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

# 2020 Interim Report

* For identification purpose only

# CONTENTS




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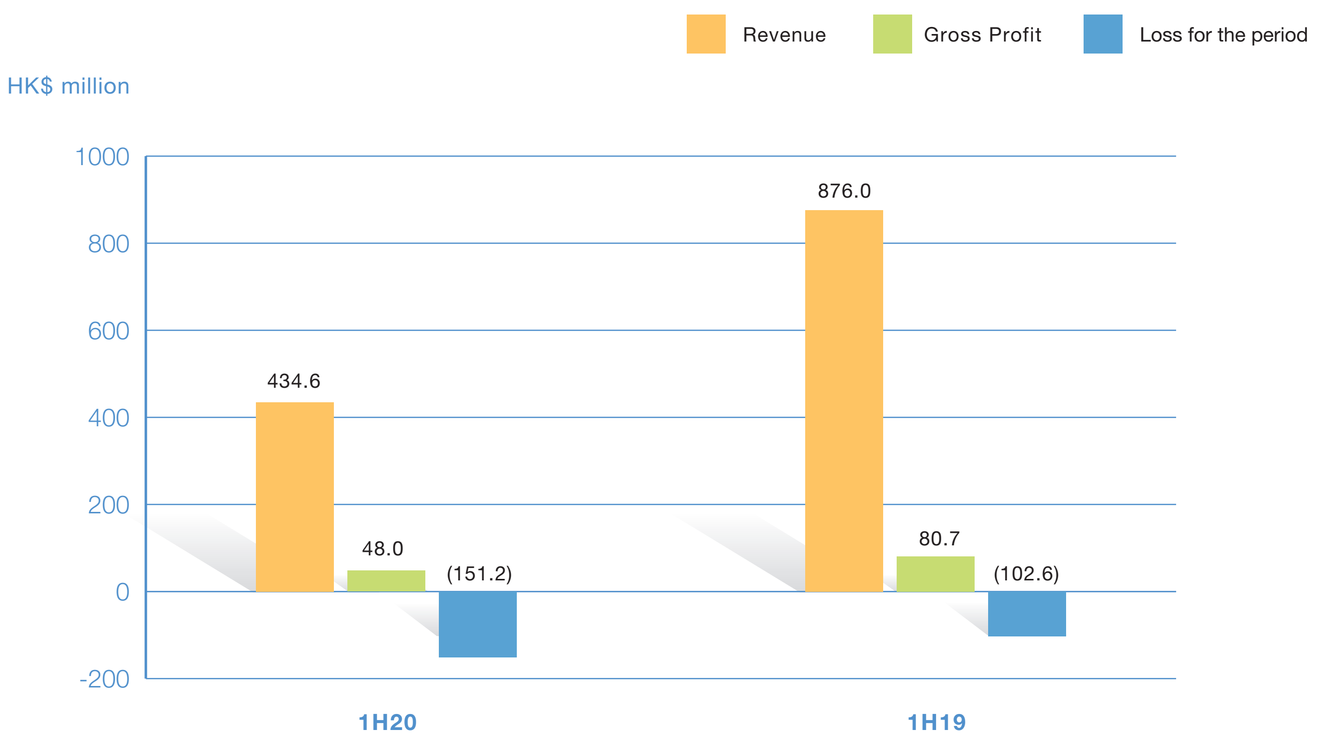
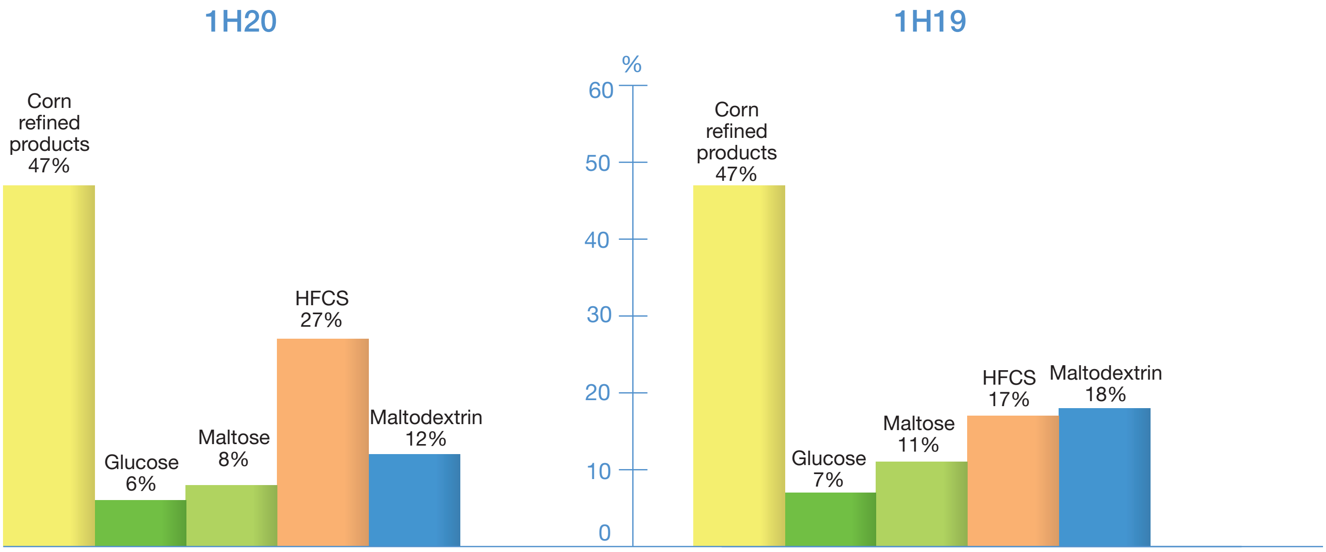
# FINANCIAL HIGHLIGHTS

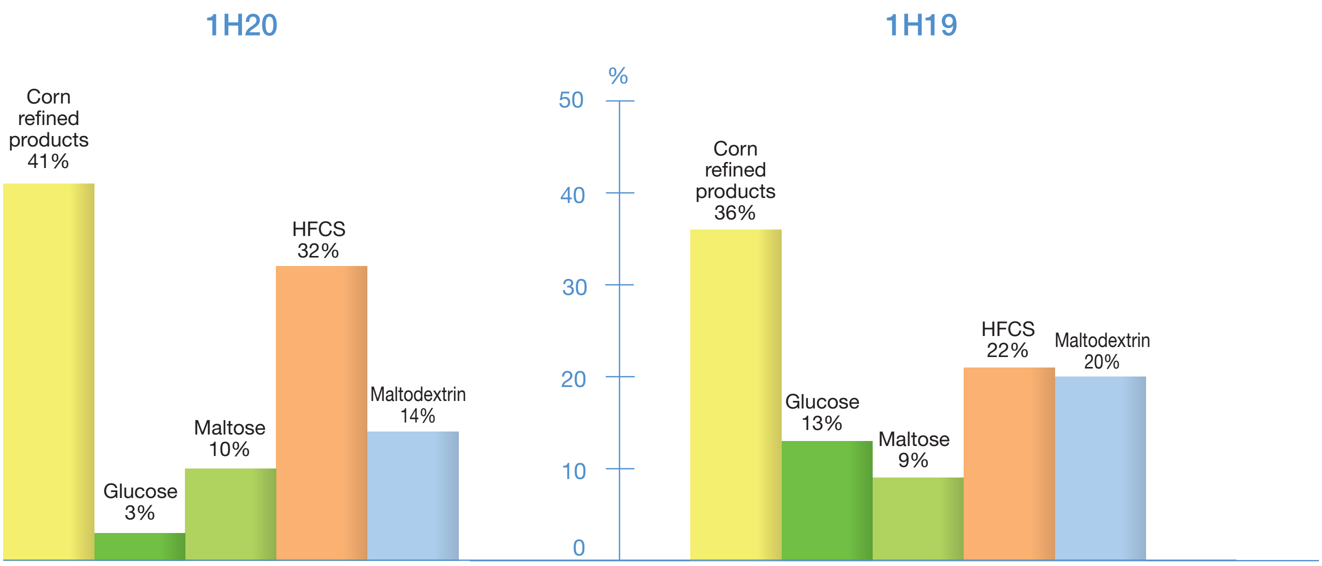
| | Six months ended 30 June | | |
|---|---|---|---|
| | **2020 (Unaudited)** | 2019 (Unaudited) | Change % |
| Revenue (HK$'Mn) | **434.6** | 876.0 | (50.4) |
| Gross profit (HK$'Mn) | **48.0** | 80.7 | (40.5) |
| Loss before tax (HK$'Mn) | **(151.2)** | (102.6) | N/A |
| Loss for the period (HK$'Mn) | **(151.2)** | (102.6) | N/A |
| Basic loss per share (HK cents) | **(9.9)** | (6.7) | N/A |
| Interim dividend per share (HK cents) | **Nil** | Nil | N/A |



## REVENUE DISTRIBUTION




## GROSS PROFIT DISTRIBUTION



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Director

Mr. Zhang Zihua *(Acting Chairman)*

### Independent non-executive Directors

Mr. Fan Yeran *(Appointed on 22 July 2020)*
Mr. Fong Wai Ho
Mr. Lo Kwing Yu
Mr. Wen Xia *(Resigned on 22 July 2020)*

## COMPANY SECRETARY

Mr. Chan Sing Fai, HKICS, HKICPA

## REGISTERED OFFICE

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

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

Suites 2202-04, 22nd Floor
Tower 6, The Gateway
9 Canton Road
Tsimshatsui
Kowloon
Hong Kong

## AUDITOR

Mazars CPA Limited
*Certified Public Accountants*
42nd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

## LEGAL ADVISERS AS TO HONG KONG LAWS

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

## PRINCIPAL 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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## WEBSITE

www.global-sweeteners.com

## STOCK CODE

03889

Dear Shareholders,

In response to the outbreak of COVID-19, the PRC government imposed stringent precautionary and control measures in the first quarter of 2020, bringing most of the domestic economic activities and normal daily activities to a standstill. As the pandemic began to ease in the second quarter, business activities in various areas gradually resumed. However, during the Period, the pandemic spread rapidly in different parts of the world, which cast shadow on the business environment.

## BUSINESS REVIEW

During the Period, in order to stop the further spread of COVID-19, most areas in China have implemented travel and transportation restrictions in the first quarter. The severe disruption to transportation of materials and delay in corn auctions from state reserves has led to the periodical shortage of corn, causing corn prices to soar. The Group's upstream business faced not only high raw material costs, but also the pressure of shrunken demand as a result of economic downturn, which made it not commercially viable to continue with the production operation of the upstream corn refinery. During the period under review, the government imposed high tariffs on sugar imports and cracked down on sugar smuggling; as a result, the huge gap between international sugar price and domestic sugar price was slightly narrowed, and the sweetener price in China was gradually stabilised. However, as competition in the domestic market intensified, and a number of manufacturers in Huadong area, where large-scale beverage and food processing industries are concentrated, have expanded the industrial chain upstream, the demand for sweetener products shrank further.

Due to the drop in demand as a result of widespread decline in various industries, the increase in cost of raw materials and the financial pressure of the Group, most of the Group's production facilities had been suspended during the period under review, and the Group mainly sold its inventory from the previous year. As a result, both sales volume and sales revenue declined significantly. Decreased gross profit and high finance costs had caused the Group's net loss and cash outflow to increase year-on-year in the first half of the year.

In order to resolve the heavy financial burden and turn around the Group's financial situation, the management continued to work hard to implement the debt restructuring plan during the period under review. Progress in debt restructuring has been made during the period under review. The Group was notified by one of its lending banks, Jilin Branch of Bank of China, in mid-February that it had entered into an agreement with Jilin Branch of China Cinda Asset Management Co., Ltd. in relation to the transfer of outstanding loans together with guarantee liability of the Group and the GBT Group with an aggregate amount of approximately RMB4.0 billion to the latter, as the first step of the debt restructuring plan. After the completion of the transfer of the loans, the management continues to explore the next step of the debt restructuring plan. The other lending banks are expected to refer to such arrangement to resolve the outstanding debts owed by the Group.

During the period under review, the Group actively cooperated with the government on matters in relation to the resumption of the land and buildings erected thereon in Luyuan District. During the period under review, the local government issued a notice to resume the properties owned by Dihao Foodstuff, a wholly-owned subsidiary of the Company. It is expected that Dihao Foodstuff will surrender its properties by the third quarter of this year and the Group will receive a compensation of RMB443.0 million as a result of the resumption. The proceeds will help relieve the Group's financial and cash flow pressure during the period of production suspension, and provide part of the funding for the capital expenditure for the relocation of the Group's production facilities in Changchun. It is expected that the resumption of the remaining properties by the government will be conducted in stages according to the relevant government policy. As the relevant properties have been confirmed as the subject properties for redevelopment under the PRC's Slum Redevelopment Policy, this will help speed up the process of resumption.

## OUTLOOK

The GDP of China for the second quarter rebounded from the decline in the first quarter and grew by 3.2% year-on-year, which exceeded market expectations. As for the first half of 2020, the overall GDP declined by 1.6% year-on-year. Although the domestic economy is gradually recovering, the global economy is on the brink of declining due to the COVID-19 outbreak. Moreover, as the COVID-19 pandemic outbreak has spread across the world, cross-border trade has been disrupted. On the other hand, escalating conflicts between China and the US with respect to economic issues, politics and technology, coupled with increasingly complex international relations, will pose significant uncertainties to the economic development in the second half of 2020.

The Group's business faces not only the challenges arising from ferocious competition and depressed product price, but also the impact of shrinking demand and the huge gap between domestic and international sugar prices. As such, in the short run, production operation will only result in cash outflow. The Group will closely monitor market changes and identify the opportunity for partial resumption of operations, after reviewing its financial conditions as well as production efficiency.

In the second half of the year, the management will strive to implement the debt restructuring plan as its top priority. The management believes that only by solving the fundamental problem of the Group's heavy finance cost can the Group's business be back on track. In order to ease the tight cash flow, the Group will closely work with the local government to facilitate the resumption of land in Luyuan District in exchange for the government compensation to replenish its working capital. The Group will also strive to complete the relocation of all of its production facilities to the Xinglongshan site as soon as possible.

Facing the structural changes in the sweeteners markets at home and abroad, the Group will leverage its in-house research capabilities to improve production process so as to increase efficiency and to develop high value-added downstream products to enhance its product mix. In addition, the Group is also actively exploring the formation of strategic alliance with other industry players or introduction of strategic investors, thereby identifying possible new directions for the Group's long-term development.

The Nongtou Group, the ultimate major shareholder of the Company and GBT, has been providing strong financial and operational support to the Group through the tough times in the Group's operation. Under the auspices of its ultimate majority shareholder and the local government, the Group's management is confident in turning around the situation of tight cash flow in the foreseeable future, and gradually achieving economies of scale in its operations.

*Acting Chairman*
**Zhang Zihua**

27 August 2020

Global Sweeteners Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") are principally engaged in the manufacture and sale of corn refined products and corn sweeteners, categorised into upstream and downstream products. The Group's upstream products include corn starch, gluten meal, corn oil and other corn refined products. Corn starch is refined downstream to produce various corn sweeteners such as corn syrup (glucose syrup, maltose syrup and high fructose corn syrup) and corn syrup solid (maltodextrin).

## 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 six months ended 30 June 2020 (the "**Period**"), the outbreak of COVID-19 continued to put pressure on the global economic environment. Suspension of business operations, broken supply chain and stringent lockdown measures have led to changes in consumption pattern of the population, stagnant demand and significant economic slowdown. As a result, the GDP of the People's Republic of China (the "**PRC**" or "**China**") shrank by 6.8% for the first quarter of 2020, which was the first decline since 1992. The lockdown in the PRC in the first quarter of 2020 significantly lowered the demand for feed products, especially after the consumption peak during the Chinese New Year. In addition, despite the fact that the PRC cane sugar price has increased year-on-year, competition in the PRC sweeteners market intensified as demand shrank. In light of the challenging operating environment, apart from the suspension of operations of the Group's downstream production in Jinzhou and Xinglongshan since September 2019 and February 2020 respectively, the Group has also suspended the upstream operation in 錦州元成生化科技有限公司 (Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*) ("**Jinzhou Yuancheng**") in the second quarter of 2020. For details of the abovementioned suspensions, please refer to the Company's announcements dated 24 September 2019, 10 February 2020 and 29 May 2020 (collectively, the "**Suspension of Operation Announcements**"). As a result of the suspensions, the revenue and gross profit of the Group dropped significantly during the Period.

With respect to corn supply, global corn production for the year 2020/21 is estimated at 1,163.2 million metric tonnes ("**MT**") (2019/20: 1,112.4 million MT), according to the estimates from the United States Department of Agriculture in July 2020. However, depressed fuel prices together with the economic slowdown as a result of the outbreak of COVID-19 have weakened corn consumption from ethanol and feed sectors. International corn price dropped from 608 US cents per bushel (equivalent to RMB1,670 per MT) at the end of 2019 to 548 US cents per bushel (equivalent to RMB1,528 per MT) (end of June 2019: 503 US cents per bushel (equivalent to RMB1,361 per MT)) by the end of June 2020. In the PRC, corn harvest in 2019/20 is estimated to produce approximately 266.5 million MT (2018/19: approximately 260.8 million MT) of corn, with consumption volume estimated at 285.5 million MT for 2020. In addition, the lockdown has caused delay in transportation of corn kernels and also delay in corn auctions in the PRC during the Period. The shortage of corn had driven up the domestic corn price. As a result, corn price in the PRC surged to RMB2,158 per MT (end of June 2019: RMB1,800 per MT) by the end of June 2020. Economic slowdown and shrunken demand have made it not commercially viable to continue with the production operation for the upstream corn refinery. To mitigate the situation, the Group has suspended the production operation of Jinzhou Yuancheng and continued its sales operation with its inventory starting from the second quarter of 2020. Consequently, the performance of the Group's upstream business was adversely affected during the Period. Although the economy in the PRC has shown signs of slow recovery in the second quarter with GDP growth rate at 3.2%, the operating environment going forward will still be challenging as the COVID-19 pandemic is expected to pose unknowns to the global economy in 2020. The Group will continue to monitor market conditions and be cautious in making decisions on the Group's business strategies so as to optimise the operation of the Group's production facilities to maintain relatively healthy cash flow while balancing its market presence.

As for the sugar market, global production volume for 2020/21 is expected to reach 188.1 million MT as increased output is expected from Brazil, India and Thailand. Although industry estimates show demand growth for sugar in 2020, the effect of the COVID-19 pandemic has an impact on the international sugar price. As a result, international sugar price dropped to 11.84 US cents per pound (equivalent to RMB1,853 per MT) by the end of June 2020 (end of June 2019: 12.32 US cents per pound, equivalent to RMB1,871 per MT). In the PRC, domestic sugar production remained at similar level at 10.7 million MT in 2020/21 harvest (2019/20: 10.8 million MT), while consumption stayed at around 15.8 million MT (2019: 15.8 million MT). As a result, domestic sugar price increased to RMB5,573 per MT (end of June 2019: RMB5,390 per MT) by the end of June 2020. To protect local sugar producers and to narrow the huge gap between international sugar price and domestic sugar price, apart from imposing high tariff for sugar imports, the PRC government has been actively cracking down on sugar smuggling since last year. Such measures have been effective in upholding the sugar price in China. However, as a number of users in Huadong area has opted for vertical integration and expanded upstream to secure their feedstocks, the market of sweeteners has shrunk and competition has further intensified. The economic slowdown also had an impact on the demand for sweetener products. The effect was especially prominent in the low profit margin region in Northeast China. As such, the Group has suspended the operation of the downstream sweeteners production facilities in Jinzhou and Xinglongshan until market sentiment recovers. The Group will continue to utilise its research and development capabilities to improve operational efficiency to lower cost and at the same time, develop products that better suit market needs to cope with market changes.

The operating environment in the second half of 2020 is expected to be challenging as the COVID-19 pandemic will continue to affect the global economy. The tension between China and the United States (the "**US**") will further add on the uncertainties in the economy and the pace of recovery. On top of this, the economic slowdown and the intensified market competition will further add pressure on the already lackluster market. In the short run, the Group will continue to monitor closely the development of the COVID-19 outbreak, the market conditions as well as the financial conditions of the Group and will ensure the operation of the Group's subsidiaries to resume as soon as possible to the extent practicable. In the long run, the Group will continue to strengthen its market position utilising its brand name and be customer-oriented to understand better their ever-changing demand and product requirement and further improve cost effectiveness and product mix through continuous research and development efforts.

## UPDATE ON REMEDIAL MEASURES

The consolidated financial statements of the Group for the year ended 31 December 2019 had been subject to a disclaimer of opinion of the external auditor (the "**Auditor**") of the Company in the independent auditor's report in the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**"). Further to the management's response and relevant remedial measures taken and to be taken by the management as set out in the paragraph headed "Update on Remedial Measures" in the 2019 Annual Report, the management of the Company wishes to provide the latest update on the remedial measures of the Company taken or to be taken as follows, which have been considered, recommended, and agreed by the audit committee (the "**Audit Committee**") of the Company after its critical review of the management's position for the Period:

### 1. Financial guarantee contracts

As detailed in the 2019 Annual Report, the financial guarantee contracts (the "**Financial Guarantee Contracts**") were not recognised in the Group's consolidated financial statements for the year ended 31 December 2019 because the Group was unable to obtain reliable financial information of 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.*) ("**Dajincang**") for the professional valuer to conduct an accurate valuation. During the Period, the situation continued. Nevertheless, the board (the "**Board**") of directors (the "**Directors**") of the Company and the board of directors of Global Bio-chem Technology Group Company Limited ("**GBT**", and together with its subsidiaries, the "**GBT Group**") have been actively exploring different options to resolve the Financial Guarantee Contracts.

As disclosed in the joint announcement (the "**February Joint Announcement**") of the Company and GBT dated 25 February 2020, the fixed-term loans under the loan agreements (the "**Dajincang Loans**") entered into between Dajincang and 中國銀行股份有限公司偉峰國際支行 (Bank of China Weifeng International Branch*) ("**Weifeng BOC**") has fallen due and become immediately payable. As a condition to such loan agreements, certain subsidiaries of the Group and the GBT Group (collectively, the "**Guarantor Subsidiaries**") have provided guarantees to Weifeng BOC to secure the obligations of Dajincang under such loan agreements. Dajincang has defaulted in the repayment of such loan and the aggregate outstanding principal amount under such loan agreements is RMB2.49 billion with outstanding interest. As a result, the Guarantor Subsidiaries may be demanded to take up the full liability of RMB2.49 billion together with the outstanding interest at any time so requested by Weifeng BOC.

The principal lending banks of the Group and the GBT Group in the PRC, 吉林省人民政府國有資產監督管理委員會 (The State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province*) ("**Jilin SASAC**"), 吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.*) ("**Nongtou**", together with its subsidiaries, the "**Nongtou Group**") (an entity controlled by Jilin SASAC and an indirect major shareholder of GBT) and the management of the Group and the GBT Group continued to negotiate the details of debt restructuring plan during the Period. In mid-February 2020, the Company has been notified by 中國銀行股份有限公司吉林省分行 (Jilin Branch of Bank of China*) ("**BOC Jilin Branch**") that it had entered into a transfer agreement with 中國信達資產管理股份有限公司吉林省分公司 (Jilin Branch of China Cinda Asset Management Co., Ltd.*) (the "**New Creditor**") pursuant to which BOC Jilin Branch had agreed to sell to the New Creditor, and the New Creditor had agreed to purchase, all of its rights and benefits of the loans (the "**Transferred Loans**") with aggregate outstanding principal amount of RMB4,016.5 million which included, among others, the loans of the Group in the amount of RMB198.6 million and the Dajincang Loans in the amount of RMB2.49 billion, together with outstanding interest at a consideration of approximately RMB815.7 million. After the completion of the transfer of the Transferred Loans, the management of the Group and the GBT Group continues to explore the next step of the debt restructuring plan with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group and the GBT Group. The Company, together with GBT, will endeavour to facilitate the materialisation of the debt restructuring plan. The Board expects that the Group would be able to resolve all the amounts due and owing under the Transferred Loans and the Dajincang Loans together with the related audit modification by the end of the year ending 31 December 2020. The amount drawn down by Dajincang as at 30 June 2020 and up to the date of this report amounted to RMB2.49 billion (31 December 2019: RMB2.49 billion). For further details, please refer to point (1) in note 2.2 to the condensed consolidated financial statements on p.28.

### 2. Material uncertainty relating to going concern

With respect to the material uncertainty relating to the Group's ability to continue as a going concern, the Board has expressed their views and outlined the steps that have been taken by the management of the Company to improve the financial position of the Group in note 2.2 to the condensed consolidated financial statements on p.28.

Depending on the successful and favourable outcomes of the proposed steps as set out in note 2.2 to the condensed consolidated financial statements on p.28, the Board, including the Audit Committee, is of the view that the Group would have sufficient working capital for operation need for at least 12 months from 30 June 2020.

## FINANCIAL PERFORMANCE

During the Period, due to the outbreak of COVID-19 and the economic slowdown associated with the outbreak, most of the Group's production facilities have been suspended. The suspension of operations has led to a significant drop in the sales volume of the Group's upstream and downstream segments by approximately 48.2% and 50.7% respectively to 87,000 MT and 74,000 MT (2019: 168,000 MT and 150,000 MT) respectively. As a result, the Group's consolidated revenue decreased significantly by approximately 50.4% to approximately HK$434.6 million (2019: HK$876.0 million) during the Period.

During the Period, to prevent the spreading of COVID-19, the PRC government has imposed stringent lockdown measures in most of the cities in China. Suspension of business operations and closure of the major transportation hubs have led to broken supply chain. State auctions for corn have been delayed. Limited supply of corn kernels has driven up the price of corn kernels in the PRC during the Period. Together with the effect of the suspension of certain production facilities of the Group during the Period, the Group's gross profit for the Period decreased by approximately 40.5% to approximately HK$48.0 million (2019: HK$80.7 million). However, during the Period, Jinzhou Yuancheng has been utilising mainly its inventory produced in the last quarter of 2019 when corn price was relatively low as compared to the Period. The gross profit margin of the Group's upstream segment improved as a result. Although stagnant demand and intensified competition of the sweeteners market have put the price of corn sweeteners under pressure, the Group took further step to suspend the facilities with the low utilisation and consolidate its resources in production base with higher efficiency. The profit margin of the Group's downstream segment improved slightly during the Period. As a result, the gross profit margin increased by approximately 1.8 percentage points to approximately 11.0% (2019: 9.2%).

Despite the Group's continuous effort in controlling cost and optimising operation scale, the significant decrease in gross profit and high finance costs have weighed on the overall performance of the Group. As a result, the Group recorded net loss and LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) of approximately HK$151.2 million (2019: HK$102.6 million) and approximately HK$33.3 million (2019: HK$21.6 million) respectively for the Period.

### Upstream products

(Sales amount: HK$205.7 million (2019: HK$410.4 million))
(Gross profit: HK$19.6 million (2019: HK$29.2 million))

With respect to the Group's corn refinery business in Jinzhou, low facility utilisation during the first quarter of 2020 and the subsequent suspension in the second quarter have led to a significant drop in the sales volume of corn starch and other corn refined products to approximately 65,000 MT (2019: 106,000 MT) and 22,000 MT (2019: 62,000 MT), respectively, as well as their revenue to approximately HK$159.6 million (2019: HK$286.2 million) and HK$46.1 million (2019: HK$124.2 million), respectively. Internal consumption of corn starch was approximately 7,000 MT (2019: 32,000 MT), which was mainly used as raw material for the Group's downstream production.

During the Period, Jinzhou Yuancheng has been selling mainly its inventory which was produced during last quarter of 2019 when corn price was lower. In addition, the portion of expenses in relation to suspension of operation has been allocated to other expenses. As such, the Group's average cost of sales of corn starch and other corn refined products dropped by approximately 2.1% and approximately 14.6% respectively. On the other hand, due to stagnant demands from the downstream markets, the average selling prices of corn starch dropped by approximately 9.0% during the Period. As for other corn refined products, due to the increased tension between China and the US and the delay in transportation of the US soybean as a result of lockdown, the demand for feed-related corn refined products such as corn gluten and fibre improved. The average selling price of other corn refined products increased by approximately 4.9% during the Period. As a result, the corn starch segment and other corn refined products segment recorded gross profits of approximately HK$16.7 million (2019: HK$48.0 million) and HK$2.9 million (2019: gross loss: HK$18.8 million) respectively, with gross profit margin of approximately 10.5% (2019: 16.8%) and 6.3% (2019: gross loss margin: 15.1%) respectively.

### Corn syrup

(Sales amount: HK$175.5 million (2019: HK$304.6 million))
(Gross profit: HK$21.8 million (2019: HK$35.5 million))

During the Period, the revenue and gross profit of the corn syrup segment decreased by approximately 42.4% and 38.6%, respectively, to approximately HK$175.5 million (2019: HK$304.6 million) and HK$21.8 million (2019: HK$35.5 million) respectively. Such decreases were mainly attributable to the decline in sales volume by approximately 43.3% to approximately 55,000 MT (2019: 97,000 MT) as a result of suspensions in the Xinglongshan site and the Jinzhou site. As competition has been keen in the sweeteners market since last year, especially in the low margin region such as Northeast China, the Group suspended most of the production facilities in Northeast China and consolidated its resources in Shanghai production base. As a result, the gross profit margin of the corn syrup segment improved to approximately 12.4% (2019: 11.7%) during the Period.

### Corn syrup solid

(Sales amount: HK$53.4 million (2019: HK$161.0 million))
(Gross profit: HK$6.6 million (2019: HK$16.0 million))

During the Period, the revenue of maltodextrin amounted to approximately HK$53.4 million (2019: HK$161.0 million) as sales volume dropped to approximately 19,000 MT (2019: 53,000 MT). As the portion of expenses in relation to suspension of operation has been allocated to other expenses and the operational efficiency was relatively high in Shanghai production base, the average cost of maltodextrin dropped by approximately 8.9%. As a result, while the gross profit of the corn syrup solid segment dropped by approximately 58.8% to approximately HK$6.6 million (2019: HK$16.0 million) due to the drop in sales volume, its gross profit margin improved to approximately 12.4% (2019: 9.9%).

### Export sales

During the Period, the Group exported approximately 7,000 MT (2019: 18,000 MT) of upstream corn refined products and approximately 1,000 MT (2019: 8,000 MT) of corn sweeteners; their export sales amounted to approximately HK$15.9 million (2019: HK$35.1 million) and HK$3.0 million (2019: HK$30.5 million), respectively, together representing approximately 4.3% (2019: 7.5%) of the Group's total revenue.

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

#### *Other income and gains*

During the Period, other income and gains of the Group decreased by approximately 34.0% to approximately HK$6.2 million (2019: HK$9.4 million). As a result of the suspension, subcontracting income decreased by approximately HK$0.7 million and no gain from sales of packing materials and by-products (2019: HK$1.5 million) was recorded during the Period. Amortisation of deferred income also dropped by approximately HK$1.6 million during the Period.

#### *Selling and distribution costs*

During the Period, the selling and distribution costs dropped by approximately 53.6% to approximately HK$35.8 million (2019: HK$77.1 million), accounting for approximately 8.2% (2019: 8.8%) of the Group's revenue. Such decrease was mainly attributable to the decrease in transportation and packaging costs as a result of the decline in sales volume during the Period.

#### *Administrative expenses*

During the Period, administrative expenses remained at similar level at approximately HK$54.2 million (2019: HK$54.6 million), representing approximately 12.5% (2019: 6.2%) of the Group's revenue.

***Other expenses***

Other expenses of the Group increased to approximately HK$39.9 million (2019: HK$23.8 million) during the Period. Such increase was mainly attributable to the expenses in relation to idle capacity of certain production facilities which amounted to approximately HK$36.8 million as compared to approximately HK$14.5 million for the corresponding period last year.

***Finance costs***

During the Period, finance costs of the Group increased to approximately HK$75.5 million (2019: HK$37.3 million) as a result of the increase in interest on trade payables, which amounted to approximately HK$47.2 million (2019: HK$8.7 million).

***Income tax expenses***

As all the subsidiaries of the Group recorded tax losses during the Period, there were no income tax expenses for the Period (2019: Nil).

***Net loss attributable to shareholders***

The significant decrease in gross profit and high finance costs have weighed on the overall performance of the Group. As a result, the net loss of the Group was widened to approximately HK$151.2 million (2019: HK$102.6 million) during the Period.

## FINANCIAL RESOURCES AND LIQUIDITY

### Net borrowing position and structure of interest-bearing bank and other borrowings

The total interest-bearing bank and other borrowings as at 30 June 2020 decreased slightly by approximately HK$43.5 million to approximately HK$919.0 million (31 December 2019: HK$962.5 million) as a result of net repayment of certain bank and other borrowings of approximately HK$33.3 million and exchange rate adjustment of approximately HK$10.2 million during the Period, while cash and bank balances as at 30 June 2020 decreased by HK$11.9 million to approximately HK$18.9 million (31 December 2019: HK$30.8 million). As such, the net borrowings decreased to approximately HK$900.1 million (31 December 2019: HK$931.7 million).

As at 30 June 2020, the Group's interest-bearing bank and other borrowings amounted to approximately HK$919.0 million (31 December 2019: HK$962.5 million), all of which (31 December 2019: all) were denominated in Renminbi. All of the interest-bearing bank and other borrowings were repayable within one year or on demand (31 December 2019: 79.2% repayable within one year and 20.8% repayable in the second to the fifth years).

As at 30 June 2020, interest-bearing bank and other borrowings amounted to approximately HK$234.1 million (2019: HK$238.9 million) have been charged at fixed interest rates of approximately 7.0% to 8.0% per annum (31 December 2019: 7.0% to 8.0% per annum) for terms of one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings were charged with reference to floating interest rate.

### 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 decreased significantly by approximately 50.4% to approximately HK$434.6 million for the Period (2019: HK$876.0 million), the Group had maintained a stringent credit control and therefore, the trade receivables turnover days dropped to approximately 32 days (31 December 2019: 36 days).

During the Period, trade payables turnover days increased to approximately 121 days (31 December 2019: 82 days) as the Group has negotiated with its suppliers to extend the credit terms during the Period.

As at 30 June 2020, the Group's inventory level decreased by approximately 72.7% to approximately HK$52.7 million (31 December 2019: HK$193.0 million) as a result of suspension of operations of certain subsidiaries. Consequently, the inventory turnover days decreased to approximately 25 days for the Period (31 December 2019: 40 days).

As at 30 June 2020, the current ratio and quick ratio decreased to approximately 0.1 (31 December 2019: 0.3) and 0.1 (31 December 2019: 0.2) respectively. Such declines were mainly due to the decrease of net current assets. Gearing ratio in terms of debts (i.e. total interest-bearing bank and other borrowings) to total deficit and debts (i.e. aggregate total of shareholders deficit, non-controlling interests and total interest-bearing bank and other borrowings) was approximately 253.9% (31 December 2019: 174.7%).

## MAJOR INVESTMENTS

The Group had no material investments as at 30 June 2020. In addition to the relocation plan disclosed under section headed "Relocation of production facilities to the Xinglongshan site" of this report, the Group has no other future plans for material investments or capital assets as at the date of this report.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries, associates or joint ventures of the Company during the Period.

## CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

## CHARGE ON ASSETS

As at 30 June 2020, the Group's interest-bearing bank and other borrowings amounted to HK$671,838,000 (31 December 2019: HK$712,637,000) were secured by pledge of certain property, plant and equipment and right-of-use assets of the Group amounted to HK$489,800,000 (31 December 2019: HK$551,669,000) and HK$55,548,000 (31 December 2019: HK$58,126,000), respectively, and a receivable of a fellow subsidiary amounted to HK$417,582,000 (31 December 2019: HK$444,444,000).

## 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 approximately 4.3% (2019: 7.5%) of the Group's revenue in which most of these transactions were denominated in US Dollars. The management of the Company has been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi and is of the view that there is no material unfavourable exposure to foreign exchange fluctuation. Therefore, the Group currently does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. The Group will constantly review the economic situation, development of the Group's business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in the future as and when necessary.

## FUTURE PLANS AND PROSPECTS

In order to maintain the competitiveness of the Group, the Group will optimise its production while maintaining its market presence, diversify its product mix and enhance its capability in developing high value-added products, strive to materialise the debts restructuring plan to improve its financial position and introduce strategic business alliance with prominent international market leaders.

The operating environment in the second half of 2020 is expected to be challenging as the COVID-19 pandemic will continue to affect the global economy. The tension between China and the US will further add on the uncertainties in the economy and the pace of recovery. On top of this, the economic slowdown and the intensified market competition will further add pressure on the already lackluster market. In the short run, the Group will continue to monitor closely the development of the COVID-19 outbreak, the market conditions as well as the financial conditions of the Group and will ensure the operation of the Group's subsidiaries to resume as soon as possible to the extent practicable so that the Group could maximise the synergistic effects amongst its various production sites for the supply of raw materials and serving their respective markets.

In the long run, the Group will continue to strengthen its market position utilising its brand name and be customer-oriented to understand better their ever-changing demand and product requirement and further improve cost effectiveness and product mix through continuous research and development efforts.

With respect to the financial position of the Group, the management will endeavour to facilitate the materialisation of the debt restructuring plan to improve the financial position of the Group and adopt a prudent approach in face of the current market condition.

## NUMBER AND REMUNERATION OF EMPLOYEES

As at 30 June 2020, the Group had approximately 980 (31 December 2019: 1,000) 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 increasingly turbulent environment. The Group places great emphasis in the selection and recruitment of new staff, on-the-job training, appraisal and rewards to its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain the remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and discretionary bonuses.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the Period (six months ended 30 June 2019: Nil).

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

As at 30 June 2020, none of the Directors and the chief executives of the Company had any interests and short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange (the "**Model Code**").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period 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 30 June 2020, so far as is known to the Directors, the following persons (other than a Director or chief executives 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** (a) | **Percentage of the Company's issued share capital** (b) |
|---|---|---|---|
| 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 (c) | 977,778,000 shares (L) | 64.01 |
| | Beneficial owner | 500,000 shares (L) | 0.03 |
| Modern Agricultural Industry Investment Limited ("**Modern Agricultural**") | Interest of a controlled corporation (d) | 978,278,000 shares (L) | 64.04 |

Remarks:

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

b. On the basis of 1,527,586,000 shares in issue as at 30 June 2020.

c. 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.

d. These shares are registered in the name of or deemed to be interested by GBT, of which the issued share capital is beneficially owned as to approximately 35.2% by Modern Agricultural as at the date of this report. The entire issued capital of Modern Agricultural is held by Modern Agricultural Industry Investment Holdings Limited ("**Modern Agricultural Holdings**") which is in turn wholly-owned by Jilin Province Modern Agricultural Industry Investment Fund (LLP) ("**PRC LLP**"). The sole general partner of PRC LLP is Jilin Province Modern Agricultural Industry Fund Limited ("**GP**"). As at the date of this report, 60.0% of the investment capital of PRC LLP is owned by Nongtou. As such, by virtue of Nongtou's control over PRC LLP, Nongtou has become the indirect controlling shareholder of the Company. Nongtou is controlled by Jilin SASAC. Each of Modern Agricultural, Modern Agricultural Holdings, PRC LLP, GP, Nongtou and Jilin SASAC is deemed to be interested in the interest held by GBT.

As of 30 June 2020, none of the Directors nor chief executives of the Company 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.

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

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND THE MODEL CODE

The Company is committed to ensuring a high standard of corporate governance for the interests of its shareholders and devotes considerable effort in identifying and formalising best practices.

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 Period.

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. Having made specific enquiry of the Directors, all the 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 throughout the Period.

## UPDATE ON DIRECTOR'S INFORMATION PURSUANT TO RULE 13.51B OF THE LISTING RULES

Mr. Fong Wai Ho, an independent non-executive Director, has been appointed as an independent non-executive director of CT Environmental Group Limited, a company listed on the Stock Exchange (stock code: 01363), with effect from 3 August 2020.

## AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems. The Audit Committee comprises all independent non-executive Directors, namely, Mr. Fong Wai Ho (chairman of the Audit Committee), Mr. Fan Yeran and Mr. Lo Kwing Yu.

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

The interim results of the Group for the Period have been reviewed by the Audit Committee.

## NOMINATION COMMITTEE

The nomination committee (the "**Nomination Committee**") of the Company comprises an executive Director, Mr. Zhang Zihua (chairman of the Nomination Committee), and two independent non-executive Directors, being Mr. Fan Yeran and Mr. Lo Kwing Yu. The duties of the Nomination Committee are, among others, determining policy for the nomination of Directors, including the nomination procedures, process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship. The Nomination Committee also reviews the structure, size and composition of the Board and makes recommendations on any proposed changes to the Board and on the selection of individuals nominated for directorships, and reviews the board diversity policy adopted by the Company.

## REMUNERATION COMMITTEE

The members of the remuneration committee (the "**Remuneration Committee**") of the Company include an executive Director, Mr. Zhang Zihua, and two independent non-executive Directors, being Mr. Fan Yeran (chairman of the Remuneration Committee) and Mr. Lo Kwing Yu. The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the remuneration packages of Directors and senior management, as well as on the Group's policy and structure for the remuneration of Directors and senior management. The Remuneration Committee also assesses performance of Director and approves the terms of Directors' service contracts. The Board has adopted remuneration policy of the Directors on the basis of their merit, qualification and competence with reference to the market benchmarks.

## CORPORATE GOVERNANCE COMMITTEE

The corporate governance committee (the "**Corporate Governance Committee**") of the Company was established in accordance with the requirements of the CG Code for the purposes of determining, developing and reviewing the Company's policies and practices on corporate governance, and providing supervision over the Board and its committees' compliance with their respective terms of reference and relevant requirements under the CG Code, or other applicable laws, regulations, rules and codes. The Corporate Governance Committee comprises an executive Director, Mr. Zhang Zihua, and two independent non-executive Directors, being Mr. Fong Wai Ho (chairman of the Corporate Governance Committee) and Mr. Fan Yeran.

The Corporate Governance Committee reviewed the Company's policies and practices on corporate governance, and considered that the Company has complied with all code provisions in the CG Code during the Period.

## CONTINUING CONNECTED TRANSACTIONS EXECUTIVE COMMITTEE

The continuing connected transactions executive committee (the "**CCT Executive Committee**") of the Company is responsible for monitoring, reviewing and managing the continuing connected transactions ("**CCT**") between the Group on one part and the GBT Group on the other part. The main duties of the CCT Executive Committee are to prepare the CCT reports and submit the same to the CCT supervisory committee (the "**CCT Supervisory Committee**") of the Company on regular basis. The members of the CCT Executive Committee are Mr. Meng Xiangyan and Mr. He Xiaoming, both being the senior management of the Group.

## 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 (the "**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 (the "**Non-exempt CCT**"), will be entered into in accordance with the respective agreements in relation to purchase of corn starch and other raw materials such as enzymes by the Group from the GBT Group, sale of corn sweeteners by the Group to the GBT Group and supply of electricity, water and steam and the provision of wastewater treatment services by the GBT Group to the Group (the "**New Master Agreements**"), 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 (the "**CCT Quarterly Reports**") submitted by the CCT Executive Committee in relation to purchase of corn starch (either in powder or slurry form) and other raw materials from the GBT Group by the Group and the sale of corn sweeteners to the GBT Group (the "**Proposed Purchase and Sale**") as to whether they have been proceeded with in accordance with the Prescribed Guidelines;

(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 excessive fees charged by the GBT Group (if any); 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 and other raw materials from the GBT Group, sell corn sweeteners to GBT Group or obtain the Utility Services from the GBT Group, unless the GBT Group shall agree that the purchase prices, selling prices, 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 and other raw materials 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 and other raw materials 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 supplier(s) and compare it with the terms offered by the GBT Group for supply of corn starch and other raw materials of comparable quantities and specifications to its independent 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;

   (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; and

   (iv) the total purchase price and terms for the purchase of other raw materials shall be determined by using the lower of (i) (if available) the average unit purchase price of other raw materials 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) from such independent supplier(s) for the relevant month up to the price determination date; and (ii) the quotations from independent supplier(s) for purchase of the other raw materials 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 the products from such independent supplier(s) for the relevant month up to the price determination date.

(3) in respect of the sale of corn sweeteners to the GBT Group by the Group, the total selling price and terms for the sale of corn sweeteners shall be determined by using the average unit selling price of corn sweeteners of comparable specifications and quantities to such independent customer(s) for the five business days up to the price determination date;

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

(5) in the event that there is any deviation from the terms of the relevant New 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 CCT 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 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.

Details of findings of the CCT Supervisory Committee for the Period have been published on 29 May 2020 and 24 August 2020. As reported by the CCT Supervisory Committee, (i) the Proposed Purchase and Sale conducted during the Period were in line with the Prescribed Guidelines; (ii) the fees charged by the GBT Group in respect of its provision of the Utility Services during the Period have been charged in accordance with the relevant New Master Agreements; and (iii) there was no other matter that needs to be brought to the attention of the shareholders of the Company.

## SUPPLEMENTARY INFORMATION IN RELATION TO THE PERIOD UNDER REVIEW

### Updates on the suspension of operation of certain subsidiaries of the Group and the impact of COVID-19

Reference is made to the Suspension of Operation Announcements. Due to the poor sentiment of sweeteners market in Northeast China and the outbreak of COVID-19 in the PRC have been driven up the domestic corn prices significantly and impacted on the overall demand for corn refined products as downstream consumption shrank. The Board, having considered the pros and cons of continuing the upstream operation of the Group based on the then available financial information of the Group and assessed the then current market conditions, concluded that it was more favourable for the Group to suspend its upstream operation in Jinzhou site. In addition, the suspension of the upstream operation of GBT in the Xinglongshan site has cut off the supply of corn starch since the last quarter of 2019 and the poor sentiments in the sweeteners market as a result of the economic slowdown and the outbreak of COVID-19, the Board concluded that it was more favourable for the Group to continue the suspension of its downstream operations. As such, the operations of Dihao Foodstuff and Jinzhou Dacheng have been suspended since the last quarter of 2019. As at the date of this report, the overall operation of the Jinzhou site and the Xinglongshan site remained suspended. The management of the Group expects that the COVID-19 pandemic will continue to put pressure on the Group's business and affect the operations of the Group. The continued suspension of operation or low facility utilisation may have an impact on the performance and financial positions of the Group in various aspects, which may include the possibility of the impairment for financial assets and non-financial assets. The management of the Group will continue to assess the impact of the COVID-19 pandemic on financial positions of the Group and closely monitor the market conditions, the financial conditions of the Group and in particular, the development of COVID-19 outbreak, and will ensure that the production operation of such subsidiaries will resume as soon as possible to the extent practicable.

### Relocation of production facilities to the Xinglongshan site

Reference is made to the 2019 Annual Report, in relation to, among others, the suspension and relocation of production facilities of the Group at Luyuan District in Changchun pending its relocation of production facilities to the Xinglongshan site.

The relocation plan of the Group will be financed by the Group's internal resources, the proceeds from the compensation of the land resumption and through collaboration with industry players. The management of the Company is of the view that the existing technology know-how of the Group is sufficient for the relocation of the production facilities.

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

| **Products to which the production facilities relate** | **Production capacity of the relevant production facilities to be relocated** *(mtpa)* | **Expected time for the relocation of production facilities** |
|---|---|---|
| Crystallised glucose* | 100,000 | Pending the availability of capital and favourable market condition |
| Corn refinery* | 600,000 | Pending the availability of capital and favourable market condition |

* The expected time for relocation of production facilities is subject to the final decision of the management from time to time taking into account the relevant product markets and the obtaining of the approval from, among others, the relevant government bodies on the feasibility studies. The timetable may thus change accordingly and the Company will provide update to its shareholders and potential investors by way of announcement as and when appropriate.

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

### Breach of loan agreements

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

Jinzhou Dacheng has failed to fulfill certain financial covenants under the Loan Agreement. Such breach entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreement immediately due and payable. In addition, such breach may also trigger cross default provisions in other loan agreements entered into by the Group.

As at the date of this report, certain financial covenants under the Loan Agreement have yet to be fulfilled, and Jinzhou Dacheng has yet to receive a waiver from the Lender in respect of the breach under the Loan Agreement and the outstanding principal amount under the Loan Agreement is approximately RMB19.8 million.

(2) As disclosed in the February Joint Announcement, the Group has defaulted in the repayment of the certain loans and the aggregate outstanding principal amount under such loans is RMB198.6 million together with outstanding interest as at the date of this report. The maximum liability guaranteed by GBT is RMB199.0 million, being the principal amount, together with all interests, liabilities, fees and penalty that may accrue under such loan agreements.

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

In mid-February 2020, the Company has been notified by BOC Jilin Branch that it has entered into a transfer agreement with the New Creditor, pursuant to which BOC Jilin Branch has agreed to sell to the New Creditor, and the New Creditor has agreed to purchase, all of its rights and benefits of the Transferred Loans which included, among others, the loans of the Group above which amounted to RMB198.6 million, together with outstanding interest and the Dajincang Loans at a consideration of approximately RMB815.7 million. After the completion of the transfer of the Transferred Loans, the management of the Group and the GBT Group continues to explore the next step of the debt restructuring plan with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group and the GBT Group. However, up to the date of this report, the Group and Dajincang have yet to receive any demand nor waiver from the New Creditor and the outstanding principal amounts of the Transferred Loans owed by the Group and Dajincang were RMB198.6 million and RMB2.49 billion, respectively.

(3) Reference is made to the joint announcement of the Company and GBT dated 4 May 2020. Under the various loan agreements (collectively, the "**Yuancheng Loan Agreements**") entered into between Jinzhou Yuancheng, and each of 中國建設銀行股份有限公司錦州分行 (Jinzhou Branch of China Construction Bank*) and 中國銀行股份有限公司錦州港支行 (Jinzhou Branch of Bank of China*) (collectively, the "**Yuancheng Lenders**") for the aggregate principal amount of RMB219.9 million (collectively, the "**Yuancheng Loans**"), Jinzhou Yuancheng was required to satisfy certain financial covenants, failure to perform or comply with any of those financial covenants would entitle the Yuancheng Lenders to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Yuancheng Loans immediately due and payable. As at the date of this report, certain financial covenants under the Yuancheng Loan Agreements have yet to be fulfilled. Such breach entitles the Yuancheng Lenders to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Yuancheng Loan Agreements immediately due and payable. In addition, such breach may also trigger cross default provisions in other loan agreements entered into by the Group.

As at the date of this report, Jinzhou Yuancheng has yet to receive any demand nor waiver from the Yuancheng Lenders, and the outstanding principal amount under the Yuancheng Loan Agreements is RMB219.9 million.

## DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

### Provision of financial assistance to Dajincang

As announced by the Company on 31 March 2015, financial guarantees were first granted by the Guarantor Subsidiaries in respect of the indebtedness of Dajincang due to Weifeng BOC between November 2010 to March 2015.

As disclosed in the joint announcement of the Company and GBT dated 6 November 2018 and the circular of the Company dated 3 December 2018, Dajincang still did not have sufficient financial resources to repay the Dajincang Loans with aggregate outstanding principal amount of RMB2.49 billion, together with outstanding interest that was guaranteed by the Guarantor Subsidiaries to Weifeng BOC. The maximum guaranteed amount was RMB2.5 billion. As mentioned in the above section "Disclosure Pursuant To Rules 13.19 and 13.21 of the Listing Rules" under the headline "Breach of loan agreements", the Group has been notified by BOC Jilin Branch in mid-February 2020 that it has entered into a transfer agreement with the New Creditor in relation to the Transferred Loans which included Dajincang Loans guaranteed by the Guarantor Subsidiaries. The Group and the GBT Group are currently exploring the next step of the debt restructuring plan. The Guarantor Subsidiaries have yet to receive any demand nor waiver from the New Creditor and the maximum principal amount guaranteed by the Guarantor Subsidiaries remained at RMB2.5 billion as at the date of this report. Since the assets ratio of the guarantees provided by the Group was more than 8%, the Company was under a general disclosure obligation to disclose such financial assistance under rule 13.13 of the Listing Rules and to comply with rule 13.14 of the Listing Rules when there occurred a 3% or more increase in the assets ratio. The Company was also under a continuing disclosure requirement under rule 13.20 of the Listing Rules to disclose the Financial Guarantee Contracts in its interim and annual reports during the relevant periods when the Financial Guarantee Contracts is in effect.

## IMPORTANT EVENTS SUBSEQUENT TO THE PERIOD UNDER REVIEW

There was no important event after the end of the Period up to the date of this report.

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | | Six months ended 30 June | |
|---|---|---|---|
| | Notes | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| **REVENUE** | 4 | 434,576 | 876,003 |
| Cost of sales | | (386,608) | (795,256) |
| Gross profit | | 47,968 | 80,747 |
| Other income and gains | 4 | 6,227 | 9,386 |
| Selling and distribution costs | | (35,756) | (77,066) |
| Administrative expenses | | (54,179) | (54,571) |
| Other expenses | | (39,914) | (23,793) |
| Finance costs | 5 | (75,544) | (37,337) |
| **LOSS BEFORE TAX** | 6 | (151,198) | (102,634) |
| Income tax expenses | 7 | — | — |
| **LOSS FOR THE PERIOD** | | (151,198) | (102,634) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside Hong Kong | | 5,582 | 2,079 |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | (145,616) | (100,555) |
| **LOSS ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | (151,198) | (102,634) |
| Non-controlling interests | | — | — |
| | | (151,198) | (102,634) |
| **TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | (145,683) | (100,555) |
| Non-controlling interests | | 67 | — |
| | | (145,616) | (100,555) |
| **LOSS PER SHARE** | 8 | | |
| Basic | | HK(9.9) cents | HK(6.7) cents |
| Diluted | | HK(9.9) cents | HK(6.7) cents |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

| | Notes | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | 762,509 | 806,693 |
| Right-of-use assets | | 124,489 | 130,781 |
| Deposits paid for acquisition of property, plant and equipment | | 15 | 225 |
| Intangible assets | | 1,704 | 1,704 |
| | | 888,717 | 939,403 |
| **CURRENT ASSETS** | | | |
| Inventories | | 52,713 | 193,035 |
| Trade and bills receivables | 11 | 75,460 | 190,528 |
| Prepayments, deposits and other receivables | 12 | 43,804 | 45,188 |
| Cash and bank balances | | 18,850 | 30,820 |
| | | 190,827 | 459,571 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 13 | 257,645 | 393,096 |
| Other payables and accruals | 14 | 271,057 | 253,740 |
| Lease liabilities | | 2,081 | 2,309 |
| Interest-bearing bank and other borrowings | | 918,981 | 762,526 |
| Due to fellow subsidiaries | 18(c) | 127,041 | 136,267 |
| Tax payables | | 23,306 | 22,929 |
| | | 1,600,111 | 1,570,867 |
| **NET CURRENT LIABILITIES** | | (1,409,284) | (1,111,296) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (520,567) | (171,893) |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | | — | 200,000 |
| Lease liabilities | | 156 | 1,094 |
| Deferred income | | 26,187 | 27,567 |
| Deferred tax liabilities | | 10,117 | 10,857 |
| | | 36,460 | 239,518 |
| **NET LIABILITIES** | | (557,027) | (411,411) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 15 | 152,759 | 152,759 |
| Reserves | | (704,059) | (558,376) |
| **Deficit attributable to owners of the Company** | | (551,300) | (405,617) |
| **Non-controlling interests** | | (5,727) | (5,794) |
| **TOTAL DEFICIT** | | (557,027) | (411,411) |

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Properties revaluation reserve HK$'000 | Statutory reserve fund HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total deficit HK$'000 |
| At 1 January 2020 | 152,759 | 1,074,879 | 118,081 | 67,910 | 326,874 | (2,146,120) | (405,617) | (5,794) | (411,411) |
| Loss for the period | – | – | – | – | – | (151,198) | (151,198) | – | (151,198) |
| Other comprehensive income for the period | – | – | – | – | 5,515 | – | 5,515 | 67 | 5,582 |
| Total comprehensive income (loss) for the period | – | – | – | – | 5,515 | (151,198) | (145,683) | 67 | (145,616) |
| At 30 June 2020 (unaudited) | 152,759 | 1,074,879 | 118,081 | 67,910 | 332,389 | (2,297,318) | (551,300) | (5,727) | (557,027) |

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Properties revaluation reserve HK$'000 | Statutory reserve fund HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total deficit HK$'000 |
| At 1 January 2019 as previously reported | 152,759 | 1,074,879 | 65,173 | 67,820 | 315,354 | (1,983,273) | (307,288) | (5,931) | (313,219) |
| Changes in accounting policy on adopting HKFRS16 | – | – | – | – | – | (187) | (187) | – | (187) |
| As restated | 152,759 | 1,074,879 | 65,173 | 67,820 | 315,354 | (1,983,460) | (307,475) | (5,931) | (313,406) |
| Loss for the period | – | – | – | – | – | (102,634) | (102,634) | – | (102,634) |
| Other comprehensive income for the period | – | – | – | – | 2,079 | – | 2,079 | – | 2,079 |
| Total comprehensive income (loss) for the period | – | – | – | – | 2,079 | (102,634) | (100,555) | – | (100,555) |
| At 30 June 2019 (unaudited) | 152,759 | 1,074,879 | 65,173 | 67,820 | 317,433 | (2,086,094) | (408,030) | (5,931) | (413,961) |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

| | Six months ended 30 June 2020 (Unaudited) HK$'000 | 2019 (Unaudited) HK$'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | (151,198) | (102,634) |
| Adjustments for: | | |
| Finance costs | 75,544 | 37,337 |
| Bank interest income | (195) | (341) |
| Depreciation | | |
| — Property, plant and equipment | 37,825 | 37,524 |
| — Right-of-use assets | 4,572 | 6,145 |
| Amortisation of deferred income | (1,077) | (2,709) |
| Loss on disposal of property, plant and equipment, net | — | 17 |
| (Reversal of write-down) Write-down of inventories, net | (671) | 7,091 |
| Reversal of impairment of trade and bills receivables, net | (1,092) | (861) |
| Impairment of deposit paid for acquisition of property, plant and equipment | 62 | — |
| Impairment of prepayment, deposits and other receivables, net | 2,118 | 1,631 |
| Wavier of payables | (810) | — |
| Changes in working capital: | | |
| Inventories | 138,872 | (62,896) |
| Trade and bills receivables | 114,066 | 69,731 |
| Prepayments, deposits and other receivables | 863 | (45,199) |
| Trade payables | (130,321) | 28,182 |
| Other payables and accruals | (38,397) | 11,839 |
| Cash generated from (used in) operations | 50,161 | (15,143) |
| Interest received | 195 | 341 |
| Tax paid | (341) | (884) |
| **Net cash generated from (used in) operating activities** | 50,015 | (15,686) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | (923) | (8,916) |
| **Net cash used in investing activities** | (923) | (8,916) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from new interest-bearing bank and other borrowings | 65,556 | 412,516 |
| Repayment of interest-bearing bank and other borrowings | (98,889) | (414,462) |
| Interest paid | (17,025) | (18,085) |
| (Decrease) Increase in amounts due to fellow subsidiaries | (10,467) | 28,190 |
| Decrease in pledged bank deposits | — | 21,852 |
| **Net cash (used in) generated from financing activities** | (60,825) | 30,011 |
| **Net (decrease) increase in cash and cash equivalents** | (11,733) | 5,409 |
| Cash and cash equivalents at beginning of period | 30,820 | 20,120 |
| Effect of foreign exchange rate changes, net | (237) | 664 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY CASH AND BANK BALANCES** | 18,850 | 26,193 |

## 1. CORPORATE INFORMATION

The condensed consolidated financial statements of Global Sweeteners Holdings Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020 (the "**Period**") were authorised for issue in accordance with a resolution of the board (the "**Board**") of directors (the "**Directors**") passed on 27 August 2020.

The Company was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 13 June 2006. The principal activity of the Company is investment holding. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suites 2202-04, 22nd Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Group is principally engaged in the manufacture and sale of corn refined products and corn sweeteners. There was no significant change in the nature of the Group's principal activities during the Period.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 Basis of preparation

The condensed consolidated financial statements for the Period have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange and Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

### 2.2 Going concern

The Group recorded a loss of approximately HK$151 million (six months ended 30 June 2019: approximately HK$103 million) for the Period and as at 30 June 2020, had net current liabilities of approximately HK$1,409 million (31 December 2019: approximately HK$1,111 million) and net liabilities of approximately HK$557 million (31 December 2019: approximately HK$411 million). In addition, any potential liabilities or obligations arising from the financial guarantee contracts (the "**Financial Guarantee Contracts**") as discussed in note 16 provided by 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.*) ("**Dihao Foodstuff**"), a subsidiary of the Company, for the benefit of 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.*) ("**Dajincang**") may have a significant negative impact on the liquidity position of the Group. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances and based on the recommendations of the audit committee (the "**Audit Committee**") of the Company after its critical review of the management's position, the management of the Company has taken the following steps to improve the financial position of the Group:

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### 2.2 Going concern *(continued)*

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

As disclosed in the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**"), the Company and GBT have been actively negotiating with the banks in the People's Republic of China (the "**PRC**" or "**China**") for their continuous support to the Group. At a meeting amongst the representatives of the principal lending banks of the Group and the GBT Group in the PRC, 吉林省人民政府國有資產監督管理委員會 (The State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province*) ("**Jilin SASAC**"), 吉林省地方金融監督管理局 (Jilin Province Local Financial Supervision Administration*), 吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.*) ("**Nongtou**", together with its subsidiaries, the "**Nongtou Group**") (an entity controlled by Jilin SASAC and an indirect major shareholder of GBT) and the management of the Group and the GBT Group held in Changchun on 1 February 2019, the parties acknowledged the direction of the debt restructuring plan and reinstated their intention to push through the execution of such plan. The principal lending banks also confirmed at the meeting that during this transitional period, they would continue their support to the Group and the GBT Group and agreed (1) not to withdraw any banking facilities already provided; (2) to take all possible measures to ensure the renewal of all existing bank borrowings; and (3) to allow interest payment to be settled annually instead of monthly so as to ease the pressure of the cash flow of the Group.

In mid-February 2020, the Company has been notified by 中國銀行股份有限公司吉林省分行 (Jilin Branch of Bank of China*) ("**BOC Jilin Branch**") that it had entered into a transfer agreement with 中國信達資產管理股份有限公司吉林省分公司 (Jilin Branch of China Cinda Asset Management Co., Ltd.*) (the "**New Creditor**") pursuant to which BOC Jilin Branch had agreed to sell to the New Creditor, and the New Creditor had agreed to purchase, all of its rights and benefits of the loans with aggregate outstanding principal amount of approximately RMB4,017 million (the "**Transferred Loans**") which included, among others, the loans of the Group in the amount of approximately RMB199 million, together with the outstanding interest and the indebtedness of Dajincang that was guaranteed by certain subsidiaries of the Group and the GBT Group (collectively, the "**Guarantor Subsidiaries**") at a consideration of approximately RMB816 million. After the completion of the transfer of the Transferred Loans, the management of the Group and the GBT Group continues to explore the next step of the debt restructuring plan with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group and the GBT Group. The Board and the board of directors of GBT (the "**GBT Board**") believe that once the Transferred Loans have been resolved, the other major outstanding debts could be resolved under similar debt restructuring plans.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### 2.2 Going concern *(continued)*

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

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

During the Period, the management of the Group and the GBT Group has been working on facilitating similar arrangement of the Transferred Loans for the outstanding debts owed to other major lending banks. It is currently expected that the transfer of the indebtedness owed by the Group to other major lending banks will be completed in 2020, pending the internal approval from the respective lending banks.

The Company, together with GBT, will endeavour to facilitate the materialisation of the debt restructuring plan. The Board and the GBT Board expect that the Group and the GBT Group would be able to resolve all the amounts due and owing under the Transferred Loans and the indebtedness of Dajincang in 2020.

***(2) Resumption of land and buildings located in Luyuan District, Changchun***

Reference is made to the joint announcement of the Company and GBT dated 2 March 2017 and the 2019 Annual Report. The Company and GBT have been in discussion with a potential purchaser (the "**Potential Purchaser**") in respect of the sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the buildings erected thereon (the "**Relevant Properties**"). Pursuant to a letter of intent from the Potential Purchaser, it is expected that the Potential Purchaser shall purchase the Relevant Properties at a consideration of not less than RMB2.2 billion, subject to the price to be determined by way of auction. Given the Potential Purchaser is a municipal government-owned enterprise, the management is prudently optimistic that the disposal will be materialised.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### 2.2 Going concern *(continued)*

***(2) Resumption of land and buildings located in Luyuan District, Changchun*** *(continued)*

As disclosed in the 2019 Annual Report, the Group has received an official document dated 28 April 2018 from 長春市保障性安居工程領導小組 (The Changchun Safeguard Housing Project Leading Group*) in which the Relevant Properties have been confirmed as part of the subject properties for redevelopment under the PRC's Slum Redevelopment Policy. Such policy is expected to speed up the process of the resumption of the Relevant Properties through shortened procedures and exemption of certain taxes. In addition, the Changchun Safeguard Housing Project Leading Group also confirmed the site location and area of the Relevant Properties at a meeting on 27 September 2018. An execution announcement for the redevelopment under the PRC's Slum Redevelopment Policy dated 30 October 2019 has also been issued by 綠園區土地徵收辦事處 (The Land Acquisition Office of Luyuan District*). The GBT Group had received a land resumption prepayment in the amount of approximately RMB377 million from the Potential Purchaser which was subsequently recognised as compensation for the resumption of the Relevant Properties pursuant to an agreement entered into between the GBT Group, and the Potential Purchaser and 長春市綠園區人民政府 (The People's Government of Luyuan District of Changchun City*) (the "**Local Government**"), in the last quarter of 2019 confirmed that the Potential Purchaser and the Local Government were satisfied with the progress of the relocation.

On 10 June 2020, a meeting was held in Changchun amongst the representatives of 長春市土地儲備中心 (The Changchun Land Reserve Centre*), the Local Government, 綠園區審計局 (The Audit Bureau of Luyuan District*), the Land Acquisition Office of Luyuan District, the Potential Purchaser, the Group and the GBT Group. At the meeting, it was agreed that the Changchun Land Reserve Centre and the Local Government should speed up the settlement of the remaining balance of the outstanding receivable of RMB400 million to the GBT Group. As at the date of this report, the GBT Group has received RMB200 million from the Local Government with the remaining balance expected to be paid by the end of 2020.

On the other hand, as announced by the Company and GBT on 24 August 2020, the Local Government has announced its decision to resume the Relevant Properties. The first phase of resumption (the "**Dihao Resumption**") involved the properties owned by Dihao Foodstuff, a wholly-owned subsidiary of the Company, with an aggregate area of land of approximately 149,249 square metres and total gross floor area of approximately 67,000 square metres (the "**Dihao Properties**"). In accordance with the notices issued by the Local Government, Dihao Foodstuff is required to surrender the Dihao Properties by the third quarter of 2020. The Group is expected to receive a total compensation of approximately RMB443 million as a result of the Dihao Resumption. The compensation amount was based on the valuation report as of mid-August 2020 by an independent valuer selected and engaged in accordance with 吉林省國有土地上房屋徵收與補償辦法 (Measures on the Expropriation of Properties on State-owned Land and Compensation of Jilin Province*) and 長春市國有土地上房屋徵收與補償暫行辦法 (Interim Measures on the Expropriation of Properties on State-owned Land and Compensation of Changchun City*).

It is expected that resumption of remaining part of the Relevant Properties by the government will be conducted in stages according to the relevant government policy. The Group has yet to enter into the formal agreements in relation to the Dihao Resumption with the Local Government as at the date of this report. The Board expects that the proceeds from the Dihao Resumption will help relieve the financial and cashflow pressure of the Group during the period of suspension and provide part of the funding for the capital expenditure for the relocation of the Group's production facilities in Changchun.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### 2.2 Going concern *(continued)*

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

The Group has taken various measures to enhance the operational efficiency to lower operating costs and strengthen the competitiveness of the Group. During the six months ended 30 June 2020, the Group has optimised its production and consolidated its resources in Shanghai production base to minimise operating cash outflow and secure financial resources.

***(4) Financial support from the indirect major shareholder of GBT***

The Group has received a renewed written confirmation dated 30 June 2019 from Nongtou that it would continue to provide financial support to the Group and the GBT Group in the following 24 months on a going concern basis and undertake all the liabilities that might arise from the Financial Guarantee Contracts as discussed in note 16. Such assistance received by the Group is not secured by any assets of the Group.

In addition, the Group has secured the supply of corn kernels through the execution of corn purchasing contract with the Nongtou Group during the Period to ensure a sufficient supply of corn kernels when the Group's upstream operation resumes.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value at 30 June 2020 amounted to approximately RMB1,951 million (31 December 2019: approximately RMB2,102 million). It is tasked to consolidate the state-owned investments in the agricultural sector in the Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group and the GBT Group, to provide synergistic effects among its various investments in the agricultural sector in the Jilin Province and provide adequate and sufficient financial support to the Group and the GBT Group.

The validity of the going concern assumption on which the condensed consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the management of the Company and the development of the events as described above. The Directors proposed to procure additional working capital through the steps mentioned above. After taking into account the above steps, the internal resources, the present and expected banking facilities available, the Group would have sufficient working capital for operation need for at least 12 months from 30 June 2020. Therefore, the condensed consolidated financial statements of the Group have been prepared on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the condensed 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### 2.3 Changes in accounting policies and disclosures

The accounting policies adopted in preparing the condensed consolidated financial statements for the Period are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except for the adoption of the following new/revised Hong Kong Financial Reporting Standards ("**HKFRSs**") which are relevant to the Group and are effective from the Period.

| | |
|---|---|
| Amendments to HKASs 1 and 8 | Definition of Material |
| Amendments to HKAS 39, HKFRSs 7 and 9 | Interest Rate Benchmark Reform |
| Amendments to HKFRS 3 | Definition of a Business |

The adoption of the new/revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the Period and prior years.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has two (six months ended 30 June 2019: two) reportable operating segments as follows:

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

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

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 profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or 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.

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

### (a) Segment results

***Six months ended 30 June***

| | Corn refined products | | Corn sweeteners | | Total | |
|---|---|---|---|---|---|---|
| | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| **Segment revenue:** | | | | | | |
| Sales to external customers | 205,681 | 410,375 | 228,895 | 465,628 | 434,576 | 876,003 |
| Intersegment sales | 15,819 | 81,011 | 1,136 | 56,505 | 16,955 | 137,516 |
| | 221,500 | 491,386 | 230,031 | 522,133 | 451,531 | 1,013,519 |
| *Reconciliation:* | | | | | | |
| Elimination of intersegment sales | | | | | (16,955) | (137,516) |
| Revenue | | | | | 434,576 | 876,003 |
| **Segment results** | (29,830) | (16,560) | (42,370) | (42,473) | (72,200) | (59,033) |
| *Reconciliation:* | | | | | | |
| Unallocated bank interest and other corporate income | | | | | 195 | 341 |
| Corporate and other unallocated expenses | | | | | (3,649) | (6,605) |
| Finance costs | | | | | (75,544) | (37,337) |
| **Loss before tax** | | | | | (151,198) | (102,634) |
| Income tax expenses | | | | | – | – |
| **Loss for the period** | | | | | (151,198) | (102,634) |

### (b) Geographical information

***Six months ended 30 June***

| | The PRC | | Asian regions and others | | Total | |
|---|---|---|---|---|---|---|
| | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| **Segment revenue:** | | | | | | |
| Revenue from external customers | 415,720 | 810,313 | 18,856 | 65,690 | 434,576 | 876,003 |

## 4. REVENUE, OTHER INCOME AND GAINS

| | Six months ended 30 June | |
|---|---|---|
| | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| **Revenue from contracts with customers within HKFRS 15** | | |
| Sale of goods (a) | 434,576 | 876,003 |
| **Other income and gains** | | |
| Amortisation of deferred income | 1,077 | 2,709 |
| Bank interest income | 195 | 341 |
| Gains arising from sale of packing materials and by-products, net | — | 1,504 |
| Government grants (b) | 162 | 105 |
| Subcontracting income | 1,291 | 2,018 |
| Reversal of impairment of trade and bills receivables, net | 1,092 | 861 |
| Wavier of payables | 810 | — |
| Others | 1,600 | 1,848 |
| | 6,227 | 9,386 |

Remarks:

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

(b) Government grants represent rewards to a subsidiary of the Company with no further obligations and conditions to be complied with.

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| Interest on bank and other borrowings | 27,834 | 27,861 |
| Interest on trade payables | 47,150 | 8,705 |
| Finance costs for discounted bills receivables | 503 | 611 |
| Interest on lease liabilities | 57 | 160 |
| | 75,544 | 37,337 |

## 6. LOSS BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| Employee benefit expenses (excluding Directors' remuneration) | | |
| — Wages and salaries | 37,792 | 48,280 |
| — Pension scheme contributions | 6,131 | 16,307 |
| | 43,923 | 64,587 |
| Cost of inventories sold (a) | 383,435 | 792,558 |
| Depreciation | | |
| — Property, plant and equipment | 37,825 | 37,524 |
| — Right-of-use assets | 4,572 | 6,145 |
| Amortisation of deferred income | (1,077) | (2,709) |
| Loss on disposal of property, plant and equipment, net | — | 17 |
| Foreign exchange loss, net | 124 | 142 |
| Impairment of deposits paid for acquisition of property, plant and equipment | 62 | — |
| (Reversal of write-down) Write-down of inventories, net, included in cost of sales | (671) | 7,091 |
| Reversal of impairment of trade and bills receivables, net | (1,092) | (861) |
| Impairment of prepayments, deposits and other receivables, net | 2,118 | 1,631 |

Remark:

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

## 7. INCOME TAX EXPENSES

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the Period and the six months ended 30 June 2019.

No provision for the PRC enterprise income tax was made as all the subsidiaries of the Group in the PRC incurred tax losses during the Period and the six months ended 30 June 2019.

## 8. LOSS PER SHARE

The calculation of the basic loss per share for the Period is based on the loss attributable to owners of the Company for the Period of approximately HK$151,198,000 (six months ended 30 June 2019: HK$102,634,000) and the weighted average number of ordinary shares in issue during the Period of 1,527,586,000 shares (six months ended 30 June 2019: 1,527,586,000 shares).

Diluted loss per share is the same as basic loss per share as there was no potential dilutive ordinary shares outstanding during the Period and the six months ended 30 June 2019.

## 9. DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30 June 2019: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| At 1 January 2020/1 January 2019 | 806,693 | 798,859 |
| Additions | 1,071 | 23,906 |
| Gain on properties revaluation | – | 70,544 |
| Disposals | – | (1,141) |
| Depreciation | (37,825) | (70,110) |
| Exchange realignment | (7,430) | (15,365) |
| At 30 June 2020/31 December 2019 | 762,509 | 806,693 |

## 11. TRADE AND BILLS RECEIVABLES

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Trade receivables | 143,406 | 261,314 |
| Bills receivables | 3,846 | 2,907 |
| | 147,252 | 264,221 |
| Loss allowance | (71,792) | (73,693) |
| | 75,460 | 190,528 |

The Group normally grants credit terms of 30 to 90 days (31 December 2019: 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 of the Group.

Trade and bills receivables are non-interest-bearing. At the end of the reporting period, the Group had a concentration of credit risk as 17% (31 December 2019: 15%) and 48% (31 December 2019: 43%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Within 1 month | 45,121 | 150,015 |
| 1 to 2 months | 20,193 | 32,160 |
| 2 to 3 months | 5,806 | 4,386 |
| Over 3 months | 4,340 | 3,967 |
| | 75,460 | 190,528 |

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Prepayments | 13,333 | 15,071 |
| Deposits and other debtors | 16,358 | 6,740 |
| The PRC value-added tax ("**VAT**") and other tax receivables | 14,113 | 23,377 |
| | 43,804 | 45,188 |

## 13. TRADE PAYABLES

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Trade payables | | |
| — To third parties (a) | 75,704 | 222,854 |
| — To the Nongtou Group (b) | 181,941 | 170,242 |
| | 257,645 | 393,096 |

Remarks:

(a) At 31 December 2019, the trade payables to third parties included balances payable to a state-owned supplier of approximately HK$67 million, which were unsecured and interest-bearing at 8% to 9% per annum after the credit periods lapsed. During the Period, Nongtou acquired 100% equity interest of the state-owned supplier and the corresponding balance payable was disclosed in trade payables to the Nongtou Group at 30 June 2020.

(b) The trade payables to the Nongtou Group are unsecured and interest-bearing at 11% to 12% per annum (31 December 2019: 8.5% per annum) after the credit periods lapsed.

The Group normally obtains credit terms ranging from 30 to 90 days (31 December 2019: 30 to 90 days) from its suppliers.

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

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Within 1 month | 11,875 | 230,752 |
| 1 to 2 months | 4,373 | 24,708 |
| 2 to 3 months | 1,341 | 5,833 |
| Over 3 months | 240,056 | 131,803 |
| | 257,645 | 393,096 |

## 14. OTHER PAYABLES AND ACCRUALS

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Payables for purchases of machinery | 3,158 | 3,322 |
| Customer deposits and receipts in advance | 24,093 | 54,062 |
| VAT and other duties payable | 95,580 | 93,671 |
| Accrued expenses | 54,150 | 60,733 |
| Interest payables | 94,076 | 41,952 |
| | 271,057 | 253,740 |

## 15. SHARE CAPITAL

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Authorised: | | |
| 100,000,000,000 (31 December 2019: 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 (31 December 2019: 1,527,586,000) ordinary shares of HK$0.10 each | 152,759 | 152,759 |

## 16. FINANCIAL GUARANTEE CONTRACTS

Dihao Foodstuff together with certain fellow subsidiaries of GBT have jointly provided corporate guarantees to a financial institution in the PRC in respect of financing facilities granted to Dajincang starting from year 2010. The maximum amount of the financing facilities was RMB2.5 billion as at 30 June 2020 (31 December 2019: RMB2.5 billion). However, since the management of the Group was unable to obtain sufficient and reliable financial information of Dajincang, the professional valuer was unable to complete the valuation. Therefore, no financial guarantee liability has been recognised in the condensed consolidated financial statements in respect of the Financial Guarantee Contracts.

## 17. CAPITAL COMMITMENTS

| | 30 June 2020 (Unaudited) *HK$'000* | 31 December 2019 (Audited) *HK$'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Purchase or construction of property, plant and machinery | 5,505 | 5,566 |

## 18. RELATED PARTY TRANSACTIONS

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

### (a) Transactions with related parties

| | Six months ended 30 June | |
|---|---|---|
| | 2020 (Unaudited) *HK$'000* | 2019 (Unaudited) *HK$'000* |
| Purchases from fellow subsidiaries | | |
| — Corn starch and other raw materials (a) | 392 | 89,777 |
| Sales to fellow subsidiaries | | |
| — Corn sweeteners (b) | 21 | 180 |
| Purchases of corn kernels from the Nongtou Group (c) | 19,840 | 300,396 |
| Sales of corn starch to the Nongtou Group (d) | 14,597 | — |
| Interest on trade payables to the Nongtou Group (c) | 47,150 | 3,685 |
| Reimbursement of cost of utilities provided by a fellow subsidiary (e) | 1,469 | 5,536 |
| Rental to fellow subsidiaries (f) | 2,285 | 2,664 |

## 18. RELATED PARTY TRANSACTIONS *(continued)*

### (a) Transactions with related parties *(continued)*

Remarks:

(a) The Group sourced corn starch and other raw materials from fellow subsidiaries during the Period. These purchases were made in accordance with the respective agreements in relation to the purchase of corn starch and other raw materials by the Group from the GBT Group, the sale of corn sweeteners by the Group to the GBT Group and the supply of electricity, water and steam and the provision of wastewater treatment services by the GBT Group to the Group (the "**New Master Agreements**") dated 28 February 2019.

(b) The Group sold corn sweeteners to fellow subsidiaries. These sales were made in accordance with the New Master Agreements.

(c) The Group sourced corn kernels from the Nongtou Group. These purchases were made in accordance with the new master supply agreement in relation to the supply of corn kernels by the Nongtou Group to members of the Group dated 12 September 2018. The trade payables to the Nongtou Group is unsecured and interest bearing at 11% to 12% per annum after the lapse of credit periods.

(d) The Group sold corn starch to the Nongtou Group. These sales were made in accordance with the master sales agreement in relation to the supply of corn starch and other corn based products dated 12 September 2018.

(e) The Group used the utility facilities provided by a fellow subsidiary. The utility costs were charged in accordance with the New Master Agreements.

(f) The Group leased certain land and premises from fellow subsidiaries. The rental expenses were charged based on lease agreements signed between the parties. The amount disclosed represents the lease payments made by crediting the current account with the fellow subsidiaries.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2020 (Unaudited)** ***HK$'000*** | 2019 (Unaudited) *HK$'000* |
| Short term employee benefits | **306** | 717 |
| Post-employment benefits | **–** | 9 |
| Termination benefits | **–** | 65 |
| Total compensation paid to key management personnel | **306** | 791 |

### (c) Balances with fellow subsidiaries

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