大成糖業控股有限公司*

# GLOBAL Sweeteners Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 03889

# 2017 ANNUAL REPORT

* For identification purpose only

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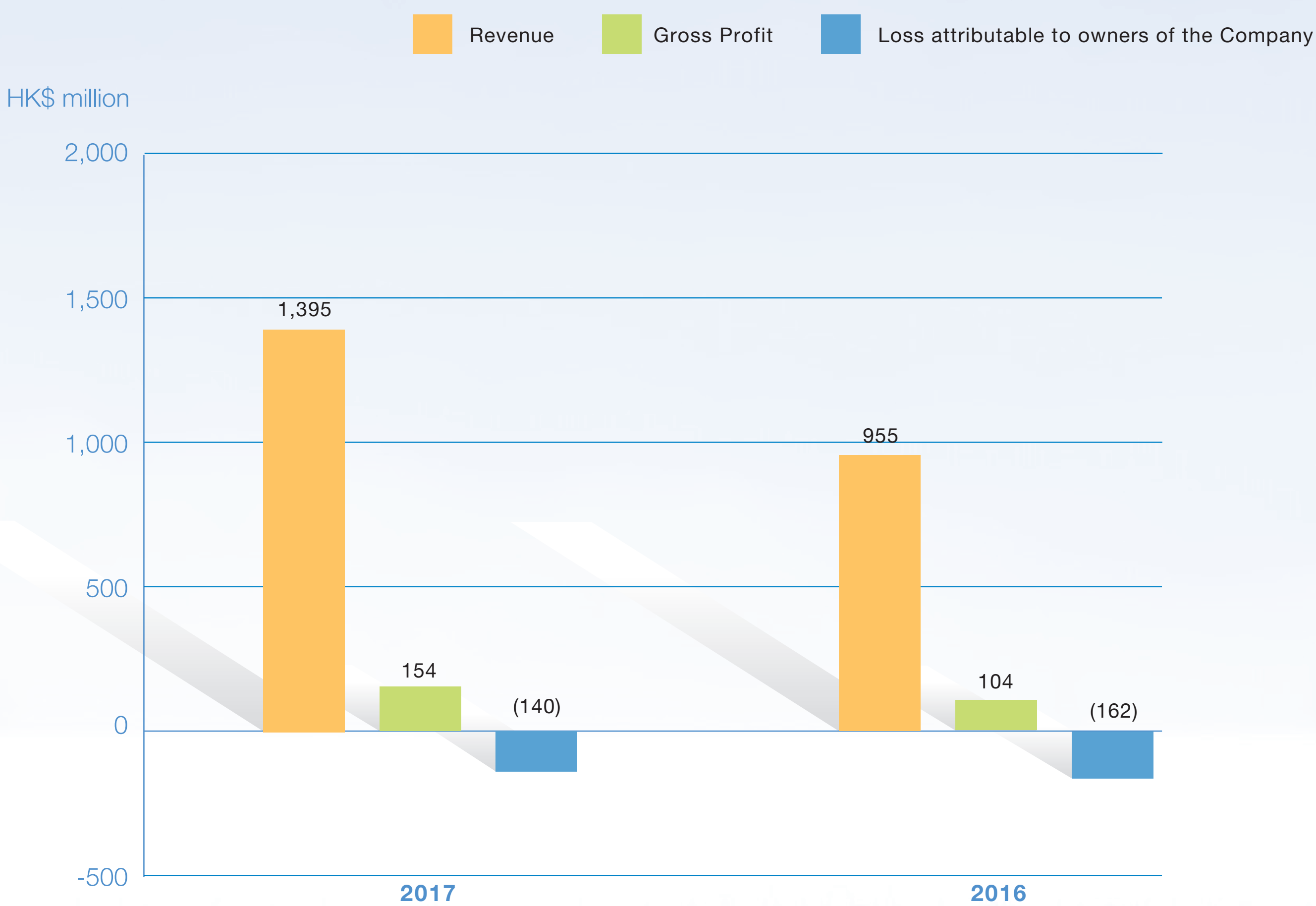
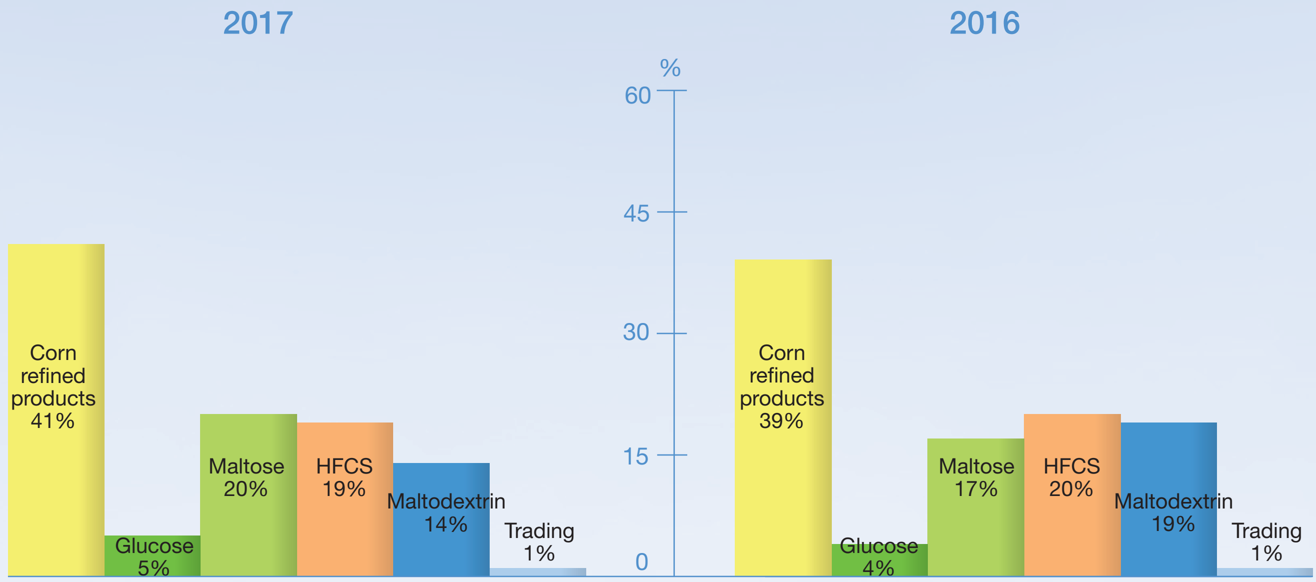
# FINANCIAL HIGHLIGHTS

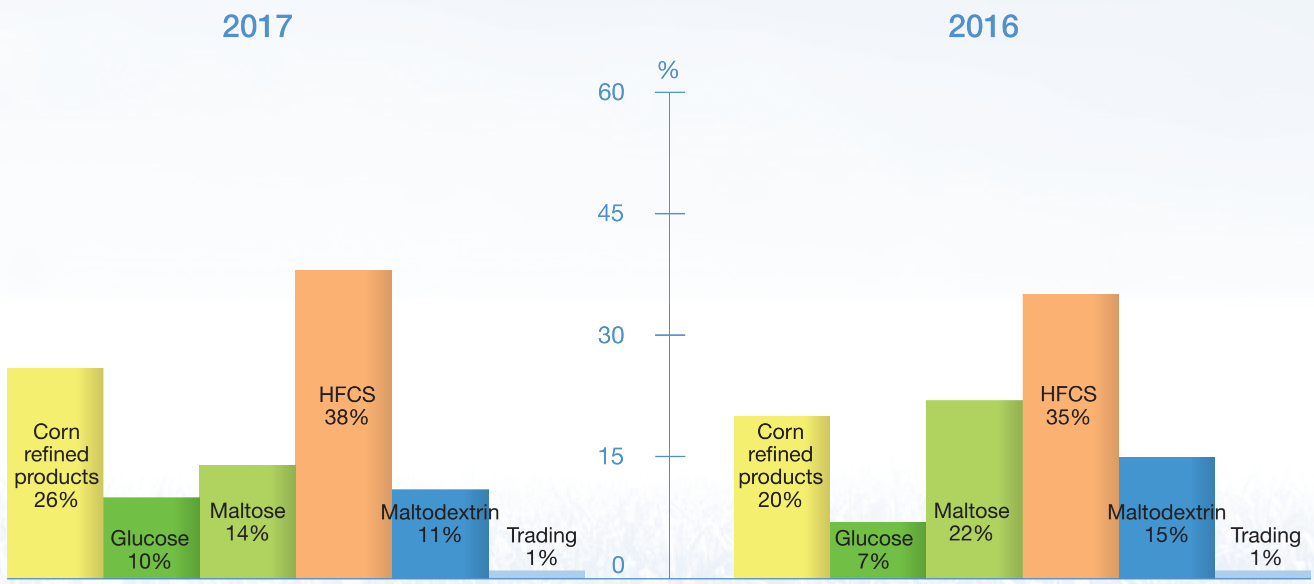
| | 2017 | 2016 | Change % |
|---|---|---|---|
| Revenue (HK$'Mn) | **1,395** | 995 | 40.2% |
| Gross profit (HK$'Mn) | **154** | 104 | 48.1% |
| Loss before tax (HK$'Mn) | **(143)** | (254) | N/A |
| Loss attributable to owners of the Company (HK$'Mn) | **(140)** | (162) | N/A |
| Basic loss per share (HK cents) | **(9.2)** | (10.6) | N/A |
| Proposed final dividend per share (HK cents) | **—** | — | N/A |



## REVENUE DISTRIBUTION




## GROSS PROFIT DISTRIBUTION



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Kong Zhanpeng *(Chairman)*
Mr. Zhang Zihua *(Appointed on 23 March 2017)*
Mr. Wang Jian *(Resigned on 23 March 2017)*

### Non-executive Directors

Mr. Fu Qiang *(Resigned on 23 March 2017)*
Ms. Zhang Yaohui *(Resigned on 23 March 2017)*

### Independent non-executive Directors

Mr. Ho Lic Ki
Mr. Lo Kwing Yu
Mr. Yuen Tsz Chun

## COMPANY SECRETARY

Mr. Lee Chi Yung, ACCA, HKICPA

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1104
Admiralty Centre Tower I
18 Harcourt Road
Hong Kong

## AUDITOR

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

## LEGAL ADVISERS AS TO HONG KONG LAWS

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

## PRINCIPAL BANKER

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## WEBSITE

www.global-sweeteners.com

## STOCK CODE

03889

# MESSAGE TO SHAREHOLDERS

Dear Shareholders,

Looking back at 2017, the overall performance of the Group's operating results improved further, with significant growth in both revenue and gross profit. However, as the corn purchase subsidy policy of the provincial governments in northeast China expired, the operational costs for the Group's upstream and downstream business in the second half of the year was under pressure. The business performance in the second half of the year retreated as compared to the first half of the year. During the year under review, the Group recorded a net loss as various expenses and finance costs were still at a relatively high level. However, due to the resumption of production of the Jinzhou facilities, the Group's operational efficiency had improved. In addition, the State's agricultural policy reform had facilitated the marketisation of corn prices, which was conductive to the normal development of prices of raw materials and finished products. The loss before tax for the year was significantly lower than that of the previous year.

During the year under review, China's corn production volume remained at 216 million metric tonnes. Since the abolishment of the temporary storage policy of corn in the fourth quarter of 2016, corn price has gradually been determined by market mechanism. This together with the corn purchase subsidies introduced by the provincial governments in northeast China had facilitated the recovery of the upstream corn refinery industry as well as the steady development of other related downstream products. The Group's sales volume surged as a result of improved utilisation of the production facilities, leading to a 40% increase in revenue. Benefitting from improved upstream market sentiment, the gross profit of the Group for the year increased by 48% year-on-year. However, in the second half of the year, improved market sentiment has intensified competition as upstream corn processing companies raised their facility utilisation. In addition, the cost of corn had increased as a result of the expiry of the corn purchase subsidy policy from governments posting pressure on the Group's performance in the second half of the year. Despite this, the performance of the Group's operating results for the year still improved significantly as compared to last year's.

In addition to obtaining government subsidies during the year under review, the Group also signed a corn purchasing agreement with Jiliang, a subsidiary of Nongtou, the ultimate controlling shareholder of the Company, to ensure stable supply of corn kernels and effective control of corn purchase cost. The purchase of corn through Jiliang also allowed the Group to enjoy a longer credit period granted by Jiliang to relieve the Group's financial pressure.

The above factors had contributed to the healthy development of the Group's upstream business, with satisfactory growth in revenue of corn starch and other corn refined products. The Group's Jinzhou production site has gradually resumed normal production of upstream products since early 2017. With the gradual increase in the utilisation rate of corn processing capacity, the effective allocation of fixed costs improved the overall operational efficiency of the Group.

With respect to the sugar market, sugar output at home and abroad increased during the year under review, leading to the decrease in sugar price; nevertheless, the industry's effort to promote the use of corn sweeteners over the years has contributed to a mature corn sweeteners market. Most customers have become accustomed to the user-friendliness of corn sweeteners. As such, the substitution effect of sweetener products triggered by the fluctuations in sugar price has reduced. Although sugar price fluctuations have a direct impact on sweetener prices, sales of corn sweeteners remains stable. During the year under review, the first phase of the relocation of the Group's sweetener production facilities to Xinglongshan was completed, resulting in an increase in overall output. As for the Shanghai production base, it maintained healthy operation and continued to provide profit contribution and steady cash flow to the Group. Its high fructose corn syrup and other sweeteners products reported satisfactory sales performance with long-standing support from customers. The Shanghai plant continued to run at full capacity utilisation during the year under review. The Shanghai base is a multi-functional platform of the Group that combines research, sales and marketing functions. It also serves as the information and marketing platform for other production bases of the Group.

# MESSAGE TO SHAREHOLDERS

In order to rationalise its operations and streamline its business structure, the Group entered into a sales and purchase agreement with its controlling shareholder, the GBT Group, during the year under review for the transfer of two subsidiaries of the Company, Dihao Foodstuff and Dihao Crystal Sugar. The said transaction is expected to be completed in July 2018. Upon the completion of the transaction, the financial position of the Group will be greatly improved. On the one hand, the Group will be relieved from the obligations arising from the financial guarantee made by the above-mentioned subsidiary. On the other hand, the transaction will exempt the Group from the relevant expenses for the relocation of the production facilities in Luyuan District, which will enable the Group to channel its efforts and resources in developing other businesses.

## OUTLOOK

Looking into 2018, the Group would capitalise on the continuous implementation of the agricultural supply-side reform to achieve flexible corn procurement and inventory adjustment to control cost through its assessment on market movement.

Since domestic cane farmers and cane sugar production operate at relatively higher costs, domestic sugar price far exceeds international sugar price, thus attracting a large amount of imported sugar products to compete with domestic ones. The government has implemented various measures, (including raising import tariff for sugar imports) to safeguard the steady development of sugar related industries in China. It is believed that such measures will be able to stabilise domestic sugar price effectively.

To maintain its competitiveness, the Group will enhance the development of high value-added products and new applications through in-house research and development efforts and forming strategic alliance with international market leaders. As the Group's brand names have gained prominence in China, we will continue to leverage our brand equity to consolidate our market position.

The first phase of relocation from Luyuan District to Xinglongshan was completed in April 2017 and the second phase of the relocation of the maltodextrin production facilities was completed in January 2018. The facilities will gradually commence operation in 2018, which will further elevate the Group's output and operational efficiency. The Group also strives to leverage on the synergistic effect between the Shanghai multi-functional platform and the Jinzhou production base, to strengthen sales of products from Jinzhou in Huadong region with the help of the Shanghai base to expand its sales to high-end consumers and increase profitability.

As the overall operation of the Group is steadily moving towards a healthy development, I would like to express my deepest gratitude to all the shareholders and business partners for their continued support and trust to the Board and the management team. I am also grateful to all of our staff who continue to stay with us at times of adversity. We will continue our effort in overcoming the challenges ahead and lead the Group out of the shadows and get back on track to its development.

**Kong Zhanpeng**
*Chairman*

26 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

Global Sweeteners Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of corn refined products and corn sweeteners, categorised into upstream and downstream products. The Group's upstream products include corn starch, gluten meal, corn oil and other corn refined products. Corn starch is refined downstream to produce various corn sweeteners such as corn syrup (glucose syrup, maltose syrup and high fructose corn syrup) and corn syrup solid (crystallised glucose and maltodextrin). The Group is also the sole distributor of Global Bio-chem Technology Group Company Limited ("GBT") and its subsidiaries (collectively, the "GBT Group") in the Huadong Region for the sale of lysine and other corn refined products.

## BUSINESS REVIEW

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

During the Year, the continuous effort of the state government to stimulate economic growth and development has lifted the operating environment of the PRC. With respect to global corn market, according to the estimate from the USDA, global corn production for the year 2017/18 reaches 1,042 million metric tonnes ("MT") (2016/2017: 1,076 million MT). International corn price dropped to 351 US cents per bushel (equivalent to RMB1,021 per MT) (31 December 2016: 425 US cents per bushel) by the end of the Year. In the PRC, corn harvest in 2017/18 decreased slightly to 216 million MT (2016/17: approximately 220 million MT). As disclosed in the Company's interim report for the six months ended 30 June 2016, in an official government document "Opinion on the implementation of the establishment of subsidy programme to corn producers"（關於建立玉米生產者補貼制度的實施意見）dated 19 June 2016, the State Government confirmed the abolition of the state procurement of corn in Heilongjiang, Jilin, Liaoning and Inner Mongolia Autonomous Region, and the introduction of a direct subsidy programme in these provinces in the 2016/17 corn harvest season. The scheme has enabled the price of corn in China to be determined by market mechanisms. In addition, the provincial governments in northeast China introduced direct subsidies to qualified corn refiners which purchase local corn during the harvest months of 2016. The normalised corn price in China coupled with the corn purchase subsidies from provincial governments have enhanced the competitiveness of Chinese corn refined products and other downstream products since then and during the first half of the Year. However, the improved operating environment has attracted a number of suspended capacity to resume operation, which put pressure on the upstream market. On the other hand, with the expiry of the corn subsidies by the provincial governments in northeast China since May 2017, the cost of production has been driven up. As a result, the Group's upstream business for the second half of the Year was put under pressure.

As for the sugar market, increased global production has dragged down international sugar price from its peak of 23.90 US cents per pound (equivalent to RMB3,457 per MT) in 2016 to 15.01 US cents per pound (equivalent to RMB2,223 per MT) by the end of the Year. In the PRC market, domestic sugar production increased by 1.2 million MT to 10.5 million MT in 2017/18 harvest, with expanded sugarbeet and sugarcane planting area. As a result, domestic sugar price dropped to RMB6,418 per MT (end of 2016: RMB6,752 per MT) by the end of the Year. The huge difference between international sugar price and domestic sugar price has increased the competitiveness of imported sugar. As such, the government has implemented a series of measures, including raising import tariff for sugar imports without quota from major supplying countries to protect cane sugar and beet sugar producers. Such measures are expected to uphold the domestic sugar price in year 2018.

After years of industry development, customers get accustomed to the user-friendliness of corn sweeteners. The substitution effect between sugar and sweeteners is no longer as prominent as it used to be. Sugar price fluctuation has become a reference point for the pricing of sweeteners. Although the decrease in sugar price had an impact on sweeteners prices, the demand for sweetener products has been stable. In addition, the market-driven raw material prices subsequent to the abolition of the state procurement of corn since the fourth quarter of 2016 has facilitated the development of a healthy corn sweeteners market. As such, the performance of the Group's downstream sweetener products remained relatively stable during the Year.

Notwithstanding the fact that 2017 was still a year filled with challenges, the overall operating environment during the Year has improved. The Group will continue to strengthen its market position leveraging on its brand name and further improve cost effectiveness through continuous research and development efforts to lower operating costs, at the same time optimising utilisation rate to improve operation efficiency.

## UPDATE ON REMEDIAL MEASURES

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

### 1. Financial guarantee contracts

As detailed in the 2016 Annual Report, the previous financial guarantee contracts ("Previous Supplier Guarantees") were not recognised in the Group's consolidated financial statements for the year ended 31 December 2016 because the Group was unable to obtain reliable financial information of Changchun Dajincang Corn Procurement, Ltd.（長春大金倉玉米收儲有限公司）("Dajincang" or the "Former Supplier") starting from year 2010, for the professional valuer to conduct an accurate valuation. During the Year, as a result of similar difficulties encountered by the Group in 2016, no valuation could be proceeded for the Previous Supplier Guarantees.

As disclosed in the joint announcement of the Company and GBT dated 8 December 2017 and the circular of the Company dated 17 January 2018, the term of the Previous Supplier Guarantees had expired in September 2017 and the Former Supplier still did not have sufficient financial resources to repay the loan ("Previous Supplier Loan") when the same fell due. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, the Former Supplier proposed to refinance the Previous Supplier Loan by entering into the new supplier loan agreements with 中國銀行股份有限公司偉峰國際支行 (Bank of China Weifeng International Branch) ("BOC") for the all indebtedness due and owing to BOC ("New Supplier Loan") including among others, a new supplier guarantee ("Dihao New Supplier Guarantee") was granted by 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.*) ("Dihao Foodstuff") a subsidiary of the Company. As a condition to the New Supplier Loan, the Dihao New Supplier Guarantee was granted by Dihao Foodstuff to BOC to guarantee the obligations of the Former Supplier under the New Supplier Loan. The amount drawn down by the Former Supplier as at 31 December 2017 and up to the date of this report amounted to RMB2.49 billion (31 December 2016: RMB2.49 billion).

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

On 21 July 2017, the Group entered into a sale and purchase agreement (the "S&P Agreement") with GBT, for the sale of the entire equity interest in the Dihao Foodstuff and Changchun Dihao Crystal Sugar Industry Development Co., Ltd. (together the "Target Companies") (the "Transaction"). Subject to the conditions set out in the S&P Agreement being fulfilled, upon the completion of the transaction which is expected to be on or before 16 July 2018, such financial uncertainties brought to the Group by the possible financial obligations under the Dihao New Supplier Guarantee would no longer exist upon Dihao Foodstuff ceasing to be a member of the Group. The assessment of the amount required to be recognised in respect of the Dihao New Supplier Guarantee in the consolidated financial statements of the Group as at 31 December 2018 will thus be unnecessary. However, the auditor of the Company may be unable to determine whether any adjustments in respect of the Dihao New Supplier Guarantee as at 31 December 2017 were necessary, which may have a significant impact on the financial position of the Group as at 31 December 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ending 31 December 2018.

2. **Material uncertainty relating to going concern**

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

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

Dependent on the successful and favourable outcomes of the measures as set out in note 2.2 to the consolidated financial statements, the Board, including the Audit Committee is of the view that the Group will be able to continue as a going concern in foreseeable future, and that the relevant disclaimer opinion may not appear in the final results for the year of 2018.

## FINANCIAL PERFORMANCE

With the increase in operation efficiency in Jinzhou and completion of first phase of the relocation in Xinglongshan, Changchun, the PRC, the sales volume of the Group increased by 52.8% during the Year. As a result, the Group's consolidated revenue for the Year increased by 40.2% to approximately HK$1,395.1 million (2016: HK$995.2 million). Benefiting from the improved upstream market sentiment and the introduction of provincial corn purchase subsidy in Liaoning since the fourth quarter of 2016, the Group's gross profit for the Year increased by 48.1% to approximately HK$154.4 million (2016: HK$104.3 million) year-on-year. Nevertheless, with the expiry of the corn subsidy policy in May 2017, the cost of production has been driven up in the second half of 2017. As a result, the gross profit and gross profit margin for the second half of the Year decreased by 13.3% and 4.8 per cent points to HK$71.7 million and 9.0% respectively compared to HK$82.7 million and 13.8% for the six months ended 30 June 2017. The net loss for the second half of the Year increased by 62.2% to HK$86.8 million compared to HK$53.5 million for the six months ended 30 June 2017 and consequently, the Company recorded a net loss of HK$140.3 million (2016: HK$162.4 million) for the Year. The management has adopted a number of measures to improve financial performance and financial position of the Group, among others, the Group entered into a S&P Agreement with GBT in July 2017 to dispose of the Target Companies in Changchun in order to relieve the financial burden from relocation of the production facilities in Changchun and the Dihao New Supplier Guarantee. The Group also signed a corn purchasing agreement with Jiliang, a subsidiary of Nongtou, in May 2017 to ensure a stable supply of corn kernels.

### Upstream products

(Sales amount: HK$572.8 million (2016: HK$392.4 million))
(Gross profit: HK$40.2 million (2016: HK$21.0 million))

No revenue from corn procurement was recorded during the Year (2016: HK$64.3 million) as a result of the suspension of corn trading business since February 2016.

With respect to the Group's corn refinery business, the improvement in operation efficiency in Jinzhou site for the Year has increased the sales volume of corn starch and other corn refined products to approximately 163,000 MT (2016: 99,000 MT) and 101,000 MT (2016: 40,000 MT) respectively, as well as their revenue to approximately HK$362.9 million (2016: HK$237.9 million) and HK$209.9 million (2016: HK$90.3 million) respectively. Internal consumption of corn starch was approximately 128,000 MT (2016: 28,000 MT), which was mainly used as the raw material for production in the Group's Jinzhou and Shanghai production sites.

Benefiting from the agricultural subsidies from the provincial government to qualified corn refiners since the fourth quarter of 2016 whereby the Group received subsidies in the amount of HK$22.9 million during the Year (2016: HK$4.0 million), and the lower raw material cost as a result of the PRC agricultural policy reform, the overall performance of the Group's upstream business improved during the Year. However, as the corn subsidy policy expired in May 2017, the cost of sales per MT increased by 18.1% while the average selling price per MT increased only by 7.8% in the second half of 2017, as compared to the six months ended 30 June 2017. As a result, the gross profit and gross profit margin for the second half of the Year decreased by 67.7% and 8.4 per cent points to HK$9.8 million and 3.2% respectively, as compared to HK$30.3 million and 11.6% for the six months ended 30 June 2017. During the Year, the gross profit and gross profit margin of the corn starch increased to approximately HK$46.2 million (2016: HK$20.2 million) and 12.7% (2016: 8.5%) respectively while the other corn refined products recorded a gross loss and gross loss margin of approximately HK$6.0 million (2016: gross profit HK$1 million) and 2.9% (2016: gross profit margin 1.0%) respectively.

The Group has been the sole distributor of the GBT Group for the sales and marketing of their upstream corn refined products in the Huadong Region since 2016. During the Year, the trading of GBT's upstream products amounted to HK$1.6 million (2016: 1.4 million).

### Corn syrup

(Sales amount: HK$614.5 million (2016: HK$405.3 million))
(Gross profit: HK$95.8 million (2016: HK$66.9 million))

During the Year, revenue and gross profit of corn syrup increased by 51.6% and 43.2% to approximately HK$614.5 million (2016: HK$405.3 million) and HK$95.8 million (2016: HK$66.9 million) respectively. It was mainly attributable to the increase in sales volume by 68.6% to approximately 231,000 MT (2016: 137,000 MT) as a result of the resumption of Jinzhou production facilities since the last quarter of 2016 and the completion of first phase of relocation to Xinglongshan in April 2017. However, as the northeast China market has been primarily concentrated with low-margin industrial users and additional time was needed to re-establish the sales network subsequent to the resumption of Jinzhou production facilities and completion of first phase of the relocation, the gross profit margin of corn syrup decreased to 15.6% (2016: 16.5%) during the Year.

### Corn syrup solid

(Sales amount: HK$197.6 million (2016: HK$186.8 million))
(Gross profit: HK$17.5 million (2016: HK$15.5 million))

No sales of crystallised glucose was recorded during the Year (2016: Nil) due to the suspension of relevant production. During the Year, the revenue and gross profit of maltodextrin increased by 5.8% and 12.9% to approximately HK$197.6 million (2016: HK$186.8 million) and HK$17.5 million (2016: HK$15.5 million) respectively. Such increase was mainly attributable to the increase in sales volume of corn syrup solid by approximately 12.2% to 83,000 MT (2016: 74,000 MT) as a result of the resumption of Jinzhou production facilities since the last quarter of 2016. The gross profit margin of maltodextrin was 8.9% (2016: 8.3%).

### Trading

(Sales amount: HK$10.2 million (2016: HK$10.7 million))
(Gross profit: HK$0.9 million (2016: HK$0.9 million))

The Group has entered into a master sales agreement with the GBT Group for the marketing and sale of the lysine and other corn refined products of the GBT Group in the Huadong Region. Results of trading of corn starch and other corn refined products are included in the financial results of upstream products. Results of the trading segment only includes those of amino acids.

The trading segment recorded a gross profit of approximately HK$0.9 million (2016: HK$0.9 million) with a gross profit margin of 9.0% (2016: 8.4%). The sale of lysine and other corn refined products has created synergistic effects to the Group's business and allowed the Group to offer better product mix to its customers.

### Export sales

During the Year, the Group exported approximately 51,000 MT (2016: 46,000 MT) of upstream corn refined products and approximately 4,000 MT (2016: 2,000 MT) of corn sweeteners; their export sales amounted to approximately HK$94.2 million (2016: HK$86.2 million) and HK$12.1 million (2016: HK$5.1 million) respectively, together representing 7.6% (2016: 9.2%) of the Group's total revenue.

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

#### *Other income and gains*

During the Year, other income of the Group decreased to HK$9.9 million (2016: HK$14.8 million). Such decrease was mainly attributable to the decrease in subcontracting income.

#### *Selling and distribution costs*

During the Year, selling and distribution costs increased by 60.4% to approximately HK$134.7 million (2016: HK$84.0 million), representing 9.7% (2016: 8.4%) of the Group's revenue. Such increase was mainly attributable to the increase in the Group's sales volume by 52.6% as a result of the increase in operation efficiency in Jinzhou and completion of first phase of the relocation in Xinglongshan.

#### *Administrative expenses*

During the Year, administrative expenses decreased by 10.8% to approximately HK$102.8 million (2016: HK$115.3 million), representing 7.4% (2016: 11.6%) of the Group's revenue. Such decrease was a result of effective cost control policy of the Group.

#### *Reversal of impairment of property, plant and equipment*

In 2016, the Company has engaged a professional valuer to perform a valuation to assess the impairment on certain subsidiaries, machineries in Jinzhou and Changchun. As such, a reversal of impairment of property, plant and equipment amounting to HK$138.9 million was recognised for 2016, no such reversal of impairment was recognised during the Year.

#### *Reversal of Impairment (Impairment) of prepayments, deposits and other receivables, net*

During the Year, the Group recorded a reversal of impairment of prepayments of HK$10.7 million, however, in 2016, there was impairment of prepayments, deposits and other receivables of HK$229.7 million, which was mainly attributable to the impairment loss on the outstanding balance of the receivable from Dajincang, no such impairment was recognised during the Year.

#### *Other expenses*

Other expenses of the Group remained at approximately HK$31.0 million (2016: HK$31.8 million) during the Year. These expenses included expenses reallocated from cost of sales, such as depreciation and direct labour cost as a result of the idle capacity in Jinzhou and Changchun production facilities due to the low utilisation rate.

#### *Finance costs*

During the Year, finance costs of the Group increased to approximately HK$49.7 million (2016: HK$48.5 million) as a result of the increase in bank borrowings of HK$239.8 million in Changchun.

***Income tax credit***

Due to the reversal of temporary differences, the Group recorded a deferred tax credit of approximately HK$6.6 million (2016: HK$93.7 million) during the Year, meanwhile, certain subsidiaries of the Company in the PRC generated net profit and the PRC income tax expense amounting to approximately HK$4.1 million was provided for the Year (2016: HK$1.6 million). As a result, the Group recorded income tax credit of approximately HK$2.5 million during the Year (2016: HK$92.1 million).

***Net loss attributable to shareholders***

As a result of the improved operating environment, the Group's net loss was narrowed to approximately HK$140.3 million (2016: HK$162.4 million) during the Year.

## FINANCIAL RESOURCES AND LIQUIDITY

### Net borrowing position

The total borrowings as at 31 December 2017 increased by approximately HK$319.2 million to approximately HK$1,127.5 million (31 December 2016: HK$808.3 million). The change in total borrowings was mainly attributable to an increment of approximately HK$79.7 million as a result of exchange rate adjustment as at 31 December 2017 and increment in interest-bearing bank borrowings in Changchun amounted to HK$239.8 million. However, cash and bank balances and pledged deposits as at 31 December 2017 increased only by HK$97.8 million to approximately HK$214.8 million (31 December 2016: HK$117.0 million). As such, the net borrowings increased to approximately HK$912.7 million (31 December 2016: HK$691.3 million).

### Structure of interest bearing borrowings and net borrowing position

As at 31 December 2017, the Group's bank borrowings amounted to approximately HK$1,127.5 million (31 December 2016: HK$808.3 million), all of which (31 December 2016: 100.0%) was denominated in Renminbi. The average interest rate during the Year decreased to approximately 5.1% (2016: 5.8%) per annum as a result of the decrease in the PRC interest rate. The percentage of interest-bearing borrowing wholly repayable within one year, in the second to the fifth years and beyond five years were 63.1%, 36.9% and nil (31 December 2016: 75.3%, 24.7% and nil), respectively. As at 31 December 2017, all of the Group's bank borrowings are charged which reference to floating interest rate.

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

### Turnover days, liquidity ratios and gearing ratios

Credit terms, normally 30 to 90 days, are granted to customers, depending on their credit worthiness and business relationships with the Group. Although the Group's revenue increased by 40.2% to approximately HK$1,395.1 million for the Year (2016: HK$995.2 million), trade and bills receivables as of 31 December 2017 decreased by 29.0% to approximately HK$137.0 million (31 December 2016: HK$193.0 million) as the Group had strengthened its credit control during the Year. As a result, the trade receivables turnover days decreased to 36 days (31 December 2016: 71 days).

During the Year, trade payables turnover days decreased to approximately 52 days (31 December 2016: 58 days) as part of the cash flow management.

As at 31 December 2017, the Group's inventory level increased by 50.6% to approximately HK$169.1 million (31 December 2016: HK$112.3 million) which was mainly attributable to the increase in utilisation rate of Jinzhou production facilities in 2017 and the completion of the sweetener production facility at the Xinglongshan site. Consequently, the inventory turnover days increased to approximately 50 days for the Year (31 December 2016: 46 days).

The current ratio as at 31 December 2017 increased to approximately 0.5 (31 December 2016: 0.4) and the quick ratio remain stables as 0.3 (31 December 2016: 0.3). Gearing ratio in terms of debts (i.e. total interest-bearing bank borrowings) to total equity/(deficit) and debts (i.e. aggregate total of shareholders equity/(deficit), non-controlling interests and total interest-bearing bank borrowings) was approximately 112.2% (31 December 2016: 98.5%).

## FOREIGN EXCHANGE EXPOSURE

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

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

### Transfer of two subsidiaries in Changchun from the Group to the GBT Group

As announced by the Company on 21 July 2017, the Group entered into the S&P Agreement with the GBT Group for the disposal of the entire equity interest of the Target Companies (the "Transaction"). As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Transaction are more than 25% but less than 75%, the Transaction constitutes a major transaction in relation to disposal of the Company under Rule 14.06 of the Listing Rules. Pursuant to the S&P Agreement, the GBT Group has conditionally agreed to purchase the sale interest. The consideration for the sale interest is HK$60,971,000 which shall be payable by the GBT Group at completion of the Transaction (the "Completion"). The consideration was determined after arm's length negotiations between the Group and the GBT Group with reference to the net asset value of the Target Companies and the fair value of the land and properties owned by the Target Companies in Luyuan District in Changchun City, Jilin Province, the PRC which is based on current use (i.e. industrial).

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

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

### Provision of financial assistance to a former supplier

Reference is made to the announcement dated 8 December 2017 and the circular dated 17 January 2018 in relation to the provision of Dihao New Supplier Guarantees given by member of the Group for the benefit of Dajincang. For more information, please refer to the section headed "Update on Remedial Measures – 1. Financial guarantee contracts" and "Disclosure Pursuant to Rule 13.20 of The Listing Rules" in this report.

## FUTURE PLANS AND PROSPECTS

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

In the short run, the Group will consolidate its resources towards the development of the Shanghai production base, leveraging on the synergistic effect with the Jinzhou production base for the supply of raw materials/ sweeteners products to serve the respective Huadong market.

In the long run, the Group will continue to strengthen its market position leveraging on its brand name and add value to the current product mix through the introduction of new high value-added products.

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

## NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2017, the Group has approximately 1,120 (31 December 2016: 1,130) full time employees in Hong Kong and the PRC. The Group appreciates the correlation between human resources and its success, and recognises the value of human resources management as a source of competitive advantage in the increasing turbulent environment. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards of its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and performance related commissions.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

Mr. Kong Zhanpeng, aged 54, is an executive Director and chairman ("Chairman") of the Company and is responsible for providing leadership and directions to the Board. He has over 23 years of extensive experience in the industry, corporate development and management. Mr. Kong holds a Bachelor's degree in textile engineering and a diploma in international trade from the China Textile University. Mr. Kong was the chief executive officer ("CEO") of the Group. He was also an executive director of GBT from May 2000 to September 2007, and from December 2013 to May 2014. On 24 October 2015, Mr. Kong was appointed as CEO of GBT.

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Lic Ki, aged 69, completed the Chinese Senior Bankers Program offered by the University of Washington, Seattle, the USA. It was an in-house training programme in cooperation with the Bank of China (Hong Kong) in 1991 and obtained a Foundation Diploma in Management from the University of Hong Kong in 1994. He is also a holder of a Bachelor's Degree in Chinese Medicine (Dispensing), Hubei University of Chinese Medicine. Mr. Ho is a fellow member of Hong Kong Securities Institute ("HKSI") and was awarded as "Professional Manager" by the Hong Kong Management Association in 2008. Mr. Ho has about 40 years of experience in banking, finance and asset management. Mr. Ho was appointed as an independent non-executive Director in August 2007.

Mr. Lo Kwing Yu, aged 54, holds a Bachelor's degree in law and economics from the University of Keele, United Kingdom. Mr. Lo is a solicitor and has been in private practice in Hong Kong since 1995. He was first admitted as a solicitor in England and Wales and then admitted as solicitor of the Supreme Court of Hong Kong and of the Eastern Caribbean Supreme Court in the Territory in the Virgin Islands. Mr. Lo is a consultant of Messrs. Ho and Ip. Mr. Lo was appointed as an independent non-executive Director in March 2014.

Mr. Yuen Tsz Chun, aged 47, is a Managing Director of Messrs. KLC Corporate Advisory and Recovery Limited. He graduated from Queen's University of Belfast of United Kingdom in 1994 with a Bachelor of Science degree in accounting. Mr. Yuen has also obtained a Master of Laws degree from the Chinese University of Hong Kong. He is a registered Appointment Taker and Insolvency Practitioner of the Administrative Panel of Insolvency Practitioners for Court Winding-Up of the Official Receiver's Office. Mr. Yuen is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Mr. Yuen is also a Certified Fraud Examiners in Texas, the United States of America and has been awarded Specialist Designation in Insolvency by the HKICPA. He was also a member of the Restructuring and Insolvency Faculty Executive Committee of HKICPA between 2010 and 2016. Mr. Yuen has over 23 years of experience in accounting, auditing, forensic accounting, bankruptcy, liquidation and receivership. Mr. Yuen was appointed as an independent non-executive Director of the Company in March 2016.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

Mr. Wang Jian, aged 43, is the CEO of the Group and is responsible for overseeing the overall operation of the Group. He is the deputy general manager of Jilin Province Communication Investment Group Co., Ltd.*)（吉林省交通投資集團有限公司）(“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. Mr. Wang was an executive director of the Company and GBT from October 2015 to March 2017.

Mr. Lee Chi Yung, aged 43, is the company secretary and the financial controller of the Company. Mr. Lee has over 20 years of experience in the related fields of finance, auditing, accounting and corporate governance practices. He graduated from the City University of Hong Kong with a Bachelor’s degree with honors in accountancy in 1996 and attained a Master’s degree in Business Administration from University of London in 2016. He is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Lee joined the GBT Group in September 2000 and then the Group in August 2007. Mr. Lee was an executive Director of the Company from December 2009 to October 2015. Mr. Lee was appointed as company secretary and financial controller of GBT on 15 October 2015 and 24 October 2015 respectively.

Mr. Wen Gang, aged 45, is the general manager of the Group’s Shanghai and Jinzhou production sites. Mr. Wen graduated from Jilin Grain College in 1996. He joined the Group in August 1999 and served as the general manager of certain subsidiaries of the Company and GBT. Mr. Wen has over 19 years of experience in corn refinery and sweeteners industries. Mr. Wen was an executive Director of the Company from June 2015 to October 2015.

Mr. Wang Hongshan, aged 40, is the general manager of the Group’s Changchun production site. Mr. Wang graduated from Jilin Grain College in 2001, and majored in Grain and Oil Chemical Engineering. He joined the Group in October 2001 and has extensive experience in production engineering as well as corn refinery and sweeteners industries. Mr. Wang was appointed as the general manager of the Group’s Changchun production site in April 2016.

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND MODEL CODE

Save as disclosed below, in the opinion of the Directors, the Company has complied with all code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2017.

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. Mr. Wang Jian was the Chairman and CEO of the Company. On 23 March 2017, Mr. Wang Jian resigned as an executive Director and ceased to be the Chairman but remained as the CEO of the Company. Mr. Kong Zhanpeng has been appointed as the Chairman, as a result, the roles of Chairman and CEO are separate and exercised by different person.

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the Directors, all Directors have confirmed to the Company that they have complied with the required standard set out in the Model Code and the Company's code of conduct during the Year.

## BOARD OF DIRECTORS

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

| | Meetings held and attended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Board meetings | Audit committee meetings | Nomination committee meetings | Remuneration committee meetings | Continuing connected transactions executive committee meetings *(note 5)* | Continuing connected transactions supervisory committee meetings | Corporate governance committee meetings | Annual general meeting |
| **Executive Directors** | | | | | | | | |
| Kong Zhanpeng *(note 1)* | 13/13 | | 1/2 | 1/2 | | | 1/1 | 1/1 |
| Zhnag Zihua *(note 2)* | 8/11 | | | | | | | 1/1 |
| Wang Jian *(note 3)* | 1/2 | | 1/2 | 1/2 | | | | |
| **Non-executive Directors** | | | | | | | | |
| Fu Qiang *(note 4)* | 0/2 | | | | 2/2 | | | |
| Zhang Yaohui *(note 4)* | 2/2 | | | | 2/2 | | | |
| **Independent Non-executive Directors** | | | | | | | | |
| Ho Lic Ki | 13/13 | 3/3 | 2/2 | 2/2 | | 4/4 | 1/1 | 1/1 |
| Lo Kwing Yu | 13/13 | 3/3 | 2/2 | 2/2 | | 4/4 | | 1/1 |
| Yuen Tsz Chun | 13/13 | 3/3 | | | | 4/4 | 1/1 | 1/1 |

*Notes:*

1. Mr. Kong Zhanpeng was appointed as a member of the remuneration committee (the "Remuneration Committee") and the chairman of the nomination committee (the "Nomination Committee") of the Company from 23 March 2017.

2. Mr. Zhang Zihua was appointed as executive Director of the Company on 23 March 2017.

3. Mr. Wang Jian has resigned as executive Director, a member of Remuneration Committee and the chairman of Nomination Committee of the Company from 23 March 2017.

4. Mr. Fu Qiang and Ms. Zhang Yaohui have resigned as non-executive Directors and members of continuing connected transactions executive committee (the "CCT Executive Committee") of the Company from 23 March 2017.

5. The current members of the CCT Executive Committee are members of the senior management of the Group.

As of the date of this report, the Board comprises five Directors, being two executive Directors and three independent non-executive Directors. There is no relationship (including financial, business, family or other material/relevant relationship) between any of the Directors. Details of the biographies of individual Directors and their range of specialist experience and expertise are set out on page 15 of this report.

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

## BOARD DIVERSITY

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

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

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

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

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

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

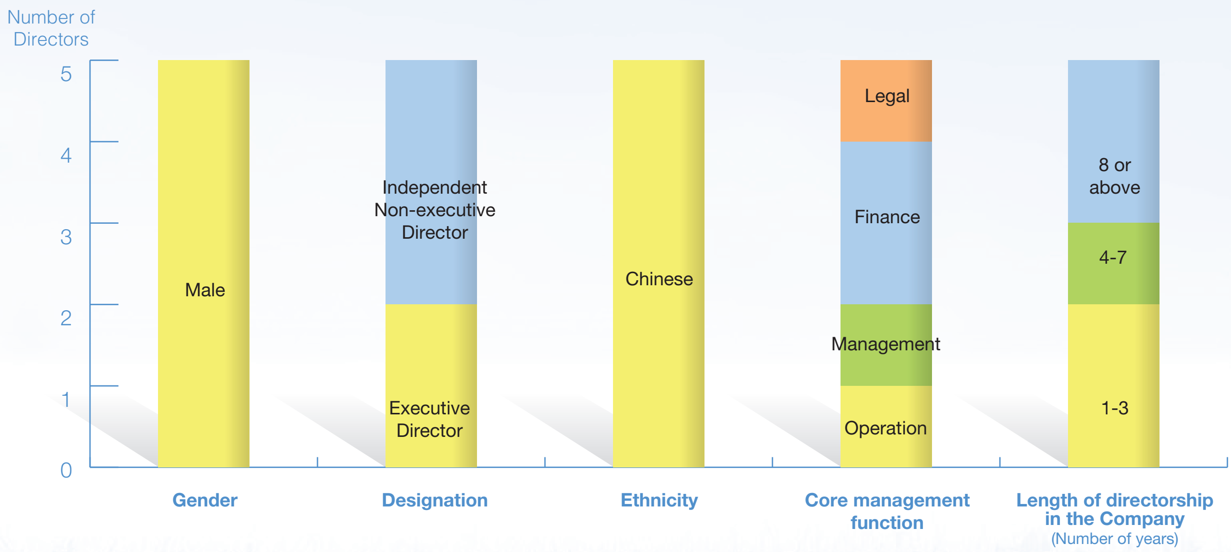
(2) at least one-third of the Board are holders of a Bachelor's degree or above;

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

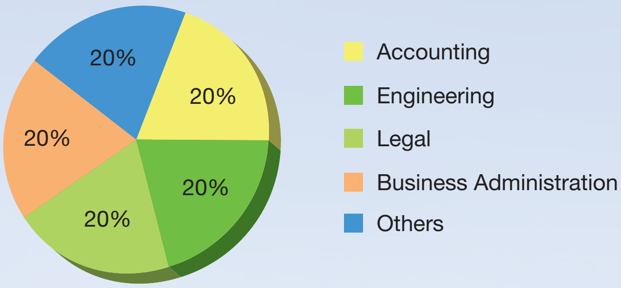
(4) at least one Director has relevant experience in the corn processing industry; and

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

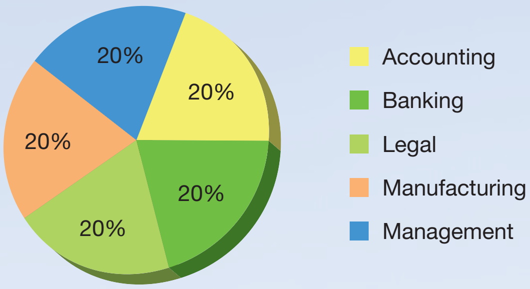
Up to the date of this report, composition of the Board is disclosed as below:



## ACADEMIC BACKGROUND




## BUSINESS EXPERIENCE




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

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

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

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

### Directors' Training

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

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

| | Type of trainings | |
|---|---|---|
| | A | B |
| **Executive Directors** | | |
| Kong Zhanpeng | | ✓ |
| Zhang Zihua *(Appointed on 23 March 2017)* | ✓ | ✓ |
| Wang Jian *(Resigned on 23 March 2017)* | | ✓ |
| **Non-executive Directors** | | |
| Fu Qiang *(Resigned on 23 March 2017)* | | ✓ |
| Zhang Yaohui *(Resigned on 23 March 2017)* | | ✓ |
| **Independent non-executive Directors** | | |
| Ho Lic Ki | ✓ | ✓ |
| Lo Kwing Yu | | ✓ |
| Yuen Tsz Chun | | ✓ |

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

## CHAIRMAN AND CHIEF EXECUTIVE

Prior to 23 March 2017, Mr. Wang Jian was the Chairman and CEO of the Company, On 23 March 2017, Mr. Wang Jian has resigned as an executive Director and has ceased to be the Chairman but remains as the CEO of the Group. Currently, the roles of the Chairman and CEO are separate and exercised by different person. Mr. Kong Zhanpeng is the Chairman and is mainly responsible for providing leadership and directions to the Board. Mr. Wang Jian is the CEO, and is responsible for overseeing the Company's operation management and product development.

## TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

During the Year, Directors' remuneration is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Fees | 1,440 | 1,341 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,600 | 3,600 |
| Performance-related bonuses *(Note)* | — | — |
| Payment in lieu of notice | — | — |
| Pension scheme contributions | 18 | 18 |
| | 5,058 | 4,959 |

*Note:*

According to the Directors' service contracts and the supplemental agreements entered into between the Company and the executive Directors, each of the executive Directors is entitled to a basic salary, and the increase in salary of the executive Directors shall be determined by the Remuneration Committee or the Board. In addition, according to a service contract and a supplemental agreement entered into between the Company and Mr. Kong Zhanpeng, upon completion of every 12 months of services, he shall be entitled to a management bonus. The management bonus in respect of each financial year of the Company shall be determined pursuant to the mechanism adopted by the Board from time to time, or to be determined by the Board in its absolute discretion. No bonus was paid to Mr. Kong during the years ended 31 December 2016 and 2017.

### (a) Independent non-executive Directors

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Ho Lic Ki | 480 | 480 |
| Lo Kwing Yu | 480 | 480 |
| Yuen Tsz Chun | 480 | 381 |
| | 1,440 | 1,341 |

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

### (b) Executive Directors

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

| | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Payment in lieu of notice HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| 2017 | | | | | |
| Kong Zhanpeng | **3,600** | **—** | **—** | **18** | **3,618** |
| Zhang Zihua(1) | **—** | **—** | **—** | **—** | **—** |
| Wang Jian(2) | **—** | **—** | **—** | **—** | **—** |
| | **3,600** | **—** | **—** | **18** | **3,618** |
| 2016 | | | | | |
| Kong Zhanpeng | 3,600 | — | — | 18 | 3,618 |
| Wang Jian | — | — | — | — | — |
| | 3,600 | — | — | 18 | 3,618 |

*Notes:*

1. Mr. Zhang Zihua was appointed as an executive Director on 23 March 2017.

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

### (c) Senior Management

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

| | 2017 Number of individuals | 2016 Number of individuals |
|---|---|---|
| Nil to HK$1,000,000 | **4** | 4 |

## ACCOUNTABILITY AND AUDIT

The management of the Company is responsible for providing all relevant information to the Board, giving members with sufficient explanation and information they need to discharge their responsibilities. Board members are provided with monthly updates, including sales updates, projects launched, upcoming projects and financial position, which give the Board members a balanced and understandable assessment of the performance, position and prospects of the Group.

The Directors are responsible for overseeing the preparation of financial statements of each financial year. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, approved adoption of all applicable Hong Kong Financial Reporting Standards in effect, made judgments and estimates that are appropriate, and prepared the financial statements on a going concern basis. The management is of the view that the Group will continue as a going concern for the reasons stated as set out in point 2 "Material uncertainty relating to going concern" under the section headed "Update on remedial measures" on page 9 of this report.

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

## MANAGEMENT FUNCTIONS

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

## BOARD COMMITTEES

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

## AUDIT COMMITTEE

The Audit Committee of the Company was established in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems. The Audit Committee comprises all three independent non-executive Directors. As at the date of this report, the members of the Audit Committee are Mr. Yuen Tsz Chun (the chairman of the committee), Mr. Ho Lic Ki and Mr. Lo Kwing Yu.

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

The Audit Committee held three meetings during the Year.

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

1. The Audit Committee reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgement, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval. Details of the disclaimer opinion and remedial measures are disclosed in the section headed "Update on remedial measures" on page 8 to page 9;

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

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

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

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

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

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

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

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

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

## NOMINATION COMMITTEE

At the date of this report, the Nomination Committee comprises of an executive Director, Mr. Kong Zhanpeng (the chairman of the committee), and two independent non-executive Directors, Mr. Ho Lic Ki and Mr. Lo Kwing Yu. Mr. Kong Zhanpeng is the chairman of the Nomination Committee. The duties of the Nomination Committee are, among others, determining policy for the nomination of directors, including the nomination procedures, processes and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the Year. The Nomination Committee also reviews the structure, size and composition of the Board and to makes recommendations on any proposed changes to the Board and on the selection of individuals nominated for directorships, and reviews the board diversity policy adopted by the Company. For more information on the Company's policy on board diversity, please refer to the section headed "Board diversity" in this report.

The Nomination Committee held two meetings in 2017.

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

## REMUNERATION COMMITTEE

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

In 2017, the Remuneration Committee held two meetings to review and make recommendations to the Board remuneration packages of the individual executive Directors and the senior management.

## CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was established in accordance with the requirements of the CG Code for the purposes of reviewing the Company's policies and practices on corporate governance, and providing supervision over the Board and its committees' compliance with their respective terms of reference and relevant requirements under the CG Code, or other applicable laws, regulations, rules and codes. The Corporate Governance Committee comprises of an executive Director, Mr. Kong Zhanpeng and two independent non-executive Directors, Mr. Ho Lic Ki and Mr. Yuen Tsz Chun (the chairman of the committee).

The Corporate Governance Committee held one meeting in 2017.

During the Year, the Corporate Governance Committee did the following work:

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

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

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

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

Save as disclosed on page 17 of this report, the Corporate Governance Committee considered that the Company has complied with all code provisions in the CG Code during the Year.

## CONTINUING CONNECTED TRANSACTIONS EXECUTIVE COMMITTEE

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

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

## CCT SUPERVISORY COMMITTEE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Four meetings were held by the CCT Supervisory Committee to review the CCT Quarterly Reports submitted by the CCT Executive Committee in respect of the Proposed Sale and Purchase and Consignment Sales and the Utility Services entered into by the Group with the GBT Group during the Year. Details of findings have been published on 2 June 2017, 22 August 2017, 20 November 2017 and 21 March 2018. As reported by the CCT Supervisory Committee, (i) the Proposed Sale and Purchase and Consignment Sale conducted during the Year were in line with the Prescribed Guidelines; (ii) the fees charged by the GBT Group in respect of the Utility Services during the Year had been charged in accordance with the relevant Master Agreements; and (iii) there was no other matter that needs to be brought to the attention of the Shareholders.

### Auditor's Remuneration

Auditor's remuneration of HK$2,500,000 was incurred for the audit of the Group's consolidated financial statements for the year ended 31 December 2017.

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

| | HK$'000 |
|---|---|
| Taxation compliance | 12 |
| Others | 960 |
| Total | 972 |

## COMPANY SECRETARY

The company secretary of the Company, Mr. Lee Chi Yung, is responsible for supporting the Board, ensuring good information flow within the Board and Board policies and procedures are followed, advising the Board on corporate governance matters, facilitating induction, and monitoring the training and continuous professional development of Directors. He has attained no less than 15 hours of relevant professional training during the Year. Mr. Lee's biography is set out on page 16 of this report.

## INVESTOR RELATIONS

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

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

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

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

As of 31 December 2017, details of Shareholders by type and aggregate shareholding are as follow:

| | **Number of shares held** | **Percentage of shareholding** | **Market capitalisation (HK$million)** |
|---|---|---|---|
| GBT | 978,278,000 | 64.04 | 203.48 |
| Kong Zhanpeng *(Note 1)* | 1,984,000 | 0.13 | 0.41 |
| Public float in Hong Kong | 547,324,000 | 35.83 | 113.85 |
| Total | 1,527,586,000 | 100.00 | 317.74 |

*Notes:*

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

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

On 11 September 2017, an extraordinary general meeting ("EGM") was held to approve the S&P Agreement and transactions contemplated. The resolution proposed was passed by way of poll.

On 5 February 2018, an EGM was held to approve the Dihao New Supplier Guarantee. The resolution proposed was passed by way of poll.

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

## RISK MANAGEMENT AND INTERNAL CONTROL

### Internal control

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

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

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

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

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

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

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

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

### Internal audit department

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

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

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

Copies of internal audit reports are sent to the Audit Committee, CEO, the finance controller and the external auditor. Management is called upon to present action plans in response to internal auditor's recommendations.

### Inside information

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

## Group Risk Management

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

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

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

Our risk management objectives:

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

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

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

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

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

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

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

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

### Principal Risks and Uncertainties

| Risk Description | Changes in 2017 | Key Risk Mitigations |
|---|---|---|
| *Financial Risks:* | | |
| Liquidity risk of inadequate funding | The Company maintains continuous dialogue with banks in order to secure banking facilities | Negotiation with local government for policy endorsement of subsidy and funding |
| Inability to obtain adequate funding on time | Resumption of production in Jinzhou and completion of relocation in Changchun required additional working capital | Monthly review the financial statement for cash flow forecast |
| *Compliance Risks:* | | |
| Non-compliance with Listing Rules and other ordinances | — | Series of internal control policies were issued and further implementation of control systems were carried out following the external expert's comments<br><br>Internal control department continued to provide training to PRC and HK staff |
| *Strategic Risks:* | | |
| Market competition | Intense competition in domestic and export markets | Dedicate research and development efforts in development of more high value added downstream products |
| *Operation Risks:* | | |
| Loss of key personnel | Keen competition for talent recruitment and retention | Review and refine human resource strategy on regular basis<br><br>Keep track of the career path for talent employee |

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

## CORPORATE SOCIAL RESPONSIBILITY

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

### Environmental policy and performance

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

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

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

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

3. promoting use of recycled materials and renewable resources;

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

5. promoting energy conservation;

6. minimising the impact on biodiversity and ecosystem;

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

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

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

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

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

## Compliance with laws and regulations

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

## Key relationships with employees, customers and suppliers

***Employee***

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

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

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

***Customers and suppliers***

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

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

### Anti-corruption

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

### Community

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

### Environmental, Social and Governance Report

The Company has been publishing the Environmental, Social and Governance reports (the "ESG Reports") on the Company's website on an annual basis. The 2017 ESG Report will be available on or before 30 June 2018. Please view and download the ESG Reports from the Company's website at www.global-sweeteners.com under the heading "Investor Relations" and the website of the Stock Exchange.

## SHAREHOLDERS' RIGHTS

### 1. Procedures for Shareholders to convene an extraordinary general meeting

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

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

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

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

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

### 2. Procedures for raising enquiries

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

2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at contact@global-sweeteners.com.

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

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

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

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

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

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

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

The Directors hereby present their report and the audited financial statements of Global Sweeteners Holdings Limited and its subsidiaries for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products and corn sweeteners. Details of the principal activities of the principal subsidiaries are set out in note 33 to the financial statements.

## BUSINESS REVIEW

A business review of the Group and an analysis of the Group's performance using financial key performance indicators during the year are provided in the Message to Shareholders, and Management Discussion & Analysis on pages 5 to 14 of this report. In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the ESG Reports disclosed in the Company's website.

The principal risks and uncertainties are disclosed in Corporate Governance Report under section headed "Risk Management and Internal Control" on page 31 on this report. Particulars of important events affecting the reporting entity that have occurred since the end of the financial year are disclosed in Management Discussion & Analysis under section headed "Important Transactions during the Year and Events Subsequent to the Year Under Review" on page 13 of this report. An indication of likely future development of the Group is disclosed in Management Discussion & Analysis under section headed "Future Plans and Prospects" on page 14 of this report.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 53 to page 111.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2017 and the published combined financial information of the Group for the four years ended 31 December 2013, 2014 and 2015, 2016 as extracted from the audited financial statements and restated as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

# REPORT OF THE DIRECTORS

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in note 26 and note 27 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## TAX RELIEF AND EXEMPTION

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

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

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

## RESERVES

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

## DISTRIBUTABLE RESERVES

At 31 December 2017, the Company does not have reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) (the "Companies Law") of the Cayman Islands. Under the Companies Law of the Cayman Islands, the share premium account of the Company of approximately HK$1,074,879,000 as at 31 December 2017 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium account may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 23.4% of the total sales for the Year and sales to the largest customer included therein accounted for approximately 8.9% of the total sales of the Year. Purchases from the Group's five largest suppliers accounted for approximately 16.4% of the total purchases for the Year, and purchases from the largest supplier included therein accounted for approximately 4.7% of the total purchases of the Year.

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

## DIRECTORS

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

*Executive Directors:*
Kong Zhanpeng
Zhang Zihua *(appointed on 23 March 2017)*
Wang Jian *(resigned on 23 March 2017)*

*Non-executive Directors:*
Fu Qiang *(resigned on 23 March 2017)*
Zhang Yaohui *(resigned on 23 March 2017)*

*Independent non-executive Directors:*
Ho Lic Ki
Lo Kwing Yu
Yuen Tsz Chun

According to article 108(A) of the articles of association of the Company, not less than one-third of the Directors shall retire from office by rotation at each AGM of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Kong Zhanpeng, being an executive Director and Mr. Ho Lic Ki, being an independent non-executive Director, will retire as Directors and, being eligible, will offer themselves for re-election as Directors at the AGM.

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on page 15 to page 16 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

The executive Directors, Mr. Kong Zhanpeng and Mr. Zhang Zihua have entered into service contracts with the Company for an initial term of three years which commenced on 1 September 2007 and 23 March 2017, respectively and renewable automatically for successive term of one year. Each of the above service contracts and appointment letters may be terminated by either party by giving not less than three months' written notice.

The independent non-executive Directors, Mr. Ho Lic Ki, Mr. Lo Kwing Yu and Mr. Yuen Tsz Chun have entered into appointment letters with the Company for an initial term of two years which commenced on 1 September 2009, 3 March 2014 and 16 March 2016 respectively, and are renewable automatically for successive term of two years. Each of the above appointment letters may be terminated by either party by giving not less than three months' written notice.

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

## DIRECTORS' REMUNERATION

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

## DIRECTORS' INTERESTS IN CONTRACTS

Save that Mr. Kong Zhanpeng, being an executive Director, was indirectly interested in the contracts made between the Group and the GBT Group as disclosed in the paragraph headed "Continuing Connected Transactions" of this report, and Mr. Zhang Zihua, by virtue of him being an executive Director of the Company and GBT, was deemed to have a material interest in the transaction, save as above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

## PERMITTED INDEMNITY PROVISIONS

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

## MANAGEMENT CONTRACTS

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

## CONTRACT OF SIGNIFICANCE

Save as disclosed on page 45 under continuing connected transactions, there was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the year.

## SHARE OPTION SCHEME

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

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

Further details of the Scheme is also disclosed in note 27 to the financial statements.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests and short positions in the share, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) of the Directors and chief executive of the Company 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 as set out in Appendix 10 to the Listing Rules, were as follows:

| Name of Director | The Company/ name of associated corporation | Capacity/Nature of interest | Number and class of securities held *(Note 1)* | Percentage of the relevant class of issued share capital of the Company/ associated corporation |
|---|---|---|---|---|
| Kong Zhanpeng | The Company | Interest of a controlled corporation | 1,984,000 Shares (L) *(Note 2)* | 0.13 |
| | GBT | Beneficial owner | 18,256,000 ordinary shares of HK$0.10 each (L) | 0.29 |
| | GBT | Interest of a controlled corporation | 241,920,000 ordinary shares of HK$0.10 each (L) *(Note 3)* | 3.78 |

*Notes:*

1. The letter "L" represents the Director's interests in the shares and underlying shares of the Company or its associated corporation.

2. These shares are held by Hartington Profits Limited.

3. These 241,920,000 shares are held by Hartington Profits Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Kong Zhanpeng.

Saved as disclosed above, as at 31 December 2017, none of the Directors and the chief executive of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors Interest and Short Positions in Shares and Underlying Shares" above, at no time during the Year were rights to acquired benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or any person in whose shares and debentures any Directors is deemed to be interested under Part XV of the SFO, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

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

*Notes:*

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

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

3. These Shares are registered in the name of or deemed to be interested by GBT, which is owned as to approximately 49% by Modern Agricultural Industry Investment Limited. The entire issued capital of Modern Agricultural Industry Investment Limited is held by Modern Agricultural Industry Investment Holdings Limited which is in turn wholly owned by Jilin Province Modern Agricultural Industry Investment Fund (LLP) ("PRC LLP"). The sole general partner of PRC LLP is Jilin Province Modern Agricultural Industry Fund Limited ("GP"). As at 31 December 2017, GP is wholly owned by Nongtou and 40% of the investment capital of PRC LLP is owned by Nongtou. 20% of the investment capital of PRC LLP is owned by 吉林省交通投資集團有限公司 (Jilin Province Communication Investment Group Co., Ltd.) ("Jiaotou"). As announced by GBT on 2 March 2017, an agreement was entered into between Jiaotou and Nongtou on 27 February 2017 for the transfer by Jiaotou to Nongtou of its investment capital in PRC LLP. During the transition period from the date of the above agreement to the completion of such transfer, Nongtou shall manage the above transferred interest on behalf of Jiaotou. As such, by virtue of Nongtou's control over PRC LLP, Nongtou has become the indirect controlling shareholder of GBT. Nongtou is controlled by State-owned Assets Supervision & Administration Commission of the People's Government of Jilin Province ("SASAC of Jilin Province"). Each of Modern Agricultural, Modern Agricultural Industry Investment Holdings Limited, PRC LLP, GP, Jiaotou, Nongtou and SASAC of Jilin Province are deemed to be interested in the interest held by GBT.

Saved as disclosed above, no person, other than the Directors and chief executive of the Company, as of 31 December 2017, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## CONTINUING CONNECTED TRANSACTIONS

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

### Sourcing of utilities services

Pursuant to the utilities master supply agreement dated 8 April 2016, the GBT Group provided utility services including electricity, water, steam and wastewater treatment services to all of its subsidiaries at Changchun, including the Group's production plants at Changchun on arm's length basis and with reference to the actual cost incurred by the GBT Group for its provision of such services. Under the utilities service master supply agreement, the fees payable by the Group shall be settled on a monthly basis and shall be payable by the Group within 90 days after the date of the relevant invoice issued by the GBT Group. During the Year, the GBT Group charged the Group HK$10 million for the provision of these utilities services.

### Purchase of corn starch

Pursuant to the corn starch master purchase agreement dated 8 April 2016, the Group has been sourcing corn starch either in the form of starch powder or starch slurry, from the GBT Group as one of the principal production materials for the Group's production. Under the corn starch master purchase agreement, the prices shall be from time to time determined by the relevant members of the GBT Group and the Group on arm's length basis and with reference to the prevailing market rates of corn starch powder, with adjustments to be made to the purchase price with reference to the delivery arrangement between the Group and the GBT Group. The payment terms for the products would be set out in the purchase order for each order to be placed under the corn starch master purchase agreement, provided that the purchase price shall be payable by the relevant member of the Group within 60 days after the date of the relevant invoice issued by the relevant member of the GBT Group. During the Year, purchase of corn starch from the GBT Group by the Group amounted to HK$116 million.

### Distribution of lysine and other corn refined products

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

During the Year, purchase of consignment stock of lysine and other corn refined products from the GBT Group amounted to HK$12 million.

The GBT Group holds in aggregate 64.04% interest in the share capital of the Company. The above transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (iv) the aggregate consideration charged by or to the Group in respect of the continuing connected transactions during the Year had not exceeded the respective caps as set out in the relevant announcements. The auditor of the Company have confirmed that the continuing connected transactions have complied with the matters as set out in Rule 14A.56 of the Listing Rules.

Save for the aforementioned continuing connected transactions and connected transactions disclosed in this report, the related party transactions disclosed in note 31 to the financial statements are either exempted connected continuing transactions or non-exempted continuing connected transactions which have complied with the requirement of Chapter 14A of the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

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

## NON-COMPETE UNDERTAKINGS

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

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

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

## DISCLOSURE PURSUANT TO RULE 13.19 AND 13.21 OF THE LISTING RULES

Reference is made to the joint announcement of the Company and GBT dated 31 October 2016. Under the various loan agreements (the "Loan Agreements") entered into between Jinzhou Yuancheng Bio-chem Technology Co., Ltd.（錦州元成生化科技有限公司）("Jinzhou Yuancheng"), which is an indirect wholly owned subsidiary of the Company, and Jinzhou Branch of China Construction Bank（中國建設銀行股份有限公司錦州分行）(the "Lender") in respect of a 18-months fixed term loan in the aggregate principal amount of RMB224.0 million guaranteed by certain members of the Group (the "Loan"), Jinzhou Yuancheng is required to satisfy certain financial covenants, failure to perform or comply with any of those financial covenants entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan immediately due and payable. On 25 August 2017, Jinzhou Yuancheng signed various renewal agreements to renew the Loan Agreements in aggregate principal amount of RMB218.0 million pursuant to which the due date of the Loan has been extended to September 2018. Based on the unaudited management accounts of Jinzhou Yuancheng for the six-month period ended 30 June 2017, Jinzhou Yuancheng has failed to fulfill certain financial covenants under the Loan Agreements. Such breach entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreements immediately due and payable. In addition, such breach may also trigger cross default provisions ("Cross Default") in other loan agreements entered into by the Group in the aggregate outstanding principal amount of RMB205.8 million. Save for the Cross Default, the breach has not resulted in any triggering of cross default provisions of other loan agreements and/or banking facilities entered into by the Group or the GBT Group.

The Group has yet to receive a waiver from the Lender for waiver of such breach. Despite the above non-compliance, the Group has not experienced any difficulties in obtaining further financing with its banks for its working capital. The Group is also in the process of applying for relevant waivers from other lenders in relation to the breach of the cross default provisions. Further announcement(s) regarding the Loan and status of the waivers will be made as and when appropriate.

## DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

As announced by the Company on 31 March 2015, financial guarantees were first granted by a subsidiary of the Company in respect of the indebtedness of Dajincang due to BOC during November 2010 to March 2015.

As disclosed in the joint announcement of the Company and GBT dated 8 August 2016 and the circular of the Company dated 6 September 2016, the term of the previous loan advanced by BOC to Dajincang expired between August to November 2016. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, new loan agreements were entered into by the Former Supplier and BOC, and fresh financial guarantees with the maximum guaranteed amount of RMB2.5 billion were granted by Dihao Foodstuff and other members of the GBT Group to BOC to guarantee the obligations of the Former Supplier under the then supplier loan.

As disclosed in the joint announcement of the Company and GBT dated 8 December 2017 and the circular of the Company dated 17 January 2018, the term of the Previous Supplier Loan advanced by BOC to the Former Supplier under the Previous Supplier Loan Agreements expired in September 2017, and the Former Supplier still did not have sufficient financial resources to repay the Previous Supplier Loan when the same fell due. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, the Former Supplier proposes to refinance the Previous Supplier Loan by entering into the new loan agreements with BOC for the New Supplier Loan. Among others, the Dihao New Supplier Guarantee was granted by member of the Group to BOC to guarantee the obligations of the Former Supplier under the New Supplier Loan.

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

## SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

### Relocation of production facilities to the Xinglongshan site

Reference is made to the 2017 Interim Report and the circulars of the Company dated 3 June 2016 and 21 March 2016, and the announcements of the Company dated 31 March 2014 and 31 March 2015, respectively, in relation to among others, the suspension and relocation of production facilities of the Group at Luyuan District in Changchun pending its relocation of production facilities to the Xinglongshan site.

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

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

| Products of the Group to which the production facilities relate | Production capacity of the relevant production facilities to be relocated (MT per annum) | Expected time for the relocation of production facilities |
|---|---|---|
| Glucose/maltose | 60,000 | Completed |
| Maltodextrin* | 30,000 | Completed |
| Crystallised glucose** | 100,000 | September 2018 — August 2019 |
| Corn refinery** | 600,000 | January 2019 — December 2019 |

* Construction was completed in January 2018 and commenced trial run in the first quarter of 2018.

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

## AUDITOR

Mazars CPA Limited will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

**Kong Zhanpeng**
*Chairman*

# INDEPENDENT AUDITOR'S REPORT

MAZARS

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

## DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Global Sweeteners Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on page 53 to page 111, which comprise the consolidated statement of financial position at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR DISCLAIMER OF OPINION

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

### (i) Financial guarantee contracts

As mentioned in notes 2.2 and 28 to the consolidated financial statements, a subsidiary of the Company, together with certain fellow subsidiaries, had jointly provided corporate guarantees to a bank in connection with banking facilities granted to a former major supplier of the Group which amounted to RMB2.5 billion at 31 December 2016 and 2017 (the "Financial Guarantee Contracts"). In addition, the then ultimate holding entity and the ultimate holding entity of a major shareholder of the ultimate holding company of the Company provided confirmations in writing that they will undertake all the liabilities that may arise from the Financial Guarantee Contracts and provide financial support to the Group to enable it to continue as a going concern (the "Confirmations"). The Financial Guarantee Contracts and the Confirmations were not recognised in the consolidated financial statements. As the management had not developed and applied an appropriate accounting policy for the Confirmations and had not determined the fair value of the Financial Guarantee Contracts for initial recognition and the carrying amount for subsequent measurement in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), we were unable to determine whether any adjustments in respect of the Financial Guarantee Contracts and the Confirmations at 31 December 2016 and 2017 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2016 and 2017, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2017.

## BASIS FOR DISCLAIMER OF OPINION *(continued)*

### (ii) Material uncertainty related to going concern

As discussed in note 2.2 to the consolidated financial statements, at 31 December 2017, the Group had net current liabilities and capital deficiency of HK$712 million and HK$123 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK$140 million for the year ended 31 December 2017. In addition, any potential liabilities or obligations arising from the Financial Guarantee Contracts may have a significant negative impact on the liquidity position of the Group. These conditions, along with other matters as set forth in note 2.2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

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

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

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

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

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

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

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

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

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

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

26 March 2018

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**Year ended 31 December 2017**

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **1,395,090** | 995,218 |
| Cost of sales | | **(1,240,651)** | (890,960) |
| Gross profit | | **154,439** | 104,258 |
| Other income and gains | 5 | **9,983** | 14,789 |
| Selling and distribution costs | | **(134,735)** | (83,982) |
| Administrative expenses | | **(102,825)** | (115,329) |
| Reversal of impairment of property, plant and equipment | 13 | **–** | 138,937 |
| Reversal of impairment (Impairment) of trade and bills receivables, net | 18 | **399** | (3,184) |
| Reversal of impairment (Impairment) of prepayments, deposits and other receivables, net | 6 | **10,744** | (229,740) |
| Other expenses | | **(31,024)** | (31,776) |
| Finance costs | 7 | **(49,708)** | (48,451) |
| **LOSS BEFORE TAX** | 6 | **(142,727)** | (254,478) |
| Income tax credit | 10 | **2,469** | 92,120 |
| **LOSS FOR THE YEAR** | | **(140,258)** | (162,358) |
| **Other comprehensive (loss) income** | | | |
| *Items that may be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translation of financial statements of operations outside Hong Kong | | **(18,368)** | 11,893 |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | | |
| Gain (Loss) on property revaluation | 13 | **31,565** | (21,390) |
| Income tax effect | | **(7,892)** | 5,348 |
| | | **23,673** | (16,042) |
| **OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX** | | **5,305** | (4,149) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(134,953)** | (166,507) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**Year ended 31 December 2017**

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Loss attributable to: | | | |
| Owners of the Company | | **(140,258)** | (162,358) |
| Non-controlling interests | | **—** | — |
| | | **(140,258)** | (162,358) |
| Total comprehensive (loss) income attributable to: | | | |
| Owners of the Company | | **(134,443)** | (166,939) |
| Non-controlling interests | | **(510)** | 432 |
| | | **(134,953)** | (166,507) |
| **LOSS PER SHARE** | 12 | | |
| Basic | | **HK(9.2) cents** | HK(10.6) cents |
| Diluted | | **HK(9.2) cents** | HK(10.6) cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | 896,985 | 780,869 |
| Prepaid land lease payments | 14 | 147,999 | 140,615 |
| Deposits paid for acquisition of property, plant and equipment | | 308 | 170 |
| Goodwill | 15 | — | — |
| Other intangible assets | 16 | 3,243 | 3,243 |
| | | 1,048,535 | 924,897 |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | 169,130 | 112,346 |
| Trade and bills receivables | 18 | 136,980 | 193,026 |
| Prepayments, deposits and other receivables | 19 | 66,012 | 65,530 |
| Pledged deposits | 20 | 41,103 | — |
| Cash and bank balances | 20 | 173,697 | 116,972 |
| | | 586,922 | 487,874 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 21 | 176,446 | 140,697 |
| Other payables and accruals | 22 | 258,432 | 204,216 |
| Interest-bearing bank borrowings | 23 | 711,807 | 608,333 |
| Due to fellow subsidiaries | 31(ii) | 126,095 | 190,636 |
| Tax payable | | 26,355 | 23,202 |
| | | 1,299,135 | 1,167,084 |
| **NET CURRENT LIABILITIES** | | (712,213) | (679,210) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 336,322 | 245,687 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**At 31 December 2017**

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 23 | 415,663 | 200,000 |
| Deferred income | 24 | 34,072 | 31,600 |
| Deferred tax liabilities | 25 | 9,560 | 2,107 |
| | | 459,295 | 233,707 |
| **NET (LIABILITIES) ASSETS** | | (122,973) | 11,980 |
| **Capital and reserves** | | | |
| Share capital | 26 | 152,759 | 152,759 |
| Reserves | | (269,429) | (134,986) |
| **(Deficit) Equity attributable to owners of the Company** | | (116,670) | 17,773 |
| Non-controlling interests | | (6,303) | (5,793) |
| **TOTAL (DEFICIT) EQUITY** | | (122,973) | 11,980 |

These consolidated financial statements on pages 53 to 111 were approved and authorised for issue by the board of directors on 26 March 2018 and signed on its behalf by

**Kong Zhanpeng**
*Director*

**Zhang Zihua**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Year ended 31 December 2017

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Asset revaluation reserve HK$'000 | Statutory reserve fund HK$'000 | Exchange fluctuation reserve HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2016 | 152,759 | 1,074,879 | 57,542 | 59,817 | 303,873 | 9,440 | (1,473,598) | 184,712 | (6,225) | 178,487 |
| Loss for the year | – | – | – | – | – | – | (162,358) | (162,358) | – | (162,358) |
| Other comprehensive (loss) income for the year: | | | | | | | | | | |
| – Revaluation loss, net of deferred tax | – | – | (16,042) | – | – | – | – | (16,042) | – | (16,042) |
| – Exchange realignment | – | – | – | – | 11,461 | – | – | 11,461 | 432 | 11,893 |
| Total comprehensive (loss) income for the year | – | – | (16,042) | – | 11,461 | – | (162,358) | (166,939) | 432 | (166,507) |
| Transfer | – | – | – | 6,132 | – | – | (6,132) | – | – | – |
| Transactions with owners: | | | | | | | | | | |
| Contributions and distributions | | | | | | | | | | |
| Transfer upon forfeiture of share options | – | – | – | – | – | (9,440) | 9,440 | – | – | – |
| At 31 December 2016 | 152,759 | 1,074,879* | 41,500* | 65,949* | 315,334* | –* | (1,632,648)* | 17,773 | (5,793) | 11,980 |

* These reserve accounts comprise the negative reserves of HK$269,429,000 (2016: HK$134,986,000) in the consolidated statement of financial position.

## SHARE PREMIUM

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

## ASSET REVALUATION RESERVE/EXCHANGE FLUCTUATION RESERVE/SHARE OPTION RESERVE

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

## STATUTORY RESERVE FUND

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from (used in) operations | 30(a) | 56,612 | (103,057) |
| Interest received | | 788 | 722 |
| Overseas taxes paid | | (3,142) | (1,790) |
| **Net cash generated from (used in) operating activities** | | 54,258 | (104,125) |
| **Cash flows from investing activities** | | | |
| Deposits paid for acquisition of property, plant and equipment | | (308) | (170) |
| Purchases of property, plant and equipment | | (89,113) | (52,476) |
| Proceeds from disposal of property, plant and equipment | | 1,503 | — |
| Increase in deferred income | | — | 31,777 |
| **Net cash used in investing activities** | | (87,918) | (20,869) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank borrowings | | 652,644 | 596,429 |
| Repayment of bank borrowings | | (413,218) | (624,405) |
| Interest paid | | (49,708) | (48,451) |
| Increase in an amount due to the ultimate holding company | | 33,610 | 148,285 |
| (Decrease) Increase in amounts due to fellow subsidiaries | | (101,293) | 89,310 |
| (Increase) Decrease in pledged deposits | | (41,103) | 24,184 |
| **Net cash generated from financing activities** | | 80,932 | 185,352 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 47,272 | 60,358 |
| Cash and cash equivalents at beginning of year | | 116,972 | 61,106 |
| Effect of foreign exchange rate changes, net | | 9,453 | (4,492) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 20 | 173,697 | 116,972 |

## 1. CORPORATE INFORMATION

Global Sweeteners Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 13 June 2006. The principal activity of the Company is investment holding. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 1104, Admiralty Centre, Tower 1, No. 18 Harcourt Road, Hong Kong. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of corn refined products and corn sweeteners.

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

## 2.1 BASIS OF PREPARATION

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

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

## 2.2 GOING CONCERN

The Group recorded a loss of approximately HK$140 million (2016: approximately HK$162 million) for the year ended 31 December 2017 and as at that date, had net current liabilities of approximately HK$712 million (2016: approximately HK$679 million) and net liabilities of approximately HK$123 million (2016: net assets of approximately HK$12 million). In addition, any potential liabilities or obligations arising from the Financial Guarantee Contracts as discussed in note 28 to the consolidated financial statements may have a significant negative impact on the liquidity position of the Group. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances and based on the recommendations of the audit committee of the Company after its critical review of the management's position, the management of the Company has taken the following steps to improve the Group's financial position:

## 2.2 GOING CONCERN *(continued)*

### (1) Active negotiations with banks to obtain adequate bank borrowings

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

### (2) Transfer of two subsidiaries in Changchun to the GBT Group

As announced by the Company and GBT on 21 July 2017, the Group entered into an agreement with the GBT Group for the sale and purchase of two subsidiaries of the Company, Changchun Dihao Foodstuff Development Co., Ltd. ("Dihao Foodstuff") and Changchun Dihao Crystal Sugar Industry Development Co., Ltd. (together the "Target Companies") (the "Transaction").

The Target Companies are situated in Changchun, the PRC, and have been loss-making since 2014. The Transaction will enable the Group to direct its resources to high value-added markets. In addition, as announced by the Company and GBT on 8 August 2016, Dihao Foodstuff is one of the guarantors of the Financial Guarantee Contracts. As all of the other guarantors of the Financial Guarantee Contracts are members of the GBT Group but not the Group, the Transaction would relieve the Group from the Financial Guarantee Contracts.

Following the completion of the Transaction, the Target Companies will cease to be the subsidiaries of the Company and the financial performance of the Target Companies will cease to be consolidated into that of the Group. It is expected that after completion of the Transaction, the financial performance of the Group will improve.

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

### (3) Monitoring of the Group's operating cash flows

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

## 2.2 GOING CONCERN *(continued)*

### (4) Financial support from an indirect controlling shareholder of GBT

In March 2016, the Group received a written confirmation (the "Confirmation") from the then ultimate holding entity of a major shareholder of GBT, that it will provide financial support to the Group for its operation on a going concern basis and undertake all the liabilities that may arise from the Financial Guarantee Contracts.

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

In addition, the Group signed a corn purchasing agreement with Jilin Jiliang Assets Supply Chain Management Co., Ltd. (吉林吉糧資產供應鏈管理有限公司, "Jiliang"), a subsidiary of Nongtou, in May 2017 to ensure a stable supply of corn kernels and to lower the cost of raw material. During the year ended 31 December 2017, the Group purchased approximately 10,000 metric tonnes ("MT") of corn kernels from Jiliang which accounted for 2.4% of total corn procurement of the Group. In January 2018, the Group, through the connection of Nongtou, signed a one year 500,000MT corn procurement contract with a state-owned enterprise to secure a stable supply of corn kernels for the year 2018.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value amounted to RMB1,174 million at 31 December 2017 (2016: RMB461 million), is tasked to consolidate the state-owned investments in the agricultural sector in Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group and the GBT Group, to provide synergistic effects among its various investments in the agricultural sector in Jilin Province and to provide adequate and sufficient financial support to the Group.

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

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

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

### Amendments to HKAS 7 "Disclosure Initiative"

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The adoption of the amendments results in the additional disclosures in note 30(b) to the consolidated financial statements. In accordance with the transitional provisions therein, the comparative information is not presented in the first year of adoption.

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

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

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

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

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

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

## 2.4 NEW AND REVISED HKFRSS NOT YET ADOPTED

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

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

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

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

### HKFRS 9 "Financial Instruments"

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

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

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

## 2.4 NEW AND REVISED HKFRSS NOT YET ADOPTED *(continued)*

### HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

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

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

### HKFRS 16 "Leases"

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

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

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

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

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

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee). The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

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

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations and goodwill *(continued)*

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

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

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

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

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

### Fair value measurement

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Fair value measurement *(continued)*

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation

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

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

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation less accumulated impairment of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold buildings | 2.0% to 4.5% |
| Plant and machinery | 6.7% |
| Leasehold improvements, furniture, office equipment and motor vehicles | 20% |

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation *(continued)*

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

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

### Prepaid land lease payments

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

### Golf club membership

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

### Operating leases

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets

***Initial recognition***

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

***Classification and measurement***

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

*Loans and receivables*

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

***Derecognition***

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

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

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

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

***Impairment***

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets *(continued)*

***Impairment*** *(continued)*

*Financial assets carried at amortised cost*

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

### Financial liabilities

***Initial recognition***

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

***Classification and measurement***

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

*Financial liabilities at amortised cost*

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

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

*Financial guarantee contracts*

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities *(continued)*

***Derecognition***

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged or cancelled or expires.

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

### Inventories

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

### Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

### 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income or a reduction of the related expense item, as appropriate on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

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

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

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

### Share-based payments

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

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

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

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

When the share options are forfeited after the vesting date or are still not exercised at the expiry dates, the amount previously recognised in share options reserve will be transferred to accumulated losses. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits

***Short term employee benefits***

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

***Retirement benefits***

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

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

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the actual cost of the related borrowings. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies *(continued)*

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

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

### Judgement

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

***Classification of non-current assets and liabilities as held for sale***

The Group did not classify the non-current assets and liabilities of the Target Companies as held for sale because the management determines that the criteria under HKFRS 5 for classifying those assets and liabilities as held for sale were not met at the end of the reporting period. Please refer to note 2.2 to the consolidated financial statements for more details of the Transaction.

***Deferred tax liability for withholding taxes***

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

### Estimation uncertainty

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

***Fair value of property, plant and equipment***

The Group estimates the fair value of its leasehold buildings with reference to valuation performed by an independent professional valuer. The valuation of leasehold buildings is performed using the depreciated replacement cost (the "DRC") approach. The DRC approach requires an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

### Estimation uncertainty *(continued)*

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

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

***Impairment of trade receivables***

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

***Write-down of inventories***

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

***Income taxes***

At 31 December 2017, a deferred tax asset of approximately HK$23 million in relation to deductible temporary difference was recognised in the consolidated statement of financial position to the extent of the recognised taxable temporary difference. No deferred tax asset has been recognised on the tax losses of HK$1,243 million and the remaining deductible temporary difference of HK$100 million due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits or taxable temporary differences are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2016: three) reportable operating segments:

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

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

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

## 4. OPERATING SEGMENT INFORMATION *(continued)*

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

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

**Year ended 31 December 2017**

| | Corn refined products HK$'000 | Corn sweeteners HK$'000 | Trading HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 572,800 | 812,042 | 10,248 | 1,395,090 |
| Intersegment sales | 320,205 | — | — | 320,205 |
| | 893,005 | 812,042 | 10,248 | 1,715,295 |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | (320,205) |
| Revenue | | | | 1,395,090 |
| **Segment results** | (35,618) | (41,508) | 646 | (76,480) |
| *Reconciliation:* | | | | |
| Unallocated bank interest and other corporate income | | | | 178 |
| Corporate and other unallocated expenses | | | | (16,717) |
| Finance costs | | | | (49,708) |
| Loss before tax | | | | (142,727) |
| Income tax credit | | | | 2,469 |
| Loss for the year | | | | (140,258) |
| **Other segment information** | | | | |
| Capital expenditure | 6,624 | 82,683 | — | 89,307 |
| Depreciation | 26,578 | 34,878 | — | 61,456 |
| Amortisation of prepaid land lease payments | 3,721 | 3,327 | — | 7,048 |
| Loss on disposal of property, plant and equipment, net | 26 | 673 | — | 699 |
| Write-down (Reversal of write-down) of inventories, net | 470 | (635) | — | (165) |
| Impairment (Reversal of impairment) of trade and bills receivables, net | 349 | (751) | 3 | (399) |
| (Reversal of impairment) Impairment of prepayments, deposits and other receivables, net | (11,471) | 699 | 28 | (10,744) |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

| | Corn refined products HK$'000 | Corn sweeteners HK$'000 | Trading HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 392,429 | 592,091 | 10,698 | 995,218 |
| Intersegment sales | 66,564 | — | — | 66,564 |
| | 458,993 | 592,091 | 10,698 | 1,061,782 |
| *Reconciliation:* | | | | |
| Elimination of intersegment sales | | | | (66,564) |
| Revenue | | | | 995,218 |
| **Segment results** | (207,272) | 21,813 | 560 | (184,899) |
| *Reconciliation:* | | | | |
| Unallocated bank interest and other corporate income | | | | 7 |
| Corporate and other unallocated expenses | | | | (21,135) |
| Finance costs | | | | (48,451) |
| Loss before tax | | | | (254,478) |
| Income tax credit | | | | 92,120 |
| Loss for the year | | | | (162,358) |
| **Other segment information** | | | | |
| Capital expenditure | 804 | 51,740 | — | 52,544 |
| Depreciation | 13,808 | 25,147 | — | 38,955 |
| Amortisation of prepaid land lease payments | 3,764 | 3,165 | — | 6,929 |
| Loss on disposal of property, plant and equipment, net | — | 10 | — | 10 |
| Reversal of impairment of property, plant and equipment | (83,066) | (55,871) | — | (138,937) |
| (Reversal of write-down)/Write-down of inventories, net | (904) | 34 | — | (870) |
| Impairment of trade and bills receivables, net | 913 | 2,271 | — | 3,184 |
| Reversal of write-off of trade and bills receivables | — | (1,068) | — | (1,068) |
| Impairment of prepayments, deposits and other receivables, net | 229,460 | 280 | — | 229,740 |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

### Geographical information

#### (a) *Revenue information based on locations of customers*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Mainland China | 1,288,782 | 903,976 |
| Regions other than Mainland China | 106,308 | 91,242 |
| | 1,395,090 | 995,218 |

#### (b) *Non-current assets information based on locations of assets*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Mainland China | 1,048,535 | 924,897 |

### Information about major customers

There was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the year ended 31 December 2017 (2016: Customer A from corn sweeteners segment of HK$137,743,000).

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value (excluding the PRC value-added tax ("VAT")) of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 1,395,090 | 995,218 |
| **Other income and gains** | | |
| Bank interest income | 788 | 722 |
| Net gains arising from sale of packing materials and by-products | 175 | 537 |
| Government grants *(Note)* | 2,532 | 2,830 |
| Amortisation of deferred income | 184 | 186 |
| Subcontracting income | 2,274 | 4,955 |
| Foreign exchange gain, net | 328 | 1,905 |
| Reversal of write-off of trade and bills receivables | — | 1,068 |
| Others | 3,702 | 2,586 |
| | 9,983 | 14,789 |

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

## 6. LOSS BEFORE TAX

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

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Employee benefit expenses (excluding directors' remuneration) | | | |
| — Wages and salaries | | 64,464 | 58,722 |
| — Pension scheme contributions | | 23,889 | 24,178 |
| | | 88,353 | 82,900 |
| Cost of inventories sold | | 1,235,933 | 884,060 |
| Auditor's remuneration | | | |
| — Current year | | 2,500 | 3,500 |
| — Under provision for prior year | | — | 241 |
| Foreign exchange gain, net | | (328) | (1,905) |
| Operating lease payments in respect of land and premises | | 2,830 | 2,956 |
| Depreciation | 13 | 61,456 | 38,955 |
| Amortisation of prepaid land lease payments | 14 | 7,048 | 6,929 |
| Loss on disposal of property, plant and equipment, net | | 699 | 10 |
| Reversal of impairment of property, plant and equipment | 13 | — | (138,937) |
| Reversal of write-down of inventories, net, included in cost of sales | | (165) | (870) |
| (Reversal of impairment) Impairment of trade and bills receivables, net | 18 | (399) | 3,184 |
| Reversal of write-off of trade and bills receivables | | — | (1,068) |
| (Reversal of impairment) Impairment of prepayments, deposits and other receivables, net | | (10,744) | 229,740 |
| Corn subsidy, included in cost of sales | | (22,854) | (3,962) |

## 7. FINANCE COSTS

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Interest on bank borrowings | 48,929 | 47,810 |
| Finance costs for discounting bills receivables | 779 | 641 |
| | 49,708 | 48,451 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Fees | 1,440 | 1,341 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,600 | 3,600 |
| Pension scheme contributions | 18 | 18 |
| | 3,618 | 3,618 |
| | 5,058 | 4,959 |

### (a) Executive directors and the chief executive

| | Salaries, allowances and benefits in kind<br>HK$'000 | Pension scheme contributions<br>HK$'000 | Total remuneration<br>HK$'000 |
|---|---|---|---|
| **2017** | | | |
| Executive directors: | | | |
| Mr. Wang Jian[(1)] (Chief executive officer) | – | – | – |
| Mr. Zhang Zihua[(2)] | – | – | – |
| Mr. Kong Zhanpeng | 3,600 | 18 | 3,618 |
| | 3,600 | 18 | 3,618 |

| | Salaries, allowances and benefits in kind<br>HK$'000 | Pension scheme contributions<br>HK$'000 | Total remuneration<br>HK$'000 |
|---|---|---|---|
| **2016** | | | |
| Executive directors: | | | |
| Mr. Wang Jian[(1)] (Chief executive officer) | – | – | – |
| Mr. Kong Zhanpeng | 3,600 | 18 | 3,618 |
| | 3,600 | 18 | 3,618 |

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

### (a) Executive directors and the chief executive *(continued)*

(1) Mr. Wang Jian was appointed as an executive director and the chief executive officer of the Company on 15 October 2015 and 24 October 2015 respectively, who resigned as an executive director on 23 March 2017 but remains as the chief executive officer.

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

According to a service contract and a supplemental agreement entered into between the Company and Mr. Kong Zhanpang, upon completion of every 12 months of services, he shall be entitled to a management bonus. The management bonus shall be determined pursuant to a mechanism adopted by the board of directors from time to time, or to be determined by the board of directors in its absolute discretion. No bonus was paid to Mr. Kong during the years ended 31 December 2016 and 2017.

### (b) Independent non-executive directors

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Mr. Ho Lic Ki | 480 | 480 |
| Mr. Lo Kwing Yu | 480 | 480 |
| Mr. Yuen Tsz Chun[1] | 480 | 381 |
| | 1,440 | 1,341 |

(1) Mr. Yuen Tsz Chun was appointed as an independent non-executive director of the Company on 16 March 2016.

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2017 and 2016.

### (c) Non-executive directors

Ms. Zhang Yaohui and Mr. Fu Qiang were appointed as non-executive directors of the Company on 15 October 2015, who resigned on 23 March 2017. They did not receive any remuneration during the years ended 31 December 2017 and 2016.

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

## 9. FIVE HIGHEST PAID EMPLOYEES

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 592 | 388 |
| Pension scheme contributions | 18 | 11 |
| | 610 | 399 |

The highest paid employee fell within the following band:

| | 2017<br>Number<br>of individuals | 2016<br>Number<br>of individuals |
|---|---|---|
| Nil to HK$1,000,000 | 1 | 1 |

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

## 10. INCOME TAX CREDIT

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

| | Note | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **Current tax** | | | |
| The PRC enterprise income tax | | 4,141 | 1,574 |
| **Deferred tax** | | | |
| Origination and reversal of temporary differences, net | 25 | (6,610) | (93,694) |
| Income tax credit for the year | | (2,469) | (92,120) |

## 10. INCOME TAX CREDIT *(continued)*

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Loss before tax | (142,727) | (254,478) |
| Income tax at applicable tax rate | (34,267) | (61,851) |
| Non-deductible expenses | 5,546 | 60,529 |
| Tax-exempt revenue | (906) | (1) |
| Recognition of previously unrecognised deferred taxes and reversal of deferred taxes | (6,638) | (93,682) |
| Unrecognised tax losses | 39,735 | 48,009 |
| Unrecognised temporary differences | (5,939) | (45,124) |
| Income tax credit | (2,469) | (92,120) |

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

## 11. DIVIDENDS

The board of directors does not recommend the payment of any dividend for the years ended 31 December 2017 and 2016.

## 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$140,258,000 (2016: HK$162,358,000) and the weighted average number of ordinary shares in issue throughout the year of 1,527,586,000 shares (2016: 1,527,586,000 shares).

There were no potential dilutive ordinary shares outstanding during the year ended 31 December 2017. As the exercise price of the share options was higher than the average market price of the Company's ordinary shares during the year ended 31 December 2016, no shares were assumed to have been issued on the deemed exercise of the Company's outstanding share options during the year ended 31 December 2016. Therefore, the diluted loss per share was equal to the basic loss per share for the years ended 31 December 2017 and 2016.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Note | Leasehold buildings HK$'000 | Plant and machinery HK$'000 | Leasehold improvements, furniture, office equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Reconciliation of carrying amount – year ended 31 December 2017** | | | | | | |
| At 1 January 2017 | | 518,555 | 203,442 | 4,456 | 54,416 | 780,869 |
| Additions | | – | 18,133 | 2,246 | 68,928 | 89,307 |
| Gain on revaluation | | 31,565 | – | – | – | 31,565 |
| Disposals | | (627) | (1,596) | 31 | (10) | (2,202) |
| Depreciation | 6 | (25,648) | (33,699) | (2,109) | – | (61,456) |
| Transfer | | 199 | 52,700 | – | (52,899) | – |
| Exchange realignment | | 37,522 | 16,455 | 272 | 4,653 | 58,902 |
| At 31 December 2017 | | 561,566 | 255,435 | 4,896 | 75,088 | 896,985 |
| **Reconciliation of carrying amount – year ended 31 December 2016** | | | | | | |
| At 1 January 2016 | | 310,392 | 80,014 | 7,150 | 10,756 | 408,312 |
| Additions | | 198 | 2,880 | 433 | 49,033 | 52,544 |
| Loss on revaluation | | (21,390) | – | – | – | (21,390) |
| Disposals | | – | (10) | – | – | (10) |
| Depreciation | 6 | (26,381) | (9,787) | (2,787) | – | (38,955) |
| Transfer | | – | 2,085 | – | (2,085) | – |
| Reversal of impairment | 6 | – | 138,937 | – | – | 138,937 |
| Reclassified from non-current assets held for sale | | 268,998 | – | – | (2,522) | 266,476 |
| Exchange realignment | | (13,262) | (10,677) | (340) | (766) | (25,045) |
| At 31 December 2016 | | 518,555 | 203,442 | 4,456 | 54,416 | 780,869 |
| **At 31 December 2017** | | | | | | |
| At cost | | – | 1,438,523 | 31,839 | 108,195 | 1,578,557 |
| At valuation | | 561,566 | – | – | – | 561,566 |
| Accumulated depreciation and impairment losses | | – | (1,183,088) | (26,943) | (33,107) | (1,243,138) |
| | | 561,566 | 255,435 | 4,896 | 75,088 | 896,985 |
| **At 1 January 2017** | | | | | | |
| At cost | | – | 1,250,716 | 26,688 | 84,948 | 1,362,352 |
| At valuation | | 543,851 | – | – | – | 543,851 |
| Accumulated depreciation and impairment losses | | (25,296) | (1,047,274) | (22,232) | (30,532) | (1,125,334) |
| | | 518,555 | 203,442 | 4,456 | 54,416 | 780,869 |

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

### Leasehold buildings

The leasehold buildings are situated on parcels of land of the Group in Mainland China with remaining lease term ranging from 13 to 54 years.

At 31 December 2017, the applications for building certificates for certain leasehold buildings of the Group with a total carrying amount of HK$166,812,000 (2016: HK$158,010,000) were still in progress.

Had the Group's leasehold buildings been carried under the cost model, their carrying amount would have been approximately HK$471,164,000 (2016: HK$456,724,000).

The Group's leasehold buildings located in Luyuan District in Changchun held by the Target Companies (the "Changchun Buildings") were revalued on an open market value basis at 31 May 2017 by Access Partner Consultancy & Appraisals Limited, an independent professionally qualified valuer, for the purpose of preparing for the Transaction. The Group's other leasehold buildings were revalued on an open market value basis at 31 December 2017 by Roma Appraisals Limited, an independent professionally qualified valuer. A gain on revaluation of approximately HK$31,565,000 (before deferred tax) was recognised in other comprehensive income and credited to asset revaluation reserve during the year ended 31 December 2017.

The directors were of the opinion that there were no material differences between the carrying amount and fair value of the leasehold buildings at 31 December 2016. Therefore, no revaluation was performed as at that date. The loss on revaluation of leasehold buildings of HK$21,390,000 (before deferred tax) recognised in the year ended 31 December 2016 was resulted from the revaluation of the Changchun Buildings at 31 March 2016 for the purpose of preparing for a proposed disposal of the Changchun Buildings to an independent third party. The proposed disposal was terminated during the year ended 31 December 2017.

### Valuation processes

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

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

### Valuation processes *(continued)*

***Fair value hierarchy***

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

| | Fair value measurement at 31 December 2017/31 May 2017 using | | | |
|---|---|---|---|---|
| | Quoted prices in active market (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Recurring fair value measurement for: | | | | |
| Industrial properties | — | — | 536,385 | 536,385 |
| Residential properties | — | — | 25,181 | 25,181 |
| | — | — | 561,566 | 561,566 |

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

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| At 1 January | 518,555 | 310,392 |
| Additions and transfer from construction in progress | 199 | 198 |
| Gain (Loss) on revaluation | 31,565 | (21,390) |
| Disposals | (627) | — |
| Depreciation | (25,648) | (26,381) |
| Reclassified from non-current assets held for sale | — | 268,998 |
| Exchange realignment | 37,522 | (13,262) |
| At 31 December | 561,566 | 518,555 |

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

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

### Valuation processes *(continued)*

***Fair value hierarchy*** *(continued)*

Below is a summary of the valuation technique and the key inputs used in the valuation of the leasehold buildings at 31 December 2017 (other than the Changchun Buildings) and 31 May 2017 (the Changchun Buildings):

| Valuation technique | Significant unobservable inputs | Industrial properties | Residential properties |
|---|---|---|---|
| DRC approach | construction cost (RMB/s.q.m.) | 500-3,600 | 500-5,200 |

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

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

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

### Impairment assessment

No impairment loss was recognised in respect of the leasehold buildings which were stated at revalued amounts because the cost of disposal was considered insignificant.

The directors have performed an impairment assessment on the property, plant and equipment, except for leasehold buildings which were stated at revalued amounts, of the subsidiaries operating in Jinzhou and Changchun at 31 December 2016 based on a valuation performed by Savills Valuation and Professional Services Limited, an independent professionally qualified valuer. As a result of the impairment assessment, a reversal of impairment loss of HK$138,937,000, being the recoverable amount of the property, plant and equipment of the relevant subsidiaries, was recognised in profit or loss during the year ended 31 December 2016.

## 14. PREPAID LAND LEASE PAYMENTS

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January | | 147,873 | 89,008 |
| Amortisation | 6 | (7,048) | (6,929) |
| Reclassified from non-current assets held for sale | | — | 68,918 |
| Exchange realignment | | 15,044 | (3,124) |
| Carrying amount at 31 December | | 155,869 | 147,873 |
| Current portion included in prepayments, deposits and other receivables | 19 | (7,870) | (7,258) |
| Non-current portion | | 147,999 | 140,615 |

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

## 15. GOODWILL

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost | 183,538 | 183,538 |
| Impairment | (183,538) | (183,538) |
| | — | — |

The goodwill was fully impaired during the year ended 31 December 2014.

## 16. OTHER INTANGIBLE ASSETS

| | Golf club membership HK$'000 |
|---|---|
| **2017 and 2016** | |
| At 1 January and 31 December | |
| Cost and carrying amount | 3,243 |

## 17. INVENTORIES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Raw materials | 97,852 | 72,559 |
| Finished goods | 71,278 | 39,787 |
| | 169,130 | 112,346 |

## 18. TRADE AND BILLS RECEIVABLES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade receivables | 221,907 | 241,937 |
| Bills receivable | 6,307 | 35,612 |
| Impairment | (91,234) | (84,523) |
| | 136,980 | 193,026 |

The Group normally grants credit terms of 30 to 90 days (2016: 30 to 90 days) to established customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. Trade and bills receivables are non-interest-bearing. Significant concentration of risk exists where the Group has material exposures to trade and bills receivables from three customers located in Mainland China which accounted for 36% (2016: 42%) of the total trade and bills receivables at 31 December 2017.

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within 1 month | 89,680 | 76,463 |
| 1 to 2 months | 32,808 | 31,795 |
| 2 to 3 months | 7,741 | 7,997 |
| Over 3 months | 6,751 | 76,771 |
| | 136,980 | 193,026 |

## 18. TRADE AND BILLS RECEIVABLES *(continued)*

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

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| At 1 January | | 84,523 | 87,300 |
| Impairment losses recognised | 6 | 1,016 | 3,731 |
| Impairment losses reversed | 6 | (1,415) | (547) |
| Exchange realignment | | 7,110 | (5,961) |
| At 31 December | | 91,234 | 84,523 |

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

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Not past due | 134,805 | 145,188 |
| Less than 1 month past due | 644 | 169 |
| 1 to 3 months past due | 1,277 | 250 |
| Over 3 months past due | 254 | 47,419 |
| | 136,980 | 193,026 |

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

Receivables that were past due but not impaired were related to a number of independent customers that have a good track record with the Group. Based on past experience, the management of the Company considers 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.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Note | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Prepayments | | 27,757 | 21,451 |
| Deposits and other debtors | | 3,308 | 18,386 |
| VAT and other tax receivables | | 27,077 | 14,649 |
| Current portion of prepaid land lease payments | 14 | 7,870 | 7,258 |
| Corn subsidy receivable | | — | 3,786 |
| | | 66,012 | 65,530 |

## 20. CASH AND CASH EQUIVALENTS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Cash and bank balances | 173,697 | 116,972 |
| Guarantee/Time deposits | 41,103 | — |
| | 214,800 | 116,972 |
| *Less:* Pledged deposits for issuance of bills payable | (41,103) | — |
| Cash and cash equivalents | 173,697 | 116,972 |

At the end of the reporting period, the cash and bank balances and guarantee/time deposits of the Group denominated in Renminbi amounted to HK$138,296,000 (2016: HK$77,864,000). Renminbi held by subsidiaries in the PRC is not freely convertible into other currencies. However, under relevant regulations in Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

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

## 21. TRADE AND BILLS PAYABLES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade payables | 135,343 | 140,697 |
| Bills payable | 41,103 | — |
| | 176,446 | 140,697 |

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

## 21. TRADE AND BILLS PAYABLES *(continued)*

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within 1 month | 59,270 | 33,853 |
| 1 to 2 months | 4,853 | 2,485 |
| 2 to 3 months | 3,976 | 513 |
| Over 3 months | 108,347 | 103,846 |
| | 176,446 | 140,697 |

## 22. OTHER PAYABLES AND ACCRUALS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Payables for purchases of machinery | 5,297 | 10,141 |
| Customer deposits and receipts in advance | 84,409 | 27,452 |
| VAT and other duties payable | 100,478 | 104,571 |
| Accrued expenses | 68,248 | 62,052 |
| | 258,432 | 204,216 |

## 23. INTEREST-BEARING BANK BORROWINGS

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate % | Maturity | Amount HK$'000 | Effective interest rate % | Maturity | Amount HK$'000 |
| **Current** | | | | | | |
| Bank loans | | | | | | |
| — Unsecured | 3.915%-5.220% | 2018 | 616,626 | 4.350%-6.000% | 2017 | 367,222 |
| — Secured | 4.785%-8.000% | 2018 | 95,181 | 4.568%-7.995% | 2017 | 241,111 |
| | | | 711,807 | | | 608,333 |
| **Non-current** | | | | | | |
| Bank loans | | | | | | |
| — Unsecured | 4.275% | 2019 | 108,434 | 4.275% | 2019 | 100,000 |
| — Secured | 4.275%-7.000% | 2019 — 2020 | 307,229 | 4.275% | 2019 | 100,000 |
| | | | 415,663 | | | 200,000 |
| | | | 1,127,470 | | | 808,333 |

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Analysed into:** | | |
| Bank loans repayable: | | |
| Within one year or on demand | 711,807 | 608,333 |
| In the second year | 221,687 | — |
| In the third to fifth years | 193,976 | 200,000 |
| | 1,127,470 | 808,333 |

Notes:

(a) At 31 December 2017, the Group's bank borrowings amounting to HK$402,410,000 (2016: HK$341,111,000) were secured by pledge of certain of the Group's property, plant and equipment and prepaid land lease payments amounting to HK$626,532,000 (2016: HK$646,084,000) and HK$54,431,000 (2016: HK$53,559,000), respectively.

(b) At 31 December 2017, the Group's bank borrowings amounting to HK$239,759,000 (2016: HK$Nil) were secured by corporate guarantee provided by GBT.

(c) At 31 December 2017, all (2016: all) of the Group's bank borrowings were denominated in Renminbi.

(d) A subsidiary of the Company has failed to fulfill certain financial covenants in respect of its bank loans in the aggregate amount of HK$263 million at 31 December 2017 (2016: HK$249 million) which, in accordance with the respective loan agreements, will be due in September 2018. The breach of the financial covenants entitles the lender to, among others, declare the loans together with accrued interests and other sums immediately due and payable, and may also trigger cross default provisions of other loans of the Group of HK$248 million (2016: HK$242 million). The Group is in the process of obtaining relevant waivers regarding the breach of the financial covenants and the cross default provisions.

## 24. DEFERRED INCOME

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| At 1 January | 31,600 | — |
| Addition | — | 31,777 |
| Amortisation | (184) | (186) |
| Exchange realignment | 2,656 | 9 |
| At 31 December | 34,072 | 31,600 |

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

## 25. DEFERRED TAX

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Deferred tax assets | (22,901) | (20,874) |
| Deferred tax liabilities | 32,461 | 22,981 |
| Deferred tax liabilities, net | 9,560 | 2,107 |

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

| | Note | Depreciation allowance in excess of related depreciation HK$'000 | Fair value adjustments arising from acquisition of subsidiaries HK$'000 | Revaluation of leasehold buildings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | |
| At 1 January 2016 | | 37,954 | 50,912 | 18,244 | 107,110 |
| Credited to profit or loss | 10 | (21,908) | (50,912) | — | (72,820) |
| Credited to equity | | — | — | (5,348) | (5,348) |
| Exchange realignment | | (5,961) | — | — | (5,961) |
| At 31 December 2016 and 1 January 2017 | | 10,085 | — | 12,896 | 22,981 |
| Debited to profit or loss | 10 | 312 | — | — | 312 |
| Debited to equity | | — | — | 7,892 | 7,892 |
| Exchange realignment | | 1,276 | — | — | 1,276 |
| **At 31 December 2017** | | 11,673 | — | 20,788 | 32,461 |

## 25. DEFERRED TAX *(continued)*

| | Note | Depreciation in excess of depreciation allowance HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| At 1 January 2016 | | — | — | — |
| Credited to profit or loss | 10 | 12,832 | 8,042 | 20,874 |
| At 31 December 2016 and 1 January 2017 | | 12,832 | 8,042 | 20,874 |
| Credited (Debited) to profit or loss | 10 | 14,883 | (7,961) | 6,922 |
| Exchange realignment | | (5,573) | 678 | (4,895) |
| **At 31 December 2017** | | 22,142 | 759 | 22,901 |

The Group had accumulated tax losses arising in Hong Kong of approximately HK$47,761,000 (2016: HK$47,761,000) that were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

In addition, the Group had accumulated tax losses arising in Mainland China of approximately HK$1,194,975,000 (2016: HK$1,203,044,000) that were available for offsetting against future taxable profits of the companies in which the losses arose. These tax losses will expire from the year ending 31 December 2018 to the year ending 31 December 2022 (2016: year ending 31 December 2017 to the year ending 31 December 2021). Furthermore, the Group had deductible temporary differences of approximately HK$99,500,000 at 31 December 2017 (2016: HK$85,500,000). The directors consider that no deferred tax assets should be recognised as the directors consider that it is uncertain whether future taxable profits can be generated by these companies to utilise these tax losses and deductible temporary differences.

At 31 December 2017 and 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The directors consider that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$277,318,000 at 31 December 2017 (2016: HK$259,631,000).

## 26. SHARE CAPITAL

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Authorised: | | |
| 100,000,000,000 (2016: 100,000,000,000) ordinary shares of HK$0.10 each | 10,000,000 | 10,000,000 |
| Issued and fully paid: | | |
| 1,527,586,000 (2016: 1,527,586,000) ordinary shares of HK$0.10 each | 152,759 | 152,759 |

## 27. SHARE OPTION SCHEME

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

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

## 28. FINANCIAL GUARANTEES

As mentioned in note 2.2 to the consolidated financial statements, Dihao Foodstuff together with certain fellow subsidiaries of the Company had jointly provided corporate guarantees to a bank in Mainland China in respect of banking facilities granted to a former major supplier starting from year 2010 (the "Financial Guarantee Contracts"). The maximum amount of the banking facilities was RMB2.5 billion at 31 December 2016 and 2017. The directors have tried to engage a professional valuer to assess the fair value of the Financial Guarantee Contracts. However, since the directors were unable to obtain sufficient and reliable financial information of the former major supplier, the professional valuer was unable to complete the valuation. Therefore, no financial guarantee liability has been recognised in the consolidated financial statements in respect of the Financial Guarantee Contracts.

## 29. COMMITMENTS

### (a) Capital commitments

At 31 December 2017, the Group had capital commitments as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Purchase or construction of property, plant and machinery | 53,262 | 68,814 |

### (b) Commitments under operating leases

The Group leases certain land and buildings under operating leases, which typically run for a period of three years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within one year | 2,484 | 2,660 |
| In the second to fifth years inclusive | 293 | 2,556 |
| Over five years | — | 625 |
| | 2,777 | 5,841 |

## 30. OTHER CASH FLOW INFORMATION

### 30(a) Cash generated from (used in) operations

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Loss before tax | | (142,727) | (254,478) |
| Adjustments for: | | | |
| Finance costs | 7 | 49,708 | 48,451 |
| Bank interest income | 5 | (788) | (722) |
| Depreciation | 13 | 61,456 | 38,955 |
| Loss on disposal of property, plant and equipment, net | 6 | 699 | 10 |
| Amortisation of prepaid land lease payments | 14 | 7,048 | 6,929 |
| (Reversal of impairment) Impairment of trade and bills receivables, net | 18 | (399) | 3,184 |
| Amortisation of deferred income | 5 | (184) | (186) |
| Reversal of write-off of trade and bills receivables | 6 | – | (1,068) |
| (Reversal of impairment) Impairment of prepayments, deposits and other receivables, net | 6 | (10,744) | 229,740 |
| Reversal of write-down of inventories, net | 6 | (165) | (870) |
| Reversal of impairment of property, plant and equipment | 13 | – | (138,937) |
| Impairment of deposits paid for acquisition of property, plant and equipment | | – | 274 |
| | | (36,096) | (68,718) |
| (Increase) Decrease in inventories | | (44,937) | 42,474 |
| Decrease (Increase) in trade and bills receivables | | 69,399 | (41,290) |
| Decrease in prepayments, deposits and other receivables | | 15,500 | 7,216 |
| Increase (Decrease) in trade and bills payables | | 22,785 | (45,163) |
| Increase in other payables and accruals | | 29,961 | 2,424 |
| Cash generated from (used in) operations | | 56,612 | (103,057) |

## 30. OTHER CASH FLOW INFORMATION *(continued)*

### 30(b) Changes in liabilities arising from financing activities

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

| | Due to the ultimate holding company HK$'000 | Due to fellow subsidiaries HK$'000 | Interest-bearing bank borrowings HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2017 | – | 190,636 | 808,333 | 998,969 |
| **Changes from financing cash flows:** | | | | |
| Increase in an amount due to the ultimate holding company | 33,610 | – | – | 33,610 |
| Decrease in amounts due to fellow subsidiaries | – | (101,293) | – | (101,293) |
| Proceeds from new bank loans | – | – | 652,644 | 652,644 |
| Repayment of bank loans | – | – | (413,218) | (413,218) |
| Repayment of interest expenses | – | – | (48,929) | (48,929) |
| Total changes from financing cash flows | 33,610 | (101,293) | 190,497 | 122,814 |
| **Exchange adjustments** | 1,221 | 1,921 | 79,711 | 82,853 |
| **Other changes:** | | | | |
| Offsetting (Note 30(c)) | (34,831) | 34,831 | – | – |
| Interest expenses | – | – | 48,929 | 48,929 |
| Total other changes | (34,831) | 34,831 | 48,929 | 48,929 |
| **At 31 December 2017** | – | 126,095 | 1,127,470 | 1,253,565 |

### 30(c) Major non-cash transactions

During the year ended 31 December 2017, amount due to the ultimate holding company and amounts due from fellow subsidiaries in aggregate of HK$65 million (2016: HK$231 million) were assigned to or offset against amounts due to fellow subsidiaries pursuant to offsetting agreements entered into between relevant parties.

## 31. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year ended 31 December 2017:

### (i) Transactions with related parties

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Purchases from fellow subsidiaries | | | |
| — Corn starch | (a) | 115,966 | 90,323 |
| — Lysine and other corn refined products | (a) | 11,702 | 10,366 |
| — Equipment and spare parts | (d) | — | 249 |
| Purchase of corn kernels from Jiliang | (e) | 17,626 | — |
| Reimbursement of cost of utilities provided by a fellow subsidiary | (b) | 9,830 | 3,338 |
| Rental expense paid to a fellow subsidiary | (c) | 2,370 | 2,398 |

Notes:

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

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

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

(d) The Group purchased certain equipment from a fellow subsidiary at a consideration of HK$Nil (2016: HK$249,000). The consideration was mutually agreed between the relevant parties.

(e) The Group sourced corn kernels from Jiliang. This purchase was made at price based on the agreement between the parties.

### (ii) Balances with related parties

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying amounts of these balances approximate to their fair values.

### (iii) Compensation of key management personnel of the Group

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

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### Financial assets

| | Loans and receivables | |
|---|---|---|
| | 2017<br>HK$'000 | 2016<br>HK$'000 |
| Trade and bills receivables | 136,980 | 193,026 |
| Financial assets included in prepayments, deposits and other receivables | 3,308 | 22,172 |
| Pledged deposits | 41,103 | — |
| Cash and bank balances | 173,697 | 116,902 |
| | 355,088 | 332,100 |

### Financial liabilities

| | Financial liabilities at amortised cost | |
|---|---|---|
| | 2017<br>HK$'000 | 2016<br>HK$'000 |
| Trade and bills payables | 176,446 | 140,697 |
| Financial liabilities included in other payables and accruals | 68,248 | 62,052 |
| Interest-bearing bank borrowings | 1,127,470 | 803,333 |
| Due to fellow subsidiaries | 126,095 | 190,636 |
| | 1,498,259 | 1,196,718 |

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

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

### Interest rate risk

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

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

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Interest rate risk *(continued)*

The Group's revenue and operating cash flows are substantially independent of changes in market interest rates.

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

| | Increase/ (decrease) in interest rate | Increase/ (decrease) in loss before tax |
|---|---|---|
| | % | HK$'000 |
| 2017 | 1/(1) | 3,694/(4,910) |
| 2016 | 1/(1) | 4,886/(4,886) |

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

### Credit risk

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

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

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 18 and 19 to the consolidated 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 liabilities and financial assets and projected cash flows from operations.

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

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk *(continued)*

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

**At 31 December 2017**

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | More than 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade and bills payables | – | 176,446 | – | – | – | 176,446 |
| Financial liabilities included in other payables and accruals | 68,248 | – | – | – | – | 68,248 |
| Due to fellow subsidiaries | 126,095 | – | – | – | – | 126,095 |
| Interest-bearing bank borrowings | – | 64,408 | 690,137 | 439,357 | – | 1,193,902 |
| | 194,343 | 240,854 | 690,137 | 439,357 | – | 1,564,691 |

**At 31 December 2016**

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | More than 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade and bills payables | – | 140,697 | – | – | – | 140,697 |
| Financial liabilities included in other payables and accruals | 62,052 | – | – | – | – | 62,052 |
| Due to fellow subsidiaries | 190,636 | – | – | – | – | 190,636 |
| Interest-bearing bank borrowings | – | 21,680 | 619,733 | 201,566 | – | 842,979 |
| | 252,688 | 162,377 | 619,733 | 201,566 | – | 1,236,364 |

In addition, as disclosed in note 28 to the consolidated financial statements, the Group may be required to make payments in respect of the Financial Guarantee Contracts up to a maximum amount of RMB2.5 billion at 31 December 2017 (2016: RMB2.5 billion).

### Capital management

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

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

## 33. PARTICULARS OF SUBSIDIARIES

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

| Company name | Place of incorporation/ registration and operations | Paid-up share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held:** | | | | |
| Global Sweeteners (HK) Limited | Hong Kong | HK$1,000 (2016: HK$1,000) | 100 | General administration |
| **Indirectly held:** | | | | |
| Changchun Dihao Foodstuff Development Co., Ltd.* | The PRC | RMB192,133,068 (2016: RMB179,700,000) | 100 | Manufacture and sale of corn sweeteners |
| Changchun Dihao Crystal Sugar Industry Development Co., Ltd.* | The PRC | US$22,200,000 (2016: US$22,200,000) | 100 | Manufacture and sale of crystallised sugar |
| Jinzhou Yuancheng Bio-chem Technology Co., Ltd.* | The PRC | US$62,504,000 (2016: US$59,504,000) | 100 | Manufacture and sale of corn refined products |
| Jinzhou Dacheng Food Development Co., Ltd.* | The PRC | US$7,770,000 (2016: US$7,770,000) | 100 | Manufacture and sale of corn sweeteners |
| Shanghai Hao Cheng Food Development Co., Ltd.* | The PRC | US$9,668,000 (2016: US$9,668,000 | 100 | Manufacture and sale of corn sweeteners |
| Shanghai Shangying Trading Co., Ltd.* | The PRC | RMB5,000,000 (2016: RMB5,000,000) | 100 | Trading of corn sweeteners |
| Global Sweeteners Trade Development (Dalian) Co., Ltd.* | The PRC | US$9,100,000 (2016: RMB9,100,000) | 100 | International trading |

* *Wholly-foreign-owned enterprise*

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

## 34. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | – | – |
| | | – | – |
| **Current assets** | | | |
| Due from subsidiaries | | 365,673 | 468,615 |
| Prepayments, deposits and other receivables | | 235 | 623 |
| Cash and cash equivalents | | 6,280 | 6,104 |
| | | 372,188 | 475,342 |
| **Current liabilities** | | | |
| Due to subsidiaries | | 429,244 | 403,359 |
| Other payables and accruals | | 3,059 | 2,881 |
| | | 432,303 | 406,240 |
| **Net current (liabilities) assets** | | (60,115) | 69,102 |
| **Total assets less current liabilities** | | (60,115) | 69,102 |
| **Non-current liabilities** | | | |
| Financial guarantee contracts | | 62,963 | 57,548 |
| | | 62,963 | 57,548 |
| **NET (LIABILITIES) ASSETS** | | (123,078) | 11,554 |
| **Capital and reserves** | | | |
| Share capital | | 152,759 | 152,759 |
| Reserves | 34(a) | (275,837) | (141,205) |
| **TOTAL (DEFICIT) EQUITY** | | (123,078) | 11,554 |

This statement of financial position was approved and authorised for issue by the board of directors on 26 March 2018 and signed on its behalf by

**Kong Zhanpeng**
*Director*

**Zhang Zihua**
*Director*

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

### (a) Reserves

| | Contributed surplus HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 491,695 | 1,074,879 | 9,440 | (1,550,666) | 25,348 |
| Loss and total comprehensive loss for the year | – | – | – | (166,553) | (166,553) |
| Transfer upon forfeiture of share options | – | – | (9,440) | 9,440 | – |
| At 31 December 2016 | 491,695 | 1,074,879 | – | (1,707,779) | (141,205) |
| Loss and total comprehensive loss for the year | – | – | – | (134,632) | (134,632) |
| At 31 December 2017 | 491,695 | 1,074,879 | – | (1,842,411) | (275,837) |

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

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

## 35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for the issue by the board of directors on 26 March 2018.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted (and as restated and reclassified) from the published audited consolidated financial statements is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2017* HK$'000 | 2016# HK$'000 | 2015# HK$'000 | 2014# HK$'000 | 2013 HK$'000 |
| **RESULTS** | | | | | |
| **CONTINUING OPERATIONS** | | | | | |
| REVENUE | 1,395,090 | 995,218 | 1,648,981 | 2,919,716 | 4,200,019 |
| Cost of sales | (1,240,651) | (890,960) | (1,568,695) | (3,109,569) | (4,062,266) |
| Gross profit (loss) | 154,439 | 104,258 | 80,286 | (189,853) | 137,753 |
| Other income and gains | 21,126 | 153,726 | 38,029 | 130,830 | 46,113 |
| Selling and distribution costs | (134,735) | (83,982) | (87,702) | (213,562) | (237,843) |
| Administrative expenses | (102,825) | (115,329) | (100,640) | (108,610) | (113,273) |
| Other expenses | (31,024) | (264,700) | (611,821) | (621,620) | (39,201) |
| Finance costs | (49,708) | (48,451) | (65,360) | (79,438) | (97,255) |
| LOSS BEFORE TAX FROM CONTINUING OPERATIONS | (142,727) | (254,478) | (747,208) | (1,082,253) | (303,706) |
| Income tax credit (expense) | 2,469 | 92,120 | (6,559) | (10,983) | (11,126) |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS | (140,258) | (162,358) | (753,767) | (1,093,236) | (314,832) |
| **DISCONTINUED OPERATION** | | | | | |
| Loss for the year from a discontinued operation | — | — | — | — | (5,397) |
| LOSS FOR THE YEAR | (140,258) | (162,358) | (753,767) | (1,093,236) | (320,229) |
| Attributable to: | | | | | |
| Owners of the Company | (140,258) | (162,358) | (753,454) | (1,093,115) | (319,959) |
| Non-controlling interests | — | — | (313) | (121) | (270) |
| | (140,258) | (162,358) | (753,767) | (1,093,236) | (320,229) |

**ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS**

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2017 HK$'000 | 2016 HK$'000 | 2015 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
| TOTAL ASSETS | 1,635,457 | 1,412,771 | 1,617,472 | 2,728,452 | 4,467,813 |
| TOTAL LIABILITIES | (1,758,430) | (1,400,791) | (1,438,985) | (1,804,552) | (2,430,630) |
| NON-CONTROLLING INTERESTS | 6,303 | 5,793 | 6,225 | 6,237 | 6,195 |
| | (116,670) | 17,773 | 184,712 | 930,137 | 2,043,378 |

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

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