# GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED
# 大成生化科技集團有限公司*

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00809)**

## ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

| **FINANCIAL HIGHLIGHTS** | **2020** | 2019 | Change % |
|---|---|---|---|
| Revenue (HK$'Mn) | **849** | 4,561 | (81.4%) |
| Gross profit (HK$'Mn) | **74** | 204 | (63.7%) |
| Loss for the year (HK$'Mn) | **(2,433)** | (1,116) | N/A |
| Loss attributable to owners of the Company (HK$'Mn) | **(2,430)** | (1,068) | N/A |
| Basic loss per share (HK cents) | **(28.6)** | (15.5) | N/A |
| Proposed final dividend per share (HK cents) | **—** | — | N/A |

* *for identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Global Bio-chem Technology Group Company Limited (the "**Company**") announces the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 (the "**Year**"), together with the comparative figures in the previous year as follows:

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

*Year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **REVENUE** | 4 | **848,867** | 4,561,391 |
| Cost of sales | | **(774,767)** | (4,357,862) |
| Gross profit | | **74,100** | 203,529 |
| Other income and gains | 4 | **389,748** | 684,375 |
| Selling and distribution costs | | **(85,876)** | (407,789) |
| Administrative expenses | | **(362,313)** | (440,695) |
| Other expenses | | **(971,237)** | (510,420) |
| Loss on modification of convertible bonds | | **(728,190)** | — |
| Share of loss of a joint venture | | **(2,332)** | (1,541) |
| Finance costs | 6 | **(724,826)** | (604,076) |
| **LOSS BEFORE TAX** | 5 | **(2,410,926)** | (1,076,617) |
| Income tax expenses | 7 | **(22,340)** | (39,717) |
| **LOSS FOR THE YEAR** | | **(2,433,266)** | (1,116,334) |
| **OTHER COMPREHENSIVE (LOSS) INCOME** | | | |
| Items that are reclassified or may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside Hong Kong | | **(350,555)** | 95,923 |
| Reclassification adjustment in respect of exchange reserve upon deregistration/deemed disposal of a subsidiary | | **401** | (975) |
| | | **(350,154)** | 94,948 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Gain on properties revaluation, net | | **—** | 157,313 |
| Income tax effect | | **—** | (39,329) |
| | | **—** | 117,984 |
| **OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX** | | **(350,154)** | 212,932 |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(2,783,420)** | (903,402) |

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **LOSS ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **(2,429,949)** | (1,067,819) |
| Non-controlling interests | | **(3,317)** | (48,515) |
| | | **(2,433,266)** | (1,116,334) |
| **TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **(2,775,616)** | (877,929) |
| Non-controlling interests | | **(7,804)** | (25,473) |
| | | **(2,783,420)** | (903,402) |
| **LOSS PER SHARE** | | | |
| Basic | *9* | **HK(28.6) cents** | HK(15.5) cents |
| Diluted | *9* | **HK(28.6) cents** | HK(15.5) cents |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **5,797,334** | 6,151,537 |
| Right-of-use assets | | **511,082** | 563,682 |
| Deposits paid for acquisition of property, plant and equipment | | **45,208** | 58,502 |
| Intangible assets | | **3,751** | 3,751 |
| Interests in an associate | | **—** | — |
| Interests in a joint venture | | **2,004** | 4,336 |
| Equity investment at fair value through other comprehensive income ("**Designated FVOCI**") | | **208** | 208 |
| | | **6,359,587** | 6,782,016 |
| **CURRENT ASSETS** | | | |
| Inventories | *10* | **143,367** | 369,496 |
| Trade and bills receivables | *11* | **134,766** | 267,870 |
| Prepayments, deposits and other receivables | *12* | **780,677** | 721,852 |
| Due from a joint venture | | **—** | 4,270 |
| Pledged bank deposits | *13* | **29,874** | 9,916 |
| Cash and bank balances | *13* | **153,323** | 79,509 |
| | | **1,242,007** | 1,452,913 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *14* | **1,357,959** | 1,551,476 |
| Other payables and accruals | *15* | **2,962,845** | 2,047,566 |
| Due to an associate | | **1,410** | 1,593 |
| Due to a joint venture | | **4,719** | — |
| Tax payables | | **105,569** | 107,967 |
| Interest-bearing bank and other borrowings | | **7,925,118** | 5,583,337 |
| Lease liabilities | | **2,188** | 3,700 |
| Convertible bonds | | **—** | 1,034,246 |
| | | **12,359,808** | 10,329,885 |
| **NET CURRENT LIABILITIES** | | **(11,117,801)** | (8,876,972) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **(4,758,214)** | (2,094,956) |

| | Notes | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | | **184,524** | 2,044,444 |
| Lease liabilities | | — | 2,188 |
| Deferred income | | **120,839** | 120,294 |
| Deferred tax liabilities | | **103,877** | 84,109 |
| Convertible bonds | | **849,621** | — |
| | | **1,258,861** | 2,251,035 |
| **NET LIABILITIES** | | **(6,017,075)** | (4,345,991) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *16* | **890,741** | 767,880 |
| Reserves | | **(6,751,886)** | (4,965,745) |
| **Deficit attributable to owners of the Company** | | **(5,861,145)** | (4,197,865) |
| **Non-controlling interests** | | **(155,930)** | (148,126) |
| **TOTAL DEFICIT** | | **(6,017,075)** | (4,345,991) |

## 1. CORPORATE INFORMATION

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. The principal activity of the Company is investment holding. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suites 2202-04, 22$^{nd}$ Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

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

## 2.1 BASIS OF PREPARATION

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

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 2.3.

## 2.2 GOING CONCERN

The Group recorded a loss of approximately HK$2,433.3 million (2019: approximately HK$1,116.3 million) for the Year and as at 31 December 2020, the Group had net current liabilities of approximately HK$11,117.8 million (31 December 2019: approximately HK$8,877.0 million) and net liabilities of approximately HK$6,017.1 million (31 December 2019: approximately HK$4,346.0 million). In addition, any potential liabilities or obligations arising from the financial guarantee contracts (the "**Financial Guarantee Contracts**") as discussed in note 17 may have a significant negative impact on the liquidity position of the Group. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances and based on the recommendations of the audit committee (the "**Audit Committee**") of the Company after its critical review of the management's position, the management of the Company has taken the following steps to improve the financial position of the Group:

**(a) Active negotiations with banks and creditors for the debt restructuring plan of the Group to improve its financial position**

As disclosed in the joint announcement of the Company and Global Sweeteners Holdings Limited ("**GSH**", together with its subsidiaries, the "**GSH Group**") dated 25 February 2020 and the interim report of the Company for the six months ended 30 June 2020 (the "**2020 Interim Report**"), subsequent to the completion of the transfer of all the rights and benefits of the loans of the Group which included, among others, the loans of the Group (excluding the GSH Group) in the amount of approximately RMB1.3 billion with the outstanding interest (the "**GBT Indebtedness**"), the loans of GSH in the amount of approximately RMB198.6 million with the outstanding interest (the "**GSH Indebtedness**") and the indebtedness of 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.*) ("**Dajincang**") with an aggregate outstanding principal amount of RMB2.49 billion together with outstanding interest (the "**Dajincang Indebtedness**") guaranteed by certain subsidiaries of the Group and the GSH Group (collectively, the "**Guarantor Subsidiaries**") (collectively, the "**BOC Transferred Loans**") from 中國銀行股份有限公司吉林省分行 (Jilin Branch of Bank of China*) ("**BOC Jilin Branch**") to 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.*) ("**China Cinda**"), the Company continued to explore the next step of the debt restructuring plan with China Cinda. At the same time, the management of the Group endeavoured to facilitate similar arrangement of the BOC Transferred Loans for the outstanding debts owed to other major lending banks.

Subsequently, as announced by the Company and GSH on 23 December 2020, each of 中國農業銀行股份有限公司吉林省分行 (Jilin Branch of Agricultural Bank of China Co., Ltd.*) ("**Jilin Branch ABC**") and 中國建設銀行股份有限公司吉林省分行 (Jilin Branch of China Construction Bank Corporation*) ("**Jilin Branch CCB**") announced that they have each reached transfer agreement with China Cinda to transfer all rights and benefits of certain loans. Jilin Branch ABC has transferred all of its rights and benefits of the loans owed by the Group and the GSH Group with an aggregate outstanding principal amount of approximately RMB1,400.0 million and aggregate outstanding interest of approximately RMB42.8 million (the "**ABC Transferred Loans**") to China Cinda at a consideration of approximately RMB414.7 million; and Jilin Branch CCB has transferred all of its rights and benefits of the loans owed by the Group with an aggregate outstanding principal amount of approximately RMB1,983.5 million and aggregate outstanding interest of approximately RMB128.5 million (the "**CCB Transferred Loans**") to China Cinda at a consideration of approximately RMB583.6 million.

Furthermore, as announced in a joint announcement of the Company and GSH on 18 January 2021, China Cinda has transferred the BOC Transferred Loans to 長春潤德投資集團有限公司 (Changchun Rudder Investment Group Co., Ltd.*) ("**Changchun Rudder**"), a company controlled by 長春市人民政府 (The Changchun Municipal Government*) (the "**Local Government**"). After the completion of the transfer of the BOC Transferred Loans to Changchun Rudder, the management of the Group actively discussed with Changchun Rudder and the Local Government on debt restructuring with an aim to achieve significant improvement of the financial position of the Group. Under the applicable law in the People's Republic of China (the "**PRC**" or "**China**"), the debtors are required to purchase the loans owed by themselves in order to discharge the debts and liabilities owed to them. As such, each of the Group, the GSH Group and Dajincang (collectively, the "**BOC Borrowers**") entered into a repurchase agreement with Changchun Rudder on 26 March 2021 (collectively, the "**Repurchase Agreements**" and each, a "**Repurchase Agreement**"), pursuant to which Changchun Rudder had agreed to sell to each of the BOC Borrowers, and each of the BOC Borrowers had agreed to purchase, all of the rights and benefits of their respective portions of the BOC Transferred Loans. The considerations of the repurchases of the GBT Indebtedness and the GSH Indebtedness amounted to RMB701,490,000 and RMB113,510,000, respectively, which will be financed by the proceeds from the compensation for the resumption of the land and buildings located in Luyuan District, Changchun, the PRC (the "**Relevant Properties**") to be received by the Group. As security for their respective payment obligations under the Repurchase Agreements upon receipts of the compensation payment from the 長春市綠園區人民政府 (The People's Government of Luyuan District of Changchun City*) (the "**Luyuan Government**"), amongst others, each of the Group and the GSH Group has provided certain land and buildings owned by them respectively as collaterals under a property pledge contract executed in favour of Changchun Rudder on 26 March 2021. The Group and the GSH Group are not jointly or severally responsible for each other's obligations under the respective Repurchase Agreements, and Dajincang's obligations under the Repurchase Agreement entered into between Changchun Rudder and Dajincang.

Completion of the Repurchase Agreements took place on 31 March 2021. Upon the completion of the Repurchase Agreement entered into between Changchun Rudder and Dajincang, all the obligations of the Guarantor Subsidiaries under the Financial Guarantee Contracts have been discharged. For details of the Repurchase Agreements, please refer to the joint announcements of the Company and GSH dated 26 March 2021 and 31 March 2021.

The Board expected that upon completion of the Repurchase Agreements, the financial position of the Group will improve significantly. The Company will endeavour to facilitate similar arrangement to the Repurchase Agreements for the debt restructuring plan of the ABC Transferred Loans and the CCB Transferred Loans. It is currently expected that the repurchases of the ABC Transferred Loans and the CCB Transferred Loans could be completed by the end of 2021, pending and subject to the internal approval from the respective creditors and relevant local government authorities.

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

As detailed in the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**") and the 2020 Interim Report, in respect of the sale and purchase of the Relevant Properties, the Group has received an official document dated 28 April 2018 from the relevant authorities confirming that the Relevant Properties is part of the subject properties for redevelopment under the PRC's Slum Redevelopment Policy. Subsequently, an execution announcement for the redevelopment under the PRC's Slum Redevelopment Policy was also issued on 30 October 2019.

On 30 September 2020, 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.*) ("**Dihao Foodstuff**"), an indirect wholly-owned subsidiary of the Company entered into a compensation agreement with the Luyuan Government, pursuant to which Dihao Foodstuff shall surrender the properties owned by Dihao Foodstuff with an aggregate area of land of approximately 149,249 square metres and total gross floor area of approximately 67,000 square metres in Luyuan District (the "**Dihao Properties**") to the Luyuan Government upon the signing of the agreement (the "**Dihao Resumption**"). Dihao Foodstuff is expected to receive a total compensation of approximately RMB443.0 million (equivalent to approximately HK$497.7 million). As at the date of this announcement, all the compensation in the amount of RMB443.0 million has been received by Dihao Foodstuff. For details of the Dihao Resumption, please refer to the joint announcements made by the Company and GSH on 24 August 2020 and 30 September 2020.

It is expected that resumption of remaining part of the Relevant Properties by the Luyuan Government will be conducted in stages according to the relevant government policy. The Board expects that the proceeds from the resumption of the Relevant Properties will help to relieve the financial and cash flow 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.

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

The Group has taken various measures to minimise operating cash outflow and secure financial resources during market turbulence and economic slowdown as a result of, among others, the outbreak of the coronavirus disease ("**COVID-19**"). During the Year, the Group has suspended the production operation of most of the Group's production facilities and consolidated its resources in higher efficiency segments.

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

The Group has received a renewed written confirmation dated 30 March 2021 from 吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.) ("**Nongtou**", together with its subsidiaries, the "**Nongtou Group**") that it would continue to provide financial support to the Group in the following 24 months on a going concern basis. 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 Year to ensure a sufficient supply of corn kernels when the Group's operation resumes. During the Year, the Group purchased approximately 11,000 MT of corn kernels from the subsidiaries of Nongtou which aggregately accounted for approximately 21.2% of total corn procurement of the Group.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value as at 31 December 2020 amounted to approximately RMB2,347.4 million (31 December 2019: approximately RMB2,102.0 million). It is tasked to consolidate the state-owned investments in the agricultural sector in the Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group, provide synergistic effects among its various investments in the agricultural sector in the Jilin Province and provide adequate and sufficient financial support to the Group.

**(e) Introducing potential investors to the Company**

The management of the Company has also actively negotiated with a number of potential investors to inject capital to the Company. As announced by the Company on 19 July 2019 and 27 September 2019, the Company entered into two subscription agreements with HK Bloom Investment Limited ("**HK Bloom**" or the "**Subscriber**"), a company established under the British Virgin Islands laws with limited liability, respectively, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,279,799,672 new shares (the "**First Subscription Shares**") at the subscription price of HK$0.10 per First Subscription Share (the "**First Subscription**") and an aggregate of 1,228,607,685 new shares (the "**Second Subscription Shares**") at the subscription price of HK$0.1080 per Second Subscription Share (the "**Second Subscription**"). As a result of the completions of the First Subscription on 20 August 2019 (the "**First Subscription Completion**") and the Second Subscription on 29 April 2020 (the "**Second Subscription Completion**"), the net proceeds from the First Subscription and the Second Subscription in the amounts of approximately HK$127,900,000 and HK$132,000,000 respectively have been fully utilised as general working capital of the Group.

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

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

## 2.3 CHANGES IN ACCOUNTING POLICIES

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

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

| | |
|---|---|
| Amendments to HKASs 1 and 8 | Definition of Material |
| Amendments to HKAS 39, HKFRSs 7 and 9 | Interest Rate Benchmark Reform – Phase 1 |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 16 | COVID-19-Related Rent Concessions |

**Amendments to HKASs 1 and 8: Definition of Material**

The amendments clarify the definition of material and align the definition used across HKFRSs.

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

**Amendments to HKAS 39, HKFRSs 7 and 9: Interest Rate Benchmark Reform – Phase 1**

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform (the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark). In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

**Amendments to HKFRS 3: Definition of a Business**

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

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

**Amendments to HKFRS 16: COVID-19-Related Rent Concessions**

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021. The amendments do not affect lessors.

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

## 2.4 NEW AND REVISED HKFRSs NOT YET ADOPTED

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

| | |
|---|---|
| Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16 | Interest Rate Benchmark Reform – Phase 2 [1] |
| Amendments to HKAS 16 | Proceeds before Intended Use [2] |
| Amendments to HKAS 37 | Cost of Fulfilling a Contract [2] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework [2] |
| Annual Improvements to HKFRSs | 2018-2020 Cycle [2] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current [3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [4] |

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 The effective date to be determined

Except for the amendments to HKFRS 3, the amendments to HKAS 1 and the amendments to HKFRS 10 and HKAS 28 which are explained below, the other new/revised HKFRSs are not expected to be relevant to the Group.

**Amendments to HKFRS 3: Reference to the Conceptual Framework**

The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference.

**Amendments to HKAS 1: Classification of Liabilities as Current or Non-current**

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

**Amendments to HKFRS 10 and HKAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in HKFRS 10 and those in HKAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The standards are amended such that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and a partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four (2019: four) reportable operating segments as follows:

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

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

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

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

The management, who is the chief operating decision-maker, monitors the results of the Group's operating segments separately for the purpose of making decisions in relation to resources allocation and performance assessment. Segment performance is evaluated based on reportable segment's profit or loss, which is a measure of adjusted 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.

**(a) Segment results**

***Year ended 31 December 2020***

| | Upstream products *HK$'000* | Amino acids *HK$'000* | Corn sweeteners *HK$'000* | Polyol chemicals *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| Revenue from: | | | | | | |
| External customers | 248,620 | 36,570 | 558,094 | 5,583 | — | 848,867 |
| Intersegment | 10,832 | 5,317 | — | 651 | (16,800) | — |
| **Revenue** | 259,452 | 41,887 | 558,094 | 6,234 | (16,800) | 848,867 |
| **Segment results** | (554,679) | (433,801) | 202,509 | (88,422) | — | (874,393) |
| Bank interest income | | | | | | 403 |
| Unallocated income | | | | | | 39,965 |
| Unallocated expenses | | | | | | (121,553) |
| Loss on modification of convertible bonds | | | | | | (728,190) |
| Share of loss of a joint venture | | | | | | (2,332) |
| Finance costs | | | | | | (724,826) |
| **Loss before tax** | | | | | | (2,410,926) |
| Income tax expenses | | | | | | (22,340) |
| **Loss for the year** | | | | | | (2,433,266) |

*Year ended 31 December 2019*

| | Upstream products *HK$'000* | Amino acids *HK$'000* | Corn sweeteners *HK$'000* | Polyol chemicals *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| Revenue from: | | | | | | |
| External customers | 2,626,291 | 991,591 | 918,390 | 25,119 | — | 4,561,391 |
| Intersegment | 84,879 | — | — | 2,372 | (87,251) | — |
| **Revenue** | 2,711,170 | 991,591 | 918,390 | 27,491 | (87,251) | 4,561,391 |
| **Segment results** | (504,286) | (355,700) | (66,097) | (3,307) | — | (929,390) |
| Bank interest income | | | | | | 1,000 |
| Unallocated income | | | | | | 546,584 |
| Unallocated expenses | | | | | | (89,194) |
| Share of loss of a joint venture | | | | | | (1,541) |
| Finance costs | | | | | | (604,076) |
| **Loss before tax** | | | | | | (1,076,617) |
| Income tax expenses | | | | | | (39,717) |
| **Loss for the year** | | | | | | (1,116,334) |

## (b) Other segment information

***Year ended 31 December 2020***

| | **Upstream products** ***HK$'000*** | **Amino acids** ***HK$'000*** | **Corn sweeteners** ***HK$'000*** | **Polyol chemicals** ***HK$'000*** | **Total** ***HK$'000*** |
|---|---|---|---|---|---|
| Capital expenditure | **21,754** | **1,577** | **7,053** | **685** | **31,069** |
| Depreciation of property, plant and equipment | **196,286** | **184,362** | **40,907** | **10,208** | **431,763** |
| Depreciation of right-of-use assets *(a)* | **9,725** | **7,893** | **3,212** | **671** | **21,501** |
| (Gain) Loss on disposal of property, plant and equipment, net | **(11,501)** | **—** | **4,479** | **—** | **(7,022)** |
| Gain on resumption of the Dihao Properties | **—** | **—** | **(289,356)** | **—** | **(289,356)** |
| Write-down (Reversal of write-down) of inventories, net | **3,428** | **(7,213)** | **(2,586)** | **1,259** | **(5,112)** |
| Impairment of property, plant and equipment | **26,679** | **98,204** | **—** | **—** | **124,883** |
| Write-off of property, plant and equipment | **—** | **—** | **2,404** | **—** | **2,404** |
| Impairment of deposits paid for acquisition of property, plant and equipment, net | **15,802** | **—** | **—** | **—** | **15,802** |
| Impairment (Reversal of impairment) of trade and bills receivables, net | **19,327** | **12,517** | **23** | **(799)** | **31,068** |
| Impairment of prepayments, deposits and other receivables, net | **31,381** | **2,257** | **3,852** | **570** | **38,060** |
| Waiver of payables | **(1,286)** | **—** | **—** | **—** | **(1,286)** |

*Year ended 31 December 2019*

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

*Remark:*

(a) Depreciation of right-of-use assets that was not attributable to any of the above segments which amounted to HK$3,664,000 (2019: HK$3,664,000) was included in unallocated expenses.

### (c) Geographical information

***Revenue information based on locations of customers***

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The PRC | **810,306** | 3,955,273 |
| Asia, the Americas and other regions | **38,561** | 606,118 |
| | **848,867** | 4,561,391 |

***Non-current assets information based on locations of assets***

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The PRC | **6,355,236** | 6,771,670 |
| Hong Kong | **2,139** | 5,802 |
| | **6,357,375** | 6,777,472 |

### (d) Information about major customers

No revenue from any external customer individually accounted for 10% or more of the Group's revenue for the Year (2019: Nil).

## 4. REVENUE, OTHER INCOME AND GAINS

| | **2020** *HK$'000* | 2019 *HK$'000* |
|---|---|---|
| **Revenue from contracts with customers within HKFRS 15** | | |
| Sale of goods *(a)* | **848,867** | 4,561,391 |

| | **2020** *HK$'000* | 2019 *HK$'000* |
|---|---|---|
| **Other income and gains** | | |
| Amortisation of deferred income | **7,886** | 13,857 |
| Bank interest income | **403** | 1,000 |
| Government grants *(b)* | **31,334** | 37,170 |
| Gain on disposal of property, plant and equipment, net | **7,022** | — |
| Gain on resumption of the Dihao Properties | **289,356** | — |
| Foreign exchange gain, net | **13,888** | — |
| Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net | — | 113 |
| Reversal of write-down of inventories, net | — | 19,896 |
| Reversal of impairment of trade and bills receivables, net | — | 9,701 |
| Gain on disposal of right-of-use assets | — | 4,334 |
| Gain on deemed disposal of a subsidiary | — | 42,973 |
| Waiver of payables | **1,286** | 38,981 |
| Government compensation for relocation | — | 428,409 |
| Write-back of properties revaluation deficits charged to profit or loss in previous years | — | 54,619 |
| Net profit arising from supplying utilities services | — | 8,853 |
| Subcontracting income | **20,382** | 227 |
| Others | **18,191** | 24,242 |
| | **389,748** | 684,375 |

*Remarks:*

(a) The revenue from contracts with customers within HKFRS 15 is based on fixed price and recognised at a point in time. The amount of revenue recognised for the Year that was included in the contract liabilities at the beginning of the Year was HK$132,926,000 (2019: HK$177,179,000).

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

## 5. LOSS BEFORE TAX

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

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Employee benefits expenses (excluding Directors' remuneration): | | |
| Wages and salaries | **223,034** | 292,324 |
| Pension scheme contributions *(a)* | **53,852** | 68,072 |
| | **276,886** | 360,396 |
| Cost of inventories sold *(b)* | **774,749** | 4,338,229 |
| Depreciation of property, plant and equipment | **431,763** | 479,343 |
| Depreciation of right-of-use assets | **25,165** | 25,605 |
| Amortisation of intangible assets | **—** | 3 |
| Amortisation of deferred income | **(7,886)** | (13,857) |
| Auditor's remuneration | **5,500** | 5,500 |
| Impairment of property, plant and equipment | **124,883** | — |
| Write-off of property, plant and equipment | **2,404** | — |
| Impairment (Reversal of impairment) of deposits paid for acquisition of property, plant and equipment, net | **15,802** | (113) |
| Impairment of prepayments, deposits and other receivables, net | **38,060** | 13,322 |
| Research and development costs | **14,786** | 17,625 |
| Impairment (Reversal of impairment) of trade and bills receivables, net | **31,068** | (9,701) |
| (Gain) Loss on disposal of property, plant and equipment, net | **(7,022)** | 755 |
| Gain on resumption of the Dihao Properties | **(289,356)** | — |
| Foreign exchange difference, net | **(13,888)** | 6,976 |
| Gain on deemed disposal of a subsidiary | **—** | (42,973) |
| Gain on disposal of right-of-use assets | **—** | (4,334) |
| Reversal of write-down of inventories, net *(c)* | **(5,112)** | (59,700) |
| Government compensation for relocation | **—** | (428,409) |
| Write-back of properties revaluation deficits charged to profit or loss in previous years | **—** | (54,619) |
| Loss on deregistration of a subsidiary | **4,928** | — |

*Remarks:*

(a) During the Year, the government of the PRC granted reductions or exemptions from pension scheme contributions to certain subsidiaries operating in the PRC due to the COVID-19 pandemic.

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

(c) Reversal of write-down of inventories comprised write-down of inventories included in other expenses of HK$5,104,000 (2019: reversal of write-down of inventories included in other income of HK$19,896,000) and reversal of write-down of inventories included in cost of sales of HK$10,216,000 (2019: HK$39,804,000).

## 6. FINANCE COSTS

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings | **484,066** | 376,262 |
| Finance costs for discounted bills receivables | **558** | 4,106 |
| Interest on financial guarantees given by Nongtou | **19,643** | 20,115 |
| Interest on payables to suppliers | **161,178** | 140,893 |
| Imputed interest on convertible bonds | **59,241** | 62,475 |
| Interest on lease liabilities | **140** | 225 |
| | **724,826** | 604,076 |

## 7. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Year (2019: Nil). No provision for the PRC enterprise income tax has been made as the subsidiaries operating in the PRC incurred a loss for the Year (2019: The PRC enterprise income tax has been provided at the rate of 25% on the estimated assessable profits of subsidiaries operating in the PRC).

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| The PRC enterprise income tax | — | 478 |
| | — | 478 |
| Deferred tax | | |
| Origination and reversal of temporary differences, net | **22,340** | 39,239 |
| **Income tax expenses** | **22,340** | 39,717 |

## 8. DIVIDENDS

The Board does not recommend the payment of any dividend for the Year (2019: Nil).

## 9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the Year attributable to owners of the Company of approximately HK$2,429,949,000 (2019: HK$1,067,819,000), and the weighted average number of ordinary shares in issue during the Year of 8,507,940,377 (2019: 6,868,842,623) shares.

As the assumed conversion of the convertible bonds has an anti-dilutive effect, the diluted loss per share was equal to the basic loss per share for the years ended 31 December 2020 and 2019.

## 10. INVENTORIES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **122,832** | 210,092 |
| Finished goods | **20,535** | 159,404 |
| | **143,367** | 369,496 |

## 11. TRADE AND BILLS RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **573,288** | 648,479 |
| Bills receivables | **595** | 2,907 |
| | **573,883** | 651,386 |
| Loss allowance | **(439,117)** | (383,516) |
| | **134,766** | 267,870 |

The Group normally allows credit terms of 30 to 90 days (2019: 30 to 90 days) to established customers. An ageing analysis of the trade and bills receivables at the end of the reporting period, based on the invoice date, is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **94,662** | 176,294 |
| 1 to 2 months | **23,275** | 46,925 |
| 2 to 3 months | **6,556** | 9,760 |
| 3 to 6 months | **8,617** | 14,214 |
| Over 6 months | **1,656** | 20,677 |
| | **134,766** | 267,870 |

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

Trade and bills receivables are non-interest-bearing. At the end of the reporting period, the Group had no significant concentration of credit risk while the total trade and bills receivables due from the Group's largest customer and the five largest customers are 7.6% (2019: 11.0%) and 22.9% (2019: 33.0%), respectively.

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Prepayments | **32,809** | 57,762 |
| Deposits and other debtors | **95,494** | 93,198 |
| PRC value-added tax ("**VAT**") and other tax receivables | **103,441** | 106,316 |
| Receivables from disposal of assets *(a)* | **140,617** | 464,576 |
| Receivables from resumption of the Dihao Properties | **408,316** | — |
| | **780,677** | 721,852 |

*Remark:*

(a) Included in the receivables from disposal of assets was the remaining consideration receivable from the Changchun Land Reserve Centre in respect of the disposal of certain buildings, machineries and fixtures erected on a piece of land located in Luyuan District in Changchun during the year ended 31 December 2014, which amounted to HK$119,048,000 (2019: HK$444,444,000) at 31 December 2020. On 25 July 2019, the Changchun Land Reserve Centre and the potential purchaser, a municipal government-owned enterprise (the "**Potential Purchaser**") entered into a transfer agreement pursuant to which the Changchun Land Reserve Centre agreed to transfer and the Potential Purchaser agreed to take up the rights and obligations in relation to the receivable.

## 13. CASH AND CASH EQUIVALENTS

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **153,323** | 79,509 |
| Pledged bank deposits | **29,874** | 9,916 |
| | **183,197** | 89,425 |
| *Less:* pledged bank deposits for issuance of bills payables | **(29,874)** | (9,916) |
| | **153,323** | 79,509 |

At the end of the reporting period, the cash and bank balances and pledged bank deposits of the Group denominated in Renminbi amounted to HK$156,279,000 (2019: HK$44,361,000). Renminbi held by subsidiaries in the PRC is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

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

## 14. TRADE AND BILLS PAYABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | | |
| — To third parties *(a)* | **991,094** | 1,174,565 |
| — To the Nongtou Group *(b)* | **343,055** | 372,467 |
| | **1,334,149** | 1,547,032 |
| Bills payables | **23,810** | 4,444 |
| | **1,357,959** | 1,551,476 |

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

*Remarks:*

(a) At 31 December 2019, the trade payables to third parties included a balance payable to a state-owned supplier (the "**State-owned Supplier**") of approximately HK$66.8 million, which was unsecured and interest-bearing at 8.0% to 9.0% per annum after the lapse of the credit periods. During the Year, a one-off interest of approximately HK$12.5 million charged at a rate of 14.7% has been charged by the State-owned Supplier for the 2019 and 2018 outstanding balances.

In addition, during the Year, 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 31 December 2020.

(b) The trade payables to the Nongtou Group are unsecured and interest-bearing at 7.2% to 12.0% per annum (2019: 7.2% to 12.0% per annum) after the lapse of the credit periods.

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

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **44,092** | 319,900 |
| 1 to 2 months | **19,021** | 113,490 |
| 2 to 3 months | **7,412** | 32,609 |
| Over 3 months | **1,287,434** | 1,085,477 |
| | **1,357,959** | 1,551,476 |

## 15. OTHER PAYABLES AND ACCRUALS

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accruals for employee benefits | **416,656** | 274,352 |
| Payables for purchases of machinery | **126,825** | 123,518 |
| Receipts in advance *(a)* | **114,377** | 131,449 |
| Payables to the Nongtou Group *(b)* | **713,766** | 559,850 |
| VAT and other duties payables | **196,008** | 133,098 |
| Accruals and other creditors *(c)* | **1,395,213** | 825,299 |
| | **2,962,845** | 2,047,566 |

*Remarks:*

(a) The balance represents the contract liabilities from contracts with customers within HKFRS 15 at the end of the reporting period and the movements (excluding those arising from increases and decreases both occurred within the same year) of the contract liabilities during the years are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **131,449** | 177,179 |
| Recognised as revenue | **(132,926)** | (177,179) |
| Receipt of advances or recognition of receivables | **114,377** | 131,449 |
| Exchange realignment | **1,477** | — |
| At 31 December | **114,377** | 131,449 |

***Unsatisfied or partially unsatisfied performance obligations***

All the performance obligations that were unsatisfied (or partially unsatisfied) at 31 December 2020 are parts of contracts that have an original expected duration of one year or less. Given that the Group applies the practical expedient in paragraph 121(a) of HKFRS 15, the transaction price allocated to these performance obligations is not disclosed.

(b) The payables represent advances from the subsidiaries of Nongtou which are unsecured, interest-bearing at 7.2% to 12.0% per annum (2019: 7.2% to 12.0% per annum) and are repayable on demand and guarantee charge payables to Nongtou which bear interest at 3.5% per annum (2019: 3.5% per annum).

(c) At 31 December 2019, accruals and other creditors included payables to the State-owned Supplier amounting to approximately HK$25,470,000 which were unsecured, interest-bearing at 8.0% to 12.0% per annum after the lapse of the credit periods and repayable on demand.

## 16. SHARE CAPITAL

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 20,000,000,000 (2019: 20,000,000,000) ordinary shares of HK$0.1 each | **2,000,000** | 2,000,000 |

| | **2020** | | 2019 | |
|---|---|---|---|---|
| Issued and fully paid: | **No. of shares** | ***HK$'000*** | No. of shares | *HK$'000* |
| At 1 January | **7,678,798,032** | **767,880** | 6,398,998,360 | 639,900 |
| New shares issued *(a), (b)* | **1,228,607,685** | **122,861** | 1,279,799,672 | 127,980 |
| At 31 December | **8,907,405,717** | **890,741** | 7,678,798,032 | 767,880 |

*Remarks:*

(a) On 20 August 2019, the Company issued 1,279,799,672 new shares to the Subscriber pursuant to a subscription agreement dated 19 July 2019 at the subscription price of HK$0.10 per First Subscription Share, with an aggregate net proceed of approximately HK$127,980,000.

(b) On 29 April 2020, the Company issued 1,228,607,685 new shares to the Subscriber pursuant to a subscription agreement dated 27 September 2019 at the subscription price of HK$0.1080 per Second Subscription Share, with an aggregate net proceed of approximately HK$132,690,000.

## 17. FINANCIAL GUARANTEE CONTRACTS

As mentioned in note 2.2, the Guarantor Subsidiaries have jointly provided corporate guarantees in respect of financing facilities granted to Dajincang starting from year 2010. The maximum amount of the financing facilities was RMB2.5 billion at 31 December 2020 (2019: RMB2.5 billion). The Directors have tried to engage a professional valuer to assess the fair value of the Financial Guarantee Contracts. However, since the management of the Group was unable to obtain sufficient and reliable financial information of Dajincang, the professional valuer was unable to complete the valuation. Therefore, no financial guarantee liability has been recognised in the consolidated financial statements in respect of the Financial Guarantee Contracts. During the Year, certain subsidiaries of the Company, as guarantors of the Financial Guarantee Contracts, incurred interest of HK$153.5 million (2019: HK$110.8 million) in respect of the borrowings of Dajincang, which was recorded in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the draft independent auditor's report from Mazars CPA Limited, the external auditor of the Company (the "**Auditor**"), on the Group's consolidated financial statements for the Year:

## DISCLAIMER OF OPINION

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

## BASIS FOR DISCLAIMER OF OPINION

As a result of similar limitations of audit scope as mentioned below, among others, a disclaimer of opinion was expressed by us in our report dated 26 March 2020 on the consolidated financial statements of the Group for the year ended 31 December 2019.

**(i) Financial guarantee contracts**

As mentioned in notes 2.2 and 33 to the consolidated financial statements, certain subsidiaries of the Company had jointly provided corporate guarantees in connection with financing facilities granted to a former major supplier of the Group which amounted to RMB2.5 billion at 31 December 2019 and 2020 (the "**Financial Guarantee Contracts**"). In addition, an indirect major shareholder of the Company provided a confirmation in writing that it would undertake all the liabilities that might arise from the Financial Guarantee Contracts and provide financial support to the Group to enable it to continue as a going concern (the "**Confirmation**"). The Financial Guarantee Contracts and the Confirmation were not recognised in the consolidated financial statements. As the management of the Company had not developed and applied an appropriate accounting policy for the Confirmation and had not determined the fair value of the Financial Guarantee Contracts for initial recognition and the carrying amount for subsequent measurement in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), we were unable to determine whether any adjustments in respect of the Financial Guarantee Contracts and the Confirmation at 31 December 2019 and 2020 were necessary, which may have a significant impact on the financial position of the Group at 31 December 2019 and 2020, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 December 2020.

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

As discussed in note 2.2 to the consolidated financial statements, at 31 December 2020, the Group had net current liabilities and capital deficiency of HK$11,118 million and HK$6,017 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK$2,433 million for the year ended 31 December 2020. In addition, any potential liabilities or obligations arising from the Financial Guarantee Contracts may have a significant negative impact on the liquidity position of the Group. These conditions, along with other matters as set forth in note 2.2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the management of the Company and the development of the events as described in note 2.2 to the consolidated financial statements. The management of the Company is of the opinion that the Group would be able to continue as a going concern. Therefore, the consolidated financial statements have been prepared on a going concern basis.

We were unable to obtain sufficient appropriate audit evidence regarding the use of going concern assumption in the preparation of the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at 31 December 2020. 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.

## UPDATE ON REMEDIAL MEASURES

The consolidated financial statements of the Group for the year ended 31 December 2019 was subject to the disclaimer of opinion of the Auditor as detailed in 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 2020 Interim Report, the management of the Company wishes to provide the latest update on the relevant remedial measures taken or to be taken as follows, which have been considered, recommended and agreed by the Audit Committee after its critical review of the management's position:

**1. Financial Guarantee Contracts**

As detailed in the 2019 Annual Report and the 2020 Interim Report, the Guarantor Subsidiaries provided the financial guarantees for the Dajincang Indebtedness and 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 Dajincang for the professional valuer to conduct an accurate valuation. During the Year, the Board and the board of GSH continued to actively explore different options to resolve the Financial Guarantee Contracts.

The Group recognised the finance costs amounted to approximately HK$153.5 million (2019: HK$110.8 million) pursuant to the Financial Guarantee Contracts which was included in other expenses for the Year.

As disclosed in the 2020 Interim Report, subsequent to the completion of the transfer of all the rights and benefits of the BOC Transferrd Loans from BOC Jilin Branch to China Cinda and as announced in a joint announcement of the Company and GSH on 18 January 2021, China Cinda has transferred the BOC Transferred Loans to Changchun Rudder. After the completion of the transfer of the BOC Transferred Loans to Changchun Rudder, the management of the Group continued to discuss the next step of the debt restructuring plan with Changchun Rudder and the Local Government with the aims to achieve debt restructuring and the significant improvement of the financial position of the Group. Under the applicable law in the PRC, the debtors are required to purchase the loans owed by themselves in order to discharge the debts and liabilities owed to them. On 26 March 2021, each of the BOC Borrowers entered into the Repurchase Agreement with Changchun Rudder respectively, pursuant to which Changchun Rudder had agreed to sell to each of the BOC Borrowers, and each of the BOC Borrowers had agreed to purchase, all of the rights and benefits of their respective portions of the BOC Transferred Loans. The completion of the Repurchase Agreements took place on 31 March 2021. Upon the completion of the Repurchase Agreement entered into between Changchun Rudder and Dajincang, all the obligations of the Guarantor Subsidiaries under the Financial Guarantee Contracts have been discharged. For details of the Repurchase Agreements, please refer to the joint announcements of the Company and GSH dated 26 March 2021 and 31 March 2021.

The Auditor has confirmed that the disclaimer opinion in relation to the Financial Guarantee Contracts on the Group's consolidated financial statements for the year ending 31 December 2021 will be removed upon the completion of the Repurchase Agreement entered into between Changchun Rudder and Dajincang. However, since the Auditor may be unable to determine whether any adjustments in respect of the Financial Guarantee Contracts as at 31 December 2020 are necessary, which may have a significant impact on the financial position of the Group as at 31 December 2020, and on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ending 31 December 2021.

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

As detailed in the 2019 Annual Report, the Auditor has raised fundamental uncertainties relating to the ability of the Group to continue as going concern. In addition to the remedial actions disclosed in the 2019 Annual Report, the management of the Company has taken and will take steps as outlined in note 2.2 to improve the financial position of the Group.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

## BUSINESS REVIEW

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

During the Year, the operating environment of the Group remained challenging. The COVID-19 pandemic continued to put pressure on the global economic environment. Suspension of business operations, disrupted supply chains and stringent lockdown measures have led to stagnant demand and significant economic slowdown. As a result, the gross domestic product of China shrank by 6.8% for the first quarter of the Year, which was the first decline since 1992. Starting from the second quarter of the Year, China's economy slowly recovered and recorded a growth rate of 2.3% for the full year. Nevertheless, the growth rate was far below the initial estimates before the outbreak of COVID-19.

In light of the challenging operating environment, the Group has suspended its production operations in the Harbin, Dehui, Xinglongshan and Jinzhou sites to reduce operating cash outflow and secure sufficient financial resources until the market conditions improve. For details of the abovementioned suspensions, please refer to the Company's announcements dated 24 September 2019, 16 December 2019, 10 February 2020 and 29 May 2020 (collectively, the "**Suspension of Operation Announcements**").

With respect to corn supply, global corn production for the year 2020/21 is estimated at 1,133.9 million metric tonnes ("**MT**") (2019/20: 1,116.6 million MT), according to the estimates from the United States Department of Agriculture in January 2021. The high demand from China together with shrinking supply from major exporters such as Argentina have driven up the international corn price. International corn price surged from 608 US cents per bushel (equivalent to RMB1,670 per MT) at the end of 2019 to 718 US cents per bushel (equivalent to RMB1,844 per MT) by the end of 2020. In the PRC, corn harvest in 2020/21 is estimated to produce approximately 264.7 million MT (2019/20: approximately 260.8 million MT) of corn, with consumption volume estimated at 288.2 million MT for 2021 (2020: 278.3 million MT). A shortage of corn of approximately 20 million MT is expected in the PRC in 2021. In addition, the PRC grain traders have been piling up their grain reserves due to the concerns with regard to food security in light of the continued impact of the outbreak of COVID-19 pandemic on the global economy. All these factors have contributed to the surge in the domestic corn price during the Year. As a result, corn price in the PRC rose to RMB2,529 per MT (end of 2019: RMB1,850 per MT) by the end of 2020. Apart from the rising corn cost, the economic slowdown and shrunken demand for the Group's products have made it not commercially viable to continue with the production operation for the upstream corn refinery. To mitigate the situation, apart from the suspension of the Group's upstream operations in the Harbin, Dehui and Xinglongshan sites, the Group has also suspended the production operation of 錦州元成生化科技有限公司 (Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*) ("**Jinzhou Yuancheng**") since the second quarter of the Year. Consequently, the revenue for the Group's upstream corn-refinery business dropped significantly during the Year. 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.

During the Year, the impact of the outbreak of the African Swine Fever (the "**ASF**") continued to affect the husbandry and feed industries in China. The pig herd in China shrank by at least 40% at the beginning of the Year as compared to that prior to the outbreak of the ASF in 2018. During the first quarter of the Year, the slack season after the consumption peak during the Chinese New Year together with the lockdown in most of the cities in the PRC have kept the demand for feed products including lysine low. The feed market remained stagnant during the first half of the Year. As the Group has suspended its amino acid production operation since August 2019, only insignificant amount of sales was recorded during the Year. Nevertheless, the swine husbandry industry has started to recover at pace faster than expected starting from the end of the second quarter of the Year. Driven by tightened corn supply and herd recovery, the demand for lysine products started to recover slowly in the second half of the Year. As a result, domestic lysine price has improved, ranging from RMB6,600 to RMB10,500 per MT during the Year. However, the increased corn cost has also posed pressure on the profit margin of the amino acid products. Moreover, the tight operating cash flow of the Group. All these factors have contributed to the continued suspension of its amino acids production operation during the Year. Consequently, the Group's lysine segment recorded a significant decrease in revenue for the Year. However, with the huge demand of pork in the PRC, pork producers were keen to increase pork production, it is expected that the swine husbandry industry will continue to recover in 2021. Construction of large-scale pig farms with better management than traditional pig farms were underway with the expectation to combat the possible return of the ASF. It is expected that the operation of these new farms will create increased demand for feed products including lysine. The Group will continue to observe market conditions and optimise operation, utilise its research and development capabilities to improve operational efficiency and develop other amino acid products complementary to its current product mix to better serve its customers.

As for the sweeteners market, global production volume for 2019/20 was about 166.2 million MT. Although the COVID-19 pandemic had an impact on sugar consumption, the industry still saw a demand growth for sugar in 2020. In addition, the decrease in sugar production in Thailand, the second largest sugar exporter in the world, and the speculations about a possible sugar shortage and tight supply of shipment containers as a result of lockdowns in major ports have caused sugar price to soar since the third quarter of the Year. As a result, international sugar price increased to 15.49 US cents per pound (equivalent to RMB2,232 per MT) (end of 2019: 13.42 US cents per pound, equivalent to RMB2,070 per MT) by the end of 2020. In the PRC, domestic sugar production remained at similar level at 10.7 million MT in 2019/20 harvest, while consumption stayed at around 15.4 million MT. However, the expiry of the extra tariff on out-of-quota sugar imports in the PRC in May 2020 has led to the increase in sugar imports into China and dragged down the domestic sugar price to RMB5,356 per MT (end of 2019: RMB5,900 per MT) by the end of 2020. In addition, as a number of users in Huadong area has opted for vertical integration and expanded upstream to secure their feedstocks, the sweeteners market has shrunk and competition has further intensified. As such, the Group has suspended the operation of the downstream sweeteners production facilities in the Jinzhou and Xinglongshan sites and consolidated its resources into the Shanghai production site which has higher operational efficiency until market recovers.

The operating environment for the Group's polyol chemical business continued to be challenging during the Year. The Group's research and development team is proactively looking at the possibility to restructure its product portfolio to include high value-added products in response to changing market needs. The Group will continue to observe the market and take a prudent approach before resuming its polyol chemical business.

The operating environment of the Group in 2021 will continue to be challenging as corn price is expected to remain at high level in 2021. On top of this, the COVID-19 pandemic will continue to impact the global economy. In the short run, the Group will continue to monitor closely the development of the COVID-19 pandemic, the market conditions as well as the financial conditions of the Group and ensure the production operation of the Group's subsidiaries to resume as soon as possible to the extent practicable. In the long run, the Group will continue to strengthen its market position by utilising its brand name, strive to provide excellent customer service and be customer-oriented to understand better their ever-changing demands and product requirements, further improve cost effectiveness and product mix through continuous research and development efforts; and at the same time, optimise utilisation rate to achieve operational efficiency in response to market changes. With respect of the Group's financial position, leveraging on the synergies as a result of the introduction and participation of the resourceful shareholder with state-owned enterprise background, the Group will endeavour to implement the debt restructuring plan with the aim to achieve the significant improvement of the financial position of the Group.

## FINANCIAL PERFORMANCE

During the Year, due to the continued impact of the outbreak of COVID-19, the slowdown of economic growth in the PRC, and the tight operating cash flow of the Group as a result of the prolonged challenging operating environment, most of the Group's production facilities have been suspended. The suspension of operations has led to a significant drop in sales volume. The consolidated revenue of the Group for the Year dropped significantly by 81.4% to approximately HK$848.9 million (2019: HK$4,561.4 million). Gross profit for the Year decreased by approximately 63.6% to approximately HK$74.1 million (2019: HK$203.5 million).

However, as the portion of expenses in relation to the suspension of certain production facilities amounted to approximately HK$498.5 million (2019: HK$342.7 million) has been allocated to other expenses; and the Group has directed its resources to the Shanghai site which has higher operational efficiency during the Year, the gross profit margin of the Group improved by 4.2 percentage points to 8.7% (2019: 4.5%).

The increase in finance cost as a result of the default in repayment of certain loans and the increase in interest of trade payables continued to weigh on the Group's performance during the Year. In addition, a one-off loss amounted to approximately HK$728.2 million in relation to the modification of the convertible bonds (the "**Convertible Bonds**") issued by the Company to Modern Agricultural Industry Investment Limited ("**Modern Agricultural**" or the "**Bondholder**") in October 2015 with the maturity date extended from 15 October 2020 to 15 June 2023 has been recognised during the Year. As a result, the Group recorded a net loss of approximately HK$2,433.3 million (2019: HK$1,116.3 million) and LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) of approximately HK$1,229.2 million (2019: EBITDA (i.e. earning before interest, taxation, depreciation and amortisation): HK$32.4 million) during the Year. To improve the financial performance and financial position of the Group, the management will continue to focus its efforts in 1) speeding up the process of resumption of the remaining part of the Relevant Properties in order to increase the operating cash flow; 2) actively negotiating with banks/creditors to push forward the debt restructuring plan to lower the debt level of the Group; 3) closely monitoring market changes to streamline the production processes and identify the opportunity for partial resumption of operations to improve the Group's financial conditions and operational efficiency; and 4) introducing potential investors to further strengthen the working capital and financial position of the Group.

**Upstream products**

(Revenue: HK$248.6 million (2019: HK$2,626.3 million))
(Gross profit: HK$18.3 million (2019: HK$123.2 million))

During the Year, the suspension of the Group's upstream operations has led to a significant decline in sales volume. The sales volume of corn starch and other corn refined products decreased to approximately 75,000 MT (2019: 694,000 MT) and 29,000 MT (2019: 431,000 MT), respectively. As a result, the revenue of the Group's upstream business dropped by approximately 90.5% to approximately HK$248.6 million (2019: HK$2,626.3 million). Due to stagnant demands from the downstream markets, the average selling prices of corn starch dropped by 2.9% during the Year. As a result, the gross profit of corn starch segment dropped to approximately HK$16.9 million (2019: HK$237.5 million), with gross profit margin of approximately 8.9% (2019: 13.2%). On the other hand, due to the recovery of swine husbandry industry in the second half of the Year, 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 6.3% during the Year. As a result, other corn refined product segment recorded gross profit of HK$1.4 million (2019: gross loss: HK$114.3 million), with gross profit margin of approximately 2.5% (2019: gross loss margin: 13.9%).

Internal consumption of corn starch and other corn refined products decreased to approximately 8,000 MT (2019: 159,000 MT) during the Year.

**Amino acids**

(Revenue: HK$36.6 million (2019: HK$991.6 million))
(Gross profit: HK$1.4 million (2019: Gross loss: HK$53.2 million))

The amino acids segment consists of lysine, protein lysine and threonine products. Due to the continued impact of the outbreak of the ASF and the COVID-19 pandemic, the Group has suspended the production operation of amino acid products and continued to sell its inventory to minimise cash outflow during the Year. As most of the inventory has been exhausted prior to the Year, the amino acids segment recorded insignificant sales volume during the Year. The revenue of the amino acids segment dropped drastically to approximately HK$36.6 million (2019: HK$991.6 million) as sales volume dropped to 7,000 MT (2019: 186,000 MT). The amino acids segment recorded an insignificant gross profit of approximately HK$1.4 million (2019: gross loss: HK$53.2 million) and a gross profit margin of 3.8% (2019: gross loss margin: 5.4%) during the Year.

The Group will continue to closely monitor the development of the ASF and COVID-19 outbreaks, the market conditions as well as the financial conditions of the Group to resume the production operation of amino acids segment as soon as possible to the extent practicable. The Group's research and development team will strive to dedicate its effort to lower production cost, at the same time, proactively look for opportunities to develop other amino acid products complementary to the current product mix of the Group to cater to different types of animals to increase the Group's flexibility and ability to respond to market changes.

**Corn sweeteners**

(Revenue: HK$558.1 million (2019: HK$918.4 million))
(Gross profit: HK$52.0 million (2019: HK$113.7 million))

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

During the Year, the sales volume of corn sweeteners dropped by 41.8% to approximately 174,000 MT (2019: 299,000 MT) due to suspensions of sweetener facilities in the Xinglongshan site and the Jinzhou site. As a result, revenue declined by 39.2% to approximately HK$558.1 million (2019: HK$918.4 million) and the gross profit decreased by 54.3% to HK$52.0 million (2019: HK$113.7 million) during the Year. As a number of users in Huadong area opted for vertical integration and extended upstream to secure their feedstock, the sweetener market shrank and competition become keen. In addition, the expiry of the extra tariff on out-of-quota sugar imports also attracted more imported sugar into China during the Year. As a result, the average selling price of sweetener products dropped. To mitigate the situation, the Group has suspended most of the sweeteners production facilities in low profit margin region in Northeast China and consolidated its resources in the Shanghai production site. Consequently, the gross profit margin of corn sweeteners of approximately decreased by 3.1 percentage points to approximately 9.3% (2019: 12.4%).

**Polyol chemicals**

(Revenue: HK$5.6 million (2019: HK$25.1 million))
(Gross profit: HK$2.4 million (2019: HK$19.8 million))

The polyol chemicals segment consists of polyol chemicals such as glycols and resins, anti-freeze products, hydrogen and ammonia. The Group had suspended most of its polyol chemicals production since March 2014. During the Year, the Group continued to utilise its polyol chemicals inventories to produce and sell a small amount of anti-freeze products. During the Year, the revenue of the polyol chemicals segment declined by 77.7% to approximately HK$5.6 million (2019: HK$25.1 million). As substantial provision in relation to the closing inventories of polyol chemicals has been made in previous years, the polyol chemicals segment recorded a gross profit of approximately HK$2.4 million (2019: HK$19.8 million) with a gross profit margin of 42.9% (2019: 78.9%).

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

**Export sales**

During the Year, export sales accounted for approximately 4.5% (2019: 13.3%) of the Group's total revenue. The export sales of upstream products, amino acids and corn sweeteners decreased by 86.7%, 98.6% and 81.0% respectively to approximately HK$22.5 million (2019: HK$168.8 million), HK$5.4 million (2019: HK$380.9 million) and HK$10.7 million (2019: HK$56.4 million) respectively. Such decreases were mainly attributable to the suspension of most of the Group's production facilities during the Year. No export sales of polyol chemicals was recorded for the Year and for the year ended 31 December 2019.

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

***Other income and gains***

During the Year, other income and gains decreased by 43.1% to approximately HK$389.7 million (2019: HK$684.4 million). Such decrease was mainly attributable to the difference between the recognition of a one-off compensation for the resumption of the Relevant Properties in the amount of approximately HK$428.4 million for the year ended 31 December 2019 and the recognition of gain on resumption of properties owned by a subsidiary of GSH amounted to approximately HK$289.4 million during the Year.

***Selling and distribution costs***

During the Year, the selling and distribution costs decreased by 78.9% to approximately HK$85.9 million (2019: HK$407.8 million), accounting for approximately 10.1% (2019: 8.9%) of the Group's revenue. Such decrease was mainly attributable to the decline in sales volume.

***Administrative expenses***

During the Year, administrative expenses decreased by 17.8% to approximately HK$362.3 million (2019: HK$440.7 million), representing 42.7% (2019: 9.7%) of the Group's revenue. Such decrease was mainly attributable to (1) the decrease in salaries and other staff benefits by HK$39.3 million to approximately HK$99.0 million (2019: HK$138.3 million) as the number of headcount had been reduced; and (2) the decrease in depreciation by HK$25.7 million to approximately HK$127.1 million (2019: HK$152.8 million) as most of property, plant and equipments were fully depreciated during the Year.

### *Other expenses*

During the Year, other expenses increased by 90.3% to approximately HK$971.2 million (2019: HK$510.4 million). Such increase was mainly attributable to 1) the increase in expense in relation to idle capacity of certain suspended production facilities of the Group by HK$155.8 million to approximately HK$498.5 million (2019: HK$342.7 million); 2) the increase in finance costs pursuant to the Financial Guarantee Contracts by HK$42.7 million to approximately HK$153.5 million (2019: HK$110.8 million); and 3) a one-off expense for the impairment of property, plant and equipment of approximately HK$124.9 million as a result of the suspension of certain production facilities of the Group during the Year.

### *Finance costs*

During the Year, finance costs of the Group increased by 20.0% to approximately HK$724.8 million (2019: HK$604.1 million), which was mainly attributable to the increase in interest on payables to suppliers amounted to approximately HK$161.2 million (2019: HK$140.9 million) and the increase in the interest on bank and other borrowings to approximately HK$484.1 million (2019: HK$376.3 million) as a portion of the default interest have been accrued during the Year.

### *Income tax expenses*

Due to the recognition of temporary differences, the Group recorded a deferred tax expense of approximately HK$22.3 million (2019: HK$39.2 million) during the Year. Meanwhile, all the subsidiaries of the Group recorded tax losses during the Year and no income tax expenses were recorded for the Year (2019: HK$0.5 million). As a result, the Group recorded tax expense of approximately HK$22.3 million (2019: HK$39.7 million) for the Year.

### *Loss shared by non-controlling shareholders*

During the Year, GSH and another non-wholly-owned subsidiary recorded loss of approximately HK$11.1 million (2019: HK$169.6 million), leading to loss attributable to the non-controlling interests amounted to approximately HK$3.3 million (2019: HK$48.5 million).

## FINANCIAL RESOURCES AND LIQUIDITY

### Net borrowing position

The total borrowings as at 31 December 2020 increased by approximately HK$481.8 million to approximately HK$8,109.6 million (31 December 2019: HK$7,627.8 million) as a result of net repayment of certain bank and other borrowings of approximately HK$58.2 million and exchange rate adjustment of approximately HK$540.0 million as at 31 December 2020. On the other hand, the cash and bank balances and pledged bank deposits as at 31 December 2020 also increased but at a lower rate by approximately HK$93.8 million to approximately HK$183.2 million (31 December 2019: HK$89.4 million). As a result, the net borrowings increased by approximately HK$388.0 million to HK$7,926.4 million (31 December 2019: HK$7,538.4 million).

**Structure of interest-bearing bank and other borrowings**

As at 31 December 2020, the Group's interest-bearing bank and other borrowings of approximately HK$8,109.6 million (31 December 2019: HK$7,627.8 million) were all (2019: all) denominated in Renminbi. The average interest rate during the Year was approximately 8.5% per annum (2019: 6.9% per annum).

The percentage of interest-bearing and other borrowings wholly repayable within one year and in the second to the fifth years were 97.7% and 2.3% (31 December 2019: 73.2% and 26.8%), respectively. As at 31 December 2020, interest-bearing bank and other borrowings amounted to approximately RMB314.2 million (31 December 2019: RMB334.0 million) have been charged at fixed interest rates ranging from 7.0% to 13.6% (31 December 2019: 7.0% to 13.6%) for terms from one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings were charged with reference to floating interest rate.

**Convertible bonds**

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

As announced by the Company on 19 July 2019 and 27 September 2019, the Company entered into two subscription agreements with the Subscriber, respectively, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,279,799,672 new shares at the subscription price of HK$0.10 per First Subscription Share and an aggregate of 1,228,607,685 new shares at the subscription price of HK$0.1080 per Second Subscription Share. As a result of the completion of the two subscriptions of shares as mentioned above, the conversion price of the outstanding Convertible Bonds has been adjusted, in accordance with the terms and conditions of the Convertible Bonds, to HK$0.21 per share upon the completion of the Second Subscription on 29 April 2020 and the maximum number of shares issuable by the Company upon full conversion of the Convertible Bonds is 5,172,759,833 shares.

On 25 September 2020, the Company and Modern Agricultural entered into the supplemental agreement (the "**Supplemental Agreement**") dated 25 September 2020 for the proposed extension of the original maturity date of the Convertible Bonds, i.e., 15 October 2020, (the "**Maturity Date**") by 32 months to 15 June 2023 (the "**Extended CB Maturity Date**") (the "**Extension**"). The resolutions to approve the Extension were passed by way of poll at the extraordinary general meeting of the Company held on 30 November 2020 and the Extension took effect from that date. For the details of the Extension, please refer to the announcement of the Company dated 25 September 2020 and the circular of the Company dated 5 November 2020.

At 31 December 2020, the Convertible Bonds were divided into liability component and equity component which amounted to approximately HK$849.6 million and HK$972.1 million (31 December 2019: HK$1,034.2 million and HK$290.6 million) respectively, a one-off loss in relation to the modification of the Convertible Bonds amounted to HK$728.2 million (2019: Nil) and effective imputed interest of HK$59.2 million (2019: HK$62.5 million) were recorded to profit or loss during the Year.

**Turnover days, liquidity ratios and gearing ratios**

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. During the Year, trade receivables turnover days increased to approximately 58 days (31 December 2019: 21 days) as longer credit periods were granted to a number of customers with good track records in the Shanghai site.

The trade payables turnover days increased to approximately 685 days (31 December 2019: 156 days) during the Year, as the Group had negotiated with its suppliers to extend the credit terms.

As the Group's inventory decreased by 61.2% to HK$143.4 million (31 December 2019: HK$369.5 million) as a result of the suspension of most of its production facilities during the Year, the inventory turnover days increased to 68 days (31 December 2019: 31 days).

As at 31 December 2020, the current ratio and the quick ratio of the Group remained at 0.1 (31 December 2019: 0.1) and 0.1 (31 December 2019: 0.1) respectively. The Group recorded a net loss of approximately HK$2,433.3 million (2019: HK$1,116.3 million) during the Year, leading to recorded net liabilities value of approximately HK$6,017.1 million (31 December 2019: HK$4,346.0 million). As a result, gearing ratio in terms of debts (i.e. total interest-bearing bank and other borrowings) to total deficit and debts (i.e. aggregate total of shareholders deficit, non-controlling interests and total interest-bearing bank and other borrowings) increased to 387.5% (31 December 2019: 232.4%). To improve the financial position of the Group, the Company has adopted a series of strategic measures as outlined in note 2.2.

## 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 4.5% (2019: 13.3%) of the Group's revenue in which most of these transactions were denominated in US Dollars. The Directors have been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi and there is no material unfavourable exposure to foreign exchange fluctuation in the short run. Therefore, the Group does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. However, the Group will constantly review the economic situation, development of the Group's business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in the future as and when necessary.

## IMPORTANT TRANSACTIONS DURING THE YEAR

Reference is made to the joint announcements of the Company and GSH on 24 August 2020 and 30 September 2020 in relation to the Dihao Resumption. Dihao Foodstuff entered into a compensation agreement with the Luyuan Government on 30 September 2020, pursuant to which Dihao Foodstuff shall surrender the Dihao Properties to the Luyuan Government upon the signing of the agreement. Dihao Foodstuff is expected to receive a total compensation of approximately RMB443.0 million (equivalent to approximately HK$497.7 million) as a result of the Dihao Resumption and all the compensation in the amount of RMB443.0 million has been received by Dihao Foodstuff as at the date of this announcement.

Given that the Group was bound to follow the request of the Luyuan Government to surrender the Dihao Properties under the Dihao Resumption and there was no discretion to act in an opposite manner, the Board is of the view that the Dihao Resumption did not constitute a "transaction" under Chapter 14 of the Listing Rules.

## FUNDRAISING ACTIVITIES

### Subscription of new shares under the specific mandate

As disclosed in the announcement of the Company dated 27 September 2019, the Group was in an imminent need of cash. On the other hand, the Subscriber has expressed its confidence in the future development of corn related industry and the Group, and its interest to further invest in the Group. On 27 September 2019, the Company entered into a subscription agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,228,607,685 new ordinary shares at the subscription price of HK$0.1080 per Second Subscription Share. The gross proceeds from the Second Subscription amounted to approximately HK$132,690,000. The net proceeds from the Second Subscription, after the deduction of relevant expenses, amounted to approximately HK$132,000,000. The Second Subscription Shares represent 16.0% of the total issued share capital of the Company immediately before the completion of the Second Subscription and approximately 13.8% of the total issued share capital of the Company as enlarged by the allotment and issue of the Second Subscription Shares. All conditions precedent to the Second Subscription Completion have been fulfilled or waived and the Second Subscription Completion took place on 29 April 2020.

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

| **Intended use of proceeds** | **Timeline of use** | **Amount of the intended use of net proceeds (HK$) (approx.)** | **Actual use of net proceeds during the Year (HK$) (approx.)** |
|---|---|---|---|
| Repayment of trade and other payables of the Group's PRC subsidiaries | April 2020 – September 2020 | 56,000,000 | 56,000,000 |
| Procurement of corn and other operational expenses | April 2020 – September 2020 | 76,000,000 | 76,000,000 |
| | | 132,000,000 | 132,000,000 |

**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 GSH dated 21 September 2018. Under a loan agreement (the "**Loan Agreement**") entered into between 錦州大成食品發展有限公司 (Jinzhou Dacheng Food Development Co., Ltd.) ("**Jinzhou Dacheng**"), which is an indirect wholly-owned subsidiary of GSH, and 中國銀行股份有限公司錦州港支行 (Jinzhou Port Branch of Bank of China*) (the "**Lender**") in respect of a 12-month fixed term loan due in December 2018 (the "**Loan**"), Jinzhou Dacheng 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 GSH and certain members of the GSH Group have also provided guarantees and securities to secure the Loan. Jinzhou Dacheng has failed to fulfill certain financial 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 GSH Group. As at the date of this announcement, 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 with the outstanding principal amount of approximately RMB19.8 million.

(2) As disclosed in the joint announcement of the Company and GSH dated 25 February 2020, the Group has defaulted in, among other, the repayment of certain loans under the loan agreements entered into between a subsidiary of the Company and 中國進出口銀行吉林省分行 (Jilin Branch of The Export-Import Bank of China*) ("**Jilin Branch Export-Import Bank**") with an aggregate outstanding principal amount of approximately RMB648.0 million together with outstanding interest (the "**GBT Jilin Branch Export-Import Loan**") and the syndicated loan agreement entered into among a subsidiary of the Company and Jilin Branch CCB, 中國建設銀行股份有限公司長春西安大路支行 (Changchun Xian Road Branch of China Construction Bank Corporation*) ("**Changchun CCB**") and 中國進出口銀行 (The Export-Import Bank of China*) ("**Export-Import Bank**") with an aggregate outstanding principal amounts of approximately RMB1.8 billion together with outstanding interest (the "**GBT Syndicated Loan**").

The maximum liabilities guaranteed by the Company under the GBT Jilin Branch Export-Import Loan and the GBT Syndicated Loan are approximately RMB648.0 million and RMB2.0 billion, respectively, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements. Certain subsidiaries of the Company have also provided collaterals to secure the GBT Jilin Branch Export-Import Loan and the GBT Syndicated Loan.

As at the date of this announcement, the Group has yet to receive any waiver for the default in the repayment of the GBT Jilin Branch Export-Import Loan and the GBT Syndicated Loan.

(3) Reference is made to the joint announcement of the Company and GSH 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 announcement, Jinzhou Yuancheng has failed to fulfill certain financial covenants under the Yuancheng Loan Agreements. 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 GSH Group. As at the date of this announcement, Jinzhou Yuancheng has yet to receive waiver from the Yuancheng Lenders.

(4) Reference is made to the joint announcement of the Company and GSH dated 23 December 2020 regarding certain loan agreements entered into between certain subsidiaries of the Group, 中國農業銀行股份有限公司農安縣支行(Nongan Branch of Agricultural Bank of China Co., Ltd.*) ("**Nongan Branch ABC**") and Changchun CCB with aggregate outstanding principal amounts of RMB920.0 million (excluding loans of the GSH Group) together with respective outstanding interest (the "**GBT ABC Loan**") and RMB740.0 million together with respective outstanding interest (the "**GBT CCB Loan**") respectively, have become immediately due and payable before their maturity date in June 2021 in contemplation of the debt restructuring plan of the the Group and the GSH Group. The maximum liability guaranteed by the Company under GBT ABC Loan is RMB1,660.0 million, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements and certain subsidiaries of the Company have also provided collaterals to secure such loan agreement in amount of approximately RMB400.0 million. The maximum liability guaranteed by the Company under GBT CCB Loan is RMB1,000.0 million.

On the other hand, the fixed term loan under a loan agreement entered into between a subsidiary of GSH and Nongan Branch ABC with an aggregate outstanding principal amount of RMB180.0 million together with respective outstanding interest (the "**GSH ABC Loan**") have become immediately due and payable before their maturity date in June 2021 in contemplation of the debt restructuring plan of the Group and the GSH Group. The GSH Group has defaulted in the repayment of such loan and the outstanding principal amount as at the date of this announcement. The maximum liability guaranteed by GSH is RMB250.0 million, together with all interests, liabilities, fees and penalty that may accrue under such loan agreement. Certain subsidiaries of GSH have also provided collaterals to secure such loan.

In addition, such default in repayment of such loans by the Group and the GSH Group may also trigger cross default of other loan agreements entered into by the Group and the GSH Group.

As disclosed in the joint announcement of the Company and GSH date 23 December 2020, the transfer agreements entered into between China Cinda and each of Jilin Branch ABC and Jilin Branch CCB, Jilin Branch ABC (acting on behalf of Nongan Branch ABC) and Jilin Branch CCB (acting on behalf of Changchun CCB) have agreed to sell to China Cinda, and China Cinda has agreed to purchase, all of the rights and benefits of the ABC Transferred Loans at a consideration of approximately RMB414.7 million; and the CCB Transferred Loans at a consideration of approximately RMB583.6 million. The ABC Transferred Loans include, among others, the GBT ABC Loan and the GSH ABC Loan. The CCB Transferred Loans include among others, the GBT CCB Loan and Changchun CCB portion of the GBT Syndicated Loan.

The Company will endeavour to facilitate the implementation of the debt restructuring plan for the ABC Transferred Loans and CCB Transferred Loans under similar arrangement to the Repurchase Agreements. The Board expects that after the completion of the debt restructuring, the financial position of the Group will be significantly improved.

## 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 中國銀行股份有限公司長春偉峰國際支行 (Bank of China Changchun Weifeng International Branch*) ("**Weifeng BOC**") between November 2010 to March 2015.

As disclosed in the joint announcement of the Company and GSH dated 6 November 2018 and the circular of the Company dated 3 December 2018, Dajincang still did not have sufficient financial resources to repay the Dajincang Indebtedness with an 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, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements.

As disclosed in the joint announcement of the Company and GSH dated 25 February 2020, the Group has been notified by BOC Jilin Branch in mid-February 2020 that it has entered into a transfer agreement with China Cinda in relation to the BOC Transferred Loans which included the Dajincang Indebtedness guaranteed by the Guarantor Subsidiaries. As further disclosed in the joint announcement of the Company and GSH dated 18 January 2021, China Cinda has transferred the BOC Transferred Loans to Changchun Rudder. Subsequently, Dajincang entered into a Repurchase Agreement with Changchun Rudder on 26 March 2021, pursuant to which Changchun Rudder had agreed to sell to Dajincang, and Dajincang had agreed to purchase, all of the rights and benefits of the Dajincang Indebtedness. The completion of the Repurchase Agreements took place on 31 March 2021. Upon the completion of the Repurchase Agreement entered into between Changchun Rudder and Dajincang, all the obligations of the Guarantor Subsidiaries under the Financial Guarantee Contracts have been discharged. For details of the Repurchase Agreements, please refer to the joint announcements of the Company and GSH dated 26 March 2021 and 31 March 2021.

## SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

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

Reference is made to the Suspension of Operation Announcements. Due to poor market sentiment, the COVID-19 pandemic and the significant increase in the domestic corn price, the overall demand for corn refined products have been negatively affected 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 all upstream operation. In addition, the poor market sentiment and the outbreak of the ASF continued to pose impacts on amino acids segment. As a result, the operations of the Group's amino acids production facilities have been suspended since August 2019 to minimise cash outflow.

The COVID-19 pandemic has also brought about concerns in relation to food security in China. The stockpiling of corn by grain traders in the PRC and the relaxation of extra import tariffs on out-of-quota sugar are expected to continue in 2021. As such, domestic corn price is expected to remain at high level in 2021; and domestic sugar/sweeteners producers will continue to face keen competition from importers from other countries. The delay in transportation as a result of lockdowns, the tension between China and the United States (the "**US**") and other trade restrictions may also pose challenges to the Group's export business. On the other hand, the PRC government is also keen on rebuilding the swine husbandry industry and restoring the herd population to satisfy the demand from the huge population in the PRC. This will bring the feed industry in China back on track which will help to boost the respective markets of the Group's upstream corn refined products and amino acid products.

As at the date of this announcement, the suspensions of operation as disclosed in the Suspension of Operation Announcements remained. The management 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 rate had an impact on the performance and financial positions of the Group in various aspects, for instance, the impairment of certain suspended production facilities in amount of approximately HK$124.9 million recognised during the Year. The management of the Group will continue to assess the impact of the COVID-19 pandemic on the financial positions of the Group and closely monitor the market conditions and the financial conditions of the Group, 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 2020 Interim Report, in relation to, among others, the relocation of production facilities of the Group to the Xinglongshan site. The relocation plan of the Group will be financed by the Group's internal resources, the proceeds from the compensation of the resumption of the Relevant Properties and through collaboration with industry players. The management of the Company is of the view that the existing technology knowhow of the Group is sufficient for the relocation of the production facilities.

Due to the challenging economic environment and the continued impact of the COVID-19, the Group will continue to assess the changing market conditions and the progress of the resumption of the Relevant Properties so as to the update and revise the feasibility studies for submission to, among others, the relevant government bodies for approval. As such, the expected time for relocation of production facilities is revised as follows:

| **Products to which the production facilities relate** | **Production site to which the production facilities will be relocated** | **Production capacity of the relevant production facilities to be relocated** *(MT per annum)* | **Expected time for the relocation of production facilities** *(Remark)* |
|---|---|---|---|
| Methanol | the Xinglongshan site | 165,000 | Tentatively to be completed by 2021 |
| Modified starch — food grade (phase 1) | the Xinglongshan site | 20,000 | June 2019 – December 2021 |

| **Products to which the production facilities relate** | **Production site to which the production facilities will be relocated** | **Production capacity of the relevant production facilities to be relocated** *(MT per annum)* | **Expected time for the relocation of production facilities** *(Remark)* |
|---|---|---|---|
| Modified starch (phase 2) | the Xinglongshan site | 60,000 | Pending the availability of capital and favourable market condition |
| Corn oil | the Xinglongshan site | 63,000 | June 2019 – December 2021 |
| Lysine | the Xinglongshan site/ Dehui City of Changchun | 100,000 | Pending the availability of capital and favourable market condition |
| Corn refinery | Dehui City of Changchun | 600,000 | Pending the availability of capital and favourable market condition |
| Amino acids (other varieties of amino acids complementary to current product mix with smaller capacity) | the Xinglongshan site | 20,000 | Pending the availability of capital and favourable market condition |

*Remark:* 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.

## IMPORTANT EVENT AFFECTING THE GROUP SUBSEQUENT TO THE YEAR UNDER REVIEW

As mentioned in the paragraph headed "Update on Remedial Measures" of this announcement, the BOC Transferred Loans have been transferred to Changchun Rudder and each of the BOC Borrowers entered into a Repurchase Agreement on 26 March 2021 to purchase their respective portion of the BOC Transferred Loans so as to discharge their debts and liabilities owed to Changchun Rudder. The considerations of the GBT Indebtedness and the GSH Indebtedness will be financed by the proceeds from the compensation for the resumption of the Relevant Properties. The completion of the Repurchase Agreements took place on 31 March 2021. For details of the Repurchase Agreements, please refer to the joint announcements of the Company and GSH dated 26 March 2021 and 31 March 2021.

## FUTURE PLANS AND PROSPECTS

In order to maintain the competitiveness of the Group, the Group will strive to maintain its market position, diversify its product range and enhance its capability in developing high value-added products and new applications through in-house research; internally, the Group will endeavour to materialise the debts restructuring plan to improve the financial position of the Group and introduce strategic investors to form business alliance for sustainable development.

The operating environment in 2021 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 pose uncertainties to the economy and the pace of recovery. On top of this, the economic slowdown will further add pressure on the already lackluster market. In the short run, the Group will continue to monitor closely the development of the ASF and COVID-19 pandemic, the market conditions as well as the financial conditions of the Group and will ensure the production operation of the Group's subsidiaries to resume as soon as possible to the extent practicable. The Group will also take the opportunity of the relocation of its production facilities to the Xinglongshan site to readjust its product mix and capacity to adapt to market changes, and at the same time, enhance operational efficiency through continuous research and development efforts to lower operating costs.

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

In the long run, the Group will continue to strengthen its market position by utilising its brand name, strive to provide excellent customer service and be customer oriented to understand better their ever-changing demands and product requirements, further improve cost effectiveness and product mix through continuous research and development efforts. The Board will optimise its risk/return decision with respect to capital expenditure and will take a prudent approach in relation to capacity expansion.

## NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2020, the Group had approximately 4,000 (2019: 4,300) 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 on 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 competitive 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.

## PURCHASE, SALES 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 Year.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2019: Nil).

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

To the best knowledge and belief of the Board, the Company has complied with all other code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules during the Year.

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

Having made specific enquiry of each of the Directors, all the Directors have confirmed to the Company that they have complied with the required standards set out in the Model Code and the Company's code of conduct during the Year.

## AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal control systems. The Audit Committee currently comprises all independent non-executive Directors, namely Mr. Ng Kwok Pong (the chairman of the committee), Ms. Dong Hongxia and Mr. Yeung Kit Lam.

The duties of the Audit Committee are, among others, to review the Company's half yearly and annual financial statements and to make recommendations to the Board on appointment and removal of the Auditor. The Audit Committee meets regularly with the Company's senior management, internal audit team and the Auditor to consider the Company's financial reporting process, the effectiveness of internal control, the audit process and risk management.

The Group's annual results for the Year have been reviewed by the Audit Committee and the Audit Committee held three meetings during the Year.

## ANNUAL GENERAL MEETING

The 2020 annual general meeting of the Company will be held on Thursday, 27 May 2021 at 11:30 a.m.. Notice of the 2020 annual general meeting will be published and issued to shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 24 May 2021 to Thursday, 27 May 2021, both days inclusive, during which period no transfer of shares will be registered in order to determine the entitlements to the attendance at the annual general meeting.

Shareholders are reminded that in order to qualify for the attendance at the annual general meeting, they must ensure that all transfers accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 21 May 2021.

## FULL DETAILS OF FINANCIAL INFORMATION

The annual report of the Company, including the information required by the Listing Rules, will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.globalbiochem.com) in due course.

## SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in this announcement have been agreed by the Auditor, Mazars CPA Limited, ("**Mazars**"), to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standard on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Mazars on this announcement.

By order of the Board
**Global Bio-chem Technology Group Company Limited**
**Zhang Zihua**
*Acting Chairman*

Hong Kong, 31 March 2021

*As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Zhang Zihua and Mr. Liu Shuhang; one non-executive Director, namely, Mr. Gao Dongsheng; and three independent non-executive Directors, namely Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam.*