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GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00809)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS	Six months ended 30 June		Change %
	(Unaudited)		
	2018	2017	
	(HK\$ million)	(HK\$ million)	
Revenue	2,933.9	2,017.1	45.5
Gross profit	168.1	356.8	(52.9)
Net loss for the period	(768.4)	(333.0)	N/A
Net loss attributable to owners of the Company	(719.9)	(312.5)	N/A
Basic loss per share (HK cents)	(11.2)	(4.9)	N/A
Interim dividend per share (HK cents)	Nil	Nil	N/A

* *for identification purposes only*

The board (the “Board”) of directors (the “Directors”) of Global Bio-chem Technology Group Company Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018 (the “Period”).

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

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	<i>4</i>	2,933,947	2,017,148
Cost of sales		(2,765,887)	(1,660,376)
Gross profit		168,060	356,772
Other income and gains	<i>4</i>	82,720	50,010
Selling and distribution expenses		(290,611)	(197,693)
Administrative expenses		(233,557)	(221,071)
Other expenses		(191,099)	(111,678)
Finance costs	<i>5</i>	(303,126)	(207,221)
LOSS BEFORE TAX	<i>6</i>	(767,613)	(330,881)
Income tax expense	<i>7</i>	(789)	(2,118)
LOSS FOR THE PERIOD		(768,402)	(332,999)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign subsidiaries		55,598	(41,768)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(712,804)	(374,767)

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Note			
LOSS ATTRIBUTABLE TO:			
	Owners of the Company	(719,871)	(312,491)
	Non-controlling interests	<u>(48,531)</u>	<u>(20,508)</u>
		<u>(768,402)</u>	<u>(332,999)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
	Owners of the Company	(670,780)	(353,003)
	Non-controlling interests	<u>(42,024)</u>	<u>(21,764)</u>
		<u>(712,804)</u>	<u>(374,767)</u>
LOSS PER SHARE			
	Basic and diluted	9 <u>HK(11.2) cents</u>	<u>HK(4.9) cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		6,898,020	7,188,318
Prepaid land lease payments		588,382	620,865
Deposits paid for acquisition of property, plant and equipment		66,088	63,153
Goodwill		—	—
Intangible assets		5,350	5,358
Interests in an associate		—	—
		<u>7,557,840</u>	<u>7,877,694</u>
CURRENT ASSETS			
Inventories		502,463	592,465
Trade and bills receivables	10	664,952	517,402
Prepayments, deposits and other receivables		1,105,431	1,047,812
Due from an associate		—	17,142
Pledged deposits		366,092	406,209
Cash and bank balances		258,856	304,362
		<u>2,897,794</u>	<u>2,885,392</u>
Non-current assets held for sale	11	<u>21,492</u>	<u>—</u>
		<u>2,919,286</u>	<u>2,885,392</u>
CURRENT LIABILITIES			
Trade and bills payables	12	1,949,727	1,646,893
Other payables and accruals		2,185,338	1,915,400
Due to an associate		4,123	—
Current portion of interest-bearing bank and other borrowings		6,108,975	4,861,642
Tax payable		173,221	176,952
		<u>10,421,384</u>	<u>8,600,887</u>
NET CURRENT LIABILITIES		<u>(7,502,098)</u>	<u>(5,715,495)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>55,742</u>	<u>2,162,199</u>

		30 June 2018	31 December 2017
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		2,142,166	3,555,927
Deferred income		142,276	150,165
Deferred tax liabilities		8,665	9,561
Convertible bonds		941,963	913,070
		3,235,070	4,628,723
NET LIABILITIES		(3,179,328)	(2,466,524)
CAPITAL AND RESERVES			
Share capital	13	639,900	639,900
Reserves		(3,718,212)	(3,047,432)
Deficit attributable to owners of the Company		(3,078,312)	(2,407,532)
Non-controlling interests		(101,016)	(58,992)
TOTAL DEFICIT		(3,179,328)	(2,466,524)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of the Group for the Period were authorised for issue in accordance with a resolution of the board of Directors of the Company on 29 August 2018.

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 May 1999. The principal activity of the Company is investment holding. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong. The Group is principally engaged in the manufacture and sale of corn refined products, corn based biochemical products and corn sweeteners. There were no significant changes in the nature of the Group's principal activities during the Period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

2.2 GOING CONCERN

The Group recorded a loss of approximately HK\$768.4 million (2017: approximately HK\$333.0 million) for the Period and as at 30 June 2018, the Group recorded net current liabilities of approximately HK\$7,502.1 million (31 December 2017: approximately HK\$5,715.5 million) and net liabilities of approximately HK\$3,179.3 million (31 December 2017: approximately HK\$2,466.5 million). In addition, any potential liabilities or obligations arising from the financial guarantee contracts as discussed in note 14 to the interim condensed consolidated financial statements may have a significant negative impact on the liquidity position of the Group. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances and based on the recommendations of the audit committee of the Company (the "Audit Committee") after its critical review of the management's position, the management of the Company has taken the following steps to improve the Group's financial position:

(a) Active negotiations with banks to obtain adequate bank borrowings

The management of the Company has been actively negotiating with banks in the People's Republic of China (the "PRC" or "China") to secure the renewals of the Group's short-term and long-term bank loans to meet its liabilities when fall due. A debt-equity swap proposal for restructure of the debt of the Company's subsidiaries in Changchun was submitted to the People's Government of Jilin Province for consideration. On 26 March 2018, Mr. Yuan Weisen, the Chairman of the Company, met with the representatives of the Bank of China ("BOC") on behalf of the Group, and it was proposed that the Group should provide a revised debt-equity swap proposal to BOC. On 2 April 2018, a revised debt-equity swap proposal was submitted to BOC for their consideration. During the Period, the management of the Company met with BOC, the People's Government of Jilin Province and relevant professional parties on a regular basis to discuss the proposal and other alternatives to restructure the existing bank borrowings.

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

Reference is made to the joint announcement of the Company and Global Sweeteners Holdings Limited ("GSH" and together with its subsidiaries, the "GSH Group") dated 2 March 2017. The Company and GSH have entered into termination agreements with Jilin Province Taiyangshen Construction Engineering Co. Ltd. (吉林省太陽神建築工程有限公司) (the "Former Purchaser") to terminate the property transfer agreements dated 14 April 2016 entered into between the Former Purchaser and certain members of the Group and the GSH Group respectively (the "Property Disposal Agreements") in respect of the sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the buildings erected thereon (the "Relevant Properties"); and the asset disposal agreements dated 14 April 2016 entered into between the Former Purchaser and certain members of the Group and the GSH Group respectively (the "Asset Disposal Agreements") in respect of the sale and purchase of, including among others, prepayments, trade and other receivables and/or inventories and tools of the Group and the GSH Group (the "Relevant Assets").

During the negotiation process with the Former Purchaser with respect to the termination agreements, the Company, together with GSH, have been in discussion with another potential purchaser (the "Potential Purchaser") in respect of the sale and purchase of the Relevant Properties. The Potential Purchaser is a municipal government-owned enterprise. Pursuant to a letter of intent from the Potential Purchaser, it is expected that the Potential Purchaser shall purchase the Relevant Properties with a consideration of not less than RMB2.2 billion, subject to the price to be determined by way of auction. Given the Potential Purchaser is a municipal government-owned enterprise, the management is prudently optimistic that the disposal will be materialised. During the Period, the Group has received an official document dated 28 April 2018 from the Changchun Safeguard Housing Project Leading Group (長春市保障性安居工程領導小組) in which the Relevant Properties have been confirmed as part of the subject properties for redevelopment under the PRC's Slum Redevelopment Policy. Such policy is expected to speed up the process of the disposal of the Relevant Properties through shortened procedures and exemption of certain taxes. If the disposal of the Relevant Properties is materialised, the Group will have additional funds to finance its operations and the capital expenditure for relocation of its production facilities in Changchun.

On 21 July 2017, a subsidiary of the Company entered into a sale and purchase agreement for the purchase of the entire equity interests in Changchun Dihao Foodstuff Development Co. Ltd. (“Dihao Foodstuff”) and Changchun Dihao Crystal Sugar Industry Development Co. Ltd., indirect wholly-owned subsidiaries of GSH (together with Dihao Foodstuff, the “Target Companies”) (the “Transaction”). Upon the completion of the Transaction, the Target Companies shall cease to be the subsidiaries of GSH. As the Target Companies own part of the land which accounts for approximately one-fifth of the total site area of the land located in Luyuan District, it would be more efficient for the Group to be in charge of the valuation of the land, and the negotiation and execution of the land transfer as quicker decision-making process and less administrative hurdles are expected if only one party is involved. The management of the Group expects that the purchase of the Target Companies could help expedite the process of negotiation with the Potential Purchaser, as well as the process of completion of the disposal as it can be handled solely by the management of the Group without involving the management of the GSH Group.

The completion of the Transaction is conditional upon fulfillment of certain conditions. Up to the date of approval of these interim condensed consolidated financial statements, those conditions have not been completely fulfilled. Specifically, the management of GSH is still in the process of discussing with the relevant banks for the release of the guarantees and/or charges given by a member of the GSH Group in respect of the indebtedness of Dihao Foodstuff. As disclosed in the announcement of GSH dated 16 July 2018, as additional time is required for the fulfillment of the conditions precedent, the Long Stop Date has been extended to 31 December 2018.

(c) Monitoring of the Group’s operating cash flows

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

(d) Financial support from the ultimate holding entity of a major shareholder

The Group had received a written confirmation dated 8 June 2018 from Jilin Agricultural Investment Group Co. Ltd. (吉林省農業投資集團有限公司, “Nongtou”) that it will continue to provide financial support to the Group and the GSH Group in the next 24 months for their operation on a going concern basis and undertake all the liabilities that may arise from the financial guarantee contracts as discussed in note 14 to the interim condensed consolidated financial statements. Such assistance received by the Group is not secured by any assets of the Group.

In addition, the Group signed a corn purchasing agreement with Jilin Jiliang Assets Supply Chain Management Co. Ltd. (吉林吉糧資產供應鏈管理有限公司, “Jiliang”), a subsidiary of Nongtou, in May 2017 to ensure a stable supply of corn kernels. During the six months ended 30 June 2018, the Group purchased approximately 38,000 metric tonnes (“MT”) of corn kernels from Jiliang which accounted for 4.2% of total corn procurement of the Group. At 30 June 2018, trade payables and other payables to Jiliang amounted to HK\$186.0 million (31 December 2017: HK\$114.3 million) and HK\$476.6 million (31 December 2017: HK\$481.0 million) respectively. The trade and other payables are interest bearing at 8% to 12% per annum.

In January 2018, one of the subsidiaries in Jinzhou, through the connection of Nongtou, signed a one year 500,000MT corn procurement contract with a state-owned enterprise to secure a stable supply of corn kernels in Jinzhou for the year 2018.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value amounted to RMB1,212.3 million at 30 June 2018. It is tasked to consolidate the state-owned investments in the agricultural sector in Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group, to provide synergistic effects among its various investments in the agricultural sector in Jilin Province and to provide adequate and sufficient financial support to the Group.

Based on the considerations as outlined in (a), (b), (c) and (d) above, the Directors are of the view that the Company could operate as a going concern in foreseeable future. The validity of the going concern assumption on which the interim condensed consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the management and the development of the events as described above. The interim condensed consolidated financial statements of the Group have been prepared on a going concern basis and therefore, do not include any adjustments relating to the realisation and reclassification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) as explained below, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements for the Period are the same as those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017.

The Group has adopted, for the first time, the following new and revised HKFRSs that are relevant to the Group.

Annual Improvements to HKFRSs	2014-2016 Cycle: HKFRS 1 and HKAS 28
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

Annual Improvements to HKFRSs: 2014-2016 Cycle: HKFRS 1 and HKAS 28

1) HKFRS 1: Deletion of short-term exemptions for first-time adopters

The amendments delete the paragraphs of certain short-term exemptions and related effective dates which provided reliefs that are no longer applicable.

2) HKAS 28: Measuring an associate or joint venture at fair value

The amendments clarify that the election to measure associates or joint ventures at fair value or retain the fair value measurement applied by investment entity associates or joint ventures can be made separately for each associate or joint venture at the relevant date.

HK(IFRIC)-Int 22: Foreign Currency Transactions and Advance Consideration

The interpretation specifies the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency. The effect on adoption of HKFRS 9 is not material to the interim condensed consolidated financial statements of the Group.

HKFRS 9 “Financial Instruments”

HKFRS 9, which superseded HKAS 39 in its entirety, introduces new requirements on the classification and measurement of financial assets and financial liabilities, hedge accounting and impairment of financial assets. HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held-to-maturity, loans and receivables and available for sale. Under HKFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under HKAS 39 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics.

The adoption of HKFRS 9 does not have any significant effect on the Group’s accounting policies on classification and measurement of financial liabilities and financial assets.

In addition, HKFRS 9 introduces new requirements on impairment of financial assets. HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The new expected credit loss model applies to financial assets measured at amortised cost but not to investments in equity instruments. The Group’s financial assets measured at amortised cost consist of trade and other receivables, pledged deposits and cash and bank balances. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The application of HKFRS 9 results in earlier recognition of credit losses which are not yet incurred in respect of the Group’s financial assets measured at amortised cost. The expected credit losses are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the differences between the cash flows due to the entity in accordance with the contract and the cash flows that are expected to receive). Expected credit losses are discounted at the effective rate of the financial asset.

Under HKFRS 9, loss allowances are measured on either one of the following bases:

- 12-month expected credit loss: result from possible default events within 12 months; and
- Lifetime expected credit loss: result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime expected credit loss.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Impact of the new impairment model

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9 for classification and measurement (including impairment) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018.

The effect on adoption of HKFRS 9 is not material to the interim condensed consolidated financial statements of the Group.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It replaced HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations. Under HKFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control whether it is at a point in time or over time requires judgement. An entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, by applying the following five steps:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract(s);
- Step 3: Determine the transaction price, the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer;
- Step 4: Allocate the transaction price to the performance obligations in the contract(s); and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

The adoption of this standard does not have a significant impact on the measurement and recognition of revenue of the Group.

2.4 NEW AND REVISED HKFRSs NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, and which are relevant to the Group, in the interim condensed consolidated financial statements:

Annual Improvements to HKFRSs	<i>2015-2017 Cycle¹</i>
HKFRS 16	<i>Leases¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments¹</i>
Amendments to HKAS 28	<i>Investments in Associates and Joint Ventures²</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Construction of Assets between an Investor and its Associate or Joint Venture²</i>

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective date to be determined

The management of the Company is in the process of assessing the possible impact on the future adoption of these new and revised HKFRSs, but is not yet in a position to reasonably estimate their impact on the Company's interim condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four (six months ended 30 June 2017: 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 about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment's profit or loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that finance costs as well as corporate income and expenses are excluded from such measurement.

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

Segment results:

For the six months ended 30 June 2018

	Upstream products <i>HK\$'000</i>	Amino acids <i>HK\$'000</i>	Corn sweeteners <i>HK\$'000</i>	Polyol chemicals <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from:						
External customer	1,269,428	1,092,030	561,872	10,617	—	2,933,947
Intersegment	88,708	—	57,632	—	(146,340)	—
Total revenue	1,358,136	1,092,030	619,504	10,617	(146,340)	2,933,947
Segment results	(309,487)	(109,143)	(15,001)	(14,498)		(448,129)
Bank interest income						9,128
Unallocated revenue						73,592
Unallocated expenses						(99,078)
Finance costs						(303,126)
Loss before tax						(767,613)
Income tax expense						(789)
Loss for the period						(768,402)

For the six months ended 30 June 2017

	Upstream products <i>HK\$'000</i>	Amino acids <i>HK\$'000</i>	Corn sweeteners <i>HK\$'000</i>	Polyol chemicals <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from:						
External customer	675,489	1,006,037	332,752	2,870	—	2,017,148
Intersegment	<u>21,452</u>	<u>—</u>	<u>70,937</u>	<u>—</u>	<u>(92,389)</u>	<u>—</u>
Total revenue	<u>696,941</u>	<u>1,006,037</u>	<u>403,689</u>	<u>2,870</u>	<u>(92,389)</u>	<u>2,017,148</u>
Segment results	<u>(120,986)</u>	<u>65,367</u>	<u>(17,122)</u>	<u>(10,016)</u>		<u>(82,757)</u>
Bank interest income						1,080
Unallocated revenue						32,611
Unallocated expenses						(74,594)
Finance costs						<u>(207,221)</u>
Loss before tax						(330,881)
Income tax expense						<u>(2,118)</u>
Loss for the period						<u>(332,999)</u>

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of goods	<u>2,933,947</u>	<u>2,017,148</u>
Other income and gains		
Bank interest income	9,128	1,080
Loss arising from the sale of packing materials and by-products, net	—	(2,137)
Government grants (<i>note</i>)	21,765	20,380
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net	504	91
Amortisation of deferred income	5,411	4,890
Reversal of impairment of trade and bills receivables, net	10,560	—
Reversal of impairment of prepayments, deposits and other receivables, net	—	13,447
Reversal of write-down of inventories	23,395	—
Gain on disposal of property, plant and equipment, net	—	1,798
Others	<u>11,957</u>	<u>10,461</u>
	<u>82,720</u>	<u>50,010</u>

Note: Government grants represented the rewards to certain subsidiaries located in the PRC for environmental protection of land owned by these subsidiaries and energy efficiency rebates with no further obligation and conditions to be complied with.

5. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank and other borrowings	225,371	164,631
Finance costs for discounting bills receivable	9,845	239
Interest on trade and other payables	39,017	15,203
Imputed interest on convertible bonds	<u>28,893</u>	<u>27,148</u>
	<u>303,126</u>	<u>207,221</u>

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	2,784,824	1,619,142
Depreciation	254,942	197,543
Loss (Gain) on disposal of property, plant and equipment, net	29	(1,798)
Amortisation of prepaid land lease payments	13,309	11,082
Amortisation of intangible assets	8	7
(Reversal of impairment) Impairment of trade and bills receivables, net	(10,560)	6,771
Reversal of write-down of inventories, net	(23,420)	(6,585)
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net	(504)	(91)
Impairment (Reversal of impairment) of prepayments, deposits and other receivables, net	10,474	(13,447)
Corn subsidy, included in cost of sales	(41,754)	(142,622)
	<u><u> </u></u>	<u><u> </u></u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax — The PRC enterprise income tax	<u>789</u>	<u>2,118</u>
Income tax expense	<u><u>789</u></u>	<u><u>2,118</u></u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2018. PRC enterprise income tax has been provided at the rate of 25% (2017: 25%) on the estimated assessable profits of subsidiaries operating in the PRC.

8. DIVIDEND

The Board has resolved not to recommend any payment of interim dividend for the six months ended 30 June 2018 (2017: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2018 is based on the loss for the Period attributable to owners of the Company and the weighted average number of 6,398,998,360 ordinary shares (2017: 6,398,998,360 ordinary shares).

No diluted loss per share is presented for the six months ended 30 June 2018 and 2017 as conversion of the Company's convertible bonds would result in an anti-dilutive effect. Therefore, diluted loss per share is the same as basic loss per share for the six months ended 30 June 2018 and 2017.

10. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Trade receivables	1,039,359	915,290
Bills receivable	40,363	31,627
Impairment	<u>(414,770)</u>	<u>(429,515)</u>
	<u>664,952</u>	<u>517,402</u>

The Group normally allows credit terms to established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management of the Group. The Group's trade receivables relate to a large number of diversified customers. There is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 1 month	378,364	321,131
1 to 2 months	172,583	131,801
2 to 3 months	71,816	53,886
3 to 6 months	37,413	8,856
Over 6 months	<u>4,776</u>	<u>1,728</u>
	<u>664,952</u>	<u>517,402</u>

11. NON-CURRENT ASSETS HELD FOR SALE

Pursuant to the Company's announcement dated 29 May 2018, a subsidiary of the Company and an independent third party (the "Purchaser") entered into a provisional agreement on 29 May 2018 in relation to the proposed disposal of office in Hong Kong at a consideration of HK\$184,849,800 (the "Disposal"). A resolution for the Disposal was approved at the extraordinary general meeting of the Company held on 26 July 2018. The formal sale and purchase agreement has been signed. The Disposal is expected to be completed in September 2018.

12. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Trade payables		
— To third parties	1,403,609	1,155,008
— To Jiliang	185,978	114,271
	1,589,587	1,269,279
Bills payable	360,140	377,614
	1,949,727	1,646,893

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 1 month	275,881	488,446
1 to 2 months	130,831	111,137
2 to 3 months	272,027	139,354
Over 3 months	1,270,988	907,956
	1,949,727	1,646,893

13. SHARE CAPITAL

The following is a summary of the authorised share capital and the issued share capital of the Company:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Authorised:		
20,000,000,000 (31 December 2017: 20,000,000,000) ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
6,398,998,360 (31 December 2017: 6,398,998,360) ordinary shares of HK\$0.10 each	<u>639,900</u>	<u>639,900</u>

14. FINANCIAL GUARANTEES

Several subsidiaries of the Company have jointly provided corporate guarantees to a bank in the PRC in respect of banking facilities granted to Changchun Dajincang Corn Procurement Ltd. (長春大金倉玉米收儲有限公司) (“Dajincang”) starting from 2010 (the “Financial Guarantee Contracts”). The maximum amount of the banking facilities was RMB2.5 billion at 30 June 2018 and 31 December 2017. The Directors have tried to engage a professional valuer to assess the fair value of the Financial Guarantee Contracts. However, since the Directors were unable to obtain sufficient and reliable financial information of Dajincang, the professional valuer was unable to complete the valuation. Therefore, no financial guarantee liability has been recognised in the interim condensed consolidated financial statements in respect of the Financial Guarantee Contracts.

During the six months ended 30 June 2018, certain subsidiaries of the Company, as guarantors of the Financial Guarantee Contracts, paid interest of HK\$70.8 million (2017: Nil) in respect of the bank borrowings of Dajincang, which was recorded in “other expenses” in the interim condensed consolidated statement of profit or loss and other comprehensive income.

15. CAPITAL COMMITMENTS

As at 30 June 2018, the Group had capital commitments as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Contracted, but not provided for:		
Purchase/Construction of property, plant and equipment	<u>642,251</u>	<u>611,848</u>

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 segment serves as a feedstock which break 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.

UPDATE ON REMEDIAL MEASURES

The consolidated financial statements of the Group for the year ended 31 December 2017 had been subject to a disclaimer of opinion by the auditor of the Company as detailed in the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report"). Further to the management response and relevant remedial measures taken and to be taken by the management as set out in the paragraph headed "Update on Remedial Measures" in the 2017 Annual Report, the management of the Company wishes to update on certain remedial measures taken by the management during the Period:

1. Financial guarantee contracts

As disclosed in the joint announcement of the Company and GSH dated 8 December 2017 and the circular of the Company dated 29 December 2017, the term of the loan ("Previous Supplier Loan") advanced by BOC to Dajincang under certain loan agreements entered into between Dajincang and BOC in 2016 and 2017 ("Previous Supplier Loan Agreements") with an aggregate principal amount of RMB2.49 billion had expired in September 2017, and Dajincang still did not have sufficient financial resources to repay the Previous Supplier Loan when the same fell due. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, Dajincang proposed to refinance the Previous Supplier Loan by entering into the new loan agreements with BOC for all indebtedness due and owing to BOC ("New Supplier Loan"). As a condition to the New Supplier Loan, new supplier guarantees ("New Supplier Guarantees") were granted by certain subsidiaries of the Company to BOC to guarantee the obligations of Dajincang under the New Supplier Loan. The amount drawn down by Dajincang as at 30 June 2018 and up to the date of this announcement amounted to RMB2.49 billion (31 December 2017: RMB2.49 billion). During the Period, the Group paid HK\$70.8 million (2017: Nil) for the repayment of finance costs to BOC pursuant to the New Supplier Guarantees, which was included in other expenses for the Period.

As disclosed in the 2017 Annual Report, the New Supplier Guarantees given by members of the Group for the benefit of Dajincang were not recognised in the Group's consolidated financial statements for the year ended 31 December 2017 because the professional valuer could not proceed with the valuation as the Company was unable to obtain reliable financial information

of Dajincang for professional valuer to conduct an accurate valuation. During the Period, as a result of similar difficulties encountered by the Group in 2017, no valuation as at 30 June 2018 could be conducted.

During the Period, the Group has continued to negotiate with BOC to find solutions to relieve the Group from its obligations under the New Supplier Guarantees, and continued to explore other alternatives in case Dajincang fails to repay the New Supplier Loan which will consequently trigger the Group's obligations as the guarantors pursuant to the New Supplier Guarantees.

2. Material uncertainty relating to going concern

As detailed in the 2017 Annual Report, the auditor has raised fundamental uncertainties relating to the going concern of the Group, save as the remedial actions disclosed in the 2017 Annual Report, the management has taken and will take steps as outlined in note 2.2 to the interim condensed consolidated financial statements to improve the Group's financial position.

Dependent on the successful and favourable outcomes of the steps being taken as described in note 2.2 to the interim condensed consolidated financial statements, the Board, including the Audit Committee, is of the view that the Group will be able to continue as a going concern in foreseeable future. Please refer to note 2.2 to the interim condensed consolidated financial statements for details.

3. Prepayments, deposits and other receivables

As detailed in the 2017 Annual Report, the Group shall receive an aggregate compensation of RMB719.0 million from the Changchun Land Reserve Centre (長春市土地儲備中心) ("Land Reserve Centre") for the resumption of certain buildings, machineries and fixtures erected on a piece of land in Changchun, the PRC. As at 31 December 2017, a receivable from the Land Reserve Centre amounting to RMB400.0 million was still outstanding. The auditor was unable to obtain sufficient appropriate audit evidence on the recoverability of the receivable. As such, the auditor was unable to determine whether any adjustments to the receivable as at 31 December 2017 were necessary.

Based on the understanding of the management of the Company, the outstanding receivable of RMB400.0 million is recoverable but is subject to the completion of sale and purchase of pieces of land in Luyuan District, Changchun, the PRC and the Relevant Properties with the Potential Purchaser, which is a municipal government-owned enterprise, as the Potential Purchaser shall facilitate the repayment of the receivable of RMB400.0 million. As such, the management of the Company has been actively negotiating with the Potential Purchaser in respect of the sale and purchase of the Relevant Properties including the arrangement of the repayment of the receivable of RMB400.0 million. In addition, during the Period, the Group

has received an official document dated 28 April 2018 from the Changchun Safeguard Housing Project Leading Group (長春市保障性安居工程領導小組) in which the Relevant Properties have been confirmed as part of subject properties for redevelopment under the PRC's Slum Redevelopment Policy. Such policy is expected to speed up the process of the disposal of the Relevant Properties through shortened procedures and exemption of certain taxes. Upon the materialisation of the disposal of the Relevant Properties to the Potential Purchaser, it is expected that the outstanding receivable of RMB400.0 million will be recovered accordingly.

4. Other payables and accruals

As detailed in the 2017 Annual Report, the Potential Purchaser agreed to advance funding in the form of bridging loan to facilitate the relocation of the Group's production facilities, which was paid via the Changchun Municipal Government according to the progress of the relocation and such bridging loan of RMB180.0 million was received by the Group in May and August 2015 from the Changchun Municipal Government directly. Such loan would be deducted from the proceeds of the sale of Relevant Properties subsequent to the completion of the sale. The amount was subsequently recorded as other payables and accruals in financial statements of the Group in 2015. Since the bridging loan was received from the Changchun Municipal Government but not the Potential Purchaser, the auditor was unable to obtain direct confirmation from the Potential Purchaser or any sufficient appropriate evidence to verify the balance of the advance payment at 31 December 2017.

Similar to the view as outlined in point (3) above, the management of the Company is of the view that such other payables and accruals would be settled upon the materialisation of the disposal of the Relevant Properties to the Potential Purchaser.

BUSINESS REVIEW

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

During the Period, economic activities in the PRC remained resilient with GDP growth of 6.8% for the first half of 2018. Domestic demand has shown signs of slow recovery. With respect to corn price movement, international corn price decreased to 358 US cents per bushel (equivalent to RMB932 per MT) (end of June 2017: 426 US cents per bushel) by the end of the Period. In the PRC, the average market price of corn kernel increased to approximately RMB1,727 per MT (end of June 2017: RMB1,656 per MT) by the end of June 2018 as corn production in 2017/18 dropped to 210 million MT (2016/17: approximately 220 million MT) according to the latest estimates from the Ministry of Agriculture of China. The increased corn price was mainly attributable to the improved market sentiment of the upstream corn-refinery industry. In addition, as the provincial corn procurement subsidies programme expired in end of April 2017, the Group's cost of raw materials increased significantly during the Period. Notwithstanding the re-introduction of the provincial

corn procurement subsidies in March/April 2018, the subsidy amount was substantially lowered as compared to the subsidies prior to April 2017. For instance, the Jilin provincial government and the Liaoning provincial government offer subsidies of RMB100 and RMB50 respectively, to qualified corn refiners for every MT of corn purchased locally, as compared to RMB200 and RMB100 previously. During the Period, the Group was entitled to approximately HK\$41.8 million (2017: HK\$142.6 million) of subsidies for the purchase of corn kernels for its operations. The increased corn cost has put pressure on the performance of the Group's upstream business during the Period.

With respect to the Group's lysine business, although years of consolidation has eliminated a number of inefficient capacities in the market, overcapacity still exists in China. During the first half of 2018, poor sentiment in husbandry industry and soft hog prices in China has kept demand of lysine low. In addition, the Russian ban on the import of lysine products from various manufacturers in China has intensified the domestic competition. The overall utilisation rate of the lysine manufacturers in the PRC was kept at around 50%. During the Period, lysine prices in China maintained at a range of RMB8,000 to RMB9,000 per MT for most of the weeks. Although years of solid business relationship with customers has secured the Group with stable sales volume during the Period, the increased corn cost has posed pressure on the profit margins of the Group's amino acid products. In light of the challenging market sentiment, the management has been optimising the facility utilisation in response to market changes during the Period. As a result, the Group's lysine segment has recorded a gross profit of approximately HK\$81.3 million for the Period (30 June 2017: HK\$208.5 million).

As for the sugar and sweetener market, due to increased production in various major sugar producing countries during 2017/18 harvest, the international sugar price dropped to 12.35 US cents per pound (equivalent to RMB1,808 per MT) (end of June 2017: 13.68 US cents per pound) by the end of June 2018. In the PRC, domestic sugar production increased by 1.2 million MT to 10.5 million MT in 2017/18 harvest, with expanded sugarbeet and sugarcane acreage. As a result, domestic sugar price dropped by approximately 16.1% year-on-year to RMB5,580 per MT (end of June 2017: RMB6,654 per MT) by end of June 2018. The huge difference between international sugar price and domestic sugar price has increased the competitiveness of imported sugar. As such, the government has implemented a series of measures, including raising import tariff for sugar imports without quota from major supplying countries to protect domestic cane sugar and beet sugar producers. Such measures are expected to uphold the domestic sugar price in 2018. Years of industry development has got customers accustomed to the user-friendliness of corn sweeteners. The substitution effect between sugar and sweeteners is no longer as prominent as it used to be. Sugar price fluctuation has become a reference point for the pricing of sweeteners. Although the decrease in sugar price will have an impact on sweeteners prices, the demand for sweeteners products has been stable. As such, the sales of the Group's corn sweetener products remained stable during the Period.

Regarding the Group's polyol chemical business, in order to better utilise the polyol chemical production facilities, 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. For instance, as announced by the Company on 10 March 2017, the Group

has planned for the construction of a methanol production facility. The Company will continue to observe the market closely and take prudent approach before resuming its polyol chemical business.

Although the market sentiments of the Group's upstream and downstream businesses have been challenging, the Group will continue to adopt a prudent approach and will respond timely to market movements. As turbulence is expected in the macro environment in light of the uncertainties added by the trade wars, the Group will continue to strengthen and secure its market position with its brand name and customer relationship management, further improve cost effectiveness through continuous research and development efforts, and at the same time optimise utilisation rate to raise operation efficiency in response to market changes. Internally, leveraging on the synergies as a result of the introduction and participation of the resourceful shareholder, the Group has been well-supported with strong financial support, enhanced relationship with bankers, favourable government policies and management capabilities. The synergistic effects have helped the Group to withstand the increasingly turbulent operating environment.

FINANCIAL PERFORMANCE

The consolidated revenue of the Group for the Period increased by approximately 45.5% to approximately HK\$2,933.9 million (2017: HK\$2,017.1 million), which was mainly attributable to the increase in sale volume by 36.2% as a result of the resumption of Harbin production facilities since the end of 2017 and the completion of relocation and commencement of the sweeteners production facilities in the Xinglongshan site. However, due to changes in the agricultural subsidy policy of the provincial governments, the corn procurement subsidies entitled to the Group were substantially lower as compared to the corresponding period last year. Consequently, the corn subsidies entitled to the Group for the Period decreased by 70.7% to approximately HK\$41.8 million (2017: HK\$142.6 million). On the other hand, the price of corn kernels increased by 25.4% during the Period. The combined effect of the above have driven up the average cost of sales per MT by 22.4% during the Period. Meanwhile, the average selling price of the Group's products increased by only 6.9% during the Period. As a result, the Group's gross profit and gross profit margin decreased by 52.9% and 12.0 per cent point respectively to approximately HK\$168.1 million (2017: HK\$356.8 million) and 5.7% (2017: 17.7%). Together with the low utilisation rate of the Xinglongshan site and high debt level of the Group, the Group recorded a net loss of HK\$768.4 million (2017: HK\$333.0 million) and LBITDA (i.e., loss before interest, taxation, depreciation and amortisation) of HK\$197.7 million (2017: EBITDA (i.e., earnings before interest, taxation, depreciation and amortisation) of HK\$85.0 million) during the Period. To improve the financial performance and financial position of the Group, the management focuses its efforts in 1) accelerating the relocation of the production facilities from Luyuan District, Changchun to the Xinglongshan site in order to free up the land for disposal and to optimise operation efficiency in the Xinglongshan site; 2) actively negotiating with banks on the debt-equity swap proposal and other alternatives to lower the debt level of the Group; and 3) to ensure a stable supply of corn kernels through the connections of Nongtou by entering into the corn procurement contracts.

Upstream products

(Sales amount: HK\$1,269.4 million (2017: HK\$675.4 million))

(Gross profit: HK\$1.9 million (2017: HK\$90.5 million))

During the Period, the revenue of the Group's upstream business increased by 87.9% to approximately HK\$1,269.4 million (2017: HK\$675.4 million) as a result of resumption of Harbin production facilities since the end of 2017. On the other hand, during the Period, certain provincial governments have suspended and/or lowered the corn procurement subsidies given to qualified refiners for every MT of corn purchased and processed, the Group's cost of sale of the upstream products for the Period increased substantially. As a result, the gross profit of the Group's upstream business was squeezed to approximately HK\$1.9 million (2017: HK\$90.5 million) for the Period.

The sales volume of corn starch and other corn refined products for the Period were approximately 299,000 MT (2017: 165,000 MT) and 202,000 MT (2017: 165,000 MT) respectively. Internal consumption of corn starch was approximately 148,000 MT (2017: 72,000 MT), which was mainly used as raw material for the Group's downstream production.

Due to the changes in provincial corn procurement subsidies programme, the cost of sales per MT of corn starch and other corn refined products increased by 37.3% and 52.8% respectively. However, the increase in average selling price did not keep up with the increase in cost of sales. The average selling price per MT of corn starch and other corn refined products increased by 28.9% and 15.9% respectively year-on-year. Consequently, the corn starch segment recorded a gross profit margin of 11.9% (2017: 17.3%) while other corn refined products segment recorded a gross loss margin of 19.2% (2017: gross profit margin: 9.5%).

As a key agricultural product, the price of corn kernels depends a great deal on the direction of the state agriculture policy. Notwithstanding the possible fluctuations in the price of corn kernels, as the feedstock of the Group's downstream production, the upstream operation has strategic value to the Group's overall operation. To mitigate loss, the management of the Group will continue their prudent approach in optimising its facilities utilisation and endeavour to control raw material cost in order to maintain healthy cash flows of the Group.

Amino acids

(Sales amount: HK\$1,092.0 million (2017: HK\$1,006.0 million))

(Gross profit: HK\$81.3 million (2017: HK\$208.5 million))

The amino acids segment consists of lysine, protein lysine and threonine products. During the Period, the amino acids segment recorded a revenue of approximately HK\$1,092.0 million (2017: HK\$1,006.0 million), representing 37.2% (2017: 49.9%) of the Group's revenue. The sales volume of amino acids maintained at 178,000 MT (2017: 179,000 MT). However, as affected by the poor sentiment in husbandry industry and soft hog prices in China, the average selling price of amino

acids was under pressure during the Period, along with the cost pressure from the upstream segment, the gross profit of amino acids segment was squeezed to approximately HK\$81.3 million (2017: HK\$208.5 million), with a gross profit margin of 7.4% (2017: 20.7%) during the Period.

As the lysine market gradually consolidates, short-term volatility in lysine product prices is expected. While the global trade war will continue to add uncertainty to the global and domestic demand for feed and meat products, 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 acids products complementary to the current product mix of the Group. The management believes this will provide flexibility and alternatives to current production facilities to enable the Group to respond to market changes, and at the same time, to offer wider choices and better services to its current customers.

Corn sweeteners

(Sales amount: HK\$561.9 million (2017: HK\$332.8 million))

(Gross profit: HK\$83.5 million (2017: HK\$55.1 million))

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

During the Period, the cost advantage of corn sweeteners over cane sugar in China has enhanced the competitiveness of corn sweeteners. Coupled with the completion and commencement of the sweetener production facilities in the Xinglongshan site, the sales volume of corn sweeteners increased by 45.3% to approximately 186,000 MT (2017: 128,000 MT), with revenue increased by 68.8% to approximately HK\$561.9 million (2017: HK\$332.8 million). However, as the cost pressure from the upstream segment passed on to the downstream operation, the gross profit margin of the corn sweeteners segment dropped by 1.6 per cent point to approximately 14.9% (2017: 16.5%). Nevertheless, due to increased sales volume, the gross profit of corn sweeteners increased by 51.5% to approximately HK\$83.5 million (2017: HK\$55.1 million) during the Period.

The outlook on corn sweeteners remain positive for the second half of 2018 as demand remains stable. During the Period, phase two of the relocation of the sweetener production facility to the Xinglongshan site has completed. As the macro environment is expected to be challenging in the second half of 2018, the Group will closely monitor market movements and adjust its production volume and product mix to cater to customer needs.

Polyol chemicals

(Sales amount: HK\$10.6 million (2017: HK\$2.9 million))

(Gross profit: HK\$1.4 million (2017: HK\$2.7 million))

Polyol chemicals segment consists of polyol chemicals such as glycols and resins, anti-freeze products, hydrogen and ammonia. High corn price in the past years has lowered the competitiveness of corn based polyols as compared to traditional petroleum based polyols. As such, the Group had suspended most of its polyol chemicals production since March 2014. During the Period, the Group produced and sold a small amount of anti-freeze products and at the same time, continued to sell its polyol chemicals inventory.

During the Period, due to the increase in demand for anti-freeze products, the revenue of polyol chemicals segment increased by 265.5% to approximately HK\$10.6 million (2017: HK\$2.9 million). However, the gross profit of polyol chemicals segment decreased to approximately HK\$1.4 million (2017: HK\$2.7 million), with a gross profit margin of 13.2% (2017: 93.1%). Such decrease was attributable to the changes in the product mix in which additional materials is needed for production during the Period, as compared with selling inventories of which significant provisions have been made in the corresponding period last year.

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

Export Sales

During the Period, the Group export sales accounted for 23.6% (2017: 28.3%) of the Group's total revenue. The export sales of upstream products, amino acids and corn sweeteners increased by 32.2%, 12.7%, and 10,073.4% respectively to approximately HK\$147.0 million (2017: HK\$111.2 million), HK\$518.1 million (2017: HK\$460.0 million), and HK\$26.8 million (2017: HK\$0.2 million) respectively. Such increase was attributable to the increased average selling price and sales volume of corn sweeteners products as a result of the completion and commencement of the sweetener production facilities in Xinglongshan. No export sales of polyol chemicals was recorded during the Period (2017: HK\$64,000).

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

Other income and gains

During the Period, other income and gains increased by 65.4% to approximately HK\$82.7 million (2017: HK\$50.0 million). Such increase was mainly attributable to the reversal of write-down of inventories amounted to approximately HK\$23.4 million (2017: Nil) during the Period.

Selling and distribution expenses

During the Period, the selling and distribution expenses increased by 47.0% to approximately HK\$290.6 million (2017: HK\$197.7 million), accounting for 9.9% (2017: 9.8%) of the Group's revenue. Such increase was mainly attributable to the increase in sales volume by 36.2% as a result of the resumption of production in the Harbin site and the commencement of the sweeteners production facilities in the Xinglongshan site.

Administrative expenses

Administrative expenses increased by 5.7% to approximately HK\$233.6 million (2017: HK\$221.1 million) during the Period, representing 8.0% (2017: 11.0%) of the Group's revenue. As revaluation work has been done on buildings of the Group for administrative use in the PRC at the end of 2017 where value of these buildings appreciated, additional depreciation expenses were recognised during the Period.

Other expenses

Other expenses increased by 71.1% to approximately HK\$191.1 million (2017: HK\$111.7 million) during the Period. Such increase was mainly attributable to the finance costs paid to BOC pursuant to the New Supplier Guarantees incurred during the Period which amounted to HK\$70.8 million (2017: Nil).

Finance costs

During the Period, finance costs of the Group increased to approximately HK\$303.1 million (2017: HK\$207.2 million). Such increase was mainly attributable to the increase in interest on trade and other payables and other borrowings amounted to HK\$39.0 million (2017: HK\$15.2 million) and HK\$2.7 million (2017: Nil), respectively.

Income tax expense

Although the Group recorded a net loss during the Period, certain subsidiaries of the Company in the PRC generated net profit and were subject to the PRC enterprise income tax. As a result, income tax expense amounted to approximately HK\$0.8 million was recognised during the Period (2017: HK\$2.1 million).

Loss shared by non-controlling shareholders

During the Period, GSH and a non-wholly-owned subsidiary recorded a loss of approximately HK\$136.3 million (2017: HK\$53.5 million), leading to loss shared by the non-controlling shareholders of the Company to amount to approximately HK\$48.5 million (2017: HK\$20.5 million).

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

The total borrowings as at 30 June 2018 decreased by HK\$166.5 million to approximately HK\$8,251.1 million (31 December 2017: HK\$8,417.6 million). The change in total borrowings included a decrease of approximately HK\$97.7 million as a result of exchange rate adjustment as at 30 June 2018. On the other hand, the cash and bank balances and pledged deposits decreased by HK\$85.7 million to approximately HK\$624.9 million (31 December 2017: HK\$710.6 million). As a result, net borrowings decreased to approximately HK\$7,626.2 million (31 December 2017: HK\$7,707.0 million).

Structure of interest-bearing bank and other borrowings

As at 30 June 2018, the Group's interest-bearing bank and other borrowings amounted to approximately HK\$8,251.1 million (31 December 2017: HK\$8,417.6 million), of which 0.2% (31 December 2017: 0.2%) were denominated in Hong Kong dollars while the remaining 99.8% (31 December 2017: 99.8%) were denominated in Renminbi. The average interest rate during the Period was 6.6% (31 December 2017: 5.0%).

The percentage of interest-bearing bank and other borrowings wholly repayable within one year and in the second to the fifth years were 73.9% and 26.1% (31 December 2017: 57.8% and 42.2%), respectively. As at 30 June 2018, interest-bearing bank and other borrowings amounted to approximately RMB724.0 million (31 December 2017: RMB449 million) have been charged at a fixed interest rate of 3.9% to 13.6% (31 December 2017: 3.9% to 8.0%) for terms of one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings are charged with reference to floating interest rate.

Convertible bonds

Subsequent to the completion of the subscription of shares and convertible bonds by Modern Agricultural Industry Investment Limited ("Modern Agricultural") in October 2015, convertible bonds (the "Convertible Bonds") in the aggregate principal amount of HK\$1,086,279,565 which may be converted into 4,722,954,631 conversion shares of the Company (the "Conversion Shares") based on the initial conversion price of HK\$0.23 (subject to adjustment) per share (the "Initial Conversion Price") upon full conversion, were issued by the Company to Modern Agricultural. The Convertible Bonds carry coupon interest at the rate of 0.01% per annum payable quarterly in arrears with a term of five years. Its holder has the right to convert the whole or any part (in the denominations of HK\$1,000,000 and integral multiples thereof) of the outstanding principal amount of the Convertible Bonds into the Conversion Shares at any time after the date falling three calendar months following the date of issue of the Convertible Bonds until the 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. No conversion right has been exercised by Modern Agricultural as at the date of this announcement.

As at 30 June 2018, the Convertible Bonds was divided into liability component and equity component which amounted to approximately HK\$942.0 million and HK\$290.6 million (31 December 2017: HK\$913.1 million and HK\$290.6 million) respectively and effective imputed interest of approximately HK\$28.9 million (2017: HK\$27.1 million) was recognised as finance costs during the Period.

Turnover days, liquidity ratios and gearing ratios

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. During the Period, trade receivables turnover days decrease to approximately 41 days (31 December 2017: 43 days) due to the strengthened control on credit terms. Meanwhile, the trade payables turnover days decreased to approximately 118 days (31 December 2017: 154 days) during the Period, as the Group has been actively negotiating with creditors on repayment plans mutually-agreed among the parties. As the Group's inventory decreased by 15.2% to HK\$502.5 million (31 December 2017: HK\$592.5 million), the inventory turnover days decreased to 33 days (31 December 2017: 57 days).

As at 30 June 2018, the current ratio of the Group remained at 0.3 (31 December 2017: 0.3) and the quick ratio decreased to 0.2 (31 December 2017: 0.3), which was mainly due to the increase in current portion of interest bearing bank and other borrowing by approximately HK\$1,247.3 million. The Group recorded a net loss of approximately HK\$768.4 million during the Period, leading to the recorded net liabilities value of approximately HK\$3,179.3 million (31 December 2017: HK\$2,466.5 million). As a result, gearing ratio in term of debts (i.e. total interest-bearing bank and other borrowings) to total deficit and debts (i.e. aggregate total of shareholders deficit, non-controlling interests and total interest-bearing bank and other borrowings) was 162.7% (31 December 2017: 141.4%). To improve the financial position of the Group, the Company has adopted several strategic measures as mentioned in the section headed "Basis of Preparation and Accounting Policies" on pages 6 to 12 of this announcement.

Foreign exchange exposure

Most of the operations of the Group were carried out in the PRC in which transactions were denominated in Renminbi, with export sales accounting for 23.6% of the Group's revenue in which most of these transactions were denominated in US dollars. The Directors have been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi. In spite of the global trade war and the depreciation of Renminbi, the Directors consider that there is no material unfavourable exposure to foreign exchange fluctuation in the short run. Therefore, the Group does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. However, the Group will constantly review the economic situation, development of the Group's business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in future as and when necessary.

MATERIAL LITIGATIONS

Litigation in relation to dispute on the interests in the Company

As at the date of this announcement, the Company was a defendant in a high court action in Hong Kong. A writ dated 28 November 2017 was issued by the Plaintiff and a statement of claim was filed on 8 December 2017 (the “Claim”). The Claim relates to, among others, a document dated 29 November 2011 alleged by the Plaintiff to have been signed by and on behalf of the Company. The Plaintiff alleged that according to the said document, the Plaintiff should be entitled to certain interest in the Company’s shares. The Plaintiff has claimed for damages in the amount of approximately HK\$109.4 million, together with loss of dividends and interest in respect thereof, as well as costs and other relief.

A notice of intention to defend was given by the Company on 13 December 2017.

The Directors consider that the Claim to be fictitious and that the Company has strong ground to defend against the Claim, and no provision for the Claim is considered necessary.

Save as disclosed above, as of the date of this announcement, there was no litigation or claims of material importance pending or threatened against any member of the Group.

IMPORTANT TRANSACTIONS DURING THE PERIOD AND EVENTS SUBSEQUENT TO THE PERIOD UNDER REVIEW

Deemed Disposal of Equity Interests in a Subsidiary

Reference is made to the announcement dated 4 May 2018 and the circular dated 14 June 2018 of the Company. A capital increase agreement dated 4 May 2018 (the “Capital Increase Agreement”) was entered into between 長春大成生物科技開發有限公司 (“Dacheng Bio-tech”), 長春大成實業集團有限公司 (“Dacheng Industrial”) and 吉林省現代農業產業基金有限公司 (“GP”), the general partner of 吉林省現代農業產業投資基金 (Jilin Province Modern Agricultural Industry Investment Fund*) (“PRC LLP”). PRC LLP is the holder of the entire equity interest of Modern Agricultural Industry Investment Holdings Limited, which in turn is the holder of the entire equity interest of Modern Agricultural Industry Investment Limited. Pursuant to the Capital Increase Agreement, Dacheng Industrial and GP shall become shareholders of 長春鴻成生物化工材料技術開發有限公司 (Changchun Hongcheng Biotechnology Development Co., Ltd.*) (“JV Company”), which is currently wholly-owned by Dacheng Bio-tech. Dacheng Bio-tech shall make further contribution of RMB77,950,000, Dacheng Industrial shall make contribution of RMB10,050,000 and GP shall make contribution in cash of RMB60,000,000. Upon completion of the relevant capital contribution, the JV Company shall be owned as to 53.3% by Dacheng Bio-tech, 6.7% by Dacheng Industrial and 40.0% by GP. The Capital Increase Agreement has been approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 3 July 2018. For more information, please refer to the circular of the Company dated 14 June 2018.

Disposal of Office in Hong Kong

Reference is made to the announcement dated 29 May 2018 and the circular dated 5 July 2018 of the Company. A subsidiary of the Company, Bio-chem Technology (HK) Limited (“Bio-chem (HK)”) entered into the provisional agreement for sale and purchase (“Provisional Agreement”) with the Purchaser, pursuant to which the Bio-chem (HK) had agreed to sell and the Purchaser had agreed to purchase the Group’s office in Hong Kong (“Property”) at the consideration of HK\$184,849,800, subject to and upon the terms of the Provisional Agreement. The consideration was arrived at after arm’s length negotiation between the Purchaser and Bio-chem (HK), having considered the market value of the commercial property nearby, as well as the market value of the Property of HK\$180,000,000 as at 31 May 2018 based on the independent valuation of the Property prepared by a valuer. The disposal has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 July 2018.

The formal sale and purchase agreement for the sale and purchase of the Property was signed on 17 July 2018.

Completion of the disposal of the Property is expected to take place on or before 21 September 2018. For more information, please refer to circular of the Company dated 5 July 2018.

SUPPLEMENTARY INFORMATION IN RELATION TO THE PERIOD UNDER REVIEW

Relocation of production facilities to the Xinglongshan site

Reference is made to the 2017 Annual 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, and the management of the Company is of the view that the existing technology know-how of the Group is sufficient for the relocation of the production facilities.

In view of the changes in the operating environment, the Group has reviewed the relocation projects and revised the feasibility studies for submission to among others, the relevant government parties for approval. As such, the expected time for relocation of production facilities is revised as follows:

Products of the Group to which the production facilities relate	Production site to which the production facilities will be relocated	Production capacity of the relevant production facilities to be relocated (metric tonne per annum)	Expected time for the relocation of production facilities (Note)
Methanol	the Xinglongshan site	165,000	Tentatively to be completed by 2020
Modified starch — food grade (phase 1)	the Xinglongshan site	20,000	March 2019 – February 2020

Products of the Group to which the production facilities relate	Production site to which the production facilities will be relocated	Production capacity of the relevant production facilities to be relocated (metric tonne per annum)	Expected time for the relocation of production facilities (Note)
Modified starch (phase 2)	the Xinglongshan site	60,000	September 2019 – August 2020
Corn oil	the Xinglongshan site	63,000	March 2019 – February 2020
Lysine	the Xinglongshan site	100,000	March 2019 – February 2020
Corn refinery	Dehui City of Changchun	600,000	March 2019 – February 2020
Amino acids (other varieties of amino acids complementary to current product mix with smaller capacity)	the Xinglongshan site	20,000	March 2019 – February 2020

Note: The expected time for relocation of production facilities are subject to the final decision of the management from time to time, taking into account the relevant product markets and the obtaining of the approval from among others, the relevant government bodies on the feasibility studies. The timetable may thus change accordingly of which the Group shall update its investors as and when appropriate.

DISCLOSURE PURSUANT TO RULES 13.19 AND 13.21 OF THE LISTING RULES

Breach of Loan Agreements

Reference is made to the joint announcement of the Company and GSH dated 31 October 2016. Under the various loan agreements (the “Loan Agreements”) entered into between Jinzhou Yuancheng Bio-chem Technology Co., Ltd. (錦州元成生化科技有限公司) (“Jinzhou Yuancheng”), which is an indirect wholly owned subsidiary of GSH, and Jinzhou Branch of China Construction Bank (中國建設銀行股份有限公司錦州分行) (the “Lender”) in respect of a 18-month fixed term loan in the aggregate principal amount of RMB224.0 million guaranteed by certain members of the GSH Group (the “Loan”), Jinzhou Yuancheng is required to satisfy certain financial covenants, failure to perform or comply with any of those financial covenants entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan immediately due and payable. On 25 August 2017, Jinzhou Yuancheng signed various renewal agreements to renew the Loan Agreements in aggregate principal amount of RMB218.0 million, pursuant to which the due date of the Loan has been extended to September 2018. Based on the unaudited management accounts of Jinzhou Yuancheng for the six months ended 30 June 2018, Jinzhou Yuancheng has continued to fail to fulfill certain financial covenants under the Loan Agreements. Such breach entitles the Lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreements immediately due and payable. In addition, such breach may also trigger cross default provisions (“Cross Default”) in other loan agreements entered into by the GSH Group in the aggregate outstanding principal amount

of RMB238.8 million as at 30 June 2018. Save for the Cross Default, the breach has not resulted in any triggering of cross default provisions of other loan agreements and/or banking facilities entered into by the Group or the GSH Group. As at the date of this announcement, the GSH Group has yet to receive a waiver from the Lender for waiver of other remedies available to the Lender which include among others, declaring the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreements immediately due and payable. Despite the above non-compliance, the GSH Group has not experienced any difficulties in obtaining further financing with its banks for its working capital. Further announcement(s) regarding the Loan and status of the waivers will be made as and when appropriate.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

Provision of financial assistance to a supplier

Reference is made to the announcement of the Company dated 31 March 2015, financial guarantees were first granted by certain subsidiaries of the Company during November 2010 to March 2015. As disclosed in the joint announcement of the Company and GSH dated 8 August 2016 and the circular of the Company dated 6 September 2016, the term of the previous loan advanced by BOC to Dajincang expired between August to November 2016. To avoid immediate demand for full repayment of the previous supplier loan by the guarantors or any of them pursuant to the then financial guarantees, loan agreements were re-entered into by Dajincang and BOC, and fresh guarantees were granted by subsidiaries of the Company to BOC to guarantee the obligations of Dajincang under the supplier loan.

As disclosed in the joint announcement of the Company and GSH dated 8 December 2017 and the circular of the Company dated 29 December 2017, the term of the Previous Supplier Loan advanced by BOC to Dajincang under the Previous Supplier Loan Agreements expired in September 2017, and Dajincang still did not have sufficient financial resources to repay the Previous Supplier Loan when the same fell due. To avoid immediate demand for full repayment of the Previous Supplier Loan by the guarantors or any of them pursuant to the Previous Supplier Guarantees, Dajincang proposes to refinance the Previous Supplier Loan by entering into the new loan agreements with BOC for the New Supplier Loan. New Supplier Guarantees were granted by members of the Group to BOC to guarantee the obligations of Dajincang under the New Supplier Loan.

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

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 and development efforts and strategic business alliance with prominent international market leaders.

In the short run, the Group will take the opportunity of the relocation of its production facilities to the Xinglongshan site to re-adjust its product mix and capacity to adapt to market changes, and at the same time, enhance operation 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, and the Directors are of the view that the existing technology know-how of the Group is sufficient for the relocation of production facilities.

In the long run, the Group will continue to strengthen its market position leveraging on its brand name and add value to the current product mix through the introduction of new high value-added products. To realise this objective, the Group's research and development centre is currently working on a series of product development projects. The Board will optimise its risk/return decision with respect to capital expenditure and will take a prudent approach in relation to capacity expansion.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 30 June 2018, the Group had approximately 4,800 (31 December 2017: 4,900) full time employees in Hong Kong and the PRC. The Group appreciates the correlation between human resources and its success, and recognises the value of human resources management as a source of competitive advantage in the increasing turbulent environment. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards of its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and discretionary bonuses.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE

The Board regularly reviews the Group's corporate governance guidelines and developments. To the best knowledge and belief of the Board, save as disclosed below, the Board considers that the Company has complied with all code provisions as laid down in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the Period.

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 the Directors, all Directors confirmed that they have complied with the required standards set out in the code of conduct of the Company and the Model Code throughout the Period.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the CG Code for the purposes of among others, reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems. The Audit Committee comprises the three independent non-executive Directors, namely Mr. Ng Kwok Pong (the chairman of the committee), Mr. Yeung Kit Lam and Ms. Chiu Lai Ling, Shirley.

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

The Group's interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee.

FULL DETAILS OF FINANCIAL INFORMATION

The interim report of the Company will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.globalbiochem.com) in due course.

By order of the Board
Global Bio-chem Technology Group Company Limited
Yuan Weisen
Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the board of Directors comprises three executive Directors, namely, Mr. Yuan Weisen, Mr. Zhang Zihua and Mr. Liu Shuhang; and three independent non-executive Directors, namely, Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Ms. Chiu Lai Ling Shirley.