,722)	(900,887)
Other income and gains	5	426,090	588,049
Selling and distribution expenses		(551,339)	(762,459)
Administrative expenses		(836,170)	(717,477)
Other expenses	6	(1,233,409)	(3,520,221)
Finance costs	7	(628,318)	(673,399)
Share of losses of associates		<u>—</u>	<u>(27,899)</u>
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	(3,712,868)	(6,014,293)
Income tax expense	10	<u>(58,067)</u>	<u>(222,584)</u>
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(3,770,935)	(6,236,877)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation		<u>—</u>	<u>(5,397)</u>
LOSS FOR THE YEAR		<u>(3,770,935)</u>	<u>(6,242,274)</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Hong Kong		<u>(66,083)</u>	<u>293,667</u>

		2014	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Deficit on property revaluation		—	(266,072)
Income tax effect		—	69,745
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		—	(196,327)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(66,083)	97,340
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(3,837,018)</u>	<u>(6,144,934)</u>
Loss attributable to:			
Owners of the parent	<i>11</i>	(3,371,388)	(6,081,097)
Non-controlling interests		<u>(399,547)</u>	<u>(161,177)</u>
		<u>(3,770,935)</u>	<u>(6,242,274)</u>
Total comprehensive loss attributable to:			
Owners of the parent		(3,430,332)	(6,003,018)
Non-controlling interests		<u>(406,686)</u>	<u>(141,916)</u>
		<u>(3,837,018)</u>	<u>(6,144,934)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For loss for the year	<i>13</i>	<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>
— For loss from continuing operations		<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>
Diluted			
— For loss for the year	<i>13</i>	<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>
— For loss from continuing operations		<u>HK\$(1.03)</u>	<u>HK\$(1.86)</u>

Details of the proposed dividend (if any) for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	14	8,762,369	9,527,647
Prepaid land lease payments	15	697,351	812,925
Deposits paid for acquisition of property, plant and equipment and prepaid land lease payments		5,907	8,904
Goodwill	16	106,308	344,553
Intangible assets	17	5,424	5,434
Deferred tax assets	30	968	25,153
Investment in an associate	20	—	—
Total non-current assets		<u>9,578,327</u>	<u>10,724,616</u>
CURRENT ASSETS			
Non-current assets held for sale	18	—	759,480
Inventories	21	843,829	3,341,568
Trade and bills receivables	22	581,793	1,419,257
Prepayments, deposits and other receivables	23	1,946,818	952,114
Due from an associate	36	21,320	31,110
Equity investments at fair value through profit or loss	24	35,617	93,581
Derivative financial instruments		—	19,021
Pledged deposits	25	269,909	133,996
Cash and cash equivalents	25	<u>478,780</u>	<u>1,309,997</u>
Total current assets		<u>4,178,066</u>	<u>8,060,124</u>
CURRENT LIABILITIES			
Trade and bills payables	26	2,001,091	2,225,258
Other payables and accruals	27	1,246,304	1,063,113
Interest-bearing bank borrowings	28	6,008,438	4,954,609
Bonds		—	44,483
Tax payable		<u>182,813</u>	<u>164,145</u>
Total current liabilities		<u>9,438,646</u>	<u>8,451,608</u>
NET CURRENT LIABILITIES		<u>(5,260,580)</u>	<u>(391,484)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,317,747</u>	<u>10,333,132</u>

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,317,747</u>	<u>10,333,132</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	2,682,488	4,798,173
Deferred tax liabilities	30	231,365	230,304
Deferred income	29	<u>146,004</u>	<u>209,747</u>
Total non-current liabilities		<u>3,059,857</u>	<u>5,238,224</u>
Net assets		<u>1,257,890</u>	<u>5,094,908</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	326,349	326,349
Reserves	33(a)	<u>495,957</u>	<u>3,926,289</u>
		822,306	4,252,638
Non-controlling interests		<u>435,584</u>	<u>842,270</u>
Total equity		<u>1,257,890</u>	<u>5,094,908</u>

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent												
	Notes	Share	Share	Asset	Other	Statutory	Exchange	Retained	Put option	Total	Non-	Total	
		Issued	premium	option		revaluation	reserve		fluctuation				profits
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2013		326,349	2,431,853	20,138	620,906	142,987	346,179	1,606,326	4,889,717	(714,286)	9,670,169	1,568,007	11,238,176
Loss for the year		—	—	—	—	—	—	—	(6,081,097)	—	(6,081,097)	(161,177)	(6,242,274)
Other comprehensive income													
for the year:													
Deficit on property													
revaluation		—	—	—	(191,029)	—	—	—	—	—	(191,029)	(5,298)	(196,327)
Exchange differences													
on translation of													
financial statements													
of operations outside													
Hong Kong		—	—	—	—	—	—	269,108	—	—	269,108	24,559	293,667
Total comprehensive loss													
for the year		—	—	—	(191,029)	—	—	269,108	(6,081,097)	—	(6,003,018)	(141,916)	(6,144,934)
Transfer of share option													
reserve upon the forfeiture													
of share options of													
a subsidiary		—	—	(3,540)	—	—	—	—	3,540	—	—	—	—
Transfer of share option													
reserve upon the forfeiture													
of share options	32	—	—	(525)	—	—	—	—	525	—	—	—	—
Control obtained over													
an associate		—	—	—	—	—	—	(1,489)	—	—	(1,489)	—	(1,489)
Acquisition of non-controlling													
interests		—	—	—	—	(127,310)	—	—	—	714,286	586,976	(586,976)	—
Acquisition of a subsidiary		—	—	—	—	—	—	—	—	—	—	3,155	3,155
Transfer from retained profits	33(a)	—	—	—	—	—	3,368	—	(3,368)	—	—	—	—
At 31 December 2013		326,349	2,431,853*	16,073*	429,877*	15,677*	349,547*	1,873,945*	(1,190,683)*	—	4,252,638	842,270	5,094,908

	Attributable to owners of the parent											
	Notes	Issued capital	Share premium account	Share option reserve	Asset revaluation reserve	Other reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014		326,349	2,431,853	16,073	429,877	15,677	349,547	1,873,945	(1,190,683)	4,252,638	842,270	5,094,908
Loss for the year		—	—	—	—	—	—	—	(3,371,388)	(3,371,388)	(399,547)	(3,770,935)
Other comprehensive income for the year:												
Exchange differences on translation of financial statements of operations outside Hong Kong		—	—	—	—	—	—	(58,944)	—	(58,944)	(7,139)	(66,083)
Total comprehensive loss for the year		—	—	—	—	—	—	(58,944)	(3,371,388)	(3,430,332)	(406,686)	(3,837,018)
Transfer of share option reserve upon the forfeiture of share options	32	—	—	(295)	—	—	—	—	295	—	—	—
Transfer from retained profits	33(a)	—	—	—	—	—	2,328	—	(2,328)	—	—	—
At 31 December 2014		<u>326,349</u>	<u>2,431,853*</u>	<u>15,778*</u>	<u>429,877*</u>	<u>15,677*</u>	<u>351,875*</u>	<u>1,815,001*</u>	<u>(4,564,104)*</u>	<u>822,306</u>	<u>435,584</u>	<u>1,257,890</u>

* These reserve accounts comprise the consolidated reserves of HK\$495,957,000 (2013: HK\$3,926,289,000) in the consolidated statement of financial position as at 31 December 2014.

Consolidated Statement of Cash Flows*Year ended 31 December 2014*

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax			
From continuing operations		(3,712,868)	(6,014,293)
From a discontinued operation		—	(5,397)
Adjustments for:			
Finance costs	7	628,318	673,399
Gain on exercise of a put option by non-controlling interests	5	—	(187,500)
Gain on bargain purchase	5	—	(1,215)
Bank interest income	5	(6,973)	(4,384)
Loss/(gain) on disposal of items of property, plant and equipment	6	1,170	(13,603)
Gain on disposal of prepaid land lease payments	5	(37,884)	(55,485)
Gain on resumption of land, property, plant and equipment	5	(256,863)	(186,298)
Exchange loss on exercise of a put option by non-controlling interests	6	—	35,714
Depreciation	14	596,599	818,857
Amortisation of prepaid land lease payments	15	24,701	23,987
Impairment of property, plant and equipment	14	262,633	3,195,337
Impairment of intangible assets	17	—	21,342
Impairment of goodwill	16	238,245	3,875
Impairment of deposits paid for acquisition of property, plant and equipment and prepaid land lease payments	6	39,032	176,685
Impairment of other receivables	6	260,216	13,960
Provision/(write-back) for impairment of trade receivables	6	266,018	(76,920)
Loss on scraped raw materials	6	120,298	—
Write-down of inventories to net realisable value	6	515,103	626,046
Amortisation of deferred income	29	(8,637)	(8,637)
Amortisation of intangible assets	17	4	3,059
Share of losses of an associate		—	27,899
Fair value (gains)/losses, net:			
— Derivative financial instruments	5	4,800	(27,374)
— Equity investments at fair value through profit or loss	5	(1,527)	(1,483)
— Bonds	5	327	(699)
— Long term receivables	5	—	(20,840)
— Investment in an associate	6	—	44,547
Exchange differences reclassified from reserves when the associate became a subsidiary	5	—	(1,489)
		<u>(1,067,288)</u>	<u>(940,910)</u>

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Decrease in inventories		1,820,568	13,754
Decrease in trade and bills receivables		553,705	463,360
Decrease/(increase) in prepayments, deposits and other receivables		(639,793)	356,144
Increase/(decrease) in trade and bills payables		(196,351)	799,182
Increase/(decrease) in other payables and accruals		158,462	(63,929)
Decrease/(increase) in amounts due from an associate		<u>9,401</u>	<u>(30,684)</u>
Cash generated from operations		638,704	596,917
Interest received		6,973	4,384
Overseas taxes paid		<u>1,144</u>	<u>(81,013)</u>
Net cash flows from operating activities		<u>646,821</u>	<u>520,288</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(184,470)	(152,046)
Proceeds from disposal of items of property, plant and equipment		7,778	38,526
Proceeds from disposal of prepaid land lease payments		37,500	—
Proceeds from resumption of land, property, plant and equipment		344,350	332,241
Payment of prepaid land lease payments	<i>15</i>	(4,441)	(7,914)
Acquisition of subsidiaries		—	(84,388)
Proceeds from disposal of financial products at fair value through profit or loss		58,734	—
Purchase of financial products at fair value through profit or loss		<u>—</u>	<u>(58,734)</u>
Net cash flows from investing activities		<u>259,451</u>	<u>67,685</u>

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING			
ACTIVITIES			
New bank loans		4,093,750	4,271,198
Repayment of bank loans		(5,020,448)	(3,430,988)
Interest paid		(628,318)	(640,408)
Exercise of a put option by non-controlling interests		—	(750,000)
Redemption of bonds		(44,810)	—
Settlement of derivative financial instruments		14,221	—
Pledged cash for issuance of bills payable		<u>(135,913)</u>	<u>(133,996)</u>
Net cash flows used in financing activities		<u>(1,721,518)</u>	<u>(684,194)</u>
NET DECREASE IN CASH AND CASH			
EQUIVALENTS			
Cash and cash equivalents at beginning of year		(815,246)	(96,221)
Effect of foreign exchange rate changes, net		1,309,997	1,266,470
		<u>(15,971)</u>	<u>139,748</u>
CASH AND CASH EQUIVALENTS AT END			
OF YEAR			
		<u>478,780</u>	<u>1,309,997</u>
ANALYSIS OF BALANCES OF CASH AND			
CASH EQUIVALENTS			
Cash and bank balances		448,671	1,222,830
Non-pledged time deposits with original maturity of less than three months when acquired		<u>30,109</u>	<u>87,167</u>
Cash and cash equivalents as stated in the statement of cash flows	25	<u>478,780</u>	<u>1,309,997</u>

Statement of Financial Position*31 December 2014*

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investments in subsidiaries	<i>19</i>	1,219,070	1,219,070
Due from subsidiaries	<i>19</i>	<u>2,968,319</u>	<u>2,930,090</u>
Total non-current assets		<u>4,187,389</u>	<u>4,149,160</u>
CURRENT ASSETS			
Derivative financial instruments		—	19,021
Other receivables	<i>23</i>	358	359
Cash and cash equivalents	<i>25</i>	<u>41,008</u>	<u>133,259</u>
Total current assets		<u>41,366</u>	<u>152,639</u>
CURRENT LIABILITIES			
Bonds		—	44,483
Other payables and accruals	<i>27</i>	<u>6,881</u>	<u>9,870</u>
Total current liabilities		<u>6,881</u>	<u>54,353</u>
NET CURRENT ASSETS		<u>34,485</u>	<u>98,286</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,221,874</u>	<u>4,247,446</u>
NON-CURRENT LIABILITIES			
Financial guarantee contracts		<u>706,407</u>	<u>706,407</u>
Total non-current liabilities		<u>706,407</u>	<u>706,407</u>
Net assets		<u>3,515,467</u>	<u>3,541,039</u>
EQUITY			
Issued capital	<i>31</i>	326,349	326,349
Reserves	<i>33(b)</i>	<u>3,189,118</u>	<u>3,214,690</u>
Total equity		<u>3,515,467</u>	<u>3,541,039</u>

Notes to Financial Statements*31 December 2014***1. CORPORATE INFORMATION**

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for equity investments, an available-for-sale investment and certain property, plant and equipment “periodically remeasured” at fair value as further explained in the financial statements. These financial statements are presented in Hong Kong dollars (“HK\$”).

During the current year, a subsidiary of the Group was granted three long term loans with an aggregate amount of RMB540,000,000 by a bank which were repayable in 2016. Pursuant to the loan facility agreements, a termination event would arise if the subsidiary cannot meet the financial covenants as set out therein. At the end of the reporting period, the subsidiary was unable to comply with certain of these covenants. Accordingly, the whole amount of these long term loans has been reclassified from long term bank borrowings to short term bank borrowings at 31 December 2014. This non-compliance may also trigger cross default of other short term loan agreements in the aggregate outstanding principal amount of RMB622,000,000. In addition, another subsidiary of the Group was unable to comply with certain financial covenants of a short term bank loan of RMB40,000,000 at the end of the reporting period.

The Group recorded a consolidated net loss of HK\$3,771 million (2013: HK\$6,242 million) for the year ended 31 December 2014 and as at that date, the Group recorded net current liabilities of HK\$5,261 million (31 December 2013: HK\$391 million). In view of these circumstances, the directors have taken the following steps to improve the Group’s liquidity and solvency position.

(1) Active negotiations with banks to obtain adequate bank borrowings to finance the Group’s operations

The management of the Company has been actively negotiating with the banks in the PRC to secure the renewals of the Group’s short term bank loans and long term bank loans when due to meet its liabilities when fall due.

(2) Active negotiations with the local government to confirm the relocation compensation

Pursuant to a Company’s announcement on 23 September 2011, the Group has commenced a plan to relocate its production facilities located in Lu Yuan District, Changchun, the PRC (“Lu Yuan District”) in response to the request of the local government to industrial companies to move their factories away from the central districts of the city which has been developed rapidly. The relocation commenced in 2012 and will be

carried out in stages. Land together with the buildings, machinery and fixtures erected on these pieces of land located in Lu Yuan District will be resumed by the relevant government body, being the Changchun Land Reserve Centre. Formal contracts have been signed by the parties on the first stage relocation whereby compensation in cash has been agreed to be settled as follows: (i) RMB202 million (equivalent to HK\$256 million) upon the resumption of the parcels of land; and (ii) RMB806 million (equivalent to HK\$1,020 million) upon the disposal of the related buildings and fixtures erected thereon. For the second stage relocation, the directors of the Company have been actively negotiating with the Changchun Land Reserve Centre to agree on the respective compensation. Up to the date of this report, mutual framework agreements have been reached by the parties whereby the parties have reached a preliminary understanding on the intention of the resumption of land. It was the parties' understanding that the compensation shall be determined based on the valuation to be performed by a valuer to be appointed by Changchun Land Reserve Centre. The valuation is subject to the review and approval by the Changchun Land Reserve Centre after verification by the Changchun Land Reserve Centre and the Land Acquisition Reserve Transaction Fund Verification Centre. It is expected that formal land resumption compensation agreements will be entered into between the Group and Changchun Land Reserve Centre after the final terms and conditions have been agreed between the parties, and if required under the Listing Rules, to be subject to approval by shareholders of the Company.

For the first stage relocation, the Group has received cash compensation of RMB608 million, and the management expects the remaining compensation RMB400 million will be received from the government by May 2015. For the second stage relocation, the management expects that, subject to and conditional upon the entering into and completion of the formal agreements, the valuation of the subject land, buildings, machinery and fixtures erected thereon to be appraised by the valuer to be appointed by the Changchun Land Reserve Centre and the final determination of the amount of compensation, the compensation may be RMB1.8 billion based on the best estimate of the Directors. The Directors based on the experience of the first stage relocation and the current discussion status with the relevant party, anticipate that the first instalment payment of approximately RMB600 million estimated by the Directors will be received by the government June 2015 and full payment before the end of 2015. The Directors will use best endeavour to expedite the process with the aim to receiving the compensation or any part thereof as soon as possible.

(3) Improvement of the Group's operating cash flow

The Group is taking measures to tighten cost controls over various production costs and expenses with the aim to attain profitable and positive cash flow operations. During the year ended 31 December 2014, the Group has scaled down certain of its amino acids and corn starch production and suspended the production of polyol chemicals in order to minimising operating cash outflow.

Based on the management estimation of the future cash flows of the Group, after taking into account (i) the successful renewals of the Group's existing bank borrowings; (ii) the receipt of the compensation from the local government in relation to the resumption of land, buildings, machinery and fixtures erected thereon at Lu Yuan District; and (iii) the measures of the operating level aiming to minimise the Group's operating cash outflows, the directors are of the opinion that the Group is able to generate sufficient funds to meet its financial obligations as and when they fall due in the foreseeable future.

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 directors as described above. The consolidated financial statements of the Group have been prepared on a going concern basis and therefore, do not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described 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, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year’s financial statements.

HKFRS 10, HKFRS 12 and HKAS 27 (2011)	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets And Financial Liabilities</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>
Amendment to HKFRS 2 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Definition of Vesting Condition¹</i>
Amendment to HKFRS 3 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination¹</i>
Amendment to HKFRS 13 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendment to HKFRS 1 included in <i>Annual Improvements 2011–2013 Cycle</i>	<i>Meaning of effective HKFRSs</i>

¹ Effective from 1 July 2014

Except that certain presentation and disclosure of financial statement items have been revised, the adoption of these new and revised HKFRSs did not have any significant effect on the financial position or performance of the Group.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ²
Annual Improvements 2010–2012 Cycle	Amendments to a number of HKFRSs ¹
Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs ¹
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap.622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial instruments. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint

control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010–2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group.

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Investment in an associate

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

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

The results of an associate is included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

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 either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Fair value measurement

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

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

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

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, biological assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, 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 asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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 the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;

- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (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).

Property, plant and equipment and depreciation

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

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

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

Depreciation is calculated on the straight-line basis to write off the cost 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% to 3.4%
Plant and machinery	6.7%
Leasehold improvements, furniture, office equipment and motor vehicles	20%

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

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

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

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

Intangible assets (other than goodwill)

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

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

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products of ten years, commencing from the date when the products are put into commercial production.

Trademarks

Trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

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 fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such golf club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the statement of profit or loss.

Operating leases

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

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

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

Non-current assets (or disposal group) held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Since its carrying amount will be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group) and its sale must be highly probable.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the disposal group) shall be measured in accordance with applicable HKFRSs. When the sale is expected to occur beyond one year, the costs to sell shall be measured at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a finance cost.

Investments and other financial assets***Initial recognition and measurement***

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

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

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

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

Loans and receivables

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities***Initial recognition and measurement***

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

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

The Group's financial liabilities include trade and bills payables, amounts included in other payables and accruals, interest-bearing bank and other borrowings, derivative financial instruments, bonds and a put option.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the 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 the statement of 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 and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associate, 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Revenue recognition

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value for the Company is determined using the Black-Scholes-Merton model, and a binomial model by an external valuer, further details of which are given in note 32 to the financial statements.

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

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

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

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

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

Other employee benefits

Pension schemes and other retirement benefits

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in the retirement benefit schemes (the "PRC RB Schemes") operated by the respective local municipal governments in provinces of Mainland China that the group companies 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 the statement of profit or loss as they become payable in accordance with the rules of the PRC RB Schemes.

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the 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.

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation 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 translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation 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 and an associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statement of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 financial statements:

Classification of "non-current assets" and "non-current assets held for sale"

Certain non-current assets (other than goodwill) have been reclassified from non-current assets to current assets which are stated as "non-current assets held for sale". The reclassification is made when (i) the carrying amount of these assets will be recovered principally through a sale transaction rather than through continuing use; (ii) these assets must be available for immediate sale in its present condition subject only to terms that are usual and customary and (iii) the sale of such assets must be highly probable. To consider whether these criteria have been met, management will consider all the relevant facts and circumstances, including but not limited to, the existence of the potential purchaser(s) and the probability to obtain shareholders' approval (if applicable), in order to exercise its judgement. As at 31 December 2013, the Group recorded "Non-current assets held for sale" with a carrying value amounting to HK\$759,480,000 which are related to the resumption of these assets pursuant to the relocation of the Group's production facilities located at Lu Yuan District as further disclosed in note 18 to the financial statements.

Determination of cash-generating units

In the process of impairment assessment of the Group's non-financial assets, management is required to identify cash generating units. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of a cash-generating unit involves judgement. During the year ended 31 December 2013, a change of the identification of cash-generating units to that of the prior periods has been noted as a result of the Group's commencement of its relocation of production facilities from Lu Yuan District, Changchun, the PRC, to a new production site. Further details of the relocation of the production facilities are disclosed in note 18 to the financial statements.

Estimation uncertainty

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

Estimation of fair value of leasehold buildings

In the absence of current prices in an active market for similar properties, the Group considers information by reference to the valuation performed by an independent valuer based on the depreciated replacement cost (“DRC”) approach. The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Goodwill associated with the operation disposed of should be included in the carrying amount of the operation when determining the gain or loss on disposal and measured on the basis of the relative values of the operations disposed of and the portion of the cash-generating unit retained. To assess whether impairment exists for the goodwill being allocated to the operation to be disposed of, management has compared the aggregate carrying amounts of the relevant cash-generating units to be disposed of and the portion of the goodwill allocated to the estimated fair value less costs of disposal. If there is no binding sale agreement or active market for that asset (or asset group), management will make refer to the best information available to reflect the amount that an entity could obtain at the end of the reporting period. The carrying amount of goodwill at 31 December 2014 was HK\$106,308,000 (2013: HK\$344,553,000). More details are given in note 16 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as the 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 made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset of a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less cost of disposal and its value in use. The calculation of the fair value less cost of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. If there is no binding sale agreement or active market for that asset (or asset group), management will refer to the

best information available to reflect the amount that an entity could obtain at the end of the reporting period. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The policy for provision for impairment losses of trade receivables of the Group is based on the evaluation of collectability, the aged analysis of trade receivables and management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The Group reviews an ageing analysis of its inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The estimated net realisable value of the Group's inventories is based primarily on the latest invoice prices and current market conditions. As at 31 December 2014, the carrying amount of inventories was approximately HK\$843,829,000 (2013: HK\$3,341,568,000) after netting off the allowances for inventories of approximately HK\$697,554,000 (2013: HK\$873,910,000).

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2014, the best estimate of the carrying amount of capitalised development costs was nil (2013: Nil).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

4. OPERATING SEGMENT INFORMATION

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

- (a) the amino acids segment engages in the manufacture and sale of corn-based biochemical products, including lysine, threonine, and tryptophan;
- (b) the polyol chemicals segment engages in the manufacture and sale of corn-based biochemical products, including polyol chemicals, hydrogen and ammonia; and
- (c) the corn sweeteners segment engages in the manufacture and sale of corn-based biochemical products, including glucose, maltose and dextrin.

The management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax from continuing operations. The adjusted

	Amino acids		Polyol chemicals		Corn sweeteners		Total	
	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:								
Capital expenditure*	111,474	212,951	119,917	132,451	55,476	97,493	286,867	442,895
Depreciation	405,519	374,811	48,251	297,848	142,829	146,198	596,599	818,857
Amortisation of prepaid land lease payments	14,893	11,588	2,637	4,735	7,171	7,664	24,701	23,987
Gain on exercise of a put option by non-controlling interests	—	—	—	187,500	—	—	—	187,500
Gain on disposal of prepaid land lease payments	37,884	55,485	—	—	—	—	37,884	55,485
Gain on resumption of land, property, plant and equipment	—	46,981	154,194	120,537	102,669	18,780	256,863	186,298
Impairment of property, plant and equipment	—	90,673	—	3,104,664	262,633	—	262,633	3,195,337
Impairment of goodwill	—	—	—	3,875	238,245	—	238,245	3,875
Impairment of intangible assets	—	—	—	21,342	—	—	—	21,342
Impairment of deferred tax assets	22,630	—	—	51,628	—	—	22,630	51,628
Impairment of deposits paid for acquisition of property, plant and equipment and prepaid land lease payments	17,786	34,193	21,246	142,492	—	—	39,032	176,685
Share of losses of associate	—	27,899	—	—	—	—	—	27,899
Provision/(write-back) for impairment of trade receivables	168,983	(33,150)	52,206	(38,045)	44,829	(5,725)	266,018	(76,920)
Gain on fair value change on long term receivables	—	—	—	20,840	—	—	—	20,840
Loss on scrapped raw materials	30,208	—	90,090	—	—	—	120,298	—
Write-down of inventories to net realisable value	63,610	220,761	173,146	359,044	278,347	46,241	515,103	626,046
Write-down/(write-off) of prepayments and other receivables	191,282	—	73,060	—	(4,126)	12,415	260,216	12,415

* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

Geographical information

(a) Revenue from external customers

	2014	2013
	HK\$'000	HK\$'000
Mainland China	5,186,349	7,159,316
Regions other than Mainland China	<u>1,212,856</u>	<u>2,527,327</u>
	<u><u>6,399,205</u></u>	<u><u>9,686,643</u></u>

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

	2014	2013
	HK\$'000	HK\$'000
Mainland China	9,424,643	10,330,515
Regions other than Mainland China	<u>152,716</u>	<u>368,948</u>
	<u><u>9,577,359</u></u>	<u><u>10,699,463</u></u>

The non-current asset information of continuing operations above is based on the locations of assets and excludes deferred tax assets.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains from continuing operations is as follows:

		Group	
	<i>Note</i>	2014	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue			
Sale of goods		<u>6,399,205</u>	<u>9,686,643</u>
Other income			
Bank interest income		6,973	4,384
Net profit arising from the sale of packing materials and by-products		52,205	38,998
Government grants*		61,690	39,554
Others		<u>8,259</u>	<u>9,127</u>
		129,127	92,063
Gains			
Gain on disposal of items of property, plant and equipment		—	13,603
Gain on disposal of prepaid land lease payments		37,884	55,485
Gain on bargain purchase		—	1,215
Gain on exercise of a put option by non-controlled interests		—	187,500
Gain on resumption of land, property, plant and equipment	18	256,863	186,298
Fair value change in long term receivables		—	20,840
Fair value gains, net:			
— Derivative financial instruments		(4,800)	27,374
— Equity investments at fair value through profit or loss		1,527	1,483
— Bonds		(327)	699
Foreign exchange difference, net		5,816	—
Exchange differences reclassified from reserves when the associate became a subsidiary		<u>—</u>	<u>1,489</u>
		<u>296,963</u>	<u>495,986</u>
		<u>426,090</u>	<u>588,049</u>

* Government grants in 2014 represented the rewards to certain subsidiaries located in Mainland China for environmental protection of land owned by these subsidiaries and energy efficiency rebates.

6. LOSS BEFORE TAX

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

		Group	
		2014	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold		5,119,523	7,550,653
Depreciation	14	596,599	818,857
Amortisation of prepaid land lease payments	15	24,701	23,987
Auditors' remuneration		4,800	4,800
Employee benefit expenses (including directors' remuneration (<i>note 8</i>)):			
Wages and salaries		208,340	246,331
Pension scheme contributions		7,454	91,424
		<u>215,794</u>	<u>337,755</u>
Other expenses:			
Exchange loss on exercise of a put option by non-controlling interests		—	35,714
Impairment of property, plant and equipment	14	262,633	3,195,337
Impairment of intangible assets	17	—	21,342
Impairment of goodwill	16	238,245	3,875
Impairment of deposits paid for acquisition of property, plant and equipment and prepaid land lease payments		39,032	176,685
Impairment of prepayments and other receivables		260,216	12,415
Loss on scraped raw materials**		120,298	—
Fair value losses of investments in an associate		—	44,547
Research and development costs		17,084	14,242
Provision/(write-back) for impairment of trade receivables	22	266,018	(76,920)
Penalty for breach of contract***		21,938	—
Loss on disposal of property, plant and equipment		1,170	—
Foreign exchange difference, net		—	75,553
Others		6,775	17,431
		<u>1,233,409</u>	<u>3,520,221</u>
Provision of inventories recognised to net realisable value*		515,103	626,046
Amortisation of deferred income	29	(8,637)	(8,637)
Amortisation of intangible assets	17	4	3,059
Share of losses of an associate		—	27,899
Fair value (gains)/losses, net:			
— Derivative financial instruments	5	4,800	(27,374)
— Equity investments at fair value through profit or loss	5	(1,527)	(1,483)
— Bonds	5	327	(699)
— Long term receivables	5	—	(20,840)
Exchange differences reclassified from reserves when the associate became subsidiary	5	—	(1,489)
Gain on bargain purchase****		—	1,215
		<u>1,233,409</u>	<u>3,520,221</u>

- * Included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income. Impairment of inventories for the year ended 31 December 2014 included the following:

During the year ended 31 December 2014, Changchun Dihao Foodstuff Development Co., Ltd. (“Changchun Dihao”) and Jinzhou Yuancheng Bio-chem Technology Co., Ltd. (“Jinzhou Yuancheng”), subsidiaries of the Group, identified that 88,000 tons corn kernels with the cost of HK\$224 million have become deteriorated. The Group made a full provision of HK\$224 million against these corn kernels and disposed of them to a customer and two suppliers for a total consideration of HK\$1 million at HK\$11 per ton. The Group has recorded the net impairment of HK\$223 million in the consolidated statement of profit or loss in 2014. The customer has a common director with certain of the Group’s subsidiaries in Mainland China and a shareholder of one of the two suppliers is the director of certain of the Group’s subsidiaries in Mainland China. Thus, in the opinion of the directors, they are related parties to the Group. Sales of protein meal and corn steep liquor to this customer for the year ended 31 December 2014 amounted to HK\$13.5 million (2013: HK\$23 million) and advance from this customer as at 31 December 2014 was HK\$6 million (2013: trade receivable of HK\$2.5 million). The purchase of corn kernels from this supplier for the year ended 31 December 2014 amounted to HK\$99.6 million (2013: HK\$97.7 million) and prepayment made to this supplier as at 31 December 2014 was HK\$2 million (2013: trade payable of HK\$13 million).

As at 31 December 2014, a provision of HK\$32 million was made to the corn kernels of Jinzhou Yuancheng due to the subsequent decrease in production yield of these corn kernels.

- ** During the current year, Changchun Baocheng Bio-chem Development Co., Ltd. (“Baocheng”), a subsidiary of the Group scraped coal of 59,000 ton, and recognised loss of HK\$30 million in “other expenses” in the consolidated statement of profit or loss.
- *** Indemnity for breach of contract was accrued based on the judgment rendered by the court in Mainland China over the contract dispute with a customer.
- **** Gain on bargain purchase is included in “Other income and gains” in the consolidated statement of profit or loss.

7. FINANCE COSTS

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank and other borrowings wholly repayable		
within five years	589,344	604,445
Interest on bank loans not wholly repayable within five years	184,054	159,758
Finance costs for discounted bills receivable	6,957	3,582
Interest on bonds	1,174	2,985
Interest on a put option	—	32,991
	781,529	803,761
Less: Interest capitalised	(153,211)	(130,362)
	628,318	673,399

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	<i>Notes</i>	Group	
		2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Fees	<i>(a)</i>	<u>1,200</u>	<u>1,200</u>
Other emoluments:	<i>(b)</i>		
Basic salaries, housing benefits, other allowances and benefits in kind		7,620	7,200
Pension scheme contributions		<u>34</u>	<u>30</u>
		<u>7,654</u>	<u>7,230</u>
		<u><u>8,854</u></u>	<u><u>8,430</u></u>

According to the directors' service contracts, each of the executive directors, upon completion of every 12 months of service, is entitled to performance related bonuses. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to equity holders in respect of that financial year. For the years ended 31 December 2014 and 2013, no bonus was paid to the executive directors and the chief executive.

(a) Independent non-executive directors

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Mr. Chan Man Hon, Eric (resigned on 28 February 2015)	480	480
Mr. Lee Yuen Kwong (resigned on 27 February 2015)	480	480
Mr. Li Defa (resigned on 5 February 2015)	<u>240</u>	<u>240</u>
	<u><u>1,200</u></u>	<u><u>1,200</u></u>

Mr. Chan Chi Wai, Benny and Mr. Ng Kwok Pong have been appointed as independent non-executive directors with effect from 1 March 2015.

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

(b) Executive directors

	Basic salaries, housing benefits, other allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
2014			
Executive directors:			
Mr. Liu Xiaoming	3,960	17	3,977
Ms. Xu Ziyi	1,440	17	1,457
Mr. Li Weigang (appointed on 30 December 2013)	1,620	—	1,620
Mr. Wang Yongan (appointed on 30 December 2013)	600	—	600
Mr. Kong Zhanpeng (appointed on 30 December 2013 and resigned on 23 May 2014)	—	—	—
Total	<u>7,620</u>	<u>34</u>	<u>7,654</u>
2013			
Executive directors:			
Mr. Liu Xiaoming	3,960	15	3,975
Miss Wang Guifeng (resigned on 30 December 2013)	1,800	—	1,800
Ms. Xu Ziyi	<u>1,440</u>	<u>15</u>	<u>1,455</u>
Total	<u>7,200</u>	<u>30</u>	<u>7,230</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2013: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining there (2013: two) non-director, highest paid employees for the year are as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	9,735	7,560
Pension scheme contributions	<u>17</u>	<u>15</u>
	<u>9,752</u>	<u>7,575</u>

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$1,000,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$4,500,000	<u>2</u>	<u>2</u>
	<u>3</u>	<u>2</u>

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2013: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current — Hong Kong	—	—
Current — Mainland China	8,090	88,277
Current — Others	24,113	53,153
Deferred (<i>note 30</i>)	<u>25,864</u>	<u>81,154</u>
Total tax charge for the year	<u>58,067</u>	<u>222,584</u>

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

Group — 2014

	Hong Kong		Mainland China		Others		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss before tax from continuing operations	<u>(208,836)</u>		<u>(3,441,458)</u>		<u>(62,574)</u>		<u>(3,712,868)</u>	
Tax at the statutory rate	(34,458)	16.5	(860,365)	25.0	(19,398)	31.0	(914,221)	24.6
Preferential tax rate offered	—	—	85,090	(2.5)	—	—	85,090	(2.3)
Income not subject to tax	(106)	—	11,916	(0.3)	—	—	11,810	(0.3)
Tax losses not recognised	34,087	(16.3)	681,334	(19.8)	19,398	(31.0)	734,819	(19.8)
Expenses not deductible for tax	477	(0.2)	113,867	(3.3)	—	—	114,344	(3.1)
Adjustments in respect of current tax of previous periods	—	—	1,578	—	—	—	1,578	—
Tax losses utilised from previous periods	—	—	534	—	—	—	534	—
Tax provision for transfer price	—	—	—	—	24,113	(38.5)	24,113	(0.7)
Tax charge at the Group's effective rate	<u>—</u>	<u>—</u>	<u>33,954</u>	<u>(0.9)</u>	<u>24,113</u>	<u>(38.5)</u>	<u>58,067</u>	<u>(1.6)</u>

Group — 2013

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax from continuing operations	<u>(15,987)</u>		<u>(5,864,609)</u>		<u>(133,697)</u>		<u>(6,014,293)</u>	
Tax at the statutory rate	(2,638)	16.5	(1,465,859)	25.0	(41,446)	31.0	(1,509,943)	25.1
Preferential tax rate offered	—	—	85,363	(1.5)	—	—	85,363	(1.4)
Income not subject to tax	(148)	0.9	15,697	(0.3)	—	—	15,549	(0.3)
Tax losses not recognised	5,564	(34.8)	1,437,825	(24.5)	41,460	(31.0)	1,484,849	(24.7)
Expenses not deductible for tax	507	(3.1)	98,834	(1.7)	21,376	(16.0)	120,717	(2.0)
Adjustments in respect of current tax of previous periods	—	—	(1,830)	—	—	—	(1,830)	—
Tax losses utilised from previous periods	(3,285)	20.5	(599)	—	—	—	(3,884)	0.1
Tax provision for deemed income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>31,763</u>	<u>(23.8)</u>	<u>31,763</u>	<u>(0.5)</u>
Tax charge at the Group's effective rate	<u>—</u>	<u>—</u>	<u>169,431</u>	<u>(3.0)</u>	<u>53,153</u>	<u>(39.8)</u>	<u>222,584</u>	<u>(3.7)</u>

Except for the subsidiary as stated below, the statutory tax rate for all subsidiaries in Mainland China was 25% for the current year (2013: 25%).

Changchun Dahe Bio Technology Development Co., Ltd., was approved as an advanced and new technology enterprise by the Jilin Government for the period from 5 November 2010 to 23 May 2016. It enjoyed a preferential income tax rate of 15% from 1 January 2010 onwards.

During the year, tax charge was recognised for the subsidiary incorporated in Germany which was subject to statutory income tax rate of 15%, trade tax of 15.93% on income and solidarity surcharge representing 5.5% of the corporate income tax. The effective rate for the income taxes charged in Germany was accordingly calculated at 31%.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2014 includes a loss of HK\$25,572,000 (2013: loss of HK\$116,160,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2014 (2013: Nil).

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

During the years ended 31 December 2014 and 2013, as anti-dilutive effect is resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts.

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		
From continuing operations	(3,371,388)	(6,077,816)
From a discontinued operation	<u>—</u>	<u>(3,281)</u>
	<u>(3,371,388)</u>	<u>(6,081,097)</u>
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>3,263,489,164</u>	<u>3,263,489,164</u>

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2014	Leasehold buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improvement, furniture, office equipment and motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:					
1 January 2014	6,663,858	9,632,217	216,679	1,053,572	17,566,326
Additions	1,415	23,810	8,872	205,077	239,174
Disposals	(14,102)	(47,045)	(4,776)	(21,479)	(87,402)
Transfers	23,205	237,269	—	(260,474)	—
Exchange realignment	(80,065)	(84,446)	(2,588)	(11,020)	(178,119)
At 31 December 2014	<u>6,594,311</u>	<u>9,761,805</u>	<u>218,187</u>	<u>965,676</u>	<u>17,539,979</u>
Accumulated depreciation:					
1 January 2014	941,822	3,704,671	188,600	—	4,835,093
Depreciation provided during the year	166,974	420,293	9,332	—	596,599
Disposals	(7,455)	(43,437)	(4,082)	—	(54,974)
Exchange realignment	(11,456)	(48,968)	(2,253)	—	(62,677)
At 31 December 2014	<u>1,089,885</u>	<u>4,032,559</u>	<u>191,597</u>	<u>—</u>	<u>5,314,041</u>
Impairment:					
1 January 2014	—	3,198,905	4,681	—	3,203,586
Additions	2,650	259,983	—	—	262,633
Disposals	(2,650)	—	—	—	(2,650)
At 31 December 2014	<u>—</u>	<u>3,458,888</u>	<u>4,681</u>	<u>—</u>	<u>3,463,569</u>
Net book value:					
At 31 December 2014	<u>5,504,426</u>	<u>2,270,358</u>	<u>21,909</u>	<u>965,676</u>	<u>8,762,369</u>
At 31 December 2013	<u>5,722,036</u>	<u>2,728,641</u>	<u>23,398</u>	<u>1,053,572</u>	<u>9,527,647</u>
Analysis of cost or valuation:					
At cost	—	2,270,358	21,909	965,676	3,257,943
At 31 December 2013 valuation	5,504,426	—	—	—	5,504,426
	<u>5,504,426</u>	<u>2,270,358</u>	<u>21,909</u>	<u>965,676</u>	<u>8,762,369</u>

31 December 2013	Leasehold buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improvement, furniture, office equipment and motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:					
1 January 2013	5,587,313	6,865,050	249,636	4,797,791	17,499,790
Additions	153,457	86,731	7,398	187,394	434,980
Acquisition of subsidiaries	303,449	363,008	4,484	21,186	692,127
Disposals	(1,140)	(38,363)	(45,676)	—	(85,179)
Transfers	1,109,127	2,932,621	1,299	(4,043,047)	—
Deficit on revaluation	(266,072)	—	—	—	(266,072)
Classified as non-current assets held for sale	(351,714)	(768,546)	(6,456)	—	(1,126,716)
Exchange realignment	129,438	191,716	5,994	90,248	417,396
At 31 December 2013	<u>6,663,858</u>	<u>9,632,217</u>	<u>216,679</u>	<u>1,053,572</u>	<u>17,566,326</u>
Accumulated depreciation:					
1 January 2013	807,217	3,317,271	197,724	—	4,322,212
Depreciation provided during the year	196,417	604,243	18,197	—	818,857
Disposals	(184)	(15,401)	(28,566)	—	(44,151)
Classified as non-current assets held for sale	(80,174)	(283,579)	(3,483)	—	(367,236)
Exchange realignment	18,546	82,137	4,728	—	105,411
At 31 December 2013	<u>941,822</u>	<u>3,704,671</u>	<u>188,600</u>	<u>—</u>	<u>4,835,093</u>
Impairment:					
1 January 2013	—	8,249	—	—	8,249
Additions	—	3,190,656	4,681	—	3,195,337
At 31 December 2013	<u>—</u>	<u>3,198,905</u>	<u>4,681</u>	<u>—</u>	<u>3,203,586</u>
Net book value:					
At 31 December 2013	<u>5,722,036</u>	<u>2,728,641</u>	<u>23,398</u>	<u>1,053,572</u>	<u>9,527,647</u>
At 31 December 2012	<u>4,780,096</u>	<u>3,539,530</u>	<u>51,912</u>	<u>4,797,791</u>	<u>13,169,329</u>
Analysis of cost or valuation:					
At cost	—	2,728,641	23,398	1,053,572	3,805,611
At 31 December 2013 valuation	<u>5,722,036</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,722,036</u>
	<u>5,722,036</u>	<u>2,728,641</u>	<u>23,398</u>	<u>1,053,572</u>	<u>9,527,647</u>

Leasehold buildings

The Group's leasehold buildings with useful lives of the shorter of the lease terms and 50 years were stated at the most recent valuation less accumulated depreciation and impairment.

The Group's leasehold buildings were revalued individually at 31 December 2013 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$5,722,036,000 based on their existing use. A deficit on revaluation approximately HK\$196,327,000 after income tax effect of HK\$69,745,000 is arose therefrom, among which, HK\$191,029,000 has been debit to asset revaluation reserve attributable to the owner of the parent of the Group and HK\$5,298,000 is attributed to the non-controlling interests during the year ended 31 December 2013. In the opinion of the directors, as there were no material differences between the carrying value and the open market value of the Group's leasehold buildings as at 31 December 2014, no revaluation has been performed as at that date.

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 as at 31 December 2014 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	<u>—</u>	<u>—</u>	<u>5,504,426</u>	<u>5,504,426</u>
	Fair value measurement as at 31 December 2013 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	<u>—</u>	<u>—</u>	<u>5,722,036</u>	<u>5,722,036</u>

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

	Industrial properties HK\$'000
Carrying amount at 1 January 2014	5,722,036
Addition and transfer from construction in progress	24,620
Disposal	(6,647)
Depreciation provided during the year	(166,974)
Exchange realignment	<u>(68,609)</u>
	<u>5,504,426</u>

Below is a summary of the valuation technique used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	Range or weighted average
Industrial properties	Depreciated replacement cost (“DRC”) approach	a. Construction cost (RMB/sq.m.) b. Administrative expense rate c. Developer’s profit margin d. Interest rate e. Rate of newness	a. 550 to 5,500 b. 3% c. 8% to 10% d. 6% to 6.15% e. 60% to 95%

The Group has determined that the highest and best use of the buildings at the measurement date would be to continue use as industrial building.

The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence.

A significant increase (decrease) in the estimated growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the leasehold building. A significant increase (decrease) in the discount rate in isolation would result in a significant decrease (increase) in the fair value of the leasehold building.

Other information

At 31 December 2014, the Group has not obtained building certificates for certain leasehold buildings with a total net carrying amount of HK\$3,355,872,026 (2013: HK\$3,679,003,565). The directors considered that there were no potential risks given that the Group has obtained the certificates for the underlying land use rights.

Had the Group’s leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$5,211,511,000 (2013: HK\$5,440,531,000).

Details of the Group’s property, plant and equipment pledged to secure the Group’s interest-bearing bank loans are set out in note 28.

Included in the Group’s property, plant and equipment as at 31 December 2014, were items of HK\$1,700,189,000 (2013: HK\$2,292,314,000) which are identified by the management to be recovered through sale pursuant to the relocation plan as imposed by the local government. These assets are located at the Lu Yuan District in Changchun, the PRC. In accordance with the current plan, management will not relocate these assets to the new production site. These assets are either operating under a less than normal capacity or became idle at the reporting date to prepare for the relocation.

Impairment provision

Included in these assets of HK\$1,700,189,000, were items of HK\$348,057,000 (net of depreciation and impairment) which are recorded by Global Sweeteners Holdings Limited (“GSH”) group. Management of GSH has performed impairment assessment on these assets by comparing to their recoverable amounts and has provided impairment of HK\$262,633,000 in the consolidated statement of profit or loss for the year ended 31 December 2014.

The recoverable amounts of the assets located at the Lu Yuan District amounting to HK\$432,475,000 is determined based on management estimated fair value of the items of assets less cost of disposal by using depreciated replacement cost approach.

The following table illustrates the fair value measurement hierarchy of the recoverable amounts of the assets of GSH to be retained in the Lu Yuan District:

	Fair value measurement as at 31 December 2014 using			Total HK\$'000
	Quoted	Significant	Significant	
	prices in	Observable	unobservable	
	active market (Level 1) HK\$'000	inputs (Level 2) HK\$'000	inputs (Level 3) HK\$'000	
Fair value measurement for:				
Land	—	—	135,900	135,900
Leasehold buildings	—	—	296,575	296,575
Total	—	—	432,475	432,475

Below is a summary of the valuation technique used and the key inputs to the valuation of leasehold buildings applied in the estimation of the recoverable amounts as at 31 December 2014:

	Valuation technique	Significant Unobservable inputs	Range or weighted average
Leasehold buildings	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.) b. Administrative expense rate c. Developer's profit margin d. Interest rate e. Rate of newness	a. 1,489 to 4,737 b. 3% c. 8%–10% d. 6% e. 58%–90%

For the other fixed assets of HK\$7,568 million (net of depreciation and impairment) recorded by the companies other than GSH, although substantial losses were recorded in the year 2014, the management has not performed impairment assessment on those assets.

15. PREPAID LAND LEASE PAYMENTS

	Note	Group	
		2014 HK\$'000	2013 HK\$'000
Carrying amount at 1 January		836,149	710,511
Additions		4,441	7,914
Acquisition of subsidiaries		—	213,118
Amortised during the year	6	(24,701)	(23,987)
Resumption of land		—	(69,994)
Disposal		(85,631)	(20,465)
Exchange realignment		(8,954)	19,052
Carrying amount at 31 December		721,304	836,149
Current portion included in prepayments, deposits and other receivables		(23,953)	(23,224)
Non-current portion		697,351	812,925

The leasehold land with a useful life of the shorter of the lease terms and 50 years is situated outside Hong Kong.

At 31 December 2014, the Group has not obtained land use right certificates for prepaid land lease payments with a total carrying amount of HK\$46,743,000 (2013: HK\$120,500,093).

Details of the Group's leasehold land pledged to secure the Group's interest-bearing bank loans are set out in note 28.

Included in the Group's prepaid land lease payments as at 31 December 2014, HK\$260,952,000 (net of depreciation and impairment) (2013: HK\$283,467,000) represented parcels of land located at the Lu Yuan District in Changchun, the PRC which are identified by management to be recovered through sale pursuant to the relocation plan as imposed by the local government. In accordance with the current plan, the local government will resume the land through a sale and purchase arrangement to be entered into by the parties.

As at 31 December 2014, prepaid land lease payments of HK\$177,663,000 (net of depreciation and impairment) were recorded by GSH group. Management of GSH has performed impairment assessment on these prepaid land lease payments by reference to independent professional valuation and no impairment was noted. For the other prepaid land lease payments of HK\$519,688,000 (net of depreciation and impairment) recorded by the companies other than GSH, although substantial losses were recorded in the year 2014, the management has not performed impairment assessment on those assets.

16. GOODWILL

Group

	<i>Note</i>	Total <i>HK\$'000</i>
At 1 January and 31 December 2013		
Cost		360,889
Accumulated impairment		<u>(16,336)</u>
Net carrying amount		<u>344,553</u>
Cost at 1 January 2014, net of accumulated impairment		344,553
Impairment during the year	6	<u>(238,245)</u>
Net carrying amount at 31 December 2014		<u>106,308</u>
At 31 December 2014:		
Cost		360,889
Accumulated impairment		<u>(254,581)</u>
Net carrying amount		<u>106,308</u>

Group

	Total
	<i>HK\$'000</i>
At 1 January and 31 December 2012	
Cost	360,889
Accumulated impairment	<u>(12,461)</u>
Net carrying amount	<u>348,428</u>
Cost at 1 January 2013, net of accumulated impairment	348,428
Impairment during the year	6 <u>(3,875)</u>
Net carrying amount at 31 December 2013	<u>344,553</u>
At 31 December 2013:	
Cost	360,889
Accumulated impairment	<u>(16,336)</u>
Net carrying amount	<u>344,553</u>

Impairment testing of goodwill

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

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Jinzhou Yuancheng	—	28,442
Assets to be retained in the Lu Yuan District, PRC	<u>106,308</u>	<u>316,111</u>
	<u>106,308</u>	<u>344,553</u>

Jinzhou Yuancheng

Certain of the Group's goodwill related to Jinzhou Yuancheng which was acquired by the Group during the year ended 31 December 2008. The recoverable amount of Jinzhou Yuancheng is determined based on management estimated fair value less cost of disposal of the items of assets as associated therewith by reference to the independent professional valuation. The fair values of these assets are determined by depreciated replacement cost approach. Based on management's assessment, the carrying amounts of Jinzhou Yuancheng exceeded its recoverable amount as at 31 December 2014. Therefore, an impairment loss of HK\$28,442,000 on goodwill was recognised in other expense in the consolidated statement of profit or loss for the year ended 31 December 2014.

The following table illustrates the fair value measurement hierarchy of the recoverable amounts of Jinzhou Yuancheng:

	Fair value measurement as at 31 December 2014 using			Total HK\$'000
	Quoted prices in active market (Level 1) HK\$'000	Significant Observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Fair value measurement for:				
Land*	—	—	140,600	140,600
Leasehold buildings	—	—	250,425	250,425
Plant and equipment	—	—	251,170	251,170
Total	—	—	642,195	642,195

Below is a summary of the valuation technique used and the key inputs to the valuation of leasehold buildings applied in the estimation of the recoverable amounts as at 31 December 2014:

	Valuation Technique	Significant unobservable inputs	Range or weighted average
Leasehold buildings	Depreciated replacement cost (“DRC”) approach	a. Construction cost (RMB/ sq.m.) b. Administrative expense rate c. Developer’s profit margin d. Interest rate e. Rate of newness	a. 600 to 2,912 b. 3% c. 8% d. 6% e. 57%–99%

Assets to be retained in the Lu Yuan District, PRC

For goodwill of HK\$209,803,000 recorded by GSH associated with the cash-generating unit being identified to be disposed of, management has compared the carrying amount of the cash-generating unit together with goodwill allocated to the fair value less costs of disposal. If there is no binding sale agreement or active market for that asset (or asset group), management will refer to the best information available to reflect the amount that an entity could obtain at the end of the reporting period.

The recoverable amount of the associated assets to be disposed of that goodwill is allocated is determined based on management estimated fair value less cost of disposal of the items of assets as associated therewith, which amounted to HK\$432,475,000. The fair values of these items are determined by depreciated replacement cost approach. Based on the impairment assessment, an impairment loss of HK\$209,803,000 on goodwill was recognised in other expense in the consolidated statement of profit or loss for the year ended 31 December 2014.

For details of the fair value measurement hierarchy of the recoverable amounts of the assets to be retained in the Lu Yuan District, please refer to the section headed “impairment provision” section under note 14 to the financial statements.

For other goodwill of HK\$106,308,000 recorded by the companies other than GSH, although substantial losses were recorded in the year 2014, the management has not performed impairment assessment on this goodwill.

17. INTANGIBLE ASSETS

Group

31 December 2014	Golf club membership <i>HK\$'000</i>	Trademarks <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost at 1 January 2014	5,290	144	—	5,434
Amortisation provided during the year	—	(4)	—	(4)
Exchange realignment	(6)	—	—	(6)
As at 31 December 2014	<u>5,284</u>	<u>140</u>	<u>—</u>	<u>5,424</u>
At 31 December 2014:				
Cost	5,290	154	—	5,444
Accumulated amortisation	—	(14)	—	(14)
Exchange realignment	(6)	—	—	(6)
Net carrying amount	<u>5,284</u>	<u>140</u>	<u>—</u>	<u>5,424</u>
31 December 2013	Golf club membership <i>HK\$'000</i>	Trademarks <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost at 1 January 2013	5,290	—	23,789	29,079
Business combination	—	154	—	154
Amortisation provided during the year	—	(10)	(3,049)	(3,059)
Impairment	—	—	(21,342)	(21,342)
Exchange realignment	—	—	602	602
As at 31 December 2013	<u>5,290</u>	<u>144</u>	<u>—</u>	<u>5,434</u>
At 31 December 2013:				
Cost	5,290	154	29,949	35,393
Accumulated amortisation	—	(10)	(8,607)	(8,617)
Impairment	—	—	(21,342)	(21,342)
Net carrying amount	<u>5,290</u>	<u>144</u>	<u>—</u>	<u>5,434</u>

18 NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January:	—	—
Reclassified from properties, plant and equipment	—	759,480
Net carrying amount at 31 December	—	759,480

Pursuant to a Company's announcement on 23 September 2011, the Group committed to commencing a plan to relocate its production facilities located in Lu Yuan District, Changchun, the PRC ("Lu Yuan District") in response to the request of the local government. The relocation was commenced in 2012 and will be achieved in stages.

On 30 December 2013 and 31 December 2013, the Group entered into compensation agreements with the Changchun Land Reserve Centre (the "Land Reserve Centre") pursuant to which the Group has accepted the resumption of certain parcels of land located at Lu Yuan District (the "Land Compensation Agreements"), and the Land Reserve Centre agrees to make compensation to the Group in aggregate of HK\$256,292,000. The transactions had been completed in 2013, the related assets had been derecognised and a gain on resumption of land which amounted to HK\$186,298,000 (note 5) had been recognised in the year of 2013.

On 31 December 2013, the Group entered into a compensation agreement with the Land Reserve Centre pursuant to which the Group has agreed to the resumption of certain buildings, machinery and fixtures located in Lu Yuan District (the "First Asset Land Compensation Agreements"). The Land Reserve Centre agrees to make compensation to the Group which amounted to RMB86,480,000 (equivalent to HK\$108,100,000). This transaction has been completed during the current year, the compensation has been fully settled, the related assets have been derecognised and a gain on resumption of buildings, machinery and fixtures which amounted to HK\$102,669,000 (note 5) has been recognised in the current year.

During the year ended 31 December 2014, the Group entered inter compensation agreements with the Land Reserve Centre pursuant to which the Group has agreed to the resumption of another items of buildings, machineries and fixtures located in Lu Yuan District (the "Second Asset Land Compensation Agreements"), and the Land Reserve Centre agrees to make compensation to the Group which amounted to RMB719,000,000 (equivalent to HK\$898,750,000). This transaction has been completed during the current year, the related assets have been derecognised and a gain on resumption of buildings, machinery and fixtures which amounted to HK\$154,194,000 (note 5) has been recognised in the current year. The compensation of RMB189,000,000 (equivalent to HK\$236,250,000) has been settled during the current year. Subsequent to the balance sheet date, RMB130,000,000 (equivalent to HK\$162,500,000) has been received.

With respect to the Frist Asset Land Compensation Agreements and the Second Asset Land Compensation Agreements as set out in the preceding paragraph, the related buildings, machinery and fixtures had been reclassified from the non-current assets "property, plant and equipment" to current assets "non-current assets held for sale" as at 31 December 2013 and have been derecognised during the current year.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<u>1,219,070</u>	<u>1,219,070</u>

The amounts due from subsidiaries included in the Company's non-current assets of HK\$2,968,319,000 (2013: HK\$2,930,090,000) are unsecured, interest-free and have no fixed terms of repayment.

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

Name	Place of incorporation/ registration and business	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held				
Global Sweeteners Holdings Limited ("GSH")	Cayman Islands	HK\$152,758,600	64	Investment holding
Changchun Dacheng Industrial Group Co., Ltd. ("Dacheng Industrial")*	PRC/Mainland China	RMB193,000,000	100	Investment holding
Bio-chem Technology (HK) Limited	Hong Kong	HK\$2	100	Trading of corn refined products and corn based biochemical products
Changchun Jincheng Corn Development Co., Ltd. [#]	PRC/Mainland China	RMB98,700,000	64	Manufacture and sale of corn refined products
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.* ("Jinzhou Yuancheng")	PRC/Mainland China	US\$49,504,000	64	Manufacture and sale of corn refined products
Shanghai Hao Cheng Food Development Co., Ltd.*	PRC/Mainland China	US\$6,668,000	64	Manufacture and sale of corn based sweeteners products
Changchun Dihao Foodstuff Development Co., Ltd.* ("Dihao")	PRC/Mainland China	RMB81,000,000	64	Manufacture and sale of corn based sweetener products
Changchun Dihao Crystal Sugar Industry Development Co., Ltd.*	PRC/Mainland China	US\$22,200,000	64	Manufacture and sale of crystallised sugar
Changchun Baocheng Bio-chem Development Co., Ltd. [#] ("Baocheng")	PRC/Mainland China	US\$49,227,952	100	Manufacture and sale of corn based biochemical products
Changchun Dahe Bio Technology Development Co., Ltd.* ("Dahe")	PRC/Mainland China	US\$123,000,000	100	Manufacture and sale of corn based biochemical products

Name	Place of incorporation/ registration and business	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Changchun Dacheng Special Corn & Modified Starch Development Co., Ltd. [#]	PRC/Mainland China	RMB99,250,000	100	Manufacture and sale of corn based biochemical products
Changchun GBT Bio-Chemical Co., Ltd. [#] (“JBT”)	PRC/Mainland China	US\$157,000,000	100	Manufacture and sale of corn based biochemical products
Dacheng Bio-chem Technology (Songyuan) Co., Ltd.*	PRC/Mainland China	HK\$18,000,000	100	Manufacture and sale of corn based biochemical products
Fuzhou Fucheng Bio-Chemical Development Co., Ltd.*	PRC/Mainland China	US\$5,000,000	100	Manufacture and sale of corn starch based products
Changchun Dacheng Bio-tech Development (Dacheng Bio-tech) Co., Ltd. [#] (“Dacheng Bio-tech”)	PRC/Mainland China	RMB2,066,150,000	100	Manufacture and sale of corn based biochemical products
Jinzhou Dacheng Food Development Co., Ltd.*	PRC/Mainland China	US\$7,770,000	64	Manufacture and sale of corn based sweetener products
Changchun Dacheng Industrial Group International Trade Co., Ltd.*	PRC/Mainland China	RMB5,000,000	100	Trading of corn based biochemical products
Global Bio-chem Technology Americas (Bio-chem American) Inc.	USA	US\$500,000	100	Trading of corn based biochemical products
Global Bio-chem Technology Europe GmbH Inc.	Germany	EUR25,000	100	Trading of corn based biochemical products
Global Sweeteners Trade Development (Dalian) Co. Ltd.*	PRC/Mainland China	US\$9,100,000	64	International trading, exhibition and consultation
Shanghai Da Yi Food Co., Ltd.*	PRC/Mainland China	US\$3,000,000	64	Manufacture and sale of corn based sweetener products
Global Sweeteners HFCS (Holding) Limited	Hong Kong	HK\$1,000	64	Investment holding
Harbin Dacheng Bio Technology Co., Ltd. [#]	PRC/Mainland China	RMB303,000,000	100	Manufacture and sale of corn based sweetener products
Changchun Wanxiang Corn Oil Co., Ltd.*	PRC/Mainland China	HK\$12,000,000	51	Manufacture and sale of corn oil products

* Registered as wholly-foreign-owned enterprises under PRC law

Registered as Sino-foreign enterprises under PRC law

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

Details of the Group's main subsidiary that has material non-controlling interests are set out below:

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Percentage of equity interest held by non-controlling interests:		
GSH	<u>36%</u>	<u>36%</u>
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year allocated to non-controlling interests:		
GSH	<u>400,781</u>	<u>117,396</u>
Dividends paid to non-controlling interests at the reporting dates:		
GSH	<u>—</u>	<u>—</u>
Accumulated balances of non-controlling interests at the reporting dates:		
GSH	<u>440,035</u>	<u>840,816</u>

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

GSH	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue and other income	3,050,546	4,246,132
Cost and expenses	(4,132,799)	(4,555,235)
Tax	(10,983)	(11,126)
Loss for the year	(1,093,236)	(320,229)
Total comprehensive loss for the year	<u>(1,113,283)</u>	<u>(286,771)</u>
Current assets	1,349,665	2,503,058
Non-current assets	1,378,787	1,964,755
Current liabilities	1,125,996	2,286,064
Non-current liabilities	678,556	144,566
Net cash flows from operating activities	316,459	350,088
Net cash flows from (used in) investing activities	96,083	(54,051)
Net cash flows used in financing activities	<u>(634,350)</u>	<u>(453,783)</u>
Net decrease in cash and cash equivalents	<u>(221,808)</u>	<u>(157,746)</u>

20. INVESTMENTS IN AN ASSOCIATE

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	—	—

The Group's balances with its associate as at 31 December 2014 and 2013 are disclosed in note 36(iii) to the financial statements.

Particulars of the associate are as follows:

Company name	Place of registration and business	Particulars of issued shares held	Percentage of ownership interest attributable to the Group		Principal activities
			Direct	Indirect	
			%	%	
Changchun Dacheng Hexin Technology Development Co., Ltd.* (“Dacheng Hexin”)	PRC/Mainland China 19 April 2011	RMB5,000,000	—	40	Manufacture and sale of botanical straw based sweetener products

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

The Company's voting power held and profit sharing arrangement in relation to Dacheng Hexin is 40% (2013: 40%). The Group has discontinued the recognition of its share of losses of Dacheng Hexin because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were nil (2013: HK\$1,540,000) and HK\$3,928,000 (2013: HK\$3,982,000), respectively.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts or financial statements:

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Asset	70,076	52,714
Liabilities	81,779	60,845
Revenues	—	—
Loss for the year	<u>(3,674)</u>	<u>(5,500)</u>

21. INVENTORIES

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	202,672	2,139,083
Finished goods	<u>641,157</u>	<u>1,202,485</u>
	<u><u>843,829</u></u>	<u><u>3,341,568</u></u>

As at 31 December 2014, certain inventories were written down to net realisable value of approximately HK\$596,224,000 (31 December 2013: HK\$2,189,947,000).

22. TRADE AND BILLS RECEIVABLES

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	908,780	1,281,622
Bills receivable	78,826	294,355
Impairment	<u>(405,813)</u>	<u>(156,720)</u>
	<u><u>581,793</u></u>	<u><u>1,419,257</u></u>

The Group normally allows credit terms of 90 days to established customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that 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. Trade receivables are non-interest-bearing.

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	338,134	495,674
1 to 2 months	109,693	229,018
2 to 3 months	30,395	71,760
3 to 6 months	101,356	283,502
Over 6 months	<u>2,215</u>	<u>339,303</u>
	<u><u>581,793</u></u>	<u><u>1,419,257</u></u>

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	156,720	234,495
Impairment losses recognised	266,520	11,177
Impairment losses reversed	(502)	(88,097)
Amount written off as uncollectible	(15,482)	(7,018)
Exchange realignment	(1,443)	6,163
	<u>405,813</u>	<u>156,720</u>

Included in the above provision for impairment of trade receivables is a full provision for individually impaired trade receivables of HK\$405,813,000 (2013: HK\$156,720,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected to be unrecoverable.

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	478,223	796,452
Less than 1 month past due	57,775	90,957
1 to 3 months past due	45,795	266,408
Over 3 months past due	—	265,440
	<u>581,793</u>	<u>1,419,257</u>

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

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

Transferred financial assets that are not derecognised in their entirety

At 31 December 2014, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the “Endorsed Bills”) with a carrying amount of RMB22,946,000 (equivalent to HK\$28,683,000) (2013: RMB16,850,000, equivalent to HK\$21,329,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was nil (2013: Nil) as at 31 December 2014.

Transferred financial assets that are derecognised in their entirety

At 31 December 2014, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB368,295,000 (equivalent to HK\$460,369,000) (2013: RMB574,489,000, equivalent to HK\$727,201,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

Details of the Group’s bills receivable pledged to secure the Group’s interest-bearing bank loans are set out in note 28.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current:				
Prepayments	913,638	531,588	358	359
Deposits and other receivables	<u>1,033,180</u>	<u>420,526</u>	<u>—</u>	<u>—</u>
	<u><u>1,946,818</u></u>	<u><u>952,114</u></u>	<u><u>358</u></u>	<u><u>359</u></u>

As at 31 December 2014, the Group has recorded in deposits and other receivables amounting to approximately HK\$793 million (2013: trade payable of HK\$320 million) due from Changchun Dajincang Corn Collection Company (“Dajincang”), a major supplier of corn kernels, due to the stock return of certain corn kernels to Dajincang by two of the Group’s subsidiaries, Changchun Dihao and Baocheng, and the prepayment made by Dahe. Because of the suspension of production in the preparation for the relocation, Changchun Dihao and Baocheng have returned corn kernels of 218,000 tons with a total cost of approximately HK\$628 million to Dajincang. The stock return of corn kernels were charged at the original purchase price. Dajincang has two directors in common with the Group’s subsidiaries located in Mainland China. Thus, Dajincang is deemed as a related party to the Group. Other transactions and the balance with Dajincang have been included in “related party transactions” in note 36 to the financial statements.

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Insurance product, at market value	35,617	34,847
Financial product, at market value	<u>—</u>	<u>58,734</u>
	<u><u>35,617</u></u>	<u><u>93,581</u></u>

Management designated the insurance product and financial product as financial assets at fair value through profit or loss, which are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	718,580	1,222,830	41,008	133,259
Time deposits	<u>30,109</u>	<u>221,163</u>	<u>—</u>	<u>—</u>
	748,689	1,443,993	41,008	133,259
<i>Less:</i> Pledged for issuance of bills payable	<u>269,909</u>	<u>133,996</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u><u>478,780</u></u>	<u><u>1,309,997</u></u>	<u><u>41,008</u></u>	<u><u>133,259</u></u>

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$559,653,000 (31 December 2013: HK\$829,805,000). The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. TRADE AND BILLS PAYABLES

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	829,797	926,593
1 to 2 months	55,997	284,239
2 to 3 months	15,480	70,747
Over 3 months	<u>1,099,817</u>	<u>943,679</u>
	<u><u>2,001,091</u></u>	<u><u>2,225,258</u></u>

The trade payables are non-interest-bearing and normally settled on terms of 30 to 90 days.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Payables for purchases of machinery	324,335	306,216	—	—
Customer deposits/receipts in advance	181,014	371,371	—	—
Accruals	237,089	98,654	4,897	4,870
Others	<u>503,866</u>	<u>286,872</u>	<u>1,984</u>	<u>5,000</u>
	<u><u>1,246,304</u></u>	<u><u>1,063,113</u></u>	<u><u>6,881</u></u>	<u><u>9,870</u></u>

Other payables are non-interest-bearing and have an average repayment term of three months.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Effective	2014	Maturity	Effective	2013	Maturity
	interest rate			interest rate		
	%		HK\$'000	%		HK\$'000
Current						
Bank loans — secured	5.88–8.0	2015	283,750	6.16–6.60	2014	132,747
Bank loans — unsecured	1.7–7.80/ HIBOR+1.5	On demand /2015	5,136,250	6.00–8/ HIBOR+1.5/ HIBOR+2/ LIBOR+3/ HIBOR+2.6/ Higher (HIBOR+3.3, bank funding cost+1.5)	On demand /2014	4,793,424
Long term bank loans repayable on demand — unsecured	HIBOR+1.5/ Higher (6-months HIBOR +3.3%, bank funding cost +1.5%)	On demand	88,438	HIBOR+3/ HIBOR+2/ LIBOR+4/ HIBOR+2.6/ Higher (HIBOR+3.3, bank funding cost+1.5)/ HIBOR+1	On demand	28,438
Entrusted loans — secured	9.00	2015	<u>500,000</u>			<u>—</u>
			<u>6,008,438</u>			<u>4,954,609</u>
Non-current						
Bank loans — secured	8.0	2016–2017	212,500			—
Bank loans — unsecured	6.150–8.0	2016–2020	2,462,500	6.40–7.315	2014–2020	4,789,084
Other loans — unsecured		2018–2019	<u>7,488</u>	—	2018–2019	<u>9,089</u>
			<u>2,682,488</u>			<u>4,798,173</u>
			<u>8,690,926</u>			<u>9,752,782</u>

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:		
Bank loans repayable:		
Within one year or on demand	6,008,438	4,321,699
In the second year	995,000	3,100,477
In the third to fifth years, inclusive	1,325,000	1,139,241
Beyond five years	<u>355,000</u>	<u>549,366</u>
	8,683,438	9,110,783
Other borrowings repayable:		
With one year	—	632,910
In the third to fifth years, inclusive	7,488	—
Beyond five years	<u>—</u>	<u>9,089</u>
	7,488	641,999
	<u>8,690,926</u>	<u>9,752,782</u>

As at 31 December 2014, certain of the Group's bank borrowings were pledged by bills receivable amounting to nil (2013: HK\$105,091,000).

At 31 December 2014, property, plant and equipment of the Group amounting to HK\$808,577,000 (2013: Nil) were pledged to secure banking facilities granted to the Group.

As at 31 December 2014, prepaid land lease payments of HK\$320,134,625 (2013: 61,634,000) were pledged to secure bank loans.

As at 31 December 2014, the Group's bank borrowings were guaranteed by the Company, certain subsidiaries of the Group and independent third parties with amounts of approximately HK\$6,533,437,500 (2013: HK\$6,981,023,000), approximately HK\$881,250,000 (2013: HK\$2,402,075,000), and approximately HK\$206,250,000 (2013: HK\$227,848,000), respectively.

As at 31 December 2014, the Group's other loan of HK\$500,000,000 was pledged by relocation compensation receivable from the local government amounting to HK\$662,500,000 (31 December 2013: Nil).

As at 31 December 2014, the Group's bank and other borrowings of HK\$8,602,488,000 (2013: HK\$9,634,747,000), nil (2013: HK\$23,847,000) and HK\$88,438,000 (2013: HK\$94,188,000) were denominated in Renminbi, United States dollars and Hong Kong dollars, respectively.

29. DEFERRED INCOME

The table below presents the movements of deferred income:

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
At 1 January		209,747	33,092
Addition		11,875	38,549
Acquisition of a subsidiary		—	145,933
Amortised during the year	6	(8,637)	(8,637)
Reversed during the year		(63,272)	—
Exchange realignment		(3,709)	810
		<u>146,004</u>	<u>209,747</u>
At 31 December		<u>146,004</u>	<u>209,747</u>

The balance represented the receipt of government grants for the construction of certain of the Group's production plants, which has been credited as a non-current liability in the consolidated statement of financial position. Such deferred income is amortised on the straight-line basis to profit or loss over the expected useful lives of the relevant assets acquired.

30. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Fair value adjustments arising from acquisition of subsidiaries <i>HK\$'000</i>	Loss of control of a subsidiary <i>HK\$'000</i>	Withholding tax on distributable profits of the Group's PRC subsidiary <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013	43,108	211,692	3,959	3,742	5,617	268,118
Deferred tax charged to the statement of profit or loss during the year (<i>note 10</i>)	1,789	—	—	—	11,099	12,888
Deferred tax charged to other comprehensive income during the year	—	(69,745)	—	—	—	(69,745)
Acquisition of subsidiaries	—	—	17,457	—	—	17,457
Exchange realignment	1,586	—	—	—	—	1,586
	<u>46,483</u>	<u>141,947</u>	<u>21,416</u>	<u>3,742</u>	<u>16,716</u>	<u>230,304</u>
At 31 December 2013 and 1 January 2014	46,483	141,947	21,416	3,742	16,716	230,304
Deferred tax charged to the statement of profit or loss during the year (<i>note 10</i>)	1,992	—	—	—	—	1,992
Exchange realignment	(931)	—	—	—	—	(931)
	<u>47,544</u>	<u>141,947</u>	<u>21,416</u>	<u>3,742</u>	<u>16,716</u>	<u>231,365</u>
At 31 December 2014	<u>47,544</u>	<u>141,947</u>	<u>21,416</u>	<u>3,742</u>	<u>16,716</u>	<u>231,365</u>

Deferred tax assets

	Trade receivables provision HK\$'000	Inventories provision HK\$'000	Government subsidy HK\$'000	Total HK\$'000
At 1 January 2013	26,711	61,123	3,279	91,113
Impairment of deferred tax assets (<i>note 10</i>)	(3,803)	(47,825)	—	(51,628)
Deferred tax credited to the statement of profit or loss during the year (<i>note 10</i>)	(10,122)	(6,516)	—	(16,638)
Exchange realignment	<u>676</u>	<u>1,547</u>	<u>83</u>	<u>2,306</u>
At 31 December 2013 and 1 January 2014	13,462	8,329	3,362	25,153
Impairment of deferred tax assets (<i>note 10</i>)	(13,294)	(6,015)	(3,321)	(22,630)
Deferred tax credited to the statement of profit or loss during the year (<i>note 10</i>)	—	(1,242)	—	(1,242)
Exchange realignment	<u>(168)</u>	<u>(104)</u>	<u>(41)</u>	<u>(313)</u>
At 31 December 2014	<u>—</u>	<u>968</u>	<u>—</u>	<u>968</u>

The Group has accumulated tax losses arising in Hong Kong of approximately HK\$155,360,000 (2013: HK\$32,776,000) that are available indefinitely for offsetting against future taxable profits of the companies from which the losses arose. The Group has accumulated tax losses arising in the PRC subsidiaries of approximately HK\$7,018,696,000 (2013: HK\$4,329,136,000) which are available for offsetting against future taxable profits of these subsidiaries in one to five years. In the opinion of the directors, deferred tax assets have not been recognised as it is uncertain whether future taxable profits would arise to offset against these losses.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2014, deferred tax of HK\$16,716,000 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL**Shares**

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
10,000,000,000 (2013: 10,000,000,000)		
ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
3,263,489,164 (2013: 3,263,489,164)		
ordinary shares of HK\$0.10 each	<u>326,349</u>	<u>326,349</u>

There was no share option exercised during the year ended 31 December 2014 and 31 December 2013.

32. SHARE OPTION SCHEMES**(a) Share option scheme of the Company**

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

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

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

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

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

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

The following share options were outstanding under the Scheme of the Company during the year:

	2014		2013	
	Weighted average exercise price per share <i>HK\$</i>	Number of options <i>'000</i>	Weighted average exercise price per share <i>HK\$</i>	Number of options <i>'000</i>
At 1 January	1.24	3,100	1.24	4,600
Forfeited during the year		<u>—</u>	1.24	<u>(1,500)</u>
At 31 December	1.24	<u>3,100</u>	1.24	<u>3,100</u>

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2014		The closing price immediately preceding the date of grant <i>HK\$</i>	Exercise price <i>HK\$</i>	Number of options <i>'000</i>
Exercise period	Grant date			
21-1-2011 to 20-1-2016	21-1-2011	<u>1.24</u>	<u>1.24</u>	<u>3,100</u>
2013		The closing price immediately preceding the date of grant <i>HK\$</i>	Exercise price <i>HK\$</i>	Number of options <i>'000</i>
Exercise period	Grant date			
21-1-2011 to 20-1-2016	21-1-2011	<u>1.24</u>	<u>1.24</u>	<u>3,100</u>

There were no additional share options granted during the years ended 31 December 2014 and 2013. The fair value of the share options granted during the year ended 31 December 2011 was HK\$0.35 each.

The fair value of equity-settled share options granted during the year ended 31 December 2011 was estimated as at the date of grant, using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	4.00
Expected volatility (%)	45.10
Risk-free interest rate (%)	1.50
Expected life of options (month)	60
Weighted average share price (HK\$ per share)	1.24

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome either.

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

At the end of the reporting period, the Company had 3,100,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,100,000 additional ordinary shares of the Company, giving rise to additional share capital of HK\$310,000 and share premium of HK\$3,534,000 (before issue expenses).

(b) Share option scheme of GSH

GSH operates a share option scheme (the “GSH Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of GSH group’s operations. Eligible participants of the GSH Scheme include GSH’s eligible employees, non-executive directors, suppliers of goods or services to GSH Group, customers of any member of the GSH Group, the shareholders of GSH Group, advisers or consultants of GSH group, and any other groups or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of GSH Group. The GSH Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

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

The following share options were outstanding under the GSH Scheme during the year:

	2014		2013	
	Weighted average exercise price per share <i>HK\$</i>	Number of options <i>'000</i>	Weighted average exercise price per share <i>HK\$</i>	Number of options <i>'000</i>
At 1 January	1.67	25,400	1.67	31,400
Forfeited during the year	1.67	<u>(500)</u>	1.67	<u>(6,000)</u>
At 31 December	1.67	<u>24,900</u>	1.67	<u>25,400</u>

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2014		The closing price immediately preceding the date of grant <i>HK\$</i>	Exercise price* <i>HK\$</i>	Number of options <i>'000</i>
Exercise period	Grant date			
11-7-2011 to 10-7-2016	11-7-2011	<u>1.67</u>	<u>1.67</u>	<u>24,900</u>
2013		The closing price immediately preceding the date of grant <i>HK\$</i>	Exercise price* <i>HK\$</i>	Number of options <i>'000</i>
Exercise period	Grant date			
11-7-2011 to 10-7-2016	11-7-2011	<u>1.67</u>	<u>1.67</u>	<u>25,400</u>

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in GSH's share capital.

There were no additional share options granted during the years ended 31 December 2014 and 2013. The fair value of the share options granted during the year ended 31 December 2011 was HK\$0.59 each.

The fair value of equity-settled share options granted during the year ended 31 December 2011 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	1.00
Expected volatility (%)	63.00
Risk-free interest rate (%)	1.44
Expected life of options (month)	60
Weighted average share price (HK\$ per share)	1.67

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome either.

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

At the end of the reporting period, GSH had 24,900,000 share options outstanding under the GSH Scheme. The exercise in full of the outstanding share options would, under the present capital structure of GSH, result in the issue of 24,900,000 additional ordinary shares of GSH, giving rise to additional share capital of HK\$2,490,000 and share premium of HK\$39,093,000 (before issue expenses).

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 61 to 62 of the financial statements.

The share premium account of the Group 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 GSH's shares on the Main Board of the Stock Exchange in prior years, and the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the capitalisation issue in prior years; and (iii) the premium arising from the placing and subscriptions of new ordinary shares in the prior years.

Certain subsidiaries, which are established in the PRC as wholly-foreign-owned or Sino- foreign enterprises, 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 the reserve reaches 50% of their respective registered capital, upon which any further appropriation is at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries.

(b) Company

	<i>Note</i>	Share premium account <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013		2,719,588	1,612	609,650	3,330,850
Loss for the year	<i>11</i>	—	—	(116,160)	(116,160)
Equity-settled share option arrangement		—	(525)	525	—
At 1 January 2014		2,719,588	1,087	494,015	3,214,690
Loss for the year	<i>11</i>	—	—	(25,572)	(25,572)
Equity-settled share option arrangement		—	(295)	295	—
At 31 December 2014		<u>2,719,588</u>	<u>792</u>	<u>468,738</u>	<u>3,189,118</u>

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account 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 account may also be distributed in the form of fully paid bonus shares.

34. CONTINGENT LIABILITIES

Group

Patent infringement

Since 2006, the Company and certain of its wholly-owned subsidiaries (“Relevant Group Members”) have been involved in litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. (“Plaintiffs”) against the Relevant Group Members.

Alleged infringement of EP 1.664.318 (entitled “L-amino acid-producing microorganism and method for producing L-amino acid”) (“EP ‘318”)

Pursuant to the writs of summons received by the Relevant Group Members on 6 August 2013 from the court bailiff of the Court in The Hague, the Netherlands (the “Court”), the Plaintiffs alleged that the Relevant Group Members have infringed EP ‘318 and requested the Court to rule that the Relevant Group Members have committed infringement and to make orders against the Relevant Group Members for, among others things, (i) forbidding the Relevant Group Members to commit infringement, or in any case to be involved in and/or benefit from infringing activities with regard to the Dutch part of the Relevant Patent; (ii) forbidding the Relevant Group Members to be involved in and/or benefit from the commercial trade of L-lysine on the Dutch market for a period of one year; (iii) providing to the counsel of the Plaintiffs an overview of the turnovers and net profits realized with the infringing L-lysine products; (iv) requesting all buyers of the Relevant Group Members with registered offices in the Netherlands to return the infringing L-lysine products; (v) placing a message on the website of the Company regarding the infringement; (vi) surrendering and destroying the stored infringing L-lysine products in the Netherlands; (vii) paying penalty of EUR100,000 per day for non-compliance of any of the above orders; (viii) paying for the cost of the legal proceedings; and (ix) paying either the net profit enjoyed with the infringement and interest accrued thereon as the Plaintiffs may claim, or the net profit enjoyed by the Relevant Group Members or the damage, costs of which to be assessed by the Court.

On 8 January 2014, a response was filed on behalf of the Relevant Group Members disputing the allegations of infringement and by way of counterclaim requesting invalidation of the invoked patent. The Plaintiffs filed a response to the aforementioned counterclaim and an oral hearing was scheduled on 13 June 2014. On 14 September 2014, the Court rejected the Plaintiffs’ claim and awarded part of the claims of the Relevant Group Members. The Plaintiffs was ordered to pay half of the legal costs of the Relevant Group Members. The Plaintiffs timely appealed the decision by means of a writ of summons dated 9 December 2014 and the Relevant Group Members filed its response and cross appeal on 24 February 2015. On 31 March 2015, the infringement is still in the proceedings.

Alleged infringement of EP 0.796.912 (entitled “novel lysine decarboxylase gene and process for producing L-lysine”) (“EP ‘912”)

A judgment has been rendered by the District Court which rules that the Relevant Group Members have committed infringement of EP ‘912. The District Court also issued orders, among other things, (i) prohibiting the Relevant Group Members from further infringement of the patent numbered EP ‘912 in the Netherlands; (ii) requiring the Relevant Group Members to deliver to the Plaintiffs or destroy all infringing L-lysine products in the Netherlands; (iii) requiring the Relevant Group Members to provide a report to the Plaintiffs’ legal advisers showing the revenue and net profit generated by the infringing L-lysine products in the Netherlands; and (iv) requiring, at the choice of the Plaintiffs, the surrender of the net profits made by the Relevant Group Members from the alleged infringement or payment of damages to the Plaintiffs.

The directors have been advised by the Group's legal counsel that the Group has ground to defend the claims in relation to EP'318 and EP'912. Therefore, no provision for any infringement compensation is considered necessary.

Litigation relating to the delay of payment to suppliers in Mainland China

During the current year, due to the short of working capital, the Group delayed to settle the trade payables to suppliers, and several subsidiaries in Mainland China have been involved in litigations in Mainland China initiated by 50 suppliers related to overdue trade payables. The total alleged amount of litigation is approximate HK\$49,000,000. Up to the date of this report, majority of litigations are already concluded by the court or settled, the litigation with the alleged amount of HK\$1,380,000 is pending for the judgment. Since the Group already recorded all these trades payable in the financial statements as at 31 December 2014, the directors are of the view that the litigation has no significant impact on the Group's financial statements for the year ended 31 December 2014.

Financial guarantee contracts

During November 2010 to March 2015, the Company and several subsidiaries established in Mainland China entered into financial guarantee contracts with Bank of China ("BOC") and Agricultural Bank of China ("ABC") for the benefit of Dajincang in respect of its certain bank borrowings. The maximum guaranteed amounts were RMB3 billion at 31 December 2010, 2011 and 2012, RMB3.35 billion as at 31 December 2013 and RMB2.85 billion as at 31 December 2014. These financial guarantee contracts were not disclosed as contingent liabilities in the Group's and the Company's financial statements in previous years, and were not recognised in the Group's and the Company's financial statements as at 31 December 2014 and in previous years. Please refer to the Company's announcement dated 31 March 2015 for details of the financial guarantee contracts.

Save as disclosed above and elsewhere in the financial statements, the Group did not have other significant contingent liabilities at the end of the reporting period.

Company

At 31 December 2014, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$6,533,437,500 (2013: HK\$6,981,023,000).

35. COMMITMENTS

At 31 December 2014, the Group had capital commitments as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Land premiums and leasehold buildings	200,775	161,626
Plant and machinery	<u>102,241</u>	<u>76,258</u>
	<u>303,016</u>	<u>237,884</u>

The Company did not have any other significant commitments as at 31 December 2014.

36. RELATED PARTY TRANSACTIONS**(i) Transactions with related parties**

During the year, the following related party transactions were noted:

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Sale of electricity and water to an associate	<i>(a)</i>	297	—
Purchase of corn refinery products from a former associate	<i>(b)</i>	—	72,368
Purchase of equipment from a related party	<i>(c)</i>	<u>25,622</u>	<u>20,482</u>

Notes:

- (a) The transactions with Changchun Dacheng Hexin, an associate of the Group, were made at prices mutually agreed between the parties.
- (b) The transactions with Harbin Dacheng, a former associate of the Group, were made at prices mutually agreed between the parties.
- (c) The company and the Group have one director in common, thus, in the opinion of the directors, this company is a related party to the Group.

(ii) Transactions with Dajincang

Dajincang, one of the major suppliers of the Group, is a company beneficially owned by the staff union of the Group's PRC employees. Dajincang has two directors in common with the Group's subsidiaries located in Mainland China. Thus Dajincang is deemed as a related party to the Group. The total purchases from Dajincang for the year ended 31 December 2014 amounted to HK\$1,532,078,000 (2013: HK\$4,386,462,000). The transactions with Dajincang were made at prices mutually agreed between the parties.

As at 31 December 2014, the other receivables due from and prepayment made to Dajincang amounted to approximately HK\$793 million (2013: trade payable of HK\$320 million). Further details are set out in note 23 to the financial statements.

(iii) Balances with related parties

At the end of the reporting period, the Group's balances due from/to related parties were as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Due from an associate	21,320	31,110
Due to a related party	<u>48,907</u>	<u>1,127</u>

The short term balances with the associate and related party are unsecured, interest-free and have no fixed terms of repayment. The balances approximate to their fair values.

(iv) Compensation of key management personnel of the Group

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	963	7,200
Post-employment benefits	<u>53</u>	<u>30</u>
Total compensation paid to key management personnel	<u><u>1,016</u></u>	<u><u>7,230</u></u>

Save as disclosed above and elsewhere in the consolidated financial statements, the Group did not have other related party transactions for the year.

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

2014

Financial assets	Group		
	Financial assets at fair value through profit or loss designated as such upon initial recognition <i>HK\$'000</i>	Loans and receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and bills receivables	—	581,793	581,793
Financial assets included in prepayments, deposits and other receivables (<i>note 23</i>)	—	1,033,180	1,033,180
Due from an associate	—	21,320	21,320
Equity investments at fair value through profit or loss	35,617	—	35,617
Cash and cash equivalents	—	478,780	478,780
Pledged deposits	<u>—</u>	<u>269,909</u>	<u>269,909</u>
	<u><u>35,617</u></u>	<u><u>2,384,982</u></u>	<u><u>2,420,599</u></u>

2013

Financial assets	Financial assets at fair value through profits or loss designated as such upon initial recognition <i>HK\$'000</i>	Group	
		Loans and receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and bills receivables	—	1,419,257	1,419,257
Financial assets included in prepayments, deposits and other receivables (<i>note 23</i>)	—	420,526	420,526
Due from an associate	—	31,110	31,110
Equity investments at fair value through profit or loss	93,581	—	93,581
Derivative financial instruments	19,021	—	19,021
Cash and cash equivalents	—	1,309,997	1,309,997
Pledged deposits	—	133,996	133,996
	<u>112,602</u>	<u>3,314,886</u>	<u>3,427,488</u>

2014

Financial liabilities	Group	
	Financial liabilities at amortised cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and bills payables	2,001,091	2,001,091
Financial liabilities included in other payables and accruals	1,065,290	1,065,290
Interest-bearing bank and other borrowings	8,690,926	8,690,926
	<u>11,757,307</u>	<u>11,757,307</u>

2013

Financial liabilities	Group		
	Fair liabilities at fair value through profit or loss designated as such upon initial recognition <i>HK\$'000</i>	Financial liabilities at amortised cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and bills payables	—	2,225,258	2,225,258
Financial liabilities included in other payables and accruals	—	691,742	691,742
Interest-bearing bank and other borrowings	—	9,752,782	9,752,782
Bonds	44,483	—	44,483
	<u>44,483</u>	<u>12,669,782</u>	<u>12,714,265</u>

2014

Financial assets	Company	
	Loans and receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Due from subsidiaries	2,968,318	2,968,318
Other receivables	358	358
Cash and cash equivalents	41,008	41,008
	<u>3,009,684</u>	<u>3,009,684</u>

2013

Financial assets	Company		
	Fair assets at fair value through profit or loss designated as such upon initial recognition <i>HK\$'000</i>	Loans and receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Due from subsidiaries	—	2,930,090	2,930,090
Other receivables	—	359	359
Derivative financial instruments	19,021	—	19,021
Cash and cash equivalents	—	133,259	133,259
	<u>19,021</u>	<u>3,063,708</u>	<u>3,082,729</u>

2014

Financial liabilities	Company	
	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Financial liabilities included in other payables and accruals	6,881	6,881
Financial guarantee contracts	<u>706,407</u>	<u>706,407</u>
	<u>713,288</u>	<u>713,288</u>

2013

Financial liabilities	Company		
	Financial liabilities at fair value through profit or loss designated as such upon initial recognition HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Financial liabilities included in other payables and accruals	—	9,870	9,870
Financial guarantee contracts	—	706,407	706,407
Bonds	<u>44,483</u>	<u>—</u>	<u>44,483</u>
	<u>44,483</u>	<u>716,277</u>	<u>760,760</u>

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Group

	Carrying amounts		Fair values	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Financial assets				
Derivative financial instruments	—	19,021	—	19,021
Equity investments at fair value through profit or loss	<u>35,617</u>	<u>93,581</u>	<u>35,617</u>	<u>93,581</u>
	<u>35,617</u>	<u>112,602</u>	<u>35,617</u>	<u>112,602</u>
Financial liabilities				
Interest-bearing bank and other borrowings	8,690,926	9,752,782	8,690,926	9,752,782
Bonds	<u>—</u>	<u>44,483</u>	<u>—</u>	<u>44,483</u>
	<u>8,690,926</u>	<u>9,797,265</u>	<u>8,690,926</u>	<u>9,797,265</u>

Company

	Carrying amounts		Fair values	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities				
Financial guarantee contracts	706,407	706,407	706,407	706,407
Bonds	—	44,483	—	44,483
	<u>706,407</u>	<u>750,890</u>	<u>706,407</u>	<u>750,890</u>

Management has assessed that the fair values of cash and cash equivalents, the current pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries and amounts due from an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The fair values of interest-bearing bank and other borrowings, bonds and a put option have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2014 was assessed to be insignificant.

The fair value of equity investments at fair value through profit or loss has been calculated based on quoted market prices.

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

Assets measured at fair values:

Group

As at 31 December 2014

	Fair value measurement using			Total <i>HK\$'000</i>
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets	inputs	inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity investments at fair value through profit or loss	35,617	—	—	35,617

Group

As at 31 December 2013

	Fair value measurement using			Total <i>HK\$'000</i>
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets	inputs	inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Derivative financial instruments	—	19,021	—	19,021
Equity investments at fair value through profit or loss	93,581	—	—	93,581
	<u>93,581</u>	<u>19,021</u>	<u>—</u>	<u>112,602</u>

Company

As at 31 December 2013

	Fair value measurement using			Total <i>HK\$'000</i>
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets	inputs	inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Derivative financial instruments	—	19,021	—	19,021

Liabilities measured at fair values:

Group

As at 31 December 2013

	Fair value measurement using			Total HK\$'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Bonds	—	44,483	—	44,483

Company

As at 31 December 2014

	Fair value measurement using			Total HK\$'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Financial guarantee contracts	—	706,407	—	706,407

Company

As at 31 December 2013

	Fair value measurement using			Total HK\$'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Bonds	—	44,483	—	44,483
Financial guarantee contracts	—	706,407	—	706,407
	—	750,890	—	750,890

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

Liabilities for which fair values are disclosed:**Group**

As at 31 December 2014

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank and other borrowings	—	8,690,926	—	8,690,926

As at 31 December 2013

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank and other borrowings	—	9,752,782	—	9,752,782

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group include trade and bills receivables, prepayments, deposits and other receivables, amounts due from an associate, equity investments at fair value through profit or loss and cash and cash equivalents. Financial liabilities of the Group include trade and bills payables, other payables, interest-bearing bank and other borrowings.

Financial assets of the Company include amounts due from subsidiaries and cash and cash equivalents. Financial liabilities of the Company include other payables and financial guarantee contracts.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations 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 flows of the operations and the debt markets, where the Group would expect to refinance these borrowings with a lower cost of debt, when considered appropriate.

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

	Group			Company	
	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit/ (loss) before tax HK\$'000	Increase/ (decrease) in equity HK\$'000	Increase/ (decrease) in interest rate %	Increase/ (decrease) in equity HK\$'000
2014					
Hong Kong dollar	1	(66,947)	(53,600)	1	(351)
Hong Kong dollar	(1)	66,947	53,600	(1)	351
2013					
Hong Kong dollar	1	(68,515)	(54,164)	1	(371)
Hong Kong dollar	(1)	68,515	54,164	(1)	371

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, amounts due from an associate and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 34 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, and financial assets included in prepayments, deposits and other receivables are disclosed in notes 22 and 23 to the financial statements.

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 instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's policy is to maintain sufficient cash and cash equivalents or to have 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 financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2014					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	2,001,091	—	—	—	—	2,001,091
Interest-bearing bank and other borrowings	94,474	817,825	5,294,463	2,736,127	229,737	9,172,626
Other payables and accruals	<u>828,201</u>	<u>237,089</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,065,290</u>
	<u><u>2,923,766</u></u>	<u><u>1,054,914</u></u>	<u><u>5,294,463</u></u>	<u><u>2,736,127</u></u>	<u><u>229,737</u></u>	<u><u>12,239,007</u></u>

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

Group

	2013					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	2,225,258	—	—	—	—	2,225,258
Interest-bearing bank and other borrowings	132,162	1,098,788	3,793,355	3,432,026	2,629,579	11,085,910
Other payables and accruals	593,088	98,654	—	—	—	691,742
Bonds	<u>—</u>	<u>—</u>	<u>44,483</u>	<u>—</u>	<u>—</u>	<u>44,483</u>
	<u><u>2,950,508</u></u>	<u><u>1,197,442</u></u>	<u><u>3,837,838</u></u>	<u><u>3,432,026</u></u>	<u><u>2,629,579</u></u>	<u><u>14,047,393</u></u>

The maturity profile of the Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company

	2014					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Financial guarantee contracts	763,438	637,500	3,087,500	1,903,000	142,000	6,533,438
Other payables and accruals	6,881	—	—	—	—	6,881
	<u>770,319</u>	<u>637,500</u>	<u>3,087,500</u>	<u>1,903,000</u>	<u>142,000</u>	<u>6,540,319</u>

Company

	2013					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Financial guarantee contracts	34,188	531,646	1,473,418	2,493,671	2,448,100	6,981,023
Other payables and accruals	9,870	—	—	—	—	9,870
Bonds	—	—	44,483	—	—	44,483
	<u>44,058</u>	<u>531,646</u>	<u>1,517,901</u>	<u>2,493,671</u>	<u>2,448,100</u>	<u>7,035,376</u>

Note: Included in interest-bearing bank and other borrowings of the Group are term loans in the amount of HK\$83,888,000 (31 December 2013: HK\$28,438,000). Each of the loan agreements contains a repayment on-demand clause giving the bank the unconditional right to call the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Supply risk

Certain subsidiaries of the Group entered into purchase agreements with Dajincang for the purchases of corn kernels, the principal raw materials for the production of certain of the Group's products. Pursuant to the existing purchase agreements, the Group agreed to purchase from the Union Company a total of 600,000 tons of corn kernels amounting to approximately HK\$1,643 million during the contract period (one year) and bear certain warehouse administration expenses. At the end of the reporting period, the purchase commitment pursuant to the above agreements was approximately 477,000 tons, and the directors have estimated the amount to be approximately HK\$1,166 million.

If the supplier is unable to obtain corn kernels for sales to the Group, and the Group is unable to obtain supplies from other sources, the Group's operations and performance may be adversely affected.

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 2014 and 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital. The Group's policy is to maintain the gearing ratio at approximately 60%. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank and other borrowings	8,690,926	9,752,782
Less: Cash and cash equivalents	<u>(478,780)</u>	<u>(1,309,997)</u>
Net debt	<u>8,212,146</u>	<u>8,442,785</u>
Capital	<u>822,306</u>	<u>4,252,638</u>
Gearing ratio	<u>999%</u>	<u>199%</u>

40. LITIGATIONS

Since 2006, the Company and certain of its wholly-owned subsidiaries ("Relevant Group Members") have been involved in litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. ("Plaintiffs") against the Relevant Group Members. Final judgement by the courts confirmed that the Relevant Group Members had infringed certain patents of the Plaintiffs. Relevant Group Members were forbidden to sell the infringed products in the Netherlands subsequent to the judgment.

In respect of an alleged new infringement of EP 0.773.710 (entitled "Process for Producing L-Lysine by Fermentation") ("EP '710") initiated by the Plaintiffs, In October 2013, a writ was served by the Plaintiffs on the Relevant Group Members in the Netherlands in respect of the Relevant Group Members' violation of the injunction as it was found that the Relevant Group Members continued to sell infringed products in the Netherlands.

By its judgment of 17 February 2014 (and the corrective judgment on 10 March 2014), the court confirmed the allegation against the Relevant Group Members. During the year, payment was made to the filing of the writ, pursuant to a request from the Plaintiffs. The Relevant Group Members received the writ of summons dated 12 August 2014, on which the Plaintiffs claims confirmation of the measures imposed by the judgment of 17 February 2014. The directors, after having sought legal advice and based on latest available information which includes a calculation method of the penalty as set out in the relevant judgment and the prior request for payment by the Plaintiffs, paid an upfront payment and legal cost during the current year, which the management considers to be a fair estimate of the penalty payable under the judgment subject to other methods of calculation of penalty not being applied or applicable, as to which the Company's external legal advices are unable to advise in definitive terms at

this stage. The Group is currently seeking legal advice in relation to the above judgment, which may include an application for clarification of the judgment. Please refer to the Company's announcement dated 25 March 2014 for details of the infringement.

Apart from those disclosed in the consolidated financial statements, the Relevant Group Members are also involved in other matters of litigations. Certain of the litigations have been settled and some of the litigations are pending for the outcome of the judgement. Management has estimated that these pending litigations would not give rise to significant financial liabilities to the Group.

41. EVENT AFTER THE REPORTING PERIOD

In February 2015, the Group has entered into a maximum pledge contract with a bank in Mainland China to provide pledge to secure banking facilities granted to a subsidiary. The maximum pledge amount is RMB200 million (approximately HK\$250 million). The carrying amounts of the leasehold buildings and prepaid land lease payments of the Group subject to the pledge are HK\$149,529,000 and HK\$41,883,000, respectively.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2015.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2015

The following is the full text of the unaudited consolidated financial statements of the Group for the six months ended 30 June 2015 as extracted from the interim report of the Company for the six months ended 30 June 2015.

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
REVENUE			
Sales of goods	4	1,585,972	3,642,847
Cost of sales		<u>(1,755,929)</u>	<u>(4,133,169)</u>
Gross loss		(169,957)	(490,322)
Other income and gains	4	41,510	334,387
Selling and distribution costs		(111,181)	(330,980)
Administrative expenses		(362,682)	(361,967)
Other expenses		(135,461)	(250,071)
Finance costs	5	<u>(291,048)</u>	<u>(322,655)</u>
LOSS BEFORE TAX	6	(1,028,819)	(1,421,608)
Income tax expense	7	<u>(1,749)</u>	<u>(9,159)</u>
LOSS FOR THE PERIOD		(1,030,568)	(1,430,767)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Hong Kong		<u>(5,147)</u>	<u>(65,323)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u><u>(1,035,715)</u></u>	<u><u>(1,496,090)</u></u>

	<i>Notes</i>	Six months ended 30 June	
		2015	2014
		(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
LOSS ATTRIBUTABLE TO:			
Owners of the parent		(970,600)	(1,341,914)
Non-controlling interests		<u>(59,968)</u>	<u>(88,853)</u>
		<u><u>(1,030,568)</u></u>	<u><u>(1,430,767)</u></u>
TOTAL COMPREHENSIVE LOSS			
ATTRIBUTABLE TO:			
Owners of the parent		(975,747)	(1,400,317)
Non-controlling interests		<u>(59,968)</u>	<u>(95,773)</u>
		<u><u>(1,035,715)</u></u>	<u><u>(1,496,090)</u></u>
LOSS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	<u><u>HK29.74 cents</u></u>	<u><u>HK41.13 cents</u></u>

Details of the dividends proposed for the period are disclosed in note 8 to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Financial Position

30 June 2015

		30 June 2015	31 December 2014
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	10	8,457,174	8,762,369
Prepaid land lease payments		686,771	697,351
Deposits paid for acquisition of property, plant and equipment and prepaid land lease payments		9,337	5,907
Goodwill	11	—	106,308
Intangible assets		5,424	5,424
Deferred tax assets		968	968
		<u>9,159,674</u>	<u>9,578,327</u>
TOTAL non-current assets			
CURRENT ASSETS			
Inventories	12	548,069	843,829
Trade and bills receivables	13	322,601	581,793
Prepayments, deposits and other receivables		2,145,853	1,946,818
Due from associates		15,879	21,320
Equity investments at fair value through profit or loss		35,617	35,617
Pledged deposits		12,431	269,909
Cash and cash equivalents		322,844	478,780
		<u>3,403,294</u>	<u>4,178,066</u>
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	14	1,287,681	2,001,091
Other payables and accruals		1,913,488	1,246,304
Interest-bearing bank borrowings	15	6,521,382	6,008,438
Tax payable		166,918	182,813
		<u>9,889,469</u>	<u>9,438,646</u>
TOTAL current liabilities			
NET CURRENT LIABILITIES		<u>(6,486,175)</u>	<u>(5,260,580)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,673,499</u>	<u>4,317,747</u>

		30 June 2015	31 December 2014
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	2,068,738	2,682,488
Deferred tax liabilities		231,103	231,365
Deferred income		<u>144,268</u>	<u>146,004</u>
Total non-current liabilities		<u>2,444,109</u>	<u>3,059,857</u>
Net assets		<u>229,390</u>	<u>1,257,890</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	16	326,349	326,349
Reserves		<u>(476,933)</u>	<u>495,957</u>
		(150,584)	822,306
Non-controlling interests		<u>379,974</u>	<u>435,584</u>
Total equity		<u>229,390</u>	<u>1,257,890</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

	Attributable to owners of the parent										
	Issued capital	Share premium account	Share option reserve	Asset revaluation reserve	Other reserve	Statutory reserve fund	Exchange fluctuation reserve	Accumulated loss	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	326,349	2,431,853	15,778	429,877	15,677	351,875	1,815,001	(4,564,104)	822,306	435,584	1,257,890
Loss for the period	—	—	—	—	—	—	—	(970,600)	(970,600)	(59,968)	(1,030,568)
Other comprehensive income for the period:											
Exchange realignment	—	—	—	—	—	—	(5,147)	—	(5,147)	—	(5,147)
Total comprehensive loss for the period	—	—	—	—	—	—	(5,147)	(970,600)	(975,747)	(59,968)	(1,035,715)
Acquisition of non-controlling interests	—	—	—	—	2,857	—	—	—	2,857	4,358	7,215
Transfer of share option reserve upon the forfeiture of share options of a subsidiary	—	—	(1,534)	—	—	—	—	1,534	—	—	—
At 30 June 2015 (unaudited)	<u>326,349</u>	<u>2,431,853*</u>	<u>14,244*</u>	<u>429,877*</u>	<u>18,534*</u>	<u>351,875*</u>	<u>1,809,854*</u>	<u>(5,533,170)*</u>	<u>(150,584)</u>	<u>379,974</u>	<u>229,390</u>

* These reserve accounts comprise the debit consolidated reserves of HK\$476,933,000 (31 December 2014 (audited): credit of HK\$495,957,000) in the condensed consolidated statement of financial position as at 30 June 2015.

	Attributable to owners of the parent										
	Issued capital	Share premium account	Share option reserve	Asset revaluation reserve	Other reserve	Statutory reserve fund	Exchange fluctuation reserve	Accumulated loss	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	326,349	2,431,853	16,073	429,877	15,677	349,547	1,873,945	(1,190,683)	4,252,638	842,270	5,094,908
Loss for the period	—	—	—	—	—	—	—	(1,341,914)	(1,341,914)	(88,853)	(1,430,767)
Other comprehensive income for the period:											
Exchange realignment	—	—	—	—	—	—	(58,403)	—	(58,403)	(6,920)	(65,323)
Total comprehensive loss for the period	—	—	—	—	—	—	(58,403)	(1,341,914)	(1,400,317)	(95,773)	(1,496,090)
Transfer of share option reserve upon the forfeiture of share options of a subsidiary	—	—	(295)	—	—	—	—	295	—	—	—
At 30 June 2014 (unaudited)	<u>326,349</u>	<u>2,431,853</u>	<u>15,778</u>	<u>429,877</u>	<u>15,677</u>	<u>349,547</u>	<u>1,815,542</u>	<u>(2,532,302)</u>	<u>2,852,321</u>	<u>746,497</u>	<u>3,598,818</u>

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015	2014
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(1,028,819)	(1,421,608)
Adjustments for:			
Finance costs	5	291,048	322,655
Bank interest income	4	(12,251)	(5,665)
Loss on disposal of items of property, plant and equipment	6	—	4,260
Gain on resumption of land, property, plant and equipment	4	—	(256,863)
Depreciation	6	286,275	297,605
Amortisation of prepaid land lease payments	6	10,580	12,322
Amortisation of intangible assets	6	—	4
Amortisation of deferred income		(1,736)	(4,863)
Reversal of impairment of other receivables	6	—	(10,778)
Provision for impairment of trade and bills receivables	6	22,355	118,313
Write-down of inventories to net realisable value	6	43,865	141,177
Impairment of goodwill	6	106,308	102,472
Fair value losses/(gains), net:			
— Derivative financial instruments	6	—	4,800
— Equity investments at fair value through profit or loss	4	—	(764)
— Bonds	6	—	327
— Long term receivables	4	—	(8,169)
		<u>(282,375)</u>	<u>(704,775)</u>

	Six months ended 30 June	
	2015	2014
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Decrease in inventories	256,533	877,567
Decrease in trade and bills receivables	240,941	367,358
Increase in prepayments, deposits and other receivables	(196,000)	(96,907)
(Decrease)/Increase in trade and bills payables	(714,563)	30,924
Increase in other payables and accruals	661,685	115,905
Decrease in amounts due from associates	<u>5,441</u>	<u>5,923</u>
Cash (used in)/generated from operations	(28,338)	595,995
Interest received	12,251	5,665
Overseas taxes paid	<u>(7,177)</u>	<u>(7,936)</u>
Net cash flows (used in)/generated from operating activities	<u>(23,264)</u>	<u>593,724</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(22,239)	(77,341)
Proceeds from disposal of items of property, plant and equipment	41,130	1,321
Proceeds from resumption of land, property, plant and equipment	—	344,350
Time deposits with original maturity of more than three months when acquired	—	(250,000)
Proceeds from disposal of financial products at fair value through profit or loss	<u>—</u>	<u>58,734</u>
Net cash flows generated from investing activities	<u>18,891</u>	<u>77,064</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	3,397,500	3,543,750
Repayment of bank loans	(3,498,306)	(4,704,459)
Interest paid	(291,048)	(322,655)
Redemption of bonds	—	(44,810)
Settlement of derivative financial instruments	<u>—</u>	<u>14,221</u>
Net cash flows used in financing activities	<u>(391,854)</u>	<u>(1,513,953)</u>

	Six months ended 30 June	
	2015	2014
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(391,227)	(843,165)
Cash and cash equivalents at beginning of period	478,780	1,443,993
Effect of foreign exchange rate changes, net	<u>(17,187)</u>	<u>(19,739)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>65,366</u>	<u>581,089</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	322,844	815,943
Time deposits with original maturity of less than three months when acquired, pledged as security for issuance of bills payable	12,431	15,146
Non-pledged time deposits with original maturity of more than three months when acquired	<u>(269,909)</u>	<u>(250,000)</u>
Cash and cash equivalents as stated in the statement of cash flows	<u>65,366</u>	<u>581,089</u>

Notes to Interim Condensed Consolidated Financial Statements*30 June 2015***1. CORPORATE INFORMATION**

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 were authorized for issue in accordance with a resolution of the board of directors of the Company on 31 August 2015.

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 May 1999. 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 in Hong Kong is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, 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 period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**2.1 Basis of preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2014.

The Group recorded a consolidated net loss of HK\$1,031 million for the six months ended 30 June 2015 (2014: HK\$1,431 million) and as at that date, the Group recorded net current liabilities of HK\$6,486 million (31 December 2014: HK\$5,261 million). In view of these circumstances, the directors of the Company have taken the following steps to improve the Group's liquidity and solvency position.

(1) *Active negotiations with banks to obtain adequate bank borrowings to finance the Group's operations*

The management of the Company has been actively negotiating with the banks in the PRC to secure the renewals of the Group's short term bank loans and long term bank loans when due to meet its liabilities when fall due.

(2) *Active negotiations with the local government to confirm the relocation compensation*

Pursuant to a Company's announcement on 23 September 2011, the Group commenced a plan to relocate its production facilities located in Lu Yuan District, Changchun, the PRC (“Lu Yuan District”) in response to the request of the local government to industrial companies to move their factories away from the central districts of the city which has been developing rapidly. The relocation has been commenced and will be achieved in stages. Land together with the buildings, machineries and fixtures erected on these pieces of land located in Lu Yuan District will be resumed by the relevant government body, being the Changchun Land Reserve Centre (長春土地儲備中心). Formal contracts have been signed by the parties on the first stage relocation whereby compensation in cash will be settled as follows: (i) RMB202 million (equivalent to HK\$256 million) upon the resumption of the parcel of land;

and (ii) RMB806 million (equivalent to HK\$1,020 million) upon the disposal of the related buildings and fixtures. For the second stage relocation, the Directors have been actively negotiating with the Changchun Land Reserve Centre to agree on the respective compensation. Up to the date of this report, preliminary understanding agreements have been reached by the parties whereby the compensation in cash will be settled with reference to the depreciated replacement cost of the land, buildings, machineries and fixtures amounting to RMB2.45 billion in aggregate as of 31 July 2014 as appraised by an independent valuer appointed by the Land Reserve Centre, which was ratified by the Changchun Land Reserve Centre. It is expected that formal land resumption compensation agreements will be entered into between the Group and Changchun Land Reserve Centre after the finalisation of terms and conditions between the parties, and if required under the Listing Rules, to be subject to approval by shareholders of the Company.

For the first stage relocation, the Group has received cash compensation of RMB608 million, and the management expects the remaining compensation of RMB400 million will be received from the government by end of year 2015. For the second stage relocation, the management expects that, subject to and conditional upon the entering into and completion of the formal agreements, the Directors based on the experience of the first stage relocation and the current discussion status with the relevant party, anticipate that the instalment compensation will be received from the government by end of year 2015 and 2016.

(3) *Subscription agreement for the issue of ordinary shares and convertible bonds*

Reference is made to an announcement of the Company dated 30 August 2015. On 30 August 2015, the Company entered into a subscription agreement with Modern Agricultural Industry Investment Limited (the “Subscriber”) pursuant to which the Subscriber has conditionally agreed to subscribe (the “Subscription”) at the Hong Kong dollar equivalent of RMB1,500,000,000 (the “Total Consideration”) for:

- (i) an aggregate of 3,135,509,196 subscription shares that upon the subscription completion will represent approximately 49% of the issued shares of the Company as enlarged by the allotment and issue of the subscription shares; and
- (ii) the convertible bonds in the aggregate principal amount of the balance of the Total Consideration after subtracting therefrom the subscription monies for subscription shares, which may be converted into the conversion shares pursuant to the terms and conditions of the convertible bonds.

The Board intends to apply the net proceeds from the Subscription for business development, relocation expenses and general working capital purpose of the Group. Shareholders of the Company and potential investors are advised to read the announcement of the Company dated 30 August 2015 or any relevant subsequent announcements/circular of the Company for more information in this connection.

(4) *Improvement of the Group’s operating cash flow*

The Group is taking measures to tighten cost controls over various production costs and expenses with the aim to attain profitable and positive cash flow operations. During the six month ended 30 June 2015, the Group has scaled down certain of its amino acids production and suspended the production of polyol chemicals in order to minimizing operating cash outflow.

Based on the management estimation of the future cash flows of the Group, after taking into account (i) the successful renewals of the Group’s existing bank borrowings; (ii) the receipt of the compensation from the local government in relation to the resumption of lands, buildings, machineries and fixtures erected thereon at Lu Yuan District; (iii) the receipt of subscription proceeds from the Subscription upon its completion; and (iv)

the measures of the operating level aiming to minimize the Group's operating cash outflows, the Directors are of the opinion that the Group is able to generate sufficient funds to meet its financial obligations as and when they fall due in the foreseeable future.

The validity of the going concern assumption on which the interim condensed consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken or to be taken by the Directors as described above. The interim condensed consolidated financial statements of the Group have been prepared on a going concern basis and therefore, do not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

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

2.2 Significant accounting policies

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2014. The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial statements.

Amendments to HKAS 19 (2011) Annual Improvements 2010–2012 Cycle	<i>Defined Benefit Plans: Employee Contributions Amendments to a number of HKFRSs</i>
Annual Improvements 2011–2013 Cycle	<i>Amendments to a number of HKFRSs</i>

The adoption of these new and revised HKFRSs has no significant financial effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the interim condensed consolidated financial statements:

HKFRS 9	<i>Financial Instruments³</i>
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	<i>Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39³</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture¹</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	<i>Investment Entities: Applying the Consolidation Exception¹</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations¹</i>
HKFRS 14	<i>Regulatory Deferral Accounts⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKAS 1	<i>Disclosure Initiative¹</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation¹</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants¹</i>
Amendments to HKAS 27	<i>Equity Method in Separate Financial Statements¹</i>
Annual Improvements 2012–2014 Cycle	<i>Amendments to a number of HKFRSs¹</i>

- ¹ Effective for annual periods beginning on or after 1 January 2016
- ² Effective for annual periods beginning on or after 1 January 2017
- ³ Effective for annual periods beginning on or after 1 January 2018
- ⁴ Effective for first HKFRSs financial statements and for annual periods beginning on or after 1 January 2016 and therefore is not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not yet in a position to state whether these new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. For the six months ended 30 June 2015, the following reportable operating segments are adopted by the Group to better allocate resources of the Group and assess performance of the different operating segments:

- (a) the amino acids segment engages in the manufacture and sale of corn-based biochemical products, including lysine, threonine, and tryptophan;
- (b) the polyol chemicals segment engages in the manufacture and sale of corn-based biochemical products, including polyol chemicals, hydrogen and ammonia; and
- (c) the corn sweeteners segment engages in the manufacture and sale of corn-based biochemical products, including glucose, maltose and dextrin.

All three segments also engage in the manufacture and sale of corn refined products.

The management monitors the operating results of the Group's business units separately for the purpose of making decisions in relation to allocation of the Group and assessment of performance of different operating segments. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, corporate income and expenses are excluded from this measurement.

Segment assets exclude goodwill, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

The Group's revenue is derived from customers based in the mainland of the People's Republic of China ("Mainland China") and in regions other than Mainland China. Another basis on which the Group reports its segment information is by geographical region.

(a) Operating segment information

	Amino acids		Polyol chemicals		Corn Sweeteners		Eliminations		Total	
	Six months ended 30 June									
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue:										
External customers	609,429	2,017,849	45,467	150,730	931,076	1,474,268	—	—	1,585,972	3,642,847
Intersegment	33,604	74,636	—	341,621	—	25,034	(33,604)	(441,291)	—	—
Total revenue	<u>643,033</u>	<u>2,092,485</u>	<u>45,467</u>	<u>492,351</u>	<u>931,076</u>	<u>1,499,302</u>	<u>(33,604)</u>	<u>(441,291)</u>	<u>1,585,972</u>	<u>3,642,847</u>
Segment results	<u>(394,430)</u>	<u>(638,229)</u>	<u>(125,667)</u>	<u>(265,512)</u>	<u>(116,793)</u>	<u>(190,049)</u>	<u>—</u>	<u>—</u>	<u>(636,890)</u>	<u>(1,093,790)</u>
Bank interest income									12,251	5,665
Unallocated revenue									—	39
Unallocated expenses									(113,132)	(10,867)
Finance costs									<u>(291,048)</u>	<u>(322,655)</u>
Loss before tax									(1,028,819)	(1,421,608)
Income tax expense									<u>(1,749)</u>	<u>(9,159)</u>
Loss for the period									<u>(1,030,568)</u>	<u>(1,430,767)</u>

	Amino acids		Polyol chemicals		Corn Sweetener		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2015	2014	2015	2014	2015	2014	2015	2014
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>10,829,086</u>	<u>9,986,414</u>	<u>3,153,629</u>	<u>3,548,644</u>	<u>2,469,338</u>	<u>2,756,825</u>	<u>16,452,053</u>	<u>16,291,883</u>
Reconciliation:								
Elimination of intersegment receivables							(4,224,360)	(3,284,535)
Cash and cash equivalents							322,844	478,780
Pledged deposits							12,431	269,909
Corporate and other unallocated assets							<u>—</u>	<u>356</u>
Total assets							<u>12,562,968</u>	<u>13,756,393</u>
Segment liabilities	<u>2,549,927</u>	<u>2,416,560</u>	<u>4,175,168</u>	<u>3,447,965</u>	<u>1,234,717</u>	<u>1,218,382</u>	<u>7,959,812</u>	<u>7,082,907</u>
Reconciliation:								
Elimination of intersegment payables							(4,224,360)	(3,284,535)
Interest-bearing bank and other borrowings							8,590,120	8,690,926
Corporate and unallocated liabilities							<u>8,006</u>	<u>9,205</u>
Total liabilities							<u>12,333,578</u>	<u>12,498,503</u>

(b) Geographical information

	Mainland China		Regions other than Mainland China		Total	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Revenue:						
External customers	<u>1,342,138</u>	<u>2,851,426</u>	<u>243,834</u>	<u>791,421</u>	<u>1,585,972</u>	<u>3,642,847</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Revenue		
Sale of goods	<u>1,585,972</u>	<u>3,642,847</u>
Other income		
Bank interest income	12,251	5,665
Net profit arising from the sale of packing materials and by-products	2,088	33,363
Government grants*	15,779	13,408
Others	<u>11,383</u>	<u>6,211</u>
	41,501	58,647
Gains		
Exchange gain	9	9,944
Gain on resumption of land, property, plant and equipment	—	256,863
Fair value gains, net:		
— Equity investments at fair value through profit or loss	—	764
— Long term receivables	<u>—</u>	<u>8,169</u>
	<u>41,510</u>	<u>334,387</u>

* Government grants represented the rewards to certain subsidiaries located in Mainland China for environmental protection of land owned by these subsidiaries and energy efficiency rebates.

5. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank and other borrowings	286,770	313,355
Finance costs for discounted bills receivable	4,278	8,286
Interest on bonds	—	1,569
Less: Interest capitalised	—	(555)
	<u>291,048</u>	<u>322,655</u>

6. LOSS BEFORE TAX

The Group's loss from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Raw materials and consumables used	1,388,560	3,031,042
Legal and compensation expenses	8,151	18,131
Depreciation	286,275	297,605
Loss on disposal of items of property, plant and equipment	—	4,260
Amortisation of prepaid land lease payments	10,580	12,322
Amortisation of intangible assets	—	4
Fair value losses/(gains), net:		
— Derivative financial instruments	—	4,800
— Equity investments at fair value through profit or loss	—	(764)
— Bonds	—	327
— Long term receivables	—	(8,169)
Provision for impairment of trade and bills receivables	22,355	118,313
Write-down of inventories to net realisable value [#]	43,865	141,177
Reversal of impairment of other receivables	—	(10,778)
Impairment of goodwill	<u>106,308</u>	<u>102,472</u>

[#] Included in "Cost of sales" in the condensed consolidated statement of profit or loss.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current tax — Hong Kong	—	—
Current tax — Mainland China	1,749	7,693
Deferred Income tax	—	1,466
	<u>1,749</u>	<u>9,159</u>

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

The statutory tax rate for all subsidiaries in Mainland China was 25% for the six months ended 30 June 2015 (2014: 25%).

Changchun Dahe Bio Technology Development Co., Ltd. was approved as an advanced and new technology enterprise by the Jilin Government for the period from 5 November 2010 to 4 November 2016 and enjoys a preferential income tax rate of 15% during that period.

8. DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share for the six months ended 30 June 2015 is based on the consolidated loss for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,262,868,616 (2014: 3,262,868,616).

During the six months ended 30 June 2015 and 2014, as anti-dilutive effect is resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts.

10. PROPERTY, PLANT AND EQUIPMENT

		30 June 2015	31 December 2014
		(Unaudited)	(Audited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January		8,762,369	9,527,647
Additions		22,239	239,174
Exchange realignment		(29)	(115,442)
Disposals		(41,130)	(29,778)
Depreciation	6	(286,275)	(596,599)
Impairment		<u>—</u>	<u>(262,633)</u>
At 30 June 2015/31 December 2014		<u>8,457,174</u>	<u>8,762,369</u>

Included in the Group's property, plant and equipment as at 30 June 2015, were items of HK\$1,681,994,000 (31 December 2014: HK\$1,700,189,000) which are identified by the management to be recovered through sale pursuant to the relocation plan as imposed by the local government. These assets are located at the Lu Yuan District in Changchun, the PRC. In accordance with the current plan, management will not relocate these assets to the new production site. These assets are either operating under a less than normal capacity or became idle at the reporting date as to prepare for the relocation.

11. GOODWILL

		30 June 2015	31 December 2014
		(Unaudited)	(Audited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2015/1 January 2014		106,308	344,553
Impairment during the period/year	6	<u>(106,308)</u>	<u>(238,245)</u>
At 30 June 2015/31 December 2014		<u>—</u>	<u>106,308</u>

As at 30 June 2015, the directors of the Company are of view that, based on their assessment on the business in Lu Yuan District, impairment of goodwill amounted to HK\$106,308,000 was provided.

Further details of the impairment during the year ended 31 December 2014, please refer to the 2014 Annual Report.

12. INVENTORIES

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	124,863	202,672
Finished goods	<u>423,206</u>	<u>641,157</u>
	<u>548,069</u>	<u>843,829</u>

As at 30 June 2015, certain inventories were written down to net realisable value which amounted to approximately HK\$43,865,000 (31 December 2014: HK\$596,224,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	725,245	908,780
Bills receivable	25,524	78,826
Impairment	<u>(428,168)</u>	<u>(405,813)</u>
	<u>322,601</u>	<u>581,793</u>

The Group normally allows credit terms of 90 days to established customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that 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. Trade receivables are non-interest-bearing.

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

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	143,038	338,134
1 to 2 months	52,376	109,693
2 to 3 months	15,792	30,395
3 to 6 months	79,587	101,356
Over 6 months	<u>31,808</u>	<u>2,215</u>
	<u><u>322,601</u></u>	<u><u>581,793</u></u>

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

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	405,813	156,720
Impairment losses recognised	35,469	266,520
Impairment losses reversed	(13,114)	(502)
Amount written off as uncollectible	—	(15,482)
Exchange realignment	<u>—</u>	<u>(1,443)</u>
At 30 June 2015/31 December 2014	<u><u>428,168</u></u>	<u><u>405,813</u></u>

The aging analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	211,206	478,223
Less than 1 month past due	19,778	57,775
1 to 3 months past due	47,809	45,795
Over 3 months past due	<u>43,808</u>	<u>—</u>
	<u><u>322,601</u></u>	<u><u>581,793</u></u>

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

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

14. TRADE AND BILLS PAYABLES

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

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	141,727	829,797
1 to 2 months	281,084	55,997
2 to 3 months	26,664	15,480
Over 3 months	<u>838,206</u>	<u>1,099,817</u>
	<u>1,287,681</u>	<u>2,001,091</u>

The trade payables are non-interest-bearing and normally settled on terms of 30 to 90 days.

15. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	30 June 2015			31 December 2014		
	Effective interest rate %	Maturity	(Unaudited) <i>HK\$'000</i>	Effective interest rate %	Maturity	(Audited) <i>HK\$'000</i>
Current						
Bank loans — secured	5.35	2015–2016	500,000	5.88-8.0	2015	283,750
Bank loans — unsecured	5.61–7.80/ HIBOR+1.5	On demand/ 2015–2016	5,995,219	1.7–7.80/ HIBOR+1.5	On demand/ 2015	5,136,250
Long term bank loans repayable on demand — unsecured	HIBOR+1.5/ Higher (6-months HIBOR+3.3%, bank funding cost+1.5%)	On demand	26,163	HIBOR+1.5/ Higher (6-months HIBOR+3.3%, bank funding cost+1.5%)	On demand	88,438
Entrusted loans — secured			<u>—</u>	9.00	2015	<u>500,000</u>
			<u>6,521,382</u>			<u>6,008,438</u>
Non-current						
Bank loans — secured	8.0	2016–2017	206,250	8.0	2016–2017	212,500
Bank loans — unsecured	6.55	2016–2020	1,855,000	6.150–8.0	2016–2020	2,462,500
Other loans — unsecured		2018–2019	<u>7,488</u>		2018–2019	<u>7,488</u>
			<u>2,068,738</u>			<u>2,682,488</u>
			<u>8,590,120</u>			<u>8,690,926</u>

As at 30 June 2015, certain of the Group's bank borrowings were pledged by trade and bills receivable amounting to HK\$8,927,000 (31 December 2014: HK\$ Nil).

As at 30 June 2015, property, plant and equipment of the Group amounting to HK\$2,810,882 (31 December 2014: HK\$808,577,000) were pledged to secure banking facilities granted to the Group.

As at 30 June 2015, prepaid land lease payments of HK\$236,531,000 (31 December 2014: HK\$320,134,625) were pledged to secure bank loans.

As at 30 June 2015, the Group's bank borrowings were guaranteed by the Company, certain subsidiaries of the Group and independent third parties with amounts of approximately HK\$6,531,162,500 (31 December 2014: HK\$6,533,437,500), approximately HK\$849,015,000 (31 December 2014: HK\$881,250,000), and approximately HK\$206,204,000 (31 December 2014: HK\$206,250,000) respectively.

As at 30 June 2015, the Group's bank borrowings of HK\$500,000,000 (31 December 2014: other loan of HK\$500,000,000) was pledged by relocation compensation receivable from the local government amounting to HK\$312,500,000 (31 December 2014: HK\$662,500,000).

16. ISSUED CAPITAL

The following is a summary of the authorised share capital and the issued share capital of the Company:

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
10,000,000,000 (31 December 2014: 10,000,000,000) ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
3,263,489,164 (31 December 2014: 3,263,489,164) ordinary shares of HK\$0.10 each	<u>326,349</u>	<u>326,349</u>

17. CONTINGENT LIABILITIES

Patent infringement

Since 2006, the Company and certain of its wholly-owned subsidiaries ("Relevant Group Members") have been involved in litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. ("Plaintiffs") against the Relevant Group Members.

Alleged infringement of EP 1.664.318 (entitled "L-amino acid-producing microorganism and method for producing L-amino acid") ("EP '318")

Pursuant to the writs of summons received by the Relevant Group Members on 6 August 2013 from the court bailiff of the Court in The Hague, the Netherlands (the "Court"), the Plaintiffs alleged that the Relevant Group Members have infringed EP '318 and requested the Court to rule that the Relevant Group Members have committed infringement and to make orders against the Relevant Group Members for, among others things, (i) forbidding the Relevant Group Members to commit infringement, or in any case to be involved in and/or benefit from infringing activities with regard to the Dutch part of the Relevant Patent; (ii) forbidding the Relevant Group Members to be involved in and/or benefit from the commercial trade of L-lysine on the Dutch market for a period of one year; (iii) providing to the counsel of the Plaintiffs an overview of the

turnovers and net profits realized with the infringing L-lysine products; (iv) requesting all buyers of the Relevant Group Members with registered offices in the Netherlands to return the infringing L-lysine products; (v) placing a message on the website of the Company regarding the infringement; (vi) surrendering and destroying the stored infringing L-lysine products in the Netherlands; (vii) paying penalty of EUR100,000 per day for non-compliance of any of the above orders; (viii) paying for the cost of the legal proceedings; and (ix) paying either the net profit enjoyed with the infringement and interest accrued thereon as the Plaintiffs may claim, or the net profit enjoyed by the Relevant Group Members or the damage, costs of which to be assessed by the Court.

On 8 January 2014, a response was filed on behalf of the Relevant Group Members disputing the allegations of infringement and by way of counterclaim requesting invalidation of the invoked patent. The Plaintiffs filed a response to the aforementioned counterclaim on 5 March 2014 and an oral hearing took place on 13 June 2014. On 10 September 2014, the Group received judgment from the District Court of The Hague, the Netherlands which has rejected all the claims made by the Plaintiffs.

Pursuant to the judgment, the Court ordered that the claims made by the Plaintiff are rejected and the Plaintiffs are ordered to pay the legal costs of the Relevant Group Members which payment is immediately enforceable. Further, the Court has also allowed part of the counterclaim made by the Relevant Group Members. The Plaintiffs timely appealed the decision by means of a writ of summons dated 9 December 2014 and the Relevant Group Members filed its response and cross appeal on 24 February 2015. As at 30 June 2015, the infringement is still in the proceedings.

Litigation relating to the delay of payment to suppliers in Mainland China

During the year ended 31 December 2014, due to the short of working capital, the Group delayed to settle the trade payables to suppliers, and several subsidiaries in Mainland China have been involved in litigations in Mainland China initiated by 50 suppliers related to overdue trade payables. The total alleged amount of litigation is approximate HK\$49,000,000. Up to the date of this report, majority of litigations are already concluded by the court or settled, the litigation with the alleged amount of HK\$1,380,000 is pending for the judgment. Since the Group already recorded all these trades payable in the financial statements as at 31 December 2014, the directors are of the view that the litigation has no significant impact on the Group's financial statements for the year ended 31 December 2014, as well as the Group's financial statements for the six months ended 30 June 2015.

Alleged infringement of EP 0.773.710 (entitled "Process for Producing L-Lysine by Fermentation") ("EP '710")

Pursuant to the writ served on the Relevant Group Members on 22 October 2013, the Plaintiffs alleged that the Relevant Group Members have infringed EP '710 and requested for preliminary relief proceedings to be held before the District Court in The Hague, the Netherlands (the "District Court").

Pursuant to the writ, it is alleged by the Plaintiffs that a sample seized in the Netherlands in February 2013, which was then analyzed by a research agency engaged by the Plaintiffs, was found by the research agency to infringe EP '710.

On 20 March 2014, a judgment has been served on the Relevant Group Members regarding the above alleged new infringement. It was ruled by the District Court in summary proceedings that the Relevant Group Members have committed infringement of EP '710 and the following orders were made: (i) the penalties for violation of the injunctions contained in the earlier judgment of August 2007 ("Earlier Judgment") concerning EP '710 and EP 0.733.712 (entitled "Process for Producing Substance") ("EP '712") shall be increased to EUR1,000 per kilogram of L-lysine that is produced, used, commercialized, or offered for either of those, imported or kept in stock in the Netherlands, or EUR100,000 for each time or every day or part thereof; (ii) the Relevant Group Members shall provide to the counsel of the Plaintiffs within two months after service of the judgment a written specification, accompanied by copies of all relevant written documents, in particular, quotations, purchase and sales invoiced and packaging slips concerning the quantity of

infringing L-lysine produced, used, commercialized or sold, supplied or offered or imported for either of those in the Netherlands, the turnover and net profit, as well as a list and details of all third parties involved in the Netherlands, in particular the customers of the infringing L-lysine in the Netherlands at the cost of the Relevant Group Members; (iii) the Relevant Group Members shall allow an independent auditor to examine the written specification set out in (ii) above, and shall grant access to and assist the independent auditor to verify the written specification at the cost of the Relevant Group Members; (iv) the Relevant Group Members shall within 14 days after service of the judgment request all of its buyers of the infringing L-lysine in the Netherlands in writing by using the wordings specified in the judgment to return the infringing L-lysine products within two weeks with an offer to compensate to the buyers the invoice price and transport costs; (v) the Relevant Group Members shall publish a statement on the Company's website with wordings specified in the judgment regarding the infringement within two business days after service of the judgment; (vi) the Relevant Group Members shall send a press release with wordings specified in the judgment to Feedinfo News Services and publish such press release on the website of Feedinfo News Services regarding the infringement within two days after service of the judgment; (vii) the Relevant Group Members shall publish an advertisement with wordings specified in the judgment in the next issue of the Professional Journal for the Grain Processing and Animal Feed Industry entitled "The Miller" regarding the infringement; (viii) the Relevant Group Members shall pay the Plaintiffs a penalty of EUR100,000 per day or part thereof if they fail to fully or properly comply with the orders set out in (i) to (vii) above; and (ix) the Relevant Group Members shall pay for the Plaintiffs' legal costs, which amounted to EUR70,000.

As at the date of this report, the Plaintiffs have requested for a total amount of EUR310,000, consisting (i) a penalty of EUR240,000 for violation of the Earlier Judgment, and (ii) EUR70,000 of the cost of proceedings, which have been paid for by the Group to the Plaintiffs. On 12 August 2014, the Plaintiffs have started follow-up proceedings on the merits by serving a writ of summons on the Relevant Group Members. A formal docket session was scheduled to take place on 10 December 2014.

Previous judgment concerning EP '710, EP '712 and EP 0.796.912 (entitled "Novel Lysine Decarboxylase Gene and Process for Producing L-Lysine") ("EP '912")

The Dutch Courts have ruled that the Relevant Group Members have committed infringement of EP '710, EP '712 and EP '912, which judgment is final. The Relevant Group Members disputed to the first instance costs of approximately EUR1,000,000 claimed by the Plaintiffs. A decision has been rendered by the Court on 27 August 2014, which the Court awarded the Plaintiffs the said amount of costs. The Directors have been advised by the Group's legal counsel that the judgment is immediately enforceable.

In addition, as disclosed in an announcement of the Company dated 7 August 2015, the Relevant Group Members recently received, through their Netherlands legal advisers, a demand from the legal advisers of the Plaintiff for damages of over EUR2.2 million in respect of the infringement of EP '710, EP '712 and EP '912 (the "Claimed Damages") and for payment of the cost of the independent auditor as mentioned in the announcement of the Company dated 25 March 2014 at around EUR260,000 to EUR290,000. After seeking legal advice from the Netherlands legal advisers, the Relevant Group Members believe that they have grounds to challenge the basis of calculation of the Claimed Damages. Therefore, the Claimed Damages will not be settled by the Relevant Group Members at this stage. As such, it is expected that the Plaintiffs will initiate damages assessment proceedings for assessment of the Claimed Damages. The Relevant Group Members have also, through its Netherlands legal advisers, asked the Plaintiff to provide a detailed cost assessment of the independent auditor as mentioned above.

Financial guarantee contracts

During November 2010 to March 2015, the Company and several subsidiaries established in Mainland China entered into financial guarantee contracts with Bank of China ("BOC") and Agricultural Bank of China ("ABC") for the benefit of Dajincang in respect of its certain bank borrowings. The maximum guaranteed amounts were RMB3 billion at 31 December 2010, 2011, 2012, RMB3.35 billion as at 31 December 2013,

and RMB2.85 billion as at 31 December 2014 and 30 June 2015. These financial guarantee contracts were not recognised in the Group's financial statements as at 30 June 2015 and in previous years. Please refer to the Company's announcement dated 31 March 2015 for details of the financial guarantee contracts.

Save as disclosed above and elsewhere in the financial statements, the Group did not have other significant contingent liabilities at the end of the reporting period.

18. CAPITAL COMMITMENTS

At as 30 June 2015, the Group had capital commitments as follows:

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but provided for:		
Land premiums and leasehold buildings	365,984	200,775
Plant and machinery	<u>160,690</u>	<u>102,241</u>
	<u>526,674</u>	<u>303,016</u>

19. RELATED PARTY TRANSACTIONS

(a) Balances with related parties

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due from associates	15,879	21,320
Due from/(to) a related party	<u>871</u>	<u>(48,907)</u>

The short term balances with the associate and related party are unsecured, interest-free and have no fixed terms of repayment. The balances approximate to their fair values.

(b) Transactions with Dajincang

Dajincang, one of the major suppliers of the Group, is a company beneficially owned by the staff union of the Group's PRC employees. Dajincang has one director in common with the Group's subsidiaries located in Mainland China. Thus Dajincang is deemed as a related party to the Group. The total purchases from Dajincang for the period ended 30 June 2015 amounted to HK\$131 million (30 June 2014: HK\$814 million). The transactions with Dajincang were made at prices mutually agreed between the parties.

As at 30 June 2015, the other receivables due from and prepayment made to Dajincang amounted to approximately HK\$809 million (31 December 2014: HK\$793 million).

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	8,968	10,025
Post-employment benefits	<u>42</u>	<u>70</u>
	<u>9,010</u>	<u>10,095</u>

20. FINANCIAL INSTRUMENTS BY CATEGORY**30 June 2015 (Unaudited)**

Financial assets	Financial assets at fair value through profit or loss designated as such upon initial recognition		
	Loans and receivables	Total	
	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables	—	322,601	322,601
Financial assets included in prepayments, deposits and other receivables	—	2,145,853	2,145,853
Due from associates	—	15,879	15,879
Equity investments at fair value through profit or loss	35,617	—	35,617
Pledged deposits	—	12,431	12,431
Cash and cash equivalents	—	<u>322,844</u>	<u>322,844</u>
Total	<u>35,617</u>	<u>2,819,608</u>	<u>2,855,225</u>

31 December 2014 (Audited)

Financial assets	Financial assets at fair value through profit or loss designated as such upon initial recognition	Loans and receivables	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	—	581,793	581,793
Financial assets included in prepayments, deposits and other receivables	—	1,033,180	1,033,180
Due from associates	—	21,320	21,320
Equity investments at fair value through profit or loss	35,617	—	35,617
Pledged deposits	—	269,909	269,909
Cash and cash equivalents	—	478,780	478,780
	<u>35,617</u>	<u>2,384,982</u>	<u>2,420,599</u>
Total	<u>35,617</u>	<u>2,384,982</u>	<u>2,420,599</u>

30 June 2015 (Unaudited)

Financial liabilities	Financial liabilities at amortised cost	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	1,287,681	1,287,681
Financial liabilities included in other payables and accruals	1,913,488	1,913,488
Interest-bearing bank and other borrowings	8,590,120	8,590,120
	<u>11,791,289</u>	<u>11,791,289</u>
Total	<u>11,791,289</u>	<u>11,791,289</u>

31 December 2014 (Audited)

Financial liabilities	Financial liabilities at amortised cost	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	2,001,091	2,001,091
Financial liabilities included in other payables and accruals	1,065,290	1,065,290
Interest-bearing bank and other borrowings	8,690,926	8,690,926
	<u>11,757,307</u>	<u>11,757,307</u>
Total	<u>11,757,307</u>	<u>11,757,307</u>

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Financial assets				
Equity investment at fair value through profit or loss	<u>35,617</u>	<u>35,617</u>	<u>35,617</u>	<u>35,617</u>
	Carrying amounts		Fair values	
	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Financial liabilities				
Interest-bearing bank and other borrowings	<u>8,590,120</u>	<u>8,690,926</u>	<u>8,590,120</u>	<u>8,690,926</u>

Management has assessed that the fair values of cash and cash equivalents, the current pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries and amounts due from associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2015 was assessed to be insignificant. The fair value of equity investments at fair value through profit or loss has been calculated based on quoted market prices.

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

Assets measured at fair values:

As at 30 June 2015 (Unaudited)

	<u>Fair value measurement using</u>			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Equity investments at fair value through profit or loss	35,617	—	—	35,617

As at 31 December 2014 (Audited)

	<u>Fair value measurement using</u>			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Equity investments at fair value through profit or loss	35,617	—	—	35,617

Liabilities for which fair values are disclosed:

As at 30 June 2015 (Unaudited)

	<u>Fair value measurement using</u>			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Interest-bearing bank and other borrowings	—	8,590,120	—	8,590,120

As at 31 December 2014 (Audited)

	<u>Fair value measurement using</u>			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Interest-bearing bank and other borrowings	—	8,690,926	—	8,690,926

22. LITIGATIONS

As at the date of this report, the Company and certain of its wholly-owned subsidiaries (“Relevant Group Members”) are involved in certain litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. (“Plaintiffs”) against the Relevant Group Members.

Alleged infringement of EP 0.773.710 (entitled “Process for Producing L-Lysine by Fermentation”) (“EP ‘710”)

Pursuant to the writ served on the Relevant Group Members on 22 October 2013, the Plaintiffs alleged that the Relevant Group Members have infringed EP ‘710 and requested for preliminary relief proceedings to be held before the District Court in The Hague, the Netherlands (the “District Court”).

Pursuant to the writ, it is alleged by the Plaintiffs that a sample seized in the Netherlands in February 2013, which was then analyzed by a research agency engaged by the Plaintiffs, was found by the research agency to infringe EP ‘710.

On 20 March 2014, a judgment has been served on the Relevant Group Members regarding the above alleged new infringement. It was ruled by the District Court in summary proceedings that the Relevant Group Members have committed infringement of EP ‘710 and the following orders were made: (i) the penalties for violation of the injunctions contained in the earlier judgment of August 2007 (“Earlier Judgment”) concerning EP ‘710 and EP 0.733.712 (entitled “Process for Producing Substance”) (“EP ‘712”) shall be increased to EUR1,000 per kilogram of L-lysine that is produced, used, commercialized, or offered for either of those, imported or kept in stock in the Netherlands, or EUR100,000 for each time or every day or part thereof; (ii) the Relevant Group Members shall provide to the counsel of the Plaintiffs within two months after service of the judgment a written specification, accompanied by copies of all relevant written documents, in particular, quotations, purchase and sales invoiced and packaging slips concerning the quantity of infringing L-lysine produced, used, commercialized or sold, supplied or offered or imported for either of those in the Netherlands, the turnover and net profit, as well as a list and details of all third parties involved in the Netherlands, in particular the customers of the infringing L-lysine in the Netherlands at the cost of the Relevant Group Members; (iii) the Relevant Group Members shall allow an independent auditor to examine the written specification set out in (ii) above, and shall grant access to and assist the independent auditor to verify the written specification at the cost of the Relevant Group Members; (iv) the Relevant Group Members shall within 14 days after service of the judgment request all of its buyers of the infringing L-lysine in the Netherlands in writing by using the wordings specified in the judgment to return the infringing L-lysine products within two weeks with an offer to compensate to the buyers the invoice price and transport costs; (v) the Relevant Group Members shall publish a statement on the Company’s website with wordings specified in the judgment regarding the infringement within two business days after service of the judgment; (vi) the Relevant Group Members shall send a press release with wordings specified in the judgment to Feedinfo News Services and publish such press release on the website of Feedinfo News Services regarding the infringement within two days after service of the judgment; (vii) the Relevant Group Members shall publish an advertisement with wordings specified in the judgment in the next issue of the Professional Journal for the Grain Processing and Animal Feed Industry entitled “The Miller” regarding the infringement; (viii) the Relevant Group Members shall pay the Plaintiffs a penalty of EUR100,000 per day or part thereof if they fail to fully or properly comply with the orders set out in (i) to (vii) above; and (ix) the Relevant Group Members shall pay for the Plaintiffs’ legal costs, which amounted to EUR70,000.

As at the date of this report, the Plaintiffs have requested for a total amount of EUR310,000, consisting (i) a penalty of EUR240,000 for violation of the Earlier Judgment, and (ii) EUR70,000 of the cost of proceedings, which have been paid for by the Group to the Plaintiffs. On 12 August 2014, the Plaintiffs have started follow-up proceedings on the merits by serving a writ of summons on the Relevant Group Members. A formal docket session was scheduled to take place on 10 December 2014.

Previous judgment concerning EP ‘710, EP ‘712 and EP 0.796.912 (entitled “Novel Lysine Decarboxylase Gene and Process for Producing L-Lysine”) (“EP ‘912”)

The Dutch Courts have ruled that the Relevant Group Members have committed infringement of EP ‘710, EP ‘712 and EP ‘912, which judgment is final. The Relevant Group Members disputed to the first instance costs of approximately EUR1,000,000 claimed by the Plaintiffs. A decision has been rendered by the Court on 27 August 2014, which the Court awarded the Plaintiffs the said amount of costs. The Directors have been advised by the Group’s legal counsel that the judgment is immediately enforceable.

In addition, as disclosed in an announcement of the Company dated 7 August 2015, the Relevant Group Members recently received, through their Netherlands legal advisers, a demand from the legal advisers of the Plaintiff for damages of over EUR2.2 million in respect of the infringement of EP ‘710, EP ‘712 and EP ‘912 (the “Claimed Damages”) and for payment of the cost of the independent auditor as mentioned in the announcement of the Company dated 25 March 2014 at around EUR260,000 to EUR290,000. After seeking legal advice from the Netherlands legal advisers, the Relevant Group Members believe that they have grounds to challenge the basis of calculation of the Claimed Damages. Therefore, the Claimed Damages will not be settled by the Relevant Group Members at this stage. As such, it is expected that the Plaintiffs will initiate damages assessment proceedings for assessment of the Claimed Damages. The Relevant Group Members have also, through its Netherlands legal advisers, asked the Plaintiff to provide a detailed cost assessment of the independent auditor as mentioned above.

Alleged infringement of EP 1.664.318 (entitled “L-amino acid-producing microorganism and method for producing L-amino acid”) (“EP ‘318”)

Pursuant to the writs of summons received by the Relevant Group Members on 6 August 2013 from the court bailiff of the Court in The Hague, the Netherlands (“Court”), the Plaintiffs alleged that the Relevant Group Members have infringed EP ‘318 and requested the Court to rule that the Relevant Group Members have committed infringement and to make orders against the Relevant Group Members for, among others things, (i) forbidding the Relevant Group Members to commit infringement, or in any case to be involved in and/or benefit from infringing activities with regard to the Dutch part of the Relevant Patent; (ii) forbidding the Relevant Group Members to be involved in and/or benefit from the commercial trade of L-lysine on the Dutch market for a period of one year; (iii) providing to the counsel of the Plaintiffs an overview of the turnovers and net profits realized with the infringing L-lysine products; (iv) requesting all buyers of the Relevant Group Members with registered offices in the Netherlands to return the infringing L-lysine products; (v) placing a message on the website of the Company regarding the infringement; (vi) surrendering and destroying the stored infringing L-lysine products in the Netherlands; (vii) paying penalty of EUR100,000 per day for non-compliance of any of the above orders; (viii) paying for the cost of the legal proceedings; and (ix) paying either the net profit enjoyed with the infringement and interest accrued thereon as the Plaintiffs may claim, or the net profit enjoyed by the Relevant Group Members or the damage, costs of which to be assessed by the Court.

On 8 January 2014, a response was filed on behalf of the Relevant Group Members disputing the allegations of infringement and by way of counterclaim requesting invalidation of the invoked patent. The Plaintiffs filed a response to the aforementioned counterclaim on 5 March 2014 and an oral hearing took place on 13 June 2014. On 10 September 2014, the Group received judgment from the District Court of The Hague, the Netherlands which has rejected all the claims made by the Plaintiffs.

Pursuant to the judgment, the Court ordered that the claims made by the Plaintiff are rejected and the Plaintiffs are ordered to pay the legal costs of the Relevant Group Members which payment is immediately enforceable. Further, the Court has also allowed part of the counterclaim made by the Relevant Group Members. The Plaintiffs timely appealed the decision by means of a writ of summons dated 9 December 2014 and the Relevant Group Members filed its response and cross appeal on 24 February 2015. As at 30 June 2015, the infringement is still in the proceedings.

For other litigations, the Directors have been advised by the Group's legal counsel that the Group has grounds to defend the claims. Therefore, no provision for other infringement compensation is considered necessary. Save as disclosed above, there was no material contingent liability of the Group as at 30 June 2015.

23. SUBSCRIPTION AGREEMENT FOR THE ISSUE OF ORDINARY SHARES AND CONVERTIBLE BONDS

Reference is made to an announcement of the Company dated 30 August 2015. On 30 August 2015, the Company entered into a subscription agreement with Modern Agricultural Industry Investment Limited (the "Subscriber") pursuant to which the Subscriber has conditionally agreed to subscribe (the "Subscription") at the Hong Kong dollar equivalent of RMB1,500,000,000 (the "Total Consideration") for:

- (i) an aggregate of 3,135,509,196 subscription shares that upon the subscription completion will represent approximately 49% of the issued shares of the Company as enlarged by the allotment and issue of the subscription shares; and
- (ii) the convertible bonds in the aggregate principal amount of the balance of the Total Consideration after subtracting therefrom the subscription monies for subscription shares, which may be converted into the conversion shares pursuant to the terms and conditions of the convertible bonds.

The Board intends to apply the net proceeds from the Subscription for business development, relocation expenses and general working capital purpose of the Group. Shareholders of the Company and potential investors are advised to read the announcement of the Company dated 30 August 2015 or any relevant subsequent announcements/circular of the Company for more information in this connection.

4. INDEBTEDNESS

At the close of business on 30 June 2015, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group had interest-bearing bank borrowings and other borrowings of approximately HK\$8,590.1 million.

At the close of business on 30 June 2015, five subsidiaries of the Company were subject to certain guarantee contracts dated 4 March 2015 which were entered into by the Group in favour of a bank in connection with facilities granted to a major supplier of the Group with a maximum guaranteed amount of RMB2.5 billion under each of the guarantee contract. The Company and certain of its wholly-owned subsidiaries were also involved in certain litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. against these members of the Group, brief particulars of which are set out in the paragraph “7. Material Litigation” in Appendix II to this circular.

Apart from intra-Group liabilities and save as aforesaid, at the close of business on 30 June 2015, the Group did not have any other bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that save as disclosed below, there is no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date:

- (a) the consolidated net current liabilities of the Company has been increased from approximately HK\$5,260.6 million as at 31 December 2014 to approximately HK\$6,486.2 million as at 30 June 2015;
- (b) the consolidated total assets less current liabilities of the Company has been decreased from approximately HK\$4,317.7 million as at 31 December 2014 to approximately HK\$2,673.5 million as at 30 June 2015;
- (c) the consolidated net assets and total equity of the Company have been substantially decreased from approximately HK\$1,257.9 million as at 31 December 2014 to approximately HK\$229.4 million as at 30 June 2015;
- (d) as disclosed in the Company’s announcement dated 31 March 2015 and the annual report of the Company for the year ended 31 December 2014, on 4 March 2015, five members of the Group entered into guarantee contracts in favour of a bank in connection with facilities granted to a major supplier of the Group with a maximum guaranteed amount of RMB2.5 billion, which constitute contingent liabilities of the Group;

- (e) as disclosed in the Company's announcement dated 31 March 2015 and GSH's announcement dated 31 March 2015, in light of the then market conditions, the Group had commenced the relocation of its production facilities for downstream products in Luyuan District in Changchun to its Xinglongshan site and, coupled with the temporary halt of production of upstream products in Luyuan District, the Group has ceased the manufacture of any products at its production facilities in Luyuan District pending completion of the relocation and the improvement of market conditions; and

- (f) as disclosed in the paragraph headed "Opinions by the Audit Committee" in the interim report of the Company for the six months ended 30 June 2015, opinions have been given by the audit committee of the Company in relation to the opening balances and comparative figures, impairment of non-current assets, financial guarantee contracts, prepayments and other receivables and equipment leasing, should any adjustments to the financial statements of the Group are found to be necessary as a result of the matters as disclosed in the abovementioned paragraph, it may result in a material change to the financial or trading position or outlook of the Group subsequent to 31 December 2014.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscriber and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Subscriber and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the Subscriber accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group, its associates and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Group, its associates and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Shares	<i>HK\$</i>
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Authorised:

10,000,000,000	Authorised share capital of HK\$1,000,000,000 divided into 10,000,000,000 Shares	1,000,000,000
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Issued and fully paid:

3,263,489,164	Issued and paid up share capital of HK\$326,348,916.40 divided into 3,263,489,164 Shares	326,348,916.40
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Since 31 December 2014 (being the date to which the Company's latest published audited accounts were prepared) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

All of the Shares currently in issue are fully paid up and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting and capital.

As at the Latest Practicable Date, the Company had 3,100,000 Outstanding Options.

Save for the Shares and the Outstanding Options, the Company did not have any outstanding securities, options, derivatives, warrants or other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.590 per Share (on 10 June 2015) and HK\$0.201 per Share (on 10 February 2015) respectively.
- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
31 December 2014	0.248
30 January 2015	0.225
27 February 2015	0.228
31 March 2015	0.211
30 April 2015	0.480
29 May 2015	—
30 June 2015	0.370
31 July 2015	0.425
28 August 2015 (being the Subscription Last Trading Day)	0.335
31 August 2015	0.320
18 September 2015 (being the Latest Practicable Date)	0.310

Note: trading was halted from 4 May 2015 to 9 June 2015, both dates inclusive.

4. DISCLOSURE OF INTERESTS

(a) Directors' Interests and Short Positions in Shares and Underlying Shares

At as the Latest Practicable Date, the interests and short positions of the Directors and the chief executive and their associates of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred

to therein; or (c) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) to be notified to the Company and the Stock Exchange, were as follows:

(i) *Long positions in ordinary shares of the Company:*

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of the existing issued share capital of the Company (Note 1)
Mr. Liu Xiaoming	Interest of a controlled corporation (Note 2)	489,048,000	14.99%
	Beneficial owner	19,090,400	0.58%
Ms. Xu Ziyi	Beneficial owner	5,576,000	0.17%
	Interest of spouse (Note 3)	70,000	0.00%
Mr. Ji Jianping	Beneficial owner	280,000	0.01%
	Beneficiary of trust (Note 4)	380,000	0.01%
Mr. Cheung Chak Fung	Beneficial owner	1,325	0.00%

Notes:

1. On the basis of 3,263,489,164 Shares in issue as at the Latest Practicable Date.
2. These Shares are held by LXM Limited, the entire issued capital of which is owned by Mr. Liu Xiaoming.
3. These Shares are held by the personal representative of the late spouse of Ms. Xu Ziyi.
4. These Shares are held by Mr. Ji Jianping as beneficiary under the trust, The Bright Balance Unit Trust.

(ii) *Long positions in ordinary shares of GSH:*

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of the existing issued share capital of the Company (Note 1)
Mr. Liu Xiaoming	Beneficial owner (Note 2)	6,000,000	0.39%
Mr. Cheung Chak Fung	Interest of spouse	10,000	0.00%

Notes:

1. On the basis of 1,527,586,000 shares of GSH in issue as at the Latest Practicable Date.
2. These shares are underlying shares comprised in the option granted to Mr. Liu Xiaoming pursuant to the share option scheme of GSH.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders' Interests in Share and Underlying Shares

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Type of interests	Position	Number of Shares/ underlying Shares held	Approximate percentage of issued share capital of the Company (Note 1)
LXM Limited (Note 2)	Beneficial owner	Long	489,048,000 Shares	14.99%
Crown Asia Profits Limited (Note 3)	Beneficial owner	Long	295,456,000 Shares	9.05%
Mr. Kong Zhanpeng	Beneficial owner	Long	18,256,000 Shares	0.56%
	Interest in controlled corporation (Note 4)	Long	241,920,000 Shares	7.41%
Mr. Wang Tieguang	Beneficial owner	Long	12,449,920 Shares	0.38%
	Interest in controlled corporation (Note 5)	Long	241,920,000 Shares	7.41%
Hartington Profits Limited (Note 4)	Beneficial owner	Long	241,920,000 Shares	7.41%
Rich Mark Profits Limited (Note 5)	Beneficial owner	Long	241,920,000 Shares	7.41%
The Subscriber (Note 6)	Beneficial owner	Long	3,135,509,196 Shares (Note 7)	96.08%
	Beneficial owner	Long	4,722,954,631 underlying Shares (Note 8)	144.72%

Notes:

1. On the basis of 3,263,489,164 Shares in issue as at the Latest Practicable Date.
2. The entire issued capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming, an executive director. Mr. Liu Xiaoming is the sole director of LXM Limited.
3. The entire issued capital of Crown Asia Profits Limited is held by the personal representative of the late Mr. Xu Zhouwen, a former executive Director.
4. These Shares are owned by Hartington Profits Limited, a company incorporated in the BVI. The entire issued share capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng, an executive director of GSH. Mr. Kong is the sole director of Hartington Profits Limited.
5. These Shares are held by Rich Mark Profits Limited, a company incorporated in the BVI. The entire issued share capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tiegung, a former executive Director.
6. The entire issued capital of the Subscriber is held by Modern Agricultural Industry Investment Holdings Limited which is in turn wholly owned by Jilin Province Modern Agricultural Industry Investment Fund (LLP). The sole general partner of Jilin Province Modern Agricultural Industry Investment Fund (LLP) is Jilin Province Modern Agricultural Industry Fund Limited. Jilin Province Modern Agricultural Industry Fund Limited is wholly owned by Jilin Changjitu Investment Co., Ltd. whose 91.11% of its interest is owned by Jiaotou. Jiaotou is 71.43% owned by 吉林省人民政府國有資產監督管理委員會 (Stated-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province). Each of Modern Agricultural Industry Investment Holdings Limited, Jilin Province Modern Agricultural Industry Investment Fund (LLP), Jilin Province Modern Agricultural Industry Fund Limited, Jilin Changjitu Investment Co., Ltd., Jiaotou and 吉林省人民政府國有資產監督管理委員會 (Stated-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province) are deemed to be interested in the interest held by the Subscriber. As at the Latest Practicable Date, Jiaotou is the only limited partner of the PRC LLP. It is currently intended that Jilin Changjitu Investment Co., Ltd., Yinhu Wealth and Capital Management (Beijing) Co., Ltd. and Changchun Emerging Industry Equity Investment Fund Co., Ltd. will become limited partners of the PRC LLP and the relevant amendments to the limited partnership agreement of the PRC LLP and the relevant registration with the local industrial and commerce bureau are expected to be made and completed before Subscription Completion.
7. These 3,135,509,196 Shares represents the Subscription Shares conditionally agreed to be subscribed by the Subscriber pursuant to the Subscription Agreement.
8. These 4,722,954,631 underlying Shares represents the Convertible Bonds conditionally agreed to be subscribed by the Subscriber pursuant to the Subscription Agreement.

Save as disclosed above, there was no person known to any Directors or chief executive of the Company, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. ADDITIONAL DISCLOSURE OF INTERESTS

- (1) save for the Subscription Shares, none of the Subscriber, its directors, any of the Proposed New LPs or any parties acting in concert with any of them had any interests in or owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company carrying voting rights.
- (2) save as disclosed in paragraph 4 above, none of the Directors had any interest in the Shares or any convertible securities, warrants, options and derivatives in respect of Shares or other securities of the Company carrying voting rights.
- (3) As at the Latest Practicable Date, there was no agreement, arrangement or understanding pursuant to which the Subscription Shares will be transferred, charged or pledged to any other persons.
- (4) As at the Latest Practicable Date, the Subscriber and any person acting in concert with it (including but without limitation the Proposed New LPs) had not entered into any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person.
- (5) As at the Latest Practicable Date, the Subscriber and any person acting in concert with it (including but without limitation the Proposed New LPs) had not borrowed or lent any Shares or any convertible securities, warrants, options and derivatives in respect thereof.
- (6) The Subscriber and any person acting in concert with it (including but without limitation the Proposed New LPs) had not dealt for value in any Shares or any convertible securities, warrants, options and derivatives in respect thereof during the Relevant Period.
- (7) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between the Subscriber and any person acting in concert with it (including but without limitation the Proposed New LPs) and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and the Whitewash Waiver.
- (8) As at the Latest Practicable Date, the Company and the Directors did not hold any shares of the Subscriber or any convertible securities, warrants, options and derivatives in respect thereof.
- (9) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or any subsidiary of the Company, or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options and derivatives in respect thereof.

- (10) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers code.
- (11) As at the Latest Practicable Date, no fund which was managed on a discretionary basis by fund managers connected with the Company had any interest in any Shares or any convertible securities, warrants, options and derivatives in respect thereof.
- (12) As at the Latest Practicable Date, save as disclosed in the paragraph headed “EGM” in the letter from the Board in this circular, no person will be required to abstain from voting on the resolutions approving the Subscription Agreement, the Whitewash Waiver and the transactions contemplated thereunder under the EGM. In addition, no person had irrevocably committed themselves to vote in favour of or against the resolutions approving the Subscription Agreement, the Whitewash Waiver and the transactions contemplated thereunder at the EGM.
- (13) As at the Latest Practicable Date, the Company and the Directors had not borrowed or lent any Shares or any convertible securities, warrants, options and derivatives in respect thereof.
- (14) The Company had not dealt for value in the equity share capital or any convertible securities, warrants, options or derivatives in respect of the equity share capital of the Subscriber during the Relevant Period.
- (15) none of the Directors had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights, or the equity share capital or any convertible securities, warrants, options or derivatives in respect of the equity share capital of the Subscriber during the Relevant Period.
- (16) As at the Latest Practicable Date, no benefit has been or would be given to any Director as compensation for loss of office or otherwise in connection with the Subscription and the Whitewash Waiver (other than statutory compensation).
- (17) As at the Latest Practicable Date, no agreement or arrangement existed between any Director and any other person which is conditional on or dependent upon the outcome of the Subscription, the Whitewash Waiver or otherwise connected therewith.
- (18) As at the Latest Practicable Date, no material contract had been entered into by the Subscriber, any person acting in concert with it and any of the Proposed New LPs in which any Director has a material personal interest.

6. DIRECTORS' SERVICE CONTRACTS

Mr. Cheung Chak Fung and Mr. Ji Jiangping, both being executive Directors, have entered into a service contract with the Company for an initial term of three years commencing on 23 April 2015 and 12 March 2015 respectively, which shall be renewable automatically for successive terms of one year unless terminated by not less than three months' notice in writing served by either party. Under the service contracts, Mr. Cheung is entitled to (i) a monthly salary of HK\$150,000, and Mr. Ji is entitled to (i) a monthly salary of HK\$90,000 and RMB38,000, and no variable remuneration (such as commission on profits) are payable by the Group to Mr. Cheung and Mr. Ji. The salary of both Mr. Cheung and Mr. Ji are subject to such increase as the Board may, subject to compliance with the articles of association of the Company, determine provided that such increase shall not exceed 15% per annum of the amount of salary paid during the previous 12 month period and (ii) on completion of every 12 months of service, a management bonus in respect of each financial year of the Company in an amount to be determined by the Board, provided that the total amount of bonuses payable to all the executive Directors shall not exceed 5% of the combined or, as the case may be, consolidated audited net profit of the Group (after taxation and minority interests and the payment of such bonuses but before extraordinary items) for that financial year.

Mr. Yeung Kit Lam, Mr. Chan Chi Wai, Benny and Mr. Ng Kwok Pong, all being independent non-executive Directors, have entered into an appointment letter with the Company for an initial term of two years commencing on 23 April 2015, 1 March 2015 and 1 March 2015 respectively. Their appointment letters shall be renewable automatically for successive terms of one year unless terminated by not less than three months' written notice served by either party at any time during the then existing term. Under the appointment letters, each of Mr. Yeung, Mr. Chan and Mr. Ng shall be paid an annual director's fee of HK\$480,000, and no variable remuneration (such as commission on profits) are payable by the Group to Mr. Yeung, Mr. Chan and Mr. Ng. Mr. Cheung, Mr. Ji, Mr. Yeung, Mr. Chan and Mr. Ng's emolument is determined by the Board with reference to their duties, responsibilities, performance and results of the Group.

Save as disclosed above, as at the Latest Practicable Date, Mr. Cheung, Mr. Ji, Mr. Yeung, Mr. Chan and Mr. Ng have not entered into other service contracts or appointment letters with the Group, and no earlier service contracts or appointment letters have been replaced or amended, and none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which:

- (a) (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the June Announcement;
- (b) was a continuous contracts with a notice period of 12 months or more; or
- (c) was a fixed term contract with more than 12 months to run irrespective of the notice period.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, the Company and certain of its wholly-owned subsidiaries (“**Relevant Group Members**”) are involved in certain litigations in the Netherlands initiated by Ajinomoto Co. Inc. and Ajinomoto Eurolysine S.A.S. (“**Plaintiffs**”) against the Relevant Group Members.

Alleged infringement of EP 0.773.710 (entitled “Process for Producing L-Lysine by Fermentation”) (“EP ‘710”)

Pursuant to the writ served on the Relevant Group Members on 22 October 2013, the Plaintiffs alleged that the Relevant Group Members have infringed EP ‘710 and requested for preliminary relief proceedings to be held before the District Court in The Hague, the Netherlands (the “**District Court**”).

Pursuant to the writ, it is alleged by the Plaintiffs that a sample seized in the Netherlands in February 2013, which was then analyzed by a research agency engaged by the Plaintiffs, was found by the research agency to infringe EP ‘710.

On 20 March 2014, a judgment has been served on the Relevant Group Members regarding the above alleged new infringement. It was ruled by the District Court in summary proceedings that the Relevant Group Members have committed infringement of EP ‘710 and the following orders were made: (i) the penalties for violation of the injunctions contained in the earlier judgment of August 2007 (“**Earlier Judgment**”) concerning EP ‘710 and EP 0.733.712 (entitled “**Process for Producing Substance**”) (“**EP ‘712**”) shall be increased to EUR1,000 per kilogram of L-lysine that is produced, used, commercialized, or offered for either of those, imported or kept in stock in the Netherlands, or EUR100,000 for each time or every day or part thereof; (ii) the Relevant Group Members shall provide to the counsel of the Plaintiffs within two months after service of the judgment a written specification, accompanied by copies of all relevant written documents, in particular, quotations, purchase and sales invoiced and packaging slips concerning the quantity of infringing L-lysine produced, used, commercialized or sold, supplied or offered or imported for either of those in the Netherlands, the turnover and net profit, as well as a list and details of all third parties involved in the Netherlands, in particular the customers of the infringing L-lysine in the Netherlands at the cost of the Relevant Group Members; (iii) the Relevant Group Members shall allow an independent auditor to examine the written specification set out in (ii) above, and shall grant access to and assist the independent auditor to verify the written specification at the cost of the Relevant Group Members; (iv) the Relevant Group Members shall within 14 days after service of the judgment request all of its buyers of the infringing L-lysine in the Netherlands in writing by using the wordings specified in the judgment to return the infringing L-lysine products within two weeks with an offer to compensate to the buyers the invoice price and transport costs; (v) the Relevant Group Members shall publish a statement on the Company’s website with wordings specified in the judgment regarding the infringement within two business days after service of the judgment; (vi) the Relevant Group Members shall send a press release with wordings specified in the judgment to the website of Feedinfo News

Services and publish such press release on the website of Feedinfo News Services regarding the infringement within two days after service of the judgment; (vii) the Relevant Group Members shall publish an advertisement with wordings specified in the judgment in the next issue of the professional journal for the grain processing and animal feed industry entitled “The Miller” regarding the infringement; (viii) the Relevant Group Members shall pay the Plaintiffs a penalty of EUR100,000 per day or part thereof if they fail to fully or properly comply with the orders set out in (i) to (vii) above; and (ix) the Relevant Group Members shall pay for the Plaintiffs’ legal costs, which amounted to EUR70,000.

Previous judgment concerning EP ‘710, EP ‘712 and EP 0.796.912 (entitled “Novel Lysine Decarboxylase Gene and Process for Producing L-Lysine”) (“EP ‘912”)

The Dutch Courts have ruled that the Relevant Group Members have committed infringement of EP ‘710, EP ‘712 and EP ‘912, which judgment is final. The Relevant Group Members disputed to the first instance costs of approximately EUR1,000,000 claimed by the Plaintiffs. A decision has been rendered by the Court on 27 August 2014, which the Court awarded the Plaintiffs the said amount of costs. The Directors have been advised by the Group’s legal counsel that the judgment is immediately enforceable. As at the Latest Practicable Date, such EUR1,000,000 has been paid by the Group.

As at the Latest Practicable Date, the Relevant Group Members have received, through their Netherlands legal advisers, a demand from the legal advisers of the Plaintiff for damages of over 2.2 million Euros in respect of the infringement of EP ‘710, EP ‘712 and EP ‘912 (the “**Claimed Damages**”) and for payment of the cost of the independent auditor as mentioned in the announcement of the Company dated 25 March 2014 at around 260,000 to 290,000 Euro. After seeking legal advice from the Netherlands legal advisers, the Relevant Group Members believe that they have grounds to challenge the basis of calculation of the Claimed Damages. Therefore, the Claimed Damages will not be settled by the Relevant Group Members at this stage and hence remained outstanding as at the Latest Practicable Date. As such, it is expected that the Plaintiffs will initiate damages assessment proceedings for assessment of the Claimed Damages. The Relevant Group Members have also, through its Netherlands legal advisers, asked the Plaintiff to provide a detailed cost assessment of the independent auditor as mentioned above.

Alleged infringement of EP 1.664.318 (entitled “L-amino acid-producing microorganism and method for producing L-amino acid”) (“EP ‘318”)

Pursuant to the writs of summons received by the Relevant Group Members on 6 August 2013 from the court bailiff of the Court in The Hague, the Netherlands (“**Court**”), the Plaintiffs alleged that the Relevant Group Members have infringed EP ‘318 and requested the Court to rule that the Relevant Group Members have committed infringement and to make orders against the Relevant Group Members for, among others things, (i) forbidding the Relevant Group Members to commit infringement, or in any case to be involved in and/or benefit from infringing activities with regard to the Dutch part of EP ‘318; (ii) forbidding the Relevant Group Members to be involved in and/or benefit from the commercial trade of L-

lysine on the Dutch market for a period of one year as of service of the judgment to be rendered in this matter; (iii) providing to the counsel of the Plaintiffs an overview of the turnovers and net profits realized with the infringing L-lysine products; (iv) requesting all buyers of the Relevant Group Members with registered offices in the Netherlands to return the infringing L-lysine products; (v) placing a message on the website of the Company regarding the infringement; (vi) surrendering and destroying the stored infringing L-lysine products in the Netherlands; (vii) paying penalty of EUR100,000 per day for non-compliance of any of the above orders; (viii) paying for the cost of the legal proceedings; and (ix) paying either the net profit enjoyed with the infringement and interest accrued thereon as the Plaintiffs may claim, or the net profit enjoyed by the Relevant Group Members or the damage, costs of which to be assessed by the Court.

On 8 January 2014, a response was filed on behalf of the Relevant Group Members disputing the allegations of infringement and by way of counterclaim requesting invalidation of the invoked patent. The Plaintiffs filed a response to the aforementioned counterclaim on 5 March 2014 and an oral hearing took place on 13 June 2014. On 10 September 2014, the Group received judgment from the District Court of The Hague, the Netherlands which has rejected all the claims made by the Plaintiffs.

Pursuant to the judgment, the Court ordered that the claims made by the Plaintiff are rejected and the Plaintiffs are ordered to pay the legal costs of the Relevant Group Members which payment is immediately enforceable. Further, the Court has also allowed part of the counterclaim made by the Relevant Group Members. The Plaintiffs timely appealed the decision by means of a writ of summons dated 9 December 2014 and the Relevant Group Members filed its response and cross appeal on 24 February 2015. As at the Latest Practicable Date, the infringement is still in the proceedings.

Save as disclosed, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within two years immediately preceding 10 June 2015 (being the date of the June Announcement) and up to the Latest Practicable Date and are material:

- (a) guarantee contract dated 5 March 2014 executed by Changchun Baocheng Bio-chem Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;

- (b) guarantee contract dated 5 March 2014 executed by Changchun Dacheng Bio-tech Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (c) guarantee contract dated 5 March 2014 executed by Changchun Dahe Bio Technology Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (d) guarantee contract dated 5 March 2014 executed by Changchun GBT Bio-Chemical Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (e) guarantee contract dated 5 March 2014 executed by Changchun Dihao Foodstuff Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (f) equipment leasing agreement dated 30 December 2014 entered into between the Finance Bureau of Changchun as lessor and Changchun GBT Bio-Chemical Co., Ltd. (a subsidiary of the Company) as lessee in relation to the lease of certain machineries and fixtures erected on a piece of land located on the west side of Xihuancheng Road, Changchun, the PRC for a lease term of 20 years for a total cash consideration of RMB672,030,000 payable by the Group;
- (g) guarantee contract dated 4 March 2015 executed by Changchun Baocheng Bio-chem Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (h) guarantee contract dated 4 March 2015 executed by Changchun Dacheng Bio-tech Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;

- (i) guarantee contract dated 4 March 2015 executed by Changchun Dahe Bio Technology Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (j) guarantee contract dated 4 March 2015 executed by Changchun GBT Bio-Chemical Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group;
- (k) guarantee contract dated 4 March 2015 executed by (Changchun Dihao Foodstuff Development Co., Ltd. (a subsidiary of the Company) in favour of a bank in the PRC in relation to the banking facilities of Changchun Dajincang Corn Procurement Co., Ltd. (a supplier of the Group) up to a maximum guaranteed amount of RMB2.5 billion for nil consideration passing to or from the Group; and
- (l) the Subscription Agreement.

9. EXPERT AND CONSENT

The following is the qualification of the expert which has given opinion or advice which is contained in this circular:

Name	Qualification
New Spring Capital	a licensed corporation permitted to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

New Spring Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which they appear.

As at the Latest Practicable Date:

- (a) New Spring Capital had no shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group; and
- (b) New Spring Capital had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

10. OTHER INFORMATION

- (a) The registered office of the Subscriber is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (b) The principal parties acting in concert with the Subscriber are Modern Agricultural Industry Investment Holdings Limited, PRC LLP, Jilin Province Modern Agricultural Industry Fund Limited, Jilin Changjitu Investment Co., Ltd., Jiaotou, Yinhua Wealth and Capital Management (Beijing) Co., Ltd., Changchun Emerging Industry Equity Investment Fund Co., Ltd., Mr. Wang Jian, Mr. Qiu Zhuang, Mr. Fu Qiang, Ms. Wang Qiu, Mr. Sun Liangyan, Ms. Liu Bo, Ms. Tian Xizhen, Mr. Zhang Zhiyuan, Mr. Li Fengmao, Mr. Li Yanjun, Ms. Lin Yongmei, Ms. Liu Fang, Mr. Wang Lixin, Mr. Jiang Yongkang, Mr. Wang Shiwei, Mr. Zhou Yi, Mr. Wang Zhulin, Mr. Li Xiangchao, Mr. Huang Yan, Ms. Li Zhenmei, Ms. Liang Wanpeng and Mr. Yang Dongdong.
- (c) The Subscriber is directly wholly owned by Modern Agricultural Industry Investment Holdings Limited which is an investment holding company directly wholly owned by PRC LLP, which is an agricultural fund established in the PRC whose sole general

partner is Jilin Province Modern Agricultural Industry Fund Limited as at the Latest Practicable Date. Jilin Province Modern Agricultural Industry Fund Limited is wholly owned by Jilin Changjitu Investment Co., Ltd., a PRC company owned by Jiaotou as to 91.11% and by Jilin Municipal Railways Investment and Development Co., Ltd. as to the remaining 8.89%. Jiaotou is 71.43% owned by Stated-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province and 28.57% owned by Jilin Province Investment Group Co., Ltd. which is wholly owned by Jilin Province Development and Reform Commission. Jilin Municipal Railways Investment and Development Co., Ltd. is wholly owned by the State-owned Assets Supervision & Administration Commission of Jilin Municipal Government.

- (d) The sole director of the Subscriber is Mr. Wang Jian.
- (e) The sole director of Modern Agricultural Industry Investment Holdings Limited is Mr. Wang Jian.
- (f) The sole director of Jilin Province Modern Agricultural Industry Fund Limited is Mr. Qiu Zhuang.
- (g) The directors of Jilin Changjitu Investment Co., Ltd. are Mr. Qiu Zhuang, Mr. Fu Qiang, Ms. Wang Qiu, Mr. Sun Liangyan, Ms. Liu Bo, Ms. Tian Xizhen and Mr. Zhang Zhiyuan.
- (h) The directors of Jiaotou are Mr. Qiu Zhaung, Mr. Fu Qiang, Mr. Li Fengmao, Mr. Li Yanjun, Ms. Lin Yongmei, Ms. Wang Qiu and Ms. Liu Fang.
- (i) The directors of Yinhua Wealth and Capital Management (Beijing) Co., Ltd. are Mr. Wang Lixin, Mr. Jiang Yongkang, Mr. Wang Shiwei, Mr. Zhou Yi and Mr. Wang Zhulin. The ultimate controlling shareholder of Yinhua Wealth and Capital Management (Beijing) Co., Ltd. is Stated-owned Assets Supervision & Administration Commission of Chongqing Municipal Government.
- (j) The directors of Changchun Emerging Industry Equity Investment Fund Co., Ltd. are Mr. Li Xiangchao, Mr. Huang Yan, Ms. Li Zhenmei, Ms. Liang Wanpeng and Mr. Yang Dongdong. The ultimate controlling shareholder of Changchun Emerging Industry Equity Investment Fund Co., Ltd. is Changchun Municipal Finance Bureau.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:00 p.m. on any Business Day from the date of this circular up to and including the date of the EGM at (i) the head office and principal place of business of the Company in Hong Kong at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong; (ii) on the website of the Securities and Futures Commission of Hong Kong at *www.sfc.hk*; and (iii) on the website of the Company at *www.globalbiochem.com*:

- (a) the memorandum and articles of association of the Company valid as at the Latest Practicable Date;
- (b) the memorandum and articles of association of the Subscriber valid as at the Latest Practicable Date;
- (c) the annual report of the Company for the year ended 31 December 2013;
- (d) the annual report of the Company for the year ended 31 December 2014;
- (e) the letter from the Board, the text of which is set on pages 7 to 36 to this circular;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 37 to 38 of this circular;
- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 39 to 93 of this circular;
- (h) the service contracts and appointment letters referred to under the paragraph headed “6. Directors’ Service Contracts” in this appendix;
- (i) the material contracts referred to under the paragraph headed “8. Material Contracts” in this appendix;
- (j) the written consent from the Independent Financial Adviser as referred to in the paragraph headed “9. Expert and Consent” in this appendix; and
- (k) the written consent from BOCI Asia Limited that it has given and has not withdrawn its consent to the publication of its name in this circular.

12. GENERAL

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

NOTICE OF EGM



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

NOTICE IS HEREBY GIVEN that a extraordinary general meeting (the “**Meeting**”) of Global Bio-chem Technology Group Company Limited (the “**Company**”) will be held on 8 October 2015 at 11:00 a.m. at Aberdeen, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purposes of considering and, if thought fit, passing (with or without modifications), each of the following resolutions (each a “**Resolution**”) as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the entering into of the conditional subscription agreement dated 30 August 2015 (the “**Subscription Agreement**”, a copy of which has been produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification) between Modern Agricultural Industry Investment Limited (the “**Subscriber**”) as subscriber and Global Bio-chem Technology Group Company Limited (the “**Company**”) as issuer in relation to the proposed subscription at the total consideration (the “**Total Consideration**”) of the Hong Kong dollar equivalent of RMB1,500,000,000 (calculated at the exchange rate of HK\$1 = RMB0.8299) by the Subscriber of (i) 3,135,509,196 new ordinary shares (the “**Subscription Share(s)**”) of HK\$0.10 each (the “**Shares**”) in the share capital of the Company at the subscription price of HK\$0.23 per Subscription Share at the total subscription monies (the “**Subscription Monies**”) of HK\$721,167,115 and (ii) five-year convertible bonds in the principal amount of the balance of the Total Consideration after subtracting therefrom the Subscription Monies (the “**Convertible Bonds**”) which entitles the holder(s) thereof to convert the same into Shares at the initial conversion price of HK\$0.23 (subject to adjustment) per Share, subject to and upon other terms and conditions contained in the Subscription Agreement together with the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith be and they are hereby generally and unconditionally approved in all respects;
- (b) the issue of the Convertible Bonds in accordance with the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder be and is hereby approved;

* *For identification purpose only*

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- (c) the directors (the “**Directors**”) of the Company (or a duly authorised committee thereof) be and they are hereby generally and specifically authorised to allot and issue (the “**Specific Mandate**”) the Subscription Shares and such number of new Shares upon conversion of the Convertible Bonds. The Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
- (d) the Directors (or a duly authorised committee thereof) be and they are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the Directors (or a duly authorised committee thereof), may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Subscription Agreement and the issue of the Subscription Shares, the Convertible Bonds and issue of new Share(s) which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company.”
2. “**THAT**, subject to the passing of resolution numbered 1 above and the Executive Director (or any delegate of the Executive Director) of the Corporate Finance Division of the Securities and Futures Commission (the “**Executive**”) granting to the Subscriber and parties acting in concert with it the waiver (the “**Whitewash Waiver**”) pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) waiving any obligation on the part of the Subscriber and parties acting in concert with it to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it which would otherwise arise as a result of (i) the Subscriber subscribing for the Subscription Shares and the Convertible Bonds under the Subscription Agreement; and (ii) the Subscriber obtaining the new Shares upon the exercise of the conversion rights of the Convertible Bonds referred to in resolution numbered 1 above be and is hereby approved, and that any one or more of the Directors be and he/she is/are hereby authorised to do all such acts and things and execute all such documents as he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

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3. “**THAT**, subject to the passing of resolutions numbered 1 and 2 above, the authorised share capital of the Company be and is hereby increased from HK\$1,000,000,000, divided into 10,000,000,000 ordinary shares of HK\$0.10 each to HK\$2,000,000,000 divided into 20,000,000,000 Shares of HK\$0.10 each by the creation of additional 10,000,000,000 ordinary shares of HK\$0.10 each (the “**Increase in Authorised Share Capital**”) and the Directors be and are hereby authorised for and on behalf of the Company to execute all such documents and to do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the Increase in Authorised Share Capital.”

Yours faithfully

By order of the Board

Global Bio-chem Technology Group Company Limited

Liu Xiaoming

Chairman

Hong Kong, 21 September 2015

Registered office:

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

*Head office and principal place of
business in Hong Kong:*

Unit 1104
Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting above is entitled to appoint in written form one or, if he is the holder of two or more shares (“**Shares**”) of the Company, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the above meeting, personally or by proxy, that one of the said persons so present whose name stands first in the register in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised, and must be deposited with the Hong Kong branch share registrar and transfer office (“**Branch Registrar**”) of the Company, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) not less than 48 hours before the time fixed for holding of the meeting or any adjournment thereof.
4. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

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5. For the purpose of determining members who are qualified for attending the above meeting, the register of members of the Company will be closed on 8 October 2015, during which period no transfer of the Shares will be effected. In order to qualify for attending the above meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Branch Registrar at the above address by no later than 4:30 p.m. on 7 October 2015.

As at the date of this notice, the executive Directors of the Company are Mr. Liu Xiaoming, Ms. Xu Ziyi, Mr. Li Weigang, Mr. Wang Yongan, Mr. Ji Jianping and Mr. Cheung Chak Fung and the independent non-executive Directors are Mr. Chan Chi Wai, Benny, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam.