中糧
COFCO
自然之源 重塑你我

中國糧油控股有限公司
CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
Stock Code : 606

Further Develop Through Internal And External Growth

內外並舉 持續發展

ANNUAL REPORT 2018

2018
ANNUAL REPORT

CHINA AGRI-INDUSTRIES
HOLDINGS LIMITED

China Agri at a glance

Our core businesses

Oilseeds Processing Business

Market position

One of the largest vegetable oil and oilseed meals producers in China

Major products

Soybean oil, palm oil, rapeseed oil and oilseed meals

Major brands

Fortune（福临门）
Fuzhanggui（福掌柜）
Sihai（四海）
Xiyingying（喜盈盈）
Guhua（谷花）

Rice Processing and Trading Business

Market position

China's leading supplier of packaged rice and largest rice exporter and importer

Major products

Rice

Major brands

Fortune（福临门）
Jinying（金盈）
Five Lakes（五湖）
Golden Terra（金地）
Xin（薪）
Donghai Mingzhu（东海明珠）

Wheat Processing Business

Market position

One of the largest wheat processors in China

Major products

Flour, noodles and bread

Major brands

Fortune（福临门）
Xiangxue（香雪）

Brewing Materials Business

Market position

A leading brewing materials supplier in China

Major products

Malt

This document may contain certain forward-looking statements with respect to the financial position, results of operations and business of the Company. These forward-looking statements represent our current expectations or beliefs concerning future events and involve known and unknown risks and uncertainties which would cause actual results, performance or events to differ materially from those expressed or implied in such statements. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

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Corporate Information

As at 27 March 2019

Directors

Chairman of the Board and Non-executive Director
LUAN Richeng

Executive Directors
WANG Qingrong
(Managing Director)
XU Guanghong
YANG Hong

Non-executive Directors
JIA Peng
MENG Qingguo

Independent Non-executive Directors
LAM Wai Hon, Ambrose
Patrick Vincent VIZZONE
ONG Teck Chye

Audit Committee

LAM Wai Hon, Ambrose (Chairman)
Patrick Vincent VIZZONE
ONG Teck Chye
JIA Peng

Remuneration Committee

Patrick Vincent VIZZONE (Chairman)
LAM Wai Hon, Ambrose
ONG Teck Chye
MENG Qingguo

Nomination Committee

LUAN Richeng (Chairman)
LAM Wai Hon, Ambrose
Patrick Vincent VIZZONE
ONG Teck Chye

Executive Committee

WANG Qingrong (Chairman)
XU Guanghong
YANG Hong

Company Secretary

LOOK Pui Fan

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal Advisor

Reed Smith LLP

Registered Office

31st Floor, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Share Registrar and Transfer Office

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

Principal Bankers

Agricultural Bank of China Limited
Agricultural Development Bank of China
Australia and New Zealand Banking Group Limited
Bank of China Limited
DBS Bank Limited
Deutsche Bank
Hang Seng Bank
Industrial and Commercial Bank of China (Asia) Limited
Rabobank International (Hong Kong Branch)
Standard Chartered Bank
The Sumitomo Trust & Banking Company Limited
United Overseas Bank Limited

Investor Relations

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Company Website

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Stock Code

606

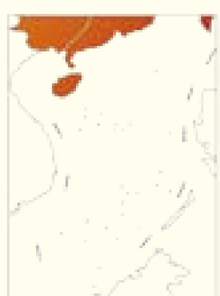
Financial Highlights

For the year ended 31 December 2018

	Unit	2018	2017	Increase/ (Decrease)
Revenue from continuing operations:	HK$ million	**108,821.2**	87,856.1	24%
– Oilseeds processing	HK$ million	**77,946.3**	56,232.4	39%
– Rice processing and trading	HK$ million	**15,191.3**	12,465.1	22%
– Wheat processing	HK$ million	**12,855.9**	10,563.6	22%
– Brewing materials	HK$ million	**2,243.6**	2,374.2	(6%)
– Corporate and others	HK$ million	**584.1**	6,220.8	(91%)
Revenue from a discontinued operation:				
– Biochemical and biofuel	HK$ million	**–**	11,325.0	(100%)
Profit before tax from continuing operations	HK$ million	**1,950.7**	1,862.5	5%
Operating profit from continuing operations (segment results)	HK$ million	**2,122.0**	2,165.3	(2%)
Operating profit before depreciation and amortisation from continuing operations	HK$ million	**3,232.3**	3,200.6	1%
Operating margin from continuing operations	%	**1.9**	2.5	N/A
Profit attributable to owners of the Company:	HK$ million	**1,346.1**	3,042.3	(56%)
– Continuing operations	HK$ million	**1,346.1**	1,297.7	4%
– Discontinued operation	HK$ million	**–**	1,744.6	(100%)
Earnings per share:				
Basic – For the profit of the year	HK cents	**25.61**	57.95	(56%)
Basic – For the profit from continuing operations	HK cents	**25.61**	24.72	4%
Diluted – For the profit of the year	HK cents	**25.57**	57.87	(56%)
Diluted – For the profit from continuing operations	HK cents	**25.57**	24.68	4%
Dividends per share for the year:				
– Interim dividend	HK cents	**3.6**	4.0	(10%)
– Proposed final dividend	HK cents	**1.5**	0.9	67%
– Proposed special dividend	HK cents	**–**	20.0	(100%)
Total assets	HK$ million	**70,565.8**	67,336.7	5%
Equity attributable to owners of the Company	HK$ million	**28,963.2**	29,855.2	(3%)
Closing price per share at year-end	HK$	**2.79**	3.42	(18%)
Market capitalisation at year-end	HK$ million	**14,672.0**	17,954.6	(18%)
Net asset value per share at year-end	HK$	**5.51**	5.69	(3%)
Net gearing ratio at year-end	%	**47.9**	28.8	N/A

Capacity Distribution

Oilseeds processing
Rice processing and trading
Wheat processing
Brewing materials



2018 Capacity

unit: metric ton ’000

Oilseeds Processing

Crushing Processing Capacity	**15,690**
Jiangsu	3,600
Shandong	3,480
Guangxi	2,505
Guangdong	1,620
Tianjin	1,200
Hubei	900
Chongqing	750
Liaoning	600
Anhui	375
Xinjiang	360
Jiangxi	300
Refining Processing Capacity	**5,746**
Jiangsu	1,320
Shandong	860
Tianjin	720
Guangdong	720
Guangxi	660
Chongqing	360
Hubei	360
Jiangxi	360
Anhui	180
Xinjiang	126
Liaoning	80

Rice Processing and Trading

Rice Processing Capacity	**4,080**
Heilongjiang	1,000
Liaoning	650
Jiangsu	420
Jiangxi	400
Jilin	350
Hubei	350
Anhui	300
Hunan	300
Ningxia	110
Sichuan	100
Guangdong	100

2018 Capacity

unit: metric ton ’000

Wheat Processing

Wheat Processing Capacity	**3,991**
Henan	1,320
Zhejiang	600
Hebei	460
Liaoning	400
Jiangsu	321
Sichuan	240
Fujian	180
Shandong	170
Anhui	120
Inner Mongolia	90
Xinjiang	90
Noodle Production Capacity	**237.3**
Henan	78
Liaoning	45
Shandong	22.5
Hebei	19.8
Anhui	18
Zhejiang	18
Jiangsu	18
Sichuan	18
Bakery Production Capacity	**3.4**
Beijing	3.4

Brewing Materials

Barley Processing Capacity	**825**
Liaoning	450
Jiangsu	375

Chairman's Statement

In 2018, changes in trade and monetary policies among global major economies have increased uncertainty and weakened the momentum of economic growth. China's economic development maintained a steady and positive trend, with GDP increasing by 6.6% year-on-year and most of its other major economic metrics stayed within a reasonable range. Domestic consumption has continued to expand steadily and became the most significant driver of the country's economic growth which has, in turn, led to increasing demands for higher product and service quality. With the changes in international trade policies and the continuing progress of market-oriented reforms for domestic grain pricing, the agri-food processing industry was facing heightened market volatility. Facing these challenges, leading companies are well positioned to manage changes through leveraging on their competitive edge and their command of resources and professional capabilities, and to satisfy market demands for product and services upgrades, as well as continuing to promote and capitalise on opportunities arising from industry consolidation.

During 2018, China Agri-Industries Holdings Limited ("China Agri" or the "Company") continued to implement our strategic goal of "Focusing on rice, flour and edible oil products, with the aim of repositioning as the leading integrated player for the grain and edible oil processing and branded consumer business". As part of our plan to achieve this goal, we achieved a milestone for capacity increase and branded business by partially exercising the option to acquire oilseeds processing plants. As a result, business scale further expanded and revenue reached a new height. After taking into consideration our operating performance, financial positions and future expansion plans, the Board has recommended the payment of final dividend of 1.5 HK cents for 2018.

We have always valued corporate governance as one of the pillars that supports the sustainable development of the Company. Our system of governance continues to support the Company's stable development. Our directors are committed and charged with well-defined responsibilities, and along with our management, are jointly responsible for maintaining transparency and effective communication with our shareholders. We also adhere to a strict code of business ethics. During 2018, we successfully convened our annual general meeting and an extraordinary general meeting in which all resolutions, including the acquisition of certain oilseeds processing plants and a port development project, were approved. Pursuant to the new requirements of the Listing Rules and Corporate Governance Code, our Board approved and adopted new policies on nomination of directors and dividend distribution, thus further improving our internal system in support of the stable and compliant operations of the Company.

There were several recent personnel changes in the Board. On 7 December 2018, I was appointed Chairman and Non-executive Director. On 2 January 2019, Mr. XU Guanghong became Executive Director. On behalf of the Board, I would like to express my sincere gratitude to Mr. DONG Wei for his outstanding contributions to the Company during his tenure as our Chairman. Mr. XU Guanghong and I both appreciate the trust that has been placed in us. The Board will devote our collective knowledge and experience to safeguard the overall interests of the Company and our shareholders and to lead the Company into our next phase of development.

Looking ahead to 2019, factors such as a slowdown in international trade and changes in monetary policies of various developed economies may further slow global economic growth. Facing such complicated external environment issues, China is expected to continue to firmly upholding its general working principle of "Making progress while maintaining stability". By focusing on high-quality development initiatives and engaging in its continuing market-oriented reforms, the Chinese economy will continue to encourage and foster a macro environment for further corporate growth, stability and managed advancements. Domestic consumption expansion, and the related market development for product and service upgrades, is expected to provide an important engine for the country's overall economic growth. Benefited by government policies target to encourage consumption, along with reductions in taxes and levies, these factors are positive to the long-term and sustainable development in the agri-food processing industry.

In accordance with our strategic plan, we will continue to, through multi-channels, to optimise our production capacity and take advantage of our integrated value chain in our strive to develop our branded businesses, strengthen the competitiveness of our core business, and to further improve our business scale and profitability as we look to add long-term sustainable value for our shareholders.

LUAN Richeng
Chairman
Hong Kong, 27 March 2019

Management Discussion and Analysis

Business Review

In 2018, the overall agri-food processing industry was relatively volatile due to the significant fluctuations in commodity supply, demand and market prices caused by changes in the domestic and international business environment. The business operations also faced increasing uncertainties. Profit margins started to trend downwards during the second half of the year. Leveraging the Company's integrated value chain, China Agri cautiously adjusted the pace of business to respond to market fluctuations and integrated its resources to promote market development and strategy optimisation. As a result, China Agri continued to expand the scale of its business and further strengthen its leading position in the industry.

During the year under review, the total sales volume of major products, including vegetable oil, rice and flour, increased significantly year-on-year to 23.228 million metric tons, while the sales volume of branded products also rose on a year-on-year basis, further increasing the Company's capacity utilisation rate. Revenue from continuing operations increased 23.9% year-on-year to HK$108,821.2 million, hitting a new record high. The gross profit of core oilseeds, rice and wheat businesses increased due to greater economies of scale with improved operational efficiency, which helped offset the impact of more investments for market expansion and higher asset impairment losses on property, plant and equipment. The Company's profit attributable to equity holders from continuing operations for 2018 was HK$1,346.1 million, versus HK$1,297.7 million in 2017.

The Company's profit attributable to equity holders for 2018 declined as compared to HK$3,042.3 million in 2017, due to the completion of the disposal of the biochemical and biofuel business on 27 December 2017.

Oilseeds Processing Business

In 2018, the international soybean market fluctuated greatly mainly due to changes in Sino-US trade policies while prices rose in the first half of the year followed by the weak market in the second half. As the growth in domestic demand for major products slowed, the oilseed processing industry faced increasing challenges. This posed a higher competent standard on completeness of business portfolio and professionalism, which promoted the concentration of production capacity and market share towards large-scale enterprises.

As an industry-leading player in China, China Agri has built a vertically integrated supply chain which adds value to our entire business operations, from raw material procurement to the operation of consumer brands. With a nationwide business and established international information network, China Agri is well positioned and constantly collects market intelligence for the oilseeds processing business, including information on crop planting, growth progress, raw material sales, product demand and distribution. By making good use of professional and informed market analysis based on such valuable data, China Agri's business teams, where deemed commercially appropriate, exercise judicious discretion to execute the procurement and sourcing decisions with the view to safeguard raw material supply at competitive costs, meeting the Company's production and sales needs. With our robust risk management system, we strive to conduct business to achieve appropriate timing and pace, and to effectively stabilise profit margins, which has helped to deliver a year-on-year improvement in operating results. During the course of 2018, China Agri also partially exercised the purchase option on certain oilseed processing assets of COFCO International to further expand and improve the nationwide layout of its production facilities. Operational efficiency and profitability were also improved by internal costs benchmarking and cooperation between factories.

The branded edible oil business has become a major growth driver of the Company. After years of development, the market has been relatively mature and brand value is becoming increasingly important. During the year, the Company increased its investments in branding for the oilseeds processing business and established a strategic product line with one core and five priority products (一超級、五重點). The Company also increased brand awareness for its premium "Fortune (福临门)" brand through advertising, ongoing public relations work and event marketing. "Fortune Nutritious Cooking Oil (福临门营养家食用调和油)" and "Hometown Flavor Peanut Oil (家香味土榨花生油)" were honored by being designated products for the 18th Meeting of the Council of Heads of Member States of the Shanghai Cooperation Organization. This recognition strengthened the image of premium "Fortune (福临门)" brand and reliable products quality. During the 2019 Spring Festival, four sets of high-speed trains named after "China Agri-Fortune (中糧福臨門號)" took thousands of travelers back to their hometown, helping to foster feelings of "happiness" and "home" to the brand image of "Fortune (福临门)". Online advertising and offline marketing for the consumer-packaged edible oil business were carried out at over 200 roadshows and approximately 130,000 promotional activities in 65 cities nationwide, all of which helped to increase brand exposure and sales conversion. With the support from optimisation of the Company's distributor network and effective resource allocation, total sales volume of consumer-packaged edible oil products in 2018 was 1,189,000 metric tons, an increase of 18.3%[1] year-on-year. Mid-packaged edible oil business also developed well with the growth of catering and restaurant market.

In 2018, sales of oilseed meal and vegetable oils were 9,652,000 metric tons and 5,653,000 metric tons, an increase of 15.8% and 30.8% year-on-year, respectively, which helped lead to a higher capacity utilisation rate. Revenue rose by 38.6% from the prior year to HK$77,946.3 million. Gross profit margin increased by 1.1 percentage points compared with last year. Operating profit rose by 22.5% year-on-year.

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1 *Acquisition of sales and distribution business of packaged edible oil was completed on 14 September 2017. Comparable data is the total sales volume in 2017 which includes sales from January to September.*

Business Review

Rice Processing and Trading Business

In 2018, the market-based reforms of the grain pricing mechanism in China continued to be implemented. The minimum purchase price for paddy was adjusted downward to allow for a more favourable environment for the processing industry, which eased raw material cost pressure and helped to support an improvement in profitability. The overall scale of the domestic rice market remained fairly stable. The trend of consumption upgrade continued, and the speedy growth in demand of packaged rice, especially for medium and high-priced products, helped to deliver an improvement in overall profitability for the rice processing industry. As consumers continue to upgrade to higher-end products, high-quality raw paddy is becoming a scarce resource, which is helping to accelerate industry consolidation and give a competitive advantage to large-scale integrated conglomerates.

As a domestic leader in the consumer-packaged rice market, the Company increased its investments in 2018 to improve its brand influence, enhance product innovation and increase premium pricing. For the "Fortune (福临门)" brand, the Company communicated the core brand message of "rice from the best growing regions (優質產區的大米)", and marketed the brand under the slogan "choose Fortune for your rice and flour (買米買麵認準福臨門)". In addition, the Company conducted a number of PR activities such as ploughing day and harvest day to show off the quality paddy fields where the rice is grown and foster a premium image. The Company also created a variety of customised products for e-commerce, with product in cooperation with famous IPs such as "The Palace Museum (故宮)" and "Journey Frog (旅行青蛙)", to improve brand awareness among the younger generation of consumers. A new high-end series "Jintian Rice (金田米)" was also launched in Shanghai, Beijing, Nanjing and Ningbo for the first time to lead product upgrade. At the same time, the Company promoted its cooperation with partners such as China Post, China National Petroleum Corporation, Sinopec Group and Meicai, penetrated more in smaller cities and catering customers, all in an effort to improve market reach. The branded business continued to develop healthily with constant volume growth. Market share increased to 13.4%[2], maintaining its leadership in the industry.

For the export business, the Company continued to adhere to a sales model of "go abroad and bring home (走出去，請進來)". In particular, China Agri invited global traders and end customers to come to China and visit farms, factories, ports to demonstrate the strengths of our integrated value chain and competitiveness. To meet the needs of various overseas markets, the Company increased its product categories according to the results of market research and competition assessment. New markets and new customers were also developed to cope with challenges of weakened purchasing power in certain target markets, both helped to achieve a year-on-year increase in sales volume.

During the year under review, the total sales volume of major products for the Company's rice trading and processing business increased 29.7% year-on-year to 3,389,000 metric tons, and revenue rose by 21.9% year-on-year to HK$15,191.3 million. Within this, the further increased of export sales volume offset the impact of declined domestic sales of non-branded products. The gross profit margin increased by 1.3 percentage points, mainly due to higher capacity utilisation rate and improved operational efficiency. Profitability maintained steady improvement with 7.1% increase in operating profit.

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2 *Data source: AC Nielsen, supermarkets of 16 major cities*

Wheat Processing Business

In 2018, the domestic supply of wheat was sufficient, and prices declined as the minimum purchase price dropped lower than a year ago. The consumption of wheat for food producers declined slightly, resulting in a lower capacity utilisation rate and fierce competition in the processing industry. Leading enterprises accelerated expansion in production capacity and increased their investments in brands and distribution channels in an attempt to offset the pressure. Medium-sized enterprises leveraged grain resources advantage in their local production regions and focused on niche markets in an effort to survive. These two types of development strategies accelerated consolidation within the industry, causing the overall market share of the top ten companies to reach nearly 40%.

In order to attain a more dominant position during the industry consolidation, the Company continued to improve the layout of its wheat processing business' supply chain in both high-quality production and sales regions, and increased its production capacity through acquisitions, construction and leasing. The Company also continued to put efforts on enhancing its supply chain to better respond to key customers, expanding its market share in key segments, and maintaining rapid growth in sales volume of special-purpose flour and capacity utilisation rate.

Based on the continued expansion of the business, the Company took advantage of the growth in the consumer-packaged flour and noodle product markets and continued to promote its branded products with more marketing resources invested. The Company enhanced the service it provided to key premium customers according to their specific needs by optimising the supply chain and providing information system support. It also helped distributors grow bigger and stronger to raise the number of kiloton-level flour distributors. To expand the distribution channels, the Company increased its cooperation with new retail partners through content marketing, advertorials and fun games to drive new consumption. The Company also continued to optimise its product portfolio and adjusted its ways to interact with customers according to market feedback. As a result, the Company achieved a satisfactory level of growth in sales volume of consumer-packaged flour and noodle products.

During the year under review, the sales volume of flour products in the Company's wheat processing business increased by 13.8% year-on-year to 2,860,000 metric tons. The sales volume of noodle products increased by 18.2% year-on-year to 144,000 metric tons. Total revenue was HK$12,855.9 million, an increase of 21.7% year-on-year. The Company's operating efficiency continued to improve as the scale of the business grew. Gross profit margin increased by 1.3 percentage points year-on-year. Operating profit declined 27.9% compared to the year before, mainly due to a substantial increase in marketing expenses for the branded business as the Company was working to generate growth over the long-term.

Business Review

Brewing Materials Business

In 2018, droughts in the world's main production regions globally led to decreased output of barley and pushed up raw material costs. China's beer consumption remained stable while the malt market was difficult to expand. Higher costs pressure could not be fully passed through to product prices, which resulted in a squeeze in profit margins.

The Company's brewing materials business continued to benefit from the cost controls strategy and effective raw material procurement capability to ensure profitability. The sales volume of high-end malts continued to increase and reached a record high as a result of the consumption upgrade in the beer market. With mature supply chain management, the Company was able to maintain a high production utilisation rate and steady comprehensive operation.

In 2018, the sales volume of malt for the Company's brewing materials business decreased by 6.0% year-on-year to 637,000 metric tons. Revenue decreased by 5.5% to HK$2,243.6 million. Gross profit margin remained at a high level. The brewing materials business reported a 63.7% decrease in operating profit after recognition of impairment losses on property, plant and equipment of HK$126.0 million during the year due to cease operation of an under-performing plant in Inner Mongolia.

Outlook

Looking ahead to 2019, the global macro economy will remain complex. Commodity market risk will remain since international trading may face policy changes. The continuing adjustments in monetary policy in developed economies will likely cause exchange rate fluctuations and higher financing costs, which could hinder economic growth and market demand. Even if some business opportunities, such as low material costs and consumption upgrades still exist, the agri-food processing sector will be challenged as the industry consolidation has not been completed.

Against a backdrop of such risks and uncertainties, the Company will continue to leverage its well established business system and rely on its scale and mature integrated operations to respond to market fluctuations, manage major risks and stabilise its business performance. In the meantime, the Company will further develop its branded and high value-added products, improve its sales portfolio, expand revenue streams and increase its profit margins. With the progress of projects such as the review of the option to purchase the oilseed processing assets of Chinatex, the Company's comprehensive processing capacity is expected to continue to grow, boosting market share and enhancing its industry leading position and competitiveness.

Financial Review

Overview of Financial Results for the Year Ended 31 December 2018

Revenue from Continuing Operations

	2018 HK$ million	2017 HK$ million
Business units of continuing operations:		
Oilseeds processing	**77,946.3**	56,232.4
Rice processing and trading	**15,191.3**	12,465.1
Wheat processing	**12,855.9**	10,563.6
Brewing materials	**2,243.6**	2,374.2
Corporate and others	**584.1**	6,220.8
	108,821.2	87,856.1

In 2018, the Group took advantage of its integrated business operations system, seizing market opportunities to reframe the pace of business. The sales volume of major products such as oil, rice and flour increased significantly over last year. With more investment in marketing, the scale of branded business also expanded year-on-year. As a result, the revenue from continuing operations for the year increased by 23.9% to HK$108,821.2 million as compared to last year.

Gross Profit and Gross Profit Margin

During the year, fixed costs were effectively diluted by further improvements to capacity utilisation and operational efficiency as a result of the increase in sales volume. The branded business continuously grew, contributing to the business performance. For the year ended 31 December 2018, the overall gross profit of the Group rose by 41.9% to HK$9,055.3 million and the gross profit margin increased by 1.0 percentage point to 8.3% as compared to last year.

Selling and Distribution Expenses

During the year, selling and distribution expenses from continuing operations amounted to HK$4,966.5 million, accounting for 4.6% (2017: 3.3%) of the total revenue from continuing operations of the Group and representing a year-on-year increase of 73.8%. On the one hand, due to the completion of the acquisition of consumer-packaged edible oil business in September 2017, only the amounts since the completion of the acquisition were consolidated in 2017 whereas the whole-year amounts were consolidated in 2018; on the other hand, the Group continued to further invest in advertising and promotion for long-term business development and, meanwhile, logistics expenses also increased year-on-year as a result of business scale expansion.

Administrative Expenses

During the year, with continuous efforts to improve quality and increase efficiency, the Group effectively controlled administrative expenses, despite a significant expansion of operation scale over the year; the administrative expenses from continuing operations amounted to HK$1,811.3 million which was relatively stable as compared to last year.

Financial Review

Finance Costs

Resulting from change in monetary policies, such as increases in US dollar interest rates, the average interest rate rose slightly in 2018. The Group's finance costs were HK$691.6 million, up 9.7% year-on-year. An analysis of the finance costs by category is as follows:

	2018 HK$ million	2017 HK$ million
Interest on:		
Bank loans	**633.9**	548.8
Loans from fellow subsidiaries	**62.1**	38.0
Loans from an intermediate holding company	**–**	8.9
Loans from the ultimate holding company	**1.2**	37.3
Total interest expenses on financial liabilities not at fair value through profit or loss	**697.2**	633.0
Less: Interest capitalised	**(5.6)**	(2.4)
	691.6	630.6

Share of Profits and Losses of Associates

Driven by the improved performance of the oilseeds processing business of the associated companies, the share of profits of associates increased by 78.3% to HK$363.8 million as compared with last year.

Profit Attributable to Owners of the Company

In 2018, due to improvement in the scale efficiency of the Group and the rise in the sales volume of the products from a high base level, gross profit increased significantly which helped offset the increase in the investment in market development and the impairment losses of property, plant and equipment arising from the ceased operation of a plant and the shutdown of equipment. The profit attributable to owners of the Company from continuing operations was HK$1,346.1 million, up 3.7% year-on-year from HK$1,297.7 million. However, the profit attributable to owners of the Company for the year declined by 55.8% year-on-year due to the classification of the biochemical and biofuel business as discontinued operation following the completion of the disposal of such business by the Company in 2017.

Final Dividend

The Board recommends a final dividend for the year ended 31 December 2018 of 1.5 HK cents (2017: a final dividend of 0.9 HK cents and a special dividend of 20.0 HK cents) per share, amounting to approximately HK$78.9 million (2017: a final dividend of HK$47.2 million and a special dividend of HK$1,050.0 million). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be paid on or around 19 July 2019 to the shareholders whose names appear on the register of members of the Company on 10 June 2019.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

On 31 August 2018, Oriental Chance Limited, COFCO Oils (HK) No.2 Limited, COFCO Oils & Fats Holdings Limited, wholly-owned subsidiaries of the Company, entered into an equity acquisition master agreement with COFCO International Singapore Pte. Ltd., Great Wall Investments Pte. Ltd., Sino Agri-Trade Pte. Ltd. and H.K. Ming Fat International Oil & Fat Chemical Company Limited, wholly-owned subsidiaries of COFCO International Limited, for acquisition of the entire equity interests of Qinzhou Dayang Cereals and Oils Co., Ltd., Chongqing Xinfu Food Co., Ltd., Longkou Xinlong Edible Oil Co., Ltd. and Ming Fat International Oil & Fat Chemical (Taixing) Co., Ltd. (collectively, the "Target Companies I"). Final aggregate consideration for the acquisition was approximately RMB1,294 million, adjusted from RMB1,341 million. It was paid in US dollars in the amount of approximately US$189.7 million in cash. The Target Companies I consist of four oilseeds processing plants located in Mainland China and are mainly engaged in soybean crushing and refining and trading of soybean oil. This acquisition was approved by the Company's independent shareholders on 2 November 2018 and completed on 7 November 2018. On completion date, the Target Companies I became wholly-owned subsidiaries of the Company.

On 31 August 2018, COFCO (Dongguan) Oils & Grains Industries Co., Ltd., a wholly-owned subsidiary of the Company, entered into the capital increase agreement with COFCO Trading (Guangdong) Co., Ltd., (the "Target Company II") and COFCO Trading Co., Ltd., a wholly-owned subsidiary of COFCO Corporation and was the sole shareholder of the Target Company II as at the date thereof, for the acquisition of 75.264% of the enlarged registered capital of the Target Company II by capital contribution in the amount of RMB620 million to subscribe for the newly increased registered capital of the Target Company II, of which approximately RMB598 million was paid as registered capital and the balance of approximately RMB22 million was credited to its capital reserve. The Target Company II is mainly engaged in warehousing, loading and uploading services of various grains, oilseeds, edible oils and fats, in relation to which the port terminal facilities are still under construction. This capital increase transaction was approved by the Company's independent shareholders on 2 November 2018 and completed on 9 November 2018. On completion date, the Target Company II became a subsidiary of the Company.

Please refer to the Company's announcements dated 31 August 2018, 2 November 2018 and 14 November 2018 and the circular dated 8 October 2018 for details of the abovementioned transactions.

Saved as disclosed above, the Group did not have any other significant investments held nor any material acquisitions and disposals of subsidiaries during the year.

Working Capital and Financial Policy

The Group closely monitors the liquidity of daily funding and the availability of financial resources to ensure that cash inflows generated from operating activities together with undrawn banking facilities are sufficient to meet the demands required for day-to-day operations, loan repayments, capital expenditure and potential business expansion opportunities. During the year, the Group's working capital needs were financed primarily by the accumulated surplus and bank borrowings.

The Group adheres to a prudent and stable financial policy and commits to developing new external funding channels, strengthening fund-raising capability and ensuring liquidity of funding. The Group aims to raise turnover rate and generate more operating cash flows as well as pursuing a centralised cash management on surplus funding. Besides, the Company has adjusted the debt structure and actively used hedging tools to avert foreign exchange risk exposure on the foreign debts.

The Group entered into a financial services agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) for the purpose of achieving more efficient deployment and application of funds within the Group so as to reduce the average borrowing costs and better facilitate intra-Group settlement services. During the year, the Group enhanced the liquidity of funds, reduced finance costs and effectively monitored the use of funds through this treasury platform.

Financial Review

Dividend Policy

According to the Company's dividend policy, the declaration, payment and amount of dividends will be subject to the discretion of the Board in accordance with the Hong Kong Companies Ordinance and the articles of association of the Company and will be dependent upon the Group's current and recent financial performance, cash flow position, working capital requirements and expenditure plan, restriction on distribution of dividends under the relevant laws, rules and regulations, and any other factors that the Board deems appropriate.

In determining any dividend amount for a particular year or interim period, the Board will also take into account, inter alia, the consolidated profit attributable to the owners of the Company for the year or period, dividend distributed during the year, and the retained profits available.

Cash and Bank Deposits

Cash and bank deposits (including restricted cash at bank) of the Group were HK$8,318.3 million as at 31 December 2018 (31 December 2017: HK$10,571.8 million). During the year, the Group recorded net cash outflows from operations of approximately HK$882.5 million (2017: net cash inflow of HK$695.8 million). These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank Loans and Other Borrowings

Total interest-bearing bank loans and other borrowings amounted to HK$22,190.9 million (31 December 2017: HK$19,181.2 million) as at 31 December 2018. The borrowings were mainly used for the daily operation and business expansion of the Group. These loans are repayable within the following periods:

	31 December 2018 HK$ million	31 December 2017 HK$ million
Within one year or on demand	**22,093.9**	19,007.0
In the second to fifth years, inclusive	**45.6**	108.4
Beyond five years	**51.4**	65.8
	22,190.9	19,181.2

Interest-bearing bank loans carried annual interest rates ranging between 2.80% and 5.22% (31 December 2017: between 1.53% and 4.90%). Other borrowings carried annual interest rates ranging between 1.08% and 4.57% (31 December 2017: between 1.08% and 4.35%). These interest-bearing bank loans and other borrowings were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31 December 2018, the Group has pledged property, plant and equipment and land use rights, with an aggregate carrying value of HK$38.1 million (31 December 2017: HK$163.1 million), deposits of HK$526.7 million (31 December 2017: Nil) and bills receivables of HK$159.8 million (31 December 2017: Nil) to secure bank loans and banking facilities.

The Group had no unutilised committed banking facilities as at 31 December 2018 and 31 December 2017. The Group will continue to obtain financing on an unsecured basis whenever possible and supplement such borrowings with secured financing.

Financial Ratios

The Group's financial ratios at 31 December 2018 and 31 December 2017 are set out below:

	31 December 2018	31 December 2017
Net gearing ratio (the ratio of net debts to equity attributable to owners of the Company)	**47.9%**	28.8%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.28**	1.38
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.63**	0.67

Net debt represents the Group's total interest-bearing bank loans and other borrowings less cash and cash equivalents and restricted cash at bank. Therefore, net debt of the Group was HK$13,872.6 million at 31 December 2018 (31 December 2017: HK$8,609.4 million). The net debt ratio rose mainly due to an increase in loans arising from business scale expansion during the year while the loans remained at a low level in general.

Capital Expenditures

The total capital expenditures of the Group's continuing operations for the year ended 31 December 2018 are tabulated below:

	2018 HK$ million	2017 HK$ million
Business units of continuing operations:		
Oilseeds processing	**1,650.7**	1,397.1
Rice processing and trading	**178.5**	176.0
Wheat processing	**579.5**	114.9
Brewing materials	**80.5**	115.9
Corporate and others	**22.6**	36.8
	2,511.8	1,840.7

Financial Review

Capital Commitments

Capital commitments contracted but not provided for in the Group's consolidated financial statements as at 31 December 2018 are set out below. These commitments are to be financed by loans and working capital of the Group.

	31 December 2018 HK$ million	31 December 2017 HK$ million
Contracted, but not provided for:		
Property, plant and equipment	**1,248.7**	247.7

HUMAN RESOURCES

The Group employed 17,646 (31 December 2017: 18,307) staff as at 31 December 2018. The Group's employees are remunerated based on job nature, individual performance and market trends with built-in merit components. Total remuneration (excluding directors' and chief executive's remuneration) for the year ended 31 December 2018 amounted to approximately HK$2,209.8 million (2017: HK$1,939.9 million). Employees in Hong Kong receive retirement benefits, mostly in form of a Mandatory Provident Fund entitlement, and a similar benefit scheme is offered to employees in Mainland China. Of the total remuneration, pension scheme contributions amounted to HK$212.0 million (2017: HK$176.4 million) for the year.

The Company adopted a share option scheme on 12 January 2007 to attract, retain and motivate senior management personnel and key employees, and provide eligible participants with an opportunity to acquire equity interests in the Company that would encourage them to work towards enhancing the value of the Company and its shares. The share option scheme of the Company expired on 21 March 2017. As at 31 December 2018, there were 97,310,000 outstanding share options granted, which are exercisable in accordance with the terms of the expired share option scheme.

Besides, the Group also encourages employee participation in continuing training programmes, seminars and e-learning courses, through which will enhance their career development and technical skills for tapping individual potentials.

Corporate Sustainability and Risk Factors

Corporate Sustainability

China Agri upholds the development philosophy of "Being loyal to National Welfare and Creating Benefits for People's Livelihood" and incorporates social responsibility into our corporate strategies and culture, while creating benefits for its shareholders and investors, as well as fulfilling its responsibilities as a good corporate to employees, consumers, the environment and communities. We also pay great attention to the value of people in the course of our business operations. With the contributions made on environmental protection, consumer rights and social welfare, we build our corporate reputation, as well as winning the confidence, trust and satisfaction of investors, consumers, and employees.

In 2018, China Agri continued to uphold the concept of the "RESPONSIBILITY TREE". Six key words – faithfulness, integrity, sincerity, virtue, benevolence, and morality – represent six CSR sectors and their corresponding stakeholders. This system is the guiding framework for long-term reference and implementation of our social responsibility practices, which will be summarised, assessed, and improved regularly.

Below are the highlights of the China Agri's programs completed for sustainability and corporate social responsibility in 2018. For more information, please download the full 2018 Corporate Social Responsibility Report from our website at www.chinaagri.com.

Value Creation: In 2018, China Agri continued to deepen the professional operation, promote fine management, strengthen risk control, boost brand building, and guide the sustainable business development to seek constant improvement in business scale, profitability and operational quality and thereby create more value and return for shareholders.

Corporate Sustainability and Risk Factors

Social Development: A company is the source of fulfilling social responsibility and creating benefit, which plays a key role to the rapid development of social economy. As a credible agri-business and food processing company, China Agri further expanded processing capacity to ensure market supply and food safety; promoted the development of agriculture, farmers and countryside, leading industry advance and better serving the society.

Cooperation and Mutual Benefit: China Agri has always valued the cooperation with key customer, supplier and distributors along the value chain, creating reliable and stable mutual benefits relationships. A customer-oriented business system has been laid down to establish and maintain the strategic cooperation with key customers. With continuous perfections on cooperation with suppliers and customers, the Company is able to further improve products and customer service quality, facilitating the virtuous cycle of industry.

Environmental Protection: China Agri has actively responded to the national call by attaching great importance to environmental responsibilities of corporations. Abiding by the development concept of "green industrial chain, low-carbon quality products", the Company made great efforts in environmental protection, comprehensively tapped the potential of energy conservation and emissions reduction in all segments, exploring the new development path of low input, low consumption, low emissions and high yield. China Agri has reduced the consumption of energy and water resources as well as pollutant emissions by promoting environment-friendly production, resource recycling and other measures, realising sound economic returns and social benefits. By fulfilling the social responsibility, the Company promoted sustainable development of its own as well.

Care for Employees: Employees are the most precious resource and wealth for an enterprise, which are also an important foundation for the further development. China Agri always concerns the self-realisation of employees. Through creating transparent corporate culture, the Company is committed to help every employee achieve their personal development.

China Agri adheres to professionalism as management philosophy to improve organisation structure and relevant rules, protecting the rights and interests of our workers. All kinds of trainings were also organised to enhance their capability in business, promoting personal career development and self-realisation. The Company always pays attention to occupational safety and health as well as conducts multiple recreational activities for employees. As of 31 December 2018, the total number of employees of the Group was 17,646 (18,307 in 2017).

Charitable Work: Communities are like soil on which a company relies for existence and development, and the healthy development of the society cannot be realised without every "corporate citizen" getting involved. China Agri always pays attention to the combination of its economic benefits and social benefits. Making use of own capability, the Company organised and participated in public activities covering multiple sectors in 2018, including disaster relief, physically challenged, and impoverished students. The special fund for poverty alleviation was also invested to demonstrate the leading contribution of state-owned enterprises and to give back to the society.

Risk Factors

Management keeps close watch over potential risk factors in order to maintain stable operation. The three tier risk management system identifies, monitors and manages risks, with participation by the Business Segments, functional department and Audit Department. By analysing and evaluating the indicators of our Key Risk Indicator System, the Company focused on ten main risks – price volatility risk, foreign exchange risk, production safety risk, policy risk, food safety risk, environmental risk, credit risk, inventory risk, legal risk and liquidity risk.

Corporate Sustainability and Risk Factors

Our business depends on a stable and adequate supply of raw materials which are subject to price volatility. Raw materials prices may be affected by external factors, including climate and environmental conditions, commodity market prices, currency fluctuation and government policy changes. To mitigate the risk that may arise from the volatility of raw material price, China Agri established comprehensive risk control system to control the relevant exposure. Risk Control Department keeps monitoring the key risk indicators and reports to relevant management according to our hierarchical risk-warning mechanism, taking actions timely and effectively to mitigate possible risks.

Among the major bulk commodity inputs, majority of soybean and barley are imported by the Company. The procurement costs are paid in foreign currency, which may cause foreign exchange risk between the Renminbi and the currency in which the goods are priced. In this respect, currency forward contracts and other instruments are used for hedging. The Company also set up exposure limits and regularly review and report the compliance for proper risk management.

Another source of risk inherent to the business model is from the production process from the Company's large-scale processing operations. Since some of the production process involves chemical substance, improper operations may trigger health and safety problems and affect production. The Company has established standard operating procedures for occupational safety and health throughout the production process. With regularly training and emergency drilling, the employees developed a deeper understanding of the potential risk, control measures and their duties in emergency contingency plan.

Since most of the Company's business assets are located in China and majority of revenues are generated from China, political and economic policy changes implemented by the Chinese government will have a significant impact on the Company's business operation and performance. By timely gathering relevant policies issued by central and local administrations, the Company is able to analyse and share the information internally among managements, and provides instructions for subsidiaries to ensure the compliance.

In addition, the Company's main products are grain and oil products as well as food materials, which are closely related to consumer health. Any product-related complaints and claims may have an adverse impact on our business and reputation. Thus, the Company has put in place various risk management programmes according to characteristics of different value chains. Risk Management Framework of Product Quality and Safety has been formulated. Food safety risk can be prevented through a whole process control program involving risk identification, assessment, warning, etc.

With the large number of production plants, any possible unstable production, lack of facilities or excessive emissions may pollute the environment, resulting in economic loss, administrative penalty or reputation damage. The Company has strictly complied with the environment protection and energy conservation regulations issued by central and local administrations. Besides the continuing regular monitoring, irregular and unannounced inspections on water and gas emissions are also conducted to prevent the environmental risk.

Products of the Company are mainly sold through distributors and directly sales channels. Some of domestic materials are bought with advance payments to suppliers. There is possibility of bad debts from prepayments and credit sales if the suppliers or customers failed to fulfil the contractual obligation. The Company has established credit rating system and credit approval process to monitor the transactions with customers and suppliers with high-risk or in the black-list. With the supervision system covers pre-, during- and post-transaction phases, credit risk is prevented proactively through promoting the usage of insurance tools for credit risk management.

As a leading food producer in China, the Company will hold certain level of inventory for stable operation. Since some inventory may be stored in rented facilities from third-party, management shortcomings like incomplete management system, lack of supervision and unclear rights in goods may cause inventory loss, stolen, misappropriation and damage. For preventing the inventory risk, proper inventory management measures have been regulated and undertaken. Inventory movements and monthly counting are conducted carefully. Storage environment has been controlled strictly. Storage monitoring must meet the rules' requirement. And professional training for storekeepers will be provided for rented facilities.

Corporate Sustainability and Risk Factors

To manage the legal risk, the Company has standardised the management procedures and form of contracts in production and operation. Contracts reviews are conducted. Authorisation and process for legal disputes and cases are also regulated. Some relevant factors like timeliness of case reporting, number of new case and number of cases cleared are included in as evaluation criteria. Through strengthening legal training, legal awareness of all employees has been improved to reduce the frequency of cases and the corresponding losses.

By constantly monitoring the net gearing ratio and monthly analysing cash flow, the Company effectively prevent the risk of failure to repay debt due to lack of liquidity.

Bearing such risks in mind, the Company has established a comprehensive risk management system to ensure operational stability. For more details, please refer to the risk management and internal control section under the corporate governance report of this annual report.

As to the key business partners, there is not any significantly negative impact on the Company's operation due to the change of customers and suppliers during the year. For products sale, direct selling and distribution network are the two main models for the Company. Our key customers which are industry leaders and famous enterprises have cooperated with China Agri for a long time and established a stable business relationship. On the procurement side, the Company directly purchases feedstock from farmers as well as through upper stream suppliers. Based on our footprints in major grain production regions in China, the Company takes advantages of direct sourcing to compete with our peers. With the long-term business partnership with suppliers, the material supply generally is secured.

As a food producer with majority of assets located in China, the laws and regulations that are relevant to operation include Food Safety Law of the PRC（中華人民共和國食品安全法）, Regulation on the Implementation of the Food Safety Law of the PRC（中華人民共和國食品安全法實施條例）, Work Safety Law of the PRC（中華人民共和國安全生產法）, Measures for the Administration of Food Production Licensing（食品生產許可管理辦法）, Agricultural Products Quality Safety Law of the PRC（中華人民共和國農產品品質安全法）, Law of the PRC on Import and Export Commodity Inspection（中華人民共和國進出口商品檢驗法）, Administrative Provisions on the Filing of Export Food Manufacturers（出口食品生產企業備案管理規定）, Regulation on Administration of Safety of Agricultural Genetically Modified Organisms（農業轉基因生物安全管理條例）, Regulations on the Administration of Permits for the Production of Industrial Products（工業產品生產授權管理條例）, Standardisation Law of the PRC（中華人民共和國標準化法）, Regulations on the Administration of Grain Circulation（糧食流通管理條例）, Measures for the Administration of the Examination and Approval of Grain Purchase（糧食收購資格審核管理辦法）, Measures for the Safety Review of New Food Raw Materials（新食品原料安全性審查管理辦法）, Foreign Trade Law of the PRC（中華人民共和國對外貿易法）, Environmental Protection Law of the PRC（中華人民共和國環境保護法）, Water Pollution Prevention and Control Law of the PRC（中華人民共和國水污染防治法）, the PRC Law for the Prevention and Treatment of Air Pollution（中華人民共和國大氣污染防治法）, Regulations of the PRC on Foreign Exchange Administration（中華人民共和國外匯管理條例）, Provisions on Guiding the Orientation of Foreign Investment（指導外商投資方向規定）, and Provisions on M&A of a Domestic Enterprise by Foreign Investors（關於外國投資者併購境內企業的規定）. Edible oil, grain and food producing and processing company should comply with the general regulations and laws as listed above. Foreign company should comply with the general regulations and industrial policies when engaging investments in China. In 2018, the Company strictly obeyed the relevant laws and regulations in our production, operation and investment.

Five-Year Financial Summary

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

	2018 HK$'000	2017 HK$'000	2016 HK$'000 (Restated)	2015 HK$'000 (Restated)	2014 HK$'000 (Restated)
RESULTS					
REVENUE FROM CONTINUING OPERATIONS	**108,821,161**	87,856,153	78,049,407	69,012,241	77,908,905
PROFIT/(LOSS) FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**2,278,502**	2,289,093	1,643,145	366,181	(532,502)
Finance costs	**(691,640)**	(630,649)	(635,672)	(520,319)	(513,895)
Share of profits and losses of associates	**363,824**	204,007	225,719	157,204	(83,394)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**1,950,686**	1,862,451	1,233,192	3,066	(1,129,791)
Income tax expense	**(317,718)**	(243,849)	(142,119)	(290,574)	(163,534)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**1,632,968**	1,618,602	1,091,073	(287,508)	(1,293,325)
DISCONTINUED OPERATION					
Profit/(Loss) for the year from a discontinued operation	**–**	1,758,880	440,764	(89,787)	644,743
PROFIT/(LOSS) FOR THE YEAR	**1,632,968**	3,377,482	1,531,837	(377,295)	(648,582)
Attributable to:					
Owners of the Company	**1,346,056**	3,042,323	1,419,145	(332,730)	(775,403)
Non-controlling interests	**286,912**	335,159	112,692	(44,565)	126,821
	1,632,968	3,377,482	1,531,837	(377,295)	(648,582)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**70,565,828**	67,336,717	72,126,000	67,253,511	78,561,321
TOTAL LIABILITIES	**(37,369,899)**	(33,057,923)	(41,813,681)	(36,700,275)	(46,139,547)
NON-CONTROLLING INTERESTS	**(4,232,734)**	(4,423,582)	(4,062,974)	(4,228,593)	(4,346,644)
	28,963,195	29,855,212	26,249,345	26,324,643	28,075,130

Corporate Governance Report

The Company recognises the importance of corporate transparency and accountability. The Board is committed to achieving a high standard of corporate governance practices and procedures and striving for a transparent and accountable management framework on enhancing the interests of shareholders. The corporate principles of the Company emphasise on upholding sound ethics and integrity in all aspects of its businesses, and on ensuring that affairs are conducted in accordance with the applicable laws and regulations.

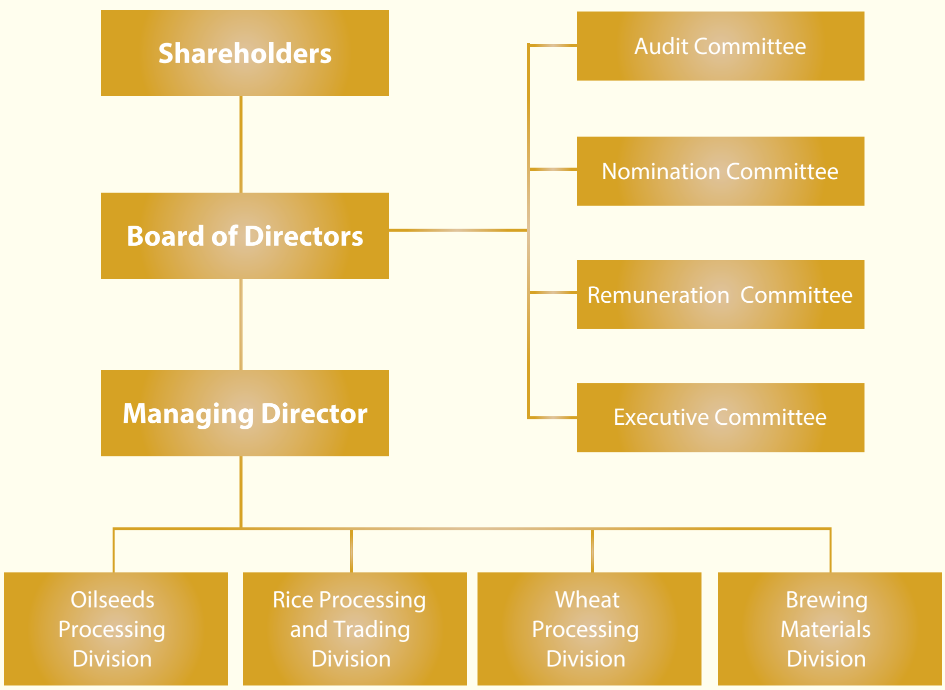
During the year ended 31 December 2018, the Company has complied with all code provisions and, where appropriate, the applicable recommended best practices set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Code of Conduct Regarding Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding directors' securities transactions. Having made specific enquiries to all members of the Board, they confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2018 in relation to their securities dealings, if any.

The Company has also adopted a code of conduct regarding employees' securities transactions on terms no less exacting than the applicable standards set out in the Model Code (the "Employees Model Code"). Relevant employees who may possess inside information related to the Group and its activities are required to observe the Employees Model Code in relation to dealings in securities of the Company. During the year, the Company has not received any non-compliance report from any of such employees.

Governance Structure



The Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performances. It is mindful of the need to uphold the corporate governance principles set out in the Company's Code of Practice for the Board and responsible for performing corporate governance duties of the Company, including the duties specified in code provision D.3.1 of the Corporate Governance Code, and has established the Code on Communication of Inside Information and Confidential Information to ensure proper dissemination and/or safeguard of the information (the said Code is available on the Company's website). The management is delegated with the authority and responsibility by the Board for the management of the Group. In addition, the Board has established various Board committees and delegated responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") (together, the "Board Committees") and the executive committee (the "Executive Committee"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference. Further details of these committees are set out on pages 27 to 31.

In accordance with the articles of association of the Company, resolutions of the Board may be passed by written resolutions or at meetings. During the year, the Board held eight meetings (including four regular Board meetings and four independent non-executive directors' meetings) to consider, among other things, the interim and annual results of the Group, annual financial budget, change of auditor to Deloitte Touche Tohmatsu for the financial year 2018, amendment to the Terms of Reference of the Audit Committee, adoption of the policy for nomination of directors, acquisitions, continuing connected transactions, and matters relating to risk management, internal control and corporate governance. The table below shows the directors during the year and their attendance at the Board meetings:

		Board	
Name		**Regular meetings**	**Meetings of independent non-executive directors**
Chairman and Non-executive Director			
LUAN Richeng	(appointed on 7 December 2018)	0/0$^{\Delta}$	N/A
Executive Directors			
DONG Wei *(former Chairman)*	(resigned on 7 December 2018)	4/4	N/A
WANG Qingrong	(appointed on 8 January 2018)	4/4	N/A
YANG Hong		2/4	N/A
SHI Bo	(resigned on 8 January 2018)	0/0$^{\Delta}$	N/A
Non-executive Directors			
YU Xubo *(former Chairman)*	(resigned on 8 January 2018)	0/0$^{\Delta}$	N/A
JIA Peng		3/4	N/A
MENG Qingguo		4/4	N/A
Independent Non-executive Directors			
LAM Wai Hon, Ambrose		4/4	4/4
Patrick Vincent VIZZONE		4/4	4/4
ONG Teck Chye		4/4	4/4

$^{\Delta}$ *entitlement to attend*

Corporate Governance Report

The Company adopts the practice of holding regular Board meetings at least four times a year. Notice of each meeting is sent to the Board members at least fourteen days prior to a regular Board meeting, and they may request for inclusion of matters in the agenda of the meetings. For ad hoc Board meetings, reasonable notices are given.

It is the practice of the Company to record in sufficient detail of the matters considered and decisions reached, including concerns raised or dissenting views expressed, in the meetings of the Board/Board Committees. Draft and final versions of minutes of the Board and/or Board Committees (as the case may be) are sent to the directors, on average within 2 weeks after the date of the respective meeting, for their comments and records respectively.

All Board members have access to the advice and services of the company secretary. Minute books of the Company (including minutes of the Board Committees' meetings) are kept by the company secretary and are open for inspection during office hours on reasonable notice by the Board members.

If necessary, the Board members also have access to external professional advice at the Company's expense.

The Board, having reviewed the work implemented and executed during the year and collected opinions of the senior management during the course of review, considers that it has effectively discharged its responsibilities and maintained the interests of the shareholders and the Company.

There were two shareholders' meetings in 2018. The directors (Mr. Dong Wei, Mr. Wang Qingrong, Ms. Yang Hong, Mr. Lam Wai Hon, Ambrose, Mr. Patrick Vincent Vizzone and Mr. Ong Teck Chye) together with the management and independent auditor's representatives attended the annual general meeting held on 1 June 2018. Mr. Dong, Mr. Wang, Mr. Lam, Mr. Vizzone and Mr. Ong also attended the extraordinary general meeting held on 2 November 2018.

Chairman and Managing Director

The roles of the chairman and the managing director are clearly defined to ensure their respective independence. Set out below are the chairman of the Board and the chief executive officer (or managing director, in the case of the Company) during the year and up to the date of this report:

Period	Chairman	Managing Director
Until 8 January 2018	YU Xubo	DONG Wei*
From 8 January 2018 until 7 December 2018	DONG Wei	WANG Qingrong
From 7 December 2018	LUAN Richeng	WANG Qingrong

* *Mr. Dong Wei was the deputy managing director from 6 January 2017 until 8 January 2018.*

The chairman takes lead in formulating the overall strategies and policies of the Group, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of directors to the Board's activities and constructive relations between executive and non-executive directors. The chairman also ensures that a system of effective communication with shareholders of the Company and receipt by the directors of adequate and complete information is in place.

The managing director, as the chairman of the Executive Committee, supported by other Board members and the senior management, is responsible for the daily business operations and management of the Group. He is accountable to the Board for the implementation of the Group's overall strategies as well as co-ordination of overall business operations.

Board Composition

At present, the Board consists of nine members: three executive directors, three non-executive directors and three independent non-executive directors. They bring complementary skills, knowledge, experience and perspectives to the governance of the Company.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has satisfied the requirement under Rule 3.10A of the Listing Rules for the Board to have at least one-third of its members comprising independent non-executive directors. The Company has received annual written confirmations from every independent non-executive director confirming their independence in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that they are independent within the definition of the Listing Rules.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies, internal control and policies and make independent judgment on issues relating to the Group. They will take lead where potential conflicts of interest arise. The independent non-executive directors also represented the majority in all three of the Nomination Committee, the Remuneration Committee and the Audit Committee to ensure sufficient independence in the Board's decision making process.

Appointment, Re-election and Removal

Each director has entered into a contract of service with the Company for a term of three years. The contract was approved by the Board on the recommendation of the Nomination Committee and the Remuneration Committee as appropriate. Basis for determining a director's remuneration can be found on page 29.

Pursuant to article 106 of the articles of association of the Company, at every annual general meeting, one-third of the directors or, if their number is not a multiple of three, then the number nearest to and at least one-third shall retire from office by rotation at least once every three years. Further, pursuant to article 111 of the articles of association of the Company, a newly appointed director shall retire at the next following general meeting. The retiring director shall be eligible for re-election. The Company considers that sufficient measures have been taken to ensure that the Company's practices in appointment of directors are no less stringent than those set out in the Corporate Governance Code. To enable shareholders of the Company to make an informed decision on the re-election of retiring directors, their biographies are set out in this annual report under the section "Directors and Senior Management Profile", which demonstrates a diversity of skills, expertise, experience and qualifications among the Board members.

Directors' Training

The Company ensures that every newly appointed director has a proper understanding of the operations and businesses of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal and other regulatory requirements and the business and governance policies of the Company. The Company sponsors directors to attend professional development seminars where necessary. In addition, the Company's legal adviser would provide training (including any update) on the Listing Rules and regulatory requirements (if required) to the Board. A summary of training received by the directors during the year according to the records provided by them is set out below.

Name		Attending briefings, seminars or conferences, or reading materials relevant to the director's duties and responsibilities
Chairman and Non-executive Director		
LUAN Richeng	(appointed on 7 December 2018)	✓
Executive Directors		
DONG Wei *(former Chairman)*	(resigned on 7 December 2018)	✓
WANG Qingrong	(appointed on 8 January 2018)	✓
YANG Hong		✓
SHI Bo	(resigned on 8 January 2018)	
Non-executive Directors		
YU Xubo *(former Chairman)*	(resigned on 8 January 2018)	
JIA Peng		✓
MENG Qingguo		✓
Independent Non-executive Directors		
LAM Wai Hon, Ambrose		✓
Patrick Vincent VIZZONE		✓
ONG Teck Chye		✓

Board Committees

Nomination Committee

The Nomination Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the Corporate Governance Code. It is primarily responsible for the procedures of nominating and appointing appropriate person to be a director, either to fill a casual vacancy or as an addition to the Board. The terms of reference of the Nomination Committee are available in writing upon request to the company secretary and on the Company's website. The Nomination Committee is chaired by the chairman of the Board and comprises a majority of independent non-executive directors. At present, the Nomination Committee comprises Mr. Luan Richeng (the chairman of the Board) as the chairman of the Nomination Committee, Mr. Lam Wai Hon, Ambrose, Mr. Patrick Vincent Vizzone and Mr. Ong Teck Chye. All are independent non-executive directors, except for its chairman.

The Nomination Committee held three meetings in 2018. The table below shows its members during the year and their attendance at the Nomination Committee meetings:

Name	No. of meetings held	No. of meetings attended	Attendance rate
YU Xubo* *(former Chairman)* (ceased membership on 8 January 2018)	1[Δ]	1	100%
DONG Wei* *(former Chairman)* (ceased membership on 7 December 2018)	2[Δ]	2	100%
LUAN Richeng* *(Chairman)*	0[Δ]	0	N/A
LAM Wai Hon, Ambrose	3	3	100%
Patrick Vincent VIZZONE	3	3	100%
ONG Teck Chye	3	3	100%

* *Mr. Dong Wei was appointed Chairman of the Nomination Committee on 8 January 2018, when Mr. Yu Xubo left the Board. Mr. Luan Richeng succeeded Mr. Dong on 7 December 2018.*

Δ *entitlement to attend*

During the year, the work of the Nomination Committee included consideration of: recommendation to the Board of proposed candidates for appointment to the Board; review composition of the Board and the Board committees' composition, including the appropriate balance of skills, knowledge and experience, and new governance standards expected of directors under the Listing Rules and the Corporate Governance Code effective on 1 January 2019; review of the retirement of directors by rotation; and review of the progress in achieving diversity on the Board.

In carrying out its responsibilities, the Nomination Committee is guided by its specific terms of reference and the established nomination procedures and criteria, including the Nomination Policy adopted on 26 October 2018, the Board Diversity Policy adopted on 28 August 2013 and the procedures for proposing a person for election as a director adopted on 28 March 2012 (all these documents are available on the Company's website). The Nomination Policy is intended to provide a flexible set of guidelines for identifying and evaluating the person who is considered for being appointed/re-appointed as director of the Company, with due regard for the benefits of diversity as set out under the Board Diversity Policy. During 2018, the Company continued to implement the strategic goal of "Focusing on rice, flour and edible oil products, with the aim of repositioning as the leading integrated player for the grain and edible oil processing and branded consumer business". In pursuit of our strategic goal, the Company aims to build and maintain diversity on the Board, and expects that the composition of the Board will predominantly have had the necessary executive experience in agri-industries sector to best qualify for the supervisory and monitor functions, but is also balanced with each director bringing a range of complementary skills, knowledge, experience and perspectives to the governance of the Company. Thus, in identifying and nominating suitable candidates for appointment to the Board, the Company will consider candidates on merit, having due regard to the benefits of all aspects of diversity including, but not limited to, mix of skills, experience, industry background, gender and thinking styles. In reviewing the Board composition, the Company will consider the appropriate range and balance of expertise, experience, skills and diversity required for the Board to fulfill its duties.

In 2018, the Nomination Committee reviewed the range of existing diversity and considered nominations taking into account the Board Diversity Policy. A total of three new directors were appointed by the Board during the year and up to 27 March 2019 to fill vacancies caused by resignations due to other business engagements. The nominations were reviewed and approved by the Nomination Committee. In 2019, the Nomination Committee will continue, keeping diversity in mind, to support the Board on the nomination/appointment process, whilst promoting there is appropriate continuity.

Corporate Governance Report

The current composition of the Board is set out on page 1 of this annual report. The executive directors were appointed based on their qualifications and experience in relation to the Group's businesses. The non-executive directors were appointed based on their qualifications and experience within COFCO Corporation and its subsidiaries. The independent non-executive directors were appointed based on their professional qualifications and experience in their respective areas.

Remuneration Committee

The Remuneration Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the Corporate Governance Code. Its primary role is to make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management. The terms of reference of the Remuneration Committee are available in writing upon request to the company secretary and on the Company's website. The Remuneration Committee comprises a majority of independent non-executive directors and is chaired by an independent non-executive director. At present, the Remuneration Committee comprises Mr. Patrick Vincent Vizzone as the chairman of the Remuneration Committee, Mr. Lam Wai Hon, Ambrose, Mr. Ong Teck Chye and Mr. Meng Qingguo. All are independent non-executive directors, except for Mr. Meng.

The Remuneration Committee is delegated with authority and responsibility to determine the remuneration packages of individual executive directors and senior management. It may consult with the chairman and the managing director of the Company regarding proposals for the remuneration of other executive directors. The remuneration of non-executive directors is determined by the Remuneration Committee or, on its recommendation, by the Board. Where necessary, the Remuneration Committee may seek professional advice of an external expert at the Company's expenses.

The remuneration of the executive directors is determined by the Remuneration Committee having considered the internal policy, qualifications, experience, performance and market comparisons. With respect to non-executive directors, the remuneration of independent non-executive directors is determined by their participation in the Board and the Board Committees, while the remuneration of other non-executive directors is determined by taking into consideration the policy that designated person will not be paid director's fee.

The Remuneration Committee held one meeting in 2018. The table below shows its members during the year and their attendance at the Remuneration Committee meeting:

Name	No. of meetings held	No. of meetings attended	Attendance rate
Patrick Vincent VIZZONE *(Chairman)*	1	1	100%
LAM Wai Hon, Ambrose	1	1	100%
ONG Teck Chye	1	1	100%
MENG Qingguo	1	1	100%

During the year, the work of the Remuneration Committee included consideration of: review of peer group for executive compensation benchmarking; and review of the Company's performance assessment system.

For the year ended 31 December 2018, the remuneration of senior management (excluding directors of the Company) falls into three bands: one individual in the range of HK$1,500,001 – HK$2,000,000, one individual in the range of HK$2,000,001 – HK$2,500,000, and one individual in the range of HK$4,000,001 – HK$4,500,000. Such amount includes equity-settled share option expenses and pension scheme contributions. Details of the remuneration of the Company's directors for the year ended 31 December 2018 are set out in Note 8 to the financial statements.

Audit Committee

The Audit Committee was established on 16 February 2007 with specific written terms of reference which clearly deal with its authority and duties. In October 2015, its terms of reference were amended to address the responsibilities in oversight of risk management system. The most recent amendment to its terms of reference was made on 28 March 2018 whereby a new corporate governance guidance has been adopted requiring the Audit Committee to make recommendations to the Board on the appropriateness and timing of rotation of the external auditor, and to consider the appropriateness of change of the external auditor no longer than 3 years from the appointment. The terms of reference of the Audit Committee are available in writing upon request to the company secretary and on the Company's website. At present, the Audit Committee comprises Mr. Lam Wai Hon, Ambrose as the chairman of the Audit Committee, Mr. Patrick Vincent Vizzone, Mr. Ong Teck Chye and Mr. Jia Peng. All are independent non-executive directors, except for Mr. Jia. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee has possessed the appropriate professional and accounting qualifications.

During the year, the Audit Committee held five meetings with the external auditor and/or the senior management of the Company to review and discuss, among other things, the financial reporting and audit planning, internal audit plan and work reports, major areas of risk, internal control and the financial results of the Group. The table below shows its members during the year and their attendance at the Audit Committee meetings:

Name	No. of meetings held	No. of meetings attended	Attendance rate
LAM Wai Hon, Ambrose *(Chairman)*	5	5	100%
Patrick Vincent VIZZONE	5	5	100%
ONG Teck Chye	5	5	100%
JIA Peng	5	4	80%

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. In the meantime, it is the management's duty to ensure the Company maintains an adequate amount of qualified and experienced staff for its accounting and financial reporting function. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and may make recommendations to the Board to take appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, external auditor and senior management, as may be appropriate in discharging its functions. It has been supported by Audit Department, which reported to the Audit Committee internal audit findings on a quarterly basis and annual assessment on the effectiveness of risk management and internal control systems in 2018. Please refer to pages 32 to 35 for further details about our risk management and internal control.

Executive Committee

The Executive Committee was established on 27 February 2009 with specific written terms of reference. Currently, the Executive Committee comprises three members, namely Mr. Wang Qingrong (the managing director of the Company) as the chairman of the Executive Committee, Mr. Xu Guanghong and Ms. Yang Hong.

Under its terms of reference, the primary responsibility of the Executive Committee is to deal with and supervise the day-to-day business operations, management and administration of the Company.

Auditor's Remuneration

During the year under review, the remunerations paid or payable to Deloitte Touche Tohmatsu or another member firm of Deloitte global network in respect of its audit services and non-audit services are approximately HK$3.7 million and HK$10.1 million, respectively. The non-audit services included compliance services of approximately HK$2.2 million, taxation services of approximately HK$1.2 million and consultancy services of approximately HK$6.7 million.

Accountability and Audit

The directors of the Company acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting principles in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management. After appropriate enquiries, the directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The Company's operating results for the year ended 31 December 2018 were reviewed by the management during the annual management meeting. The general managers of all business units and functional departments of the Company had attended the meeting and the managing director presented the Company's overall and divisional operating results during the meeting. Variations from the budget and from the previous year's results were reviewed and analysed. In this review process, the management identified the effects of the key risk factors that affected the Company's businesses during the year and consolidated them with their expectations of the business performance they accumulated during their daily management of the businesses to form a basis for comparison and verification of the details of the reported operating results for the year.

Based on the results of the above management review and the business risks identification, an overall business strategy of the Company for the coming year was also developed during this annual management meeting. To ensure the achievement of the goals and objectives set for the coming year, this overall business strategy also includes plan for continuing risks assessment and the development of the necessary internal control procedures.

The Company has announced its annual results for the year ended 31 December 2018 on 27 March 2019. An independent auditor's report can be found on pages 58 to 62 of this annual report.

Risk Management and Internal Control

The Company recognises continuous improvement of risk management and internal control systems is the key to sustainable business and long-term growth of an organisation. The objectives of establishing our risk management and internal control systems are: to control the risks which may hamper the achievement of our strategic and operational goals within a level acceptable to our management through reasonable, standardised and scientific management processes; to ensure compliance with the relevant laws and regulations of the state and of the relevant authorities; to ensure the proper implementation of key measures in achieving the Company's strategic goals; to enhance our operational efficiency; and to minimise the uncertainty in achieving our strategic goals.

As for corporate governance, the Company is well-structured with a clear division of responsibilities among the management. The Board is responsible for maintaining effective risk management and internal control systems and reviewing their effectiveness on a regular basis. The management have created and sustained an honest and trustworthy corporate culture, and establish and continuously refine the risk management and internal control systems under the Board supervision.

The Company identified, controlled and responded to risks by setting up three lines of defense. As the first line of defense, frontline business segments in operating units identified and assessed the business risk and formulated risk contingency measures; while as the second line of defense, risk management departments such as Risk Control Department, Finance Department, Production and Quality Safety Management Department, Legal Department assist business segments in operating units in enhancing the risk management and control measures and monitor the effectiveness of risk management and control measures adopted by operational management. As the third line of defense, Audit Department independently and objectively evaluates the effectiveness of risk management and internal control systems and reports directly to the Board and senior management.

Risk Management

The Company has built its risk management system according to the COSO framework. In order to apply the philosophy of risk management at all levels, we implement the risk management work to the Company and all the subsidiaries, covering various risks we encounter during the process of operation and management, and we implement intensive management against critical risks therein.

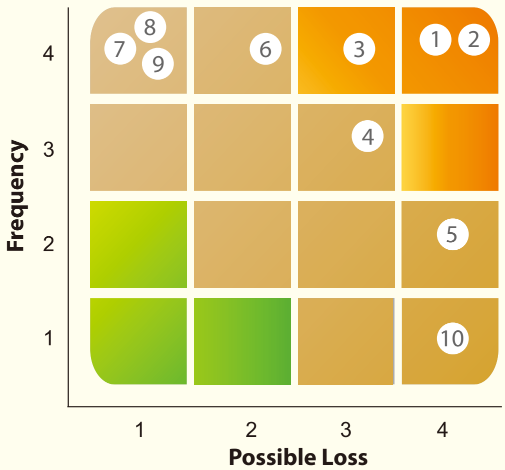
The Company clarifies its development targets, identifies significant risks and determines business operation plan and development strategies annually by way of strategy and budgeting meetings. Our senior management convenes the general managers meetings on a regular basis to review matters of significance to corporate strategies, policies and overall situation. Operating analysis meetings for analysing the implementation of operation plans and budgeting, risk control, production management and marketing management are convened regularly by relevant functional departments and business units. The Company proactively implements benchmarking, seeks the best practice by way of benchmarking and continues to improve on such basis in order to enhance its own management standard and integrated competitiveness.

A system for monitoring Key Risk Indicators (KRI) has been set up. Information on risks is collected and assessed on an ongoing basis. Risk alerts, tracking and management are done and analysis reports are issued, based on identified information on risks. Audit Department works with each business unit and functional departments regularly to carry out amendments to Key Risk Indicators (KRI) in order to optimise the directions and strength of control.

Corporate Governance Report

The Company developed comprehensive risk monitoring and control measures specifically for the significant risk areas identified. Audit Department, as the third line of defense, performs constant monitoring and assessment on risk management and control measures in order to verify positive and necessary risk management measures undertaken by the Company so that the risk management system remains effective in operation.

Risk Analysis Dashboard



1. Price volatility risk
2. Foreign exchange risk
3. Production safety risk
4. Policy risk
5. Food safety risk
6. Environmental risk
7. Credit risk
8. Inventory risk
9. Legal risk
10. Liquidity risk

According to the "frequency" and "possible loss" matrix, the Company identified price volatility risk, foreign exchange risk and production safety risk as critical risks; and policy risk, food safety risk, environmental risk, credit risk, inventory risk, legal risk and liquidity risk as medium risks.

Internal Control

The Company has established corresponding internal control policies and programs for every major business activity, ranging from sales, procurement, fund management, human resources, asset management, production facility projects, production management, financial reporting and contract management, etc. The system requires our employees to perform their respective duties in strictly compliance with their working criteria. Standardised operation would be realised through enhancement in staff expertise training so as to minimise various risks incurred in business process.

The development and continual enhancement of an internal control self-assessment system is one of the most effective tools to promote the continuous enhancement of internal controls in the Company and is also for satisfying the requirements under "Basic Standards for Enterprises' Internal Control", jointly issued by the five ministries/commissions including the Ministry of Finance of China and the China Securities Regulatory Commission, and the related guidelines and relevant regulations.

The Company has completed development of the framework of internal control and self-assessment system, and formulated "Administrative measures for internal control and self-assessment of China Agri-Industries Holdings Limited (Provisional)". Also, the system was optimised and improved in light of the findings from internal control and review during the course of system development. All functional departments, business units and profit centres investigated control weaknesses and rectified them promptly while implementing self-assessment and evaluation with respect to their own workflows regularly every year.

The Company's Audit Department is led by the general manager of Audit Department and has recruited professionals to enrich the team.

Audit Department's primary responsibilities include:

- assist the Audit Committee in its review of the Company's overall system of internal controls;
- perform reviews on the design and the proper implementation of policies, procedures and controls of all major business units and functional departments;
- perform reviews on the compliance status on rules and regulations that are relevant to the Company's businesses;
- perform efficiency and compliance reviews on major investment and construction projects; and
- perform special reviews on areas of concern identified by the Audit Committee or the management.

An annual internal audit plan is prepared by Audit Department based on a risk-based auditing approach. The approach focuses on the internal controls of material transactions and operations of major business units and functional departments. The annual internal audit plan is reviewed and approved by the Audit Committee at the beginning of each year.

In 2018, Audit Department continuously implemented various audit items, such as performance audit and specific internal control audit, to assess the operation mode and management condition of the business units and profit centres. Audit Department keeps track on and facilitates the rectification made by the audited units on a regular basis focusing on various risks and management bottlenecks identified during the auditing process, which effectively enhances the continuous improvement of risk management and internal control systems. The general manager of Audit Department reports directly to the Audit Committee and the management at regular intervals, and attends Audit Committee and Board meetings.

In addition to the review of the Company's internal control activities, Audit Department is also responsible for providing recommendations to the Board on the continuing development of other aspects of the Company's internal control framework, including the risk management process, information and communication system and management monitoring process.

The Board assesses the appropriateness of the risk management and internal control systems by considering reviews performed by the Audit Committee, the management, as well as both internal and external auditor with the understanding that such system is an ongoing process to identify, evaluate and manage significant risks faced by the Group. The system of the Group has been in place and was functioning effectively for the year under review and the process is regularly reviewed.

Whistle-blowing Policy

A whistle-blowing policy was set up by the Company to ensure inappropriate business practices and behaviors are properly reported and handled. The policy includes the set up of an electronic reporting mail box. Follow up review will be performed by Discipline Inspection and Supervision Department. Procedures and controls are in place to ensure the informant's identity is kept confidential.

Shareholders' Rights

The Company is committed in engaging constructive communication with its shareholders through a variety of channels, including through its corporate communications, website, general meetings and investor relations activities. Shareholders who wish to put enquiries to the Board may send communications to: The Board of Directors c/o Company Secretary, by post to the registered office of the Company. All communications will be forwarded to the Board or the individual directors on a regular basis.

Every shareholder has a right to make their views known through voting at a general meeting. The annual general meeting (the "AGM") will be held on 31 May 2019. The AGM provides shareholders the opportunity to communicate with the Board on a wide range of issues relating to the affairs of the Company. Shareholders who wish to attend and vote may request to be entered into the register of members by its closure for the AGM. A corporate shareholder may participate by its authorised representative. Subject to applicable laws and regulations, qualified shareholders may exercise their rights to request circulation of resolution for the AGM. Shareholders holding at least 2.5% of the total voting rights of all shareholders, or at least 50 shareholders, who have a right to vote on the resolution at the AGM, may submit a written request to the Company. The circulation request must identify the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution, and must be authenticated by the requisitionists and sent to the Company's registered office in hard copy for the attention of the company secretary (which must be received by the Company at least 7 days before the relevant meeting). If the requisition is to propose nomination of a person other than a director of the Company for election as a director at the AGM, that person's consent to be elected and biographical details as required by Rule 13.51(2) of the Listing Rules should also be provided. Upon verification that the requisition is proper and in order, the company secretary will propose the Board to include the resolution on the agenda for the AGM.

Only persons with proper authority have the right to requisition for and convene a general meeting. According to applicable laws and regulations, shareholders holding at least 5% of the total voting rights of all the shareholders having a right to vote at a general meeting of the Company may request to call a general meeting. The request must state general nature of the business to be dealt with at the meeting, and may include the proposed resolution. The requisition must be authenticated by the requisitionists and deposited at the registered office of the Company for the attention of the company secretary. Upon verification that the requisition is proper and in order, the company secretary will propose the Board to convene the relevant general meeting within 21 days from the date of the deposit of the requisition call a meeting to be held within a further period of 28 days.

Shareholders desiring to request circulation of resolution for a general meeting should send the request to the Company in due time before the meeting. If the matter to be considered requires a special notice, the proposed resolution must be given to the Company not less than 28 days before the general meeting at which it is moved. The Company will, in accordance with its obligations under the applicable laws and regulations, provide necessary information either in a supplementary circular or by way of an announcement and, if necessary, adjourn the relevant general meeting for informing all shareholders.

Investor Relations

Investor relations has always been an important pillar of China Agri's corporate governance. As a two-way communication channel between management and the capital market, it continually updates investors on the Company's developments and regularly provides management with market feedback and opinions from the investment community to improve the governance and operations.

The Company maintains the compliant and efficient investor communications in 2018 through organising various investor relations activities. A total of 61 one-on-one discussions, group meetings and conference calls were held to address investors' concerns. The Company also held post-annual-results analyst briefing and investor luncheon to give colour on financial performance and business strategies. The annual general meeting provided opportunities to communicate face-to-face with minority shareholders, reflecting management's commitment to full and fair disclosure to all shareholders. Meanwhile, the active participation in large-scale investor meetings organised by international brokers also help to raise corporate's public awareness and to broaden its potential shareholders base. The efficient and multiform communication with investors ensured the transparency of our corporation governance, building good interactive relationship and trust with investment community. At the extraordinary general meeting held on 2 November 2018, the Company was granted approvals by the independent shareholders to acquire the oilseeds crushing assets through partial exercise of the option to purchase. The acquisition will further boost business scale and promote development.

Major conferences participated in 2018:

19 April 2018	Industrial Securities – Spring Meeting for Overseas Investment Strategy 2018
25 April 2018	Daiwa – Consumer & Gaming Conference 2018
30 May 2018	Morgan Stanley – Fourth Annual China Summit
4 June 2018	UBS – Asian Consumer, Gaming and Leisure Conference 2018
11 June 2018	Daiwa – 2018 Pan Asia Small & Mid-Caps (Hong Kong)
20 September 2018	CGS-CIMB – Consumer & Education Corporate Day
7 November 2018	Jeffries – 8th Annual Greater China Conference
9 November 2018	BoA ML – 2018 China Conference
16 November 2018	Daiwa – Daiwa Investment Conference Hong Kong

The Company reviews shareholding structure regularly to understand the shareholder base. As of 31 December 2018, China Agri's independent shareholders from all over the world accounted for about 42% of total issued shares. As one of the eligible stocks for "Shanghai/Shenzhen-HK Stock Connect", the Company also enjoyed the steady growing interests and shareholding of mainland investors to maintain the diversity and balance of shareholding structure. Their holding was 4.7% of total issued shares as of the end of 2018.

The Company also made achievements for capital market recognition. On 21 May 2018, the Company was awarded the "Certificate of Excellence" by Hong Kong Investor Relations Association at *4th Investor Relations Awards* in recognition of our works done on relevant area. Moreover, the Asset, a well-known financial magazine, announced the results of *The Asset Corporate Awards 2018* on 10 December 2018. The Company won "The Asset Titanium Awards 2018" due to its solid performance in the areas of governance, social responsibility, environmental responsibility and investor relations, which well recognised by the expects, professional institutions and investment community.

Corporate Governance Report

On 14 May 2018, MSCI announced the constituent changes in China-related indexes effective on 1 June 2018. China Agri was selected as a constituent of several indexes which further promote the corporate's market recognition, including the MSCI China Index, the MSCI 'CHINA FREE' Index, the MSCI EM Index, the MSCI EM 'ESG LEADERS' Index, the MSCI EM ASIA Index and the MSCI 'EM/CONSUMER STAPLES' Index. Besides, China Agri is also a constituent of several key benchmark indexes, including the Hang Seng Composite Index, the Hang Seng Global Composite Index, the Hang Seng Composite Industry Indexes, the Hang Seng Composite Size Indexes, the Hang Seng Consumer Goods & Services Index and the Hang Seng Corporate Sustainability Benchmark Index.

The Company's business is covered by several investment banks and financial institutions. For a complete list of analysts, please visit the Company's website at www.chinaagri.com.

Directors and Senior Management Profile

As at 27 March 2019

Chairman of the Board & Non-executive Director

LUAN Richeng

Mr. LUAN Richeng, aged 54, the Chairman of the Board, was appointed as a non-executive director of the Company in December 2018. Mr. Luan has been serving as vice president since he joined COFCO Corporation in July 2016. Prior to that, he served as a clerk, deputy general manager of the General Office and the general manager of Chinatex Raw Materials Imports & Exports Corporation (中國紡織品原料進出口公司), an assistant to the general manger and a deputy general manager of Chinatex Imports & Exports Corporation (中國紡織品進出口總公司), and a deputy general manager, the general manager and a director of Chinatex Corporation (中國中紡集團公司). Mr. Luan graduated from Shandong University and obtained a master's degree in Chinese Literature, and obtained an Executive Master of Business Administration (EMBA) degree from China Europe International Business School.

Executive Directors

WANG Qingrong

Mr. WANG Qingrong, aged 57, was appointed as an executive director and the managing director of the Company in January 2018. He joined COFCO Corporation and/or its subsidiaries ("COFCO Group") in October 2016 and served as deputy general manager of COFCO Trading Limited, deputy general manager of the Company's oilseeds processing division and general manager of COFCO Fortune Foods Sales & Distribution Co., Ltd. Prior to that, Mr. Wang was the general manager of Tianjin City Hongqi Oils Plant (天津市紅旗油廠), deputy general manager of Tianjin Oils (Group) Limited (天津市油脂（集團）有限公司), president of Tianjin Grain & Oil Wholesale Trade Market of China (中國天津糧油批發交易市場), deputy general manager of Sinograin Oils Corporation and general manager of Guangzhou branch of China Grain Reserves Corporation. Mr. Wang graduated from the Institute of Industrial Economics of Chinese Academy of Social Sciences and obtained a master's degree in corporate management.

Directors and Senior Management Profile

As at 27 March 2019

XU Guanghong

Mr. XU Guanghong, aged 49, was appointed as an executive director of the Company in January 2019. He joined COFCO Group in August 1992 and has been responsible for the oilseeds processing business of the Company since December 2018. Prior to that, Mr. Xu held various positions in COFCO Group, including the deputy general manager of COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd., the general manager of COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd., assistant to the general manager of the oilseeds processing division of the Company and deputy general manager of the oilseeds processing division of the Company. Mr. Xu graduated from Shanghai University of Finance and Economics with a Bachelor's degree in Economics.

YANG Hong

Ms. YANG Hong, aged 55, was appointed as an executive director of the Company in March 2017. She is a vice president of the Company and had been in charge of the grains business until October 2018. Ms. Yang joined COFCO Group in 1989 and held various positions at COFCO Group. She has been a senior industry executive of COFCO Group since February 2013. Ms. Yang has more than 20 years' experience in rice import and export business. She had been the general manager of the rice processing and trading division since the Company was listed, and is responsible for optimising its rice processing footprints in China's main paddy growing provinces and building brand awareness for rice products. She is a director of certain subsidiaries of the Company. Ms. Yang holds a Bachelor's degree in Economics from University of International Business and Economics in Beijing and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

Non-executive Directors

JIA Peng

Mr. JIA Peng, aged 58, was appointed as a non-executive director of the Company in January 2017. Mr. Jia joined China National Native Produce & Animal By-products Import & Export Corporation (now a subsidiary of COFCO Corporation and, since December 2017, its name has been changed to China National Native Produce & Animal By-products Import & Export Co., Ltd.) and/or its subsidiaries ("CHINA TUHSU") in 1993 and served several positions in CHINA TUHSU, including the general manager of Sunry Afrique International, the deputy general manager of China Feeding Stuffs Import and Export Corporation, the general manager of China Tuhsu Yunnan Tea Import & Export Corporation, the general manager and chairman of the board of Yunnan Zhongcha Tea Industry Co., Ltd., the deputy general manager and general manager of China Tea Co., Ltd., and assistant to the general manager of China National Native Produce & Animal By-products Import & Export Corporation. Mr. Jia received a Bachelor of Arts degree from Anhui University. He ceased to be a director of COFCO Property (Group) Co., Ltd. (a company listed on Shenzhen Stock Exchange and, since March 2019, has changed its name to Grand Joy Holdings Group Co., Ltd.) and a non-executive director of Joy City Property Limited (a company listed in Hong Kong) on 5 March 2018 and 8 March 2018, respectively.

As at 27 March 2019

MENG Qingguo

Mr. MENG Qingguo, aged 59, professoriate senior engineer, was appointed as a non-executive director of the Company in August 2017. He joined COFCO Group in 2015, and served as deputy general manager of China Huafu Trade & Development Group Corp. and senior management of COFCO Engineering & Technology Co., Ltd. Prior to that, Mr. Meng served as deputy general manager of Design House III of the Design Institute under the Commerce Department of the People's Republic of China (商業部設計院第三設計室) (which ceased to exist under the State Council), general manager of Xinhui Refrigeration and Air-conditioning Equipment Co., Ltd. (欣輝製冷空調設備有限公司), and dean of Internal Trade Engineering Design & Research Institute. Mr. Meng graduated from Heilongjiang Institute of Commerce (黑龍江商學院) and obtained a Bachelor's degree in Engineering.

Independent Non-executive Directors

LAM Wai Hon, Ambrose

Mr. LAM Wai Hon, Ambrose, aged 65, was appointed as an independent non-executive director of the Company in January 2007. Mr. Lam joined Able Capital Partners Limited in November 2017 and currently serves as its Chairman. Between April 2011 and October 2017, he was the Chief Executive Officer of Investec Capital Asia Limited (formerly known as Access Capital Limited of which Mr. Lam was a director and the co-founder prior to its acquisition by Investec Bank PLC in April 2011) and latterly the Country Head of China & Hong Kong of the Investec Group. Prior to establishing Access Capital Limited in 2000, Mr. Lam was the managing director and head of Investment Banking for Greater China of Deutsche Bank AG (Hong Kong). He was also the managing director and head of Investment Banking for Greater China of the Bankers Trust Company, and the managing director of Yuanta Securities (Hong Kong) Company Limited. Mr. Lam started his investment banking career with Kleinwort Benson Group in London in 1984 before joining Standard Chartered Asia Limited in Hong Kong where he held the position of managing director in corporate finance. He is currently an independent non-executive director of Genting Hong Kong Limited and Pacific Online Limited (both listed in Hong Kong). Mr. Lam is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (Honours) degree in Economics & Accounting from University of Newcastle Upon Tyne in England.

Directors and Senior Management Profile

As at 27 March 2019

Patrick Vincent VIZZONE

Mr. Patrick Vincent VIZZONE, aged 47, was appointed as an independent non-executive director of the Company in June 2007. Mr. Vizzone has 25 years of experience in agribusiness and corporate and investment banking. Mr. Vizzone is currently the Head of Coverage, Hong Kong and the Head of Food, Beverage & Agribusiness, International, Institutional Banking, at Australia and New Zealand Banking Group Limited. Prior to that, he held regional leadership roles with National Australia Bank (Head of Institutional Banking, Asia and Head of Food & Agribusiness, Asia), Rabobank Asia (Head of Food & Agribusiness, Asia and Head of Food & Agribusiness Advisory & Research, Asia) and The General Electric Company (Strategic Marketing & New Product Introductions Leader, GE Capital Asia Pacific). Before engaging in his banking career, he was a founding Director and Deputy General Manager at Shanghai Asia-Pacific International Vegetable Co. (SAPIV) and as a cofounder of China Green Concepts. Mr. Vizzone is a Fellow of the Hong Kong Institute of Directors and Member of the Australian Institute of Directors. He also serves as the Chair of the Global Development Committee and past Chair of the Global Strategy Task Force of the Produce Marketing Association. Mr. Vizzone is also a member of the Advisory Board of AgFunder Inc. Mr. Vizzone holds a Bachelor's degree in History and Political Science from Monash University, Australia and a Master of Business Administration degree in Finance from Manchester Business School, the United Kingdom.

ONG Teck Chye

Mr. ONG Teck Chye, aged 64, was appointed as an independent non-executive director of the Company in February 2015. Mr. Ong holds an honours degree in Sociology from University of Singapore (currently known as National University of Singapore). Currently, Mr. Ong is General Manager, Agri Division and Global Head of Operations of R1 International Pte Ltd., a subsidiary of China Hainan Rubber Industry Group Co., Ltd. He had been the China country Agri-Business head from 2011 to 2014 and the head of international trading and marketing division from 2007 to 2011 of Golden Agri-Resources Ltd. He was the head of the Singapore petroleum trading division of Noble Group Limited (Hong Kong) from 2004 to 2006. Mr. Ong served as the department head of Marubeni International Petroleum Company Singapore Pte Ltd from 2001 to 2004. From 1980 to 2001, Mr. Ong held various trading positions in Cargill Singapore and Geneva, including the senior manager of structured trade finance department of Cargill Singapore. He has over 30 years' trading experience.

As at 27 March 2019

Senior Management

Mr. CHANG Muping, aged 53, has been a vice president of the Company since March 2014, taking charge of commodity risk management of the Company. He previously worked in the Ministry of Commerce Information Centre and futures department of CADTIC (中國農業發展信托投資公司). He joined COFCO Group in August 1996 and held various positions at COFCO Group, including manager of COFCO Futures Co., Ltd. (中糧期貨有限公司). He was assistant to general manager and deputy general manager of the oilseeds processing division of the Company and the general manager of risk control department of the Company. Mr. Chang holds a Bachelor's degree in Engineering and a Master's degree in Engineering from Huazhong University of Science and Technology.

Ms. HUA Jian, aged 45, has been a vice president of the Company since October 2016 and has been in charge of the grains business of the Company since October 2018. Ms. Hua joined COFCO Group in July 1996 and held various positions in COFCO Group, including deputy general manager of Top Glory (Australia) Pty Ltd., and assistant to general manager, deputy general manager and general manager of the brewing materials division of the Company. Ms. Hua holds a Bachelor of Arts degree from East China Normal University and a Master's degree in Economics from the University of International Business and Economics.

Ms. YANG Lijun, aged 47, has been the chief financial officer of the Company since July 2018 in addition to her role as the chief accountant and the general manager of finance department of the oilseeds processing division. Ms. Yang joined COFCO Group in August 1993 and has extensive experience in financial management. She previously served as financial manager of COFCO Futures Co., Ltd. (中糧期貨有限公司), assistant to general manager and deputy general manager of finance department of the Company, and deputy general manager and the general manager of finance department of the Company's oilseeds processing division. Ms. Yang graduated from Beijing Technology and Business University with a Bachelor's degree in Economics.

Report of the Directors

The directors of the Company present their report for the year ended 31 December 2018.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise production, processing and distribution of agricultural products and related businesses. The Group's principal activities are oilseeds processing, rice processing and trading, wheat processing and brewing materials. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis section set out on pages 7 to 21 of this annual report. This discussion forms part of the directors' report.

Results and Dividends

The results of the Group for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 63 to 191.

An interim dividend of 3.6 HK cents per share (2017: 4.0 HK cents) was paid on 31 October 2018. The directors of the Company now recommend the payment of a final dividend of 1.5 HK cents per share (2017: final dividend of 0.9 HK cents and special dividend of 20.0 HK cents). Subject to shareholders approving this recommendation at the forthcoming annual general meeting, the proposed dividend will be paid on or around 19 July 2019 to the shareholders whose names appear on the register of members of the Company on 10 June 2019. As disclosed in the Company's announcement made on 9 June 2013, the Company received the approvals of State Administration of Taxation of the People's Republic of China which confirmed that (i) the Company is regarded as a Chinese Resident Enterprise; and (ii) relevant enterprise income tax policies shall be applicable to the Company starting from 1 January 2013. Thus, the Company will withhold 10% enterprise income tax when the dividends are distributed to non-resident enterprise shareholders.

Summary Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 22 of this annual report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

Shares Issued

During the year, the Company issued a total of 8,906,600 ordinary shares at an exercise price of HK$2.85 per share as a result of the exercise of share options under the share option scheme of the Company. Total consideration was HK$25,383,810. Details of movement in the share capital of the Company during the year are set out in Note 30 to the financial statements.

Convertible Securities, Options, Warrants or Similar Rights

Save as the share option scheme of the Company, there is no conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted by the Company or any of its subsidiaries during the year or subsisted at the end of the year. Save as disclosed in this annual report, no equity-linked agreements were entered into by the Company, or existed during the year.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Share Option Scheme

The Company had a share option scheme (the "Scheme"), which was conditionally adopted on 12 January 2007 and became effective upon listing of the Company's shares on 21 March 2007. Pursuant to the terms of the Scheme, it is valid and effective for 10 years until 20 March 2017, after which period no further share options will be offered but in all other respects the provisions of the Scheme shall remain in full force and effect. Details of the Scheme are as follows:

1. The purpose of the Scheme is to attract, retain and motivate senior management personnel and key employees of the Group, and provide eligible participants with an opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

2. Pursuant to, and subject to, the terms and conditions stipulated in the Scheme, the Board may in its discretion grant share options to persons selected from: (i) any executive or non-executive directors of any members of the Group; (ii) any senior executives, key technical staff, professional staff, managers or employees of any members of the Group; or (iii) any other individuals as may be proposed by the Board. No independent non-executive director of the Company shall be granted an option.

3. The maximum number of shares which may be issued upon exercise of all options granted under the Scheme and all other share option schemes of the Company (if any) shall not in aggregate exceed 10% of the number of shares in issue on the date on which dealings in the shares first commenced on the Stock Exchange of Hong Kong, i.e. 348,922,935 shares. The Company may renew the 10% limit at any time subject to prior shareholders' approval, provided that the limit as renewed shall not exceed 10% of the number of shares in issue as at the date of the relevant approval. The Scheme has expired and no further share options will be offered.

4. The total number of shares issued and to be issued upon exercise of the options granted to any grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval with such grantee and his close associates (or his associates if such grantee is a connected person) abstaining from voting.

5. The option period shall be such period determined by the Board and notified to the grantee but shall not exceed a period of 7 years commencing on the date of acceptance of the option and expiring on the last date of such 7-year period, subject to the provisions for early termination thereof contained in the Scheme.

Report of the Directors

6. An option must be held for a minimum period of 2 years from the date on which it was granted before it can be exercised. In addition, an option shall be subject to the following vesting schedule (except the share options granted on 4 December 2015):

Periods	Percentage of an option which may be exercised
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	20%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	40%
Upon and after the fourth anniversary of the grant but no later than the fifth anniversary of the grant	60%
Upon and after the fifth anniversary of the grant but no later than the sixth anniversary of the grant	80%
Upon and after the sixth anniversary of the grant but no later than the seventh anniversary of the grant	100%

The following vesting schedule is applicable to the share options granted on 4 December 2015:

Periods	Percentage of an option which may be exercised
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	33%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	66%
Upon and after the fourth anniversary of the grant but no later than the fifth anniversary of the grant	100%

7. The offer of the grant of an option may be accepted within 28 days from the date of offer. The grantee is required to pay HK$1.00 as consideration for the grant of an option upon acceptance of the granted option.

8. The exercise price of a share in the Company shall be such price determined by the Board and notified to the grantee but shall be at least the higher of:

   (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong on the date of offer;

   (ii) the average closing prices of the shares as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong for the five business days immediately preceding the date of offer; or

   (iii) HK$0.1, the nominal value of the share immediately before the commencement date of section 135 of the Companies Ordinance, Chapter 622 of the Laws of Hong Kong.

Details of the movements in the share options during the year ended 31 December 2018 are set out below.

1. *Share options granted on 31 March 2011*

					Number of share options			
Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	At 1 January 2018	Exercised	Lapsed	At 31 December 2018
(A) Director								
YANG Hong	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	106,000	–	106,000	–
			31-3-2014	31-3-2014 to 30-3-2018	106,000	–	106,000	–
			31-3-2015	31-3-2015 to 30-3-2018	106,000	–	106,000	–
			31-3-2016	31-3-2016 to 30-3-2018	106,000	–	106,000	–
			31-3-2017	31-3-2017 to 30-3-2018	106,000	–	106,000	–
					530,000	–	530,000	–
(B) Employees	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	8,002,200	–	8,002,200	–
			31-3-2014	31-3-2014 to 30-3-2018	8,002,200	–	8,002,200	–
			31-3-2015	31-3-2015 to 30-3-2018	8,002,200	–	8,002,200	–
			31-3-2016	31-3-2016 to 30-3-2018	8,002,200	–	8,002,200	–
			31-3-2017	31-3-2017 to 30-3-2018	8,002,200	–	8,002,200	–
					40,011,000	–	40,011,000	–
(C) Others	31-3-2011	8.22	31-3-2013	31-3-2013 to 30-3-2018	127,200	–	127,200	–
(Former			31-3-2014	31-3-2014 to 30-3-2018	127,200	–	127,200	–
Non-executive			31-3-2015	31-3-2015 to 30-3-2018	127,200	–	127,200	–
Director)			31-3-2016	31-3-2016 to 30-3-2018	127,200	–	127,200	–
			31-3-2017	31-3-2017 to 30-3-2018	127,200	–	127,200	–
					636,000	–	636,000	–
	Total				41,177,000	–	41,177,000	–

2. *Share options granted on 4 December 2015*

Category of participants	Date of grant (dd-mm-yyyy)	Exercise price per share (HK$)	Vesting date (dd-mm-yyyy)	Exercise period (dd-mm-yyyy)	Number of share options: At 1 January 2018	Exercised	Lapsed	At 31 December 2018
(A) Directors								
XU Guanghong	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	293,700	–	–	293,700
(appointment w.e.f.			4-12-2018	4-12-2018 to 3-12-2020	293,700	–	–	293,700
2-1-2019)			4-12-2019	4-12-2019 to 3-12-2020	302,600	–	–	302,600
					890,000	–	–	890,000
YANG Hong	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	379,500	–	–	379,500
			4-12-2018	4-12-2018 to 3-12-2020	379,500	–	–	379,500
			4-12-2019	4-12-2019 to 3-12-2020	391,000	–	–	391,000
					1,150,000	–	–	1,150,000
(B) Employees	4-12-2015	2.85	4-12-2017	4-12-2017 to 3-12-2020	41,415,000	8,906,600	1,069,300	31,439,100
			4-12-2018	4-12-2018 to 3-12-2020	32,191,500	–	752,400	31,439,100
			4-12-2019	4-12-2019 to 3-12-2020	33,167,000	–	775,200	32,391,800
					106,773,500	8,906,600	2,596,900	95,270,000
	Total				108,813,500	8,906,600	2,596,900	97,310,000

Notes:

1. *The share option scheme of the Company was conditionally adopted on 12 January 2007 and became effective upon listing of the Company's shares on 21 March 2007. The scheme has a life of 10 years but the share options granted prior to the expiry of the scheme shall continue to be valid and exercisable in accordance with provisions of the scheme.*
2. *All outstanding share options granted under the share option scheme on 31 March 2011 lapsed automatically on 31 March 2018 due to expiry of the option period.*
3. *The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$3.15.*

Additional information in relation to the Scheme is set out in Note 31 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 46 to the financial statements and in the consolidated statement of changes in equity on page 67, respectively.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution amounted to approximately HK$7,871.9 million. In addition, the amount of HK$9,246.7 million previously included in the Company's share premium account may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, no sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for over 30% of the total sales for the year and of the total purchases for the year, respectively.

Apart from the continuing connected transactions with COFCO Corporation, the controlling shareholder, and its subsidiaries (other than the Group) as disclosed in the section "Connected Transactions" below, none of the Company's directors, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in the five largest customers or five largest suppliers of the Group.

Directors

The directors of the Company during the year and up to the date of this report were:

Current Board members	
LUAN Richeng	(appointed on 7 December 2018)
WANG Qingrong	(appointed on 8 January 2018)
XU Guanghong	(appointed on 2 January 2019)
YANG Hong	
JIA Peng	
MENG Qingguo	
LAM Wai Hon, Ambrose	
Patrick Vincent VIZZONE	
ONG Teck Chye	
Ex-directors	
YU Xubo	(resigned on 8 January 2018)
DONG Wei	(resigned on 7 December 2018)
SHI Bo	(resigned on 8 January 2018)

The full list of the names of the directors of the Company's subsidiaries during the year and up to the date of this report can be found on the Company's website at www.chinaagri.com under the category "Investor Relations".

In accordance with articles 106 and 111 of the articles of association of the Company, one third of Board members and the newly appointed directors will retire and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 38 to 42 of this annual report.

Directors' Remuneration

Details of the directors' fees for the year are set out in Note 8 to the financial statements. Other emoluments are determined by the Remuneration Committee pursuant to internal policies, the articles of association of the Company with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Transaction, Arrangement or Contract

None of the Company's director or his connected entity had a material interest, either directly or indirectly, in any transactions, arrangements and contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

Arrangement to Purchase Shares or Debentures

Other than the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Management Contract

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Permitted Indemnity Provision

The articles of association of the Company provides that each director and other officer of the Company shall be entitled to be indemnified by the Company against all losses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto. The Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the directors and officers of the Company and its subsidiaries.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (together, "Discloseable Interests"), were as follows:

Interests in Shares and Underlying Shares of the Company

Name	Capacity	Number of shares held in long position	Number of underlying shares held in long position (Note 1)	Percentage (Note 2)
YANG Hong	Beneficial owner	136,500	1,150,000	0.02%
Patrick Vincent VIZZONE	Beneficial owner	100,000	–	0.00%

Interests in Underlying Shares of Associated Corporation

Name	Name of associated corporation	Capacity	Number of shares held in long position	Percentage(Note 3)
YANG Hong	Joy City Property Limited	Beneficial owner	10,000	0.00%

Notes:

1. *These underlying shares are share options granted pursuant to the share option scheme of the Company, particulars of which are set out in the section "Share Option Scheme" above.*
2. *The percentage of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2018, being 5,258,787,388 shares.*
3. *The percentage of interests is calculated based on the total number of ordinary shares of Joy City Property Limited in issue as at 31 December 2018, being 14,231,124,858 shares.*
4. *As at 31 December 2018, Mr. Xu Guanghong (who was appointed as a director on 2 January 2019) has interests in 890,000 underlying shares of the Company, which are share options granted pursuant to the share option scheme of the Company. Particulars of which are set out in the section "Share Option Scheme" above.*

Save as disclosed above, as at 31 December 2018, none of the directors, chief executive or their respective close associates had any other Discloseable Interests.

Substantial Shareholders' Interests in the Shares of the Company

As at 31 December 2018, the following persons had an interest or short position in the shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO:

Name	Capacity	Number of shares held(Note 1)	Percentage(Note 2)
Wide Smart Holdings Limited	Beneficial owner	2,681,315,430	50.987%
COFCO (Hong Kong) Limited	Beneficial owner	364,790,827	6.937%
	Interest of controlled corporation(Note 3)	2,681,315,430	50.987%
COFCO Corporation	Interest of controlled corporations(Note 4)	3,046,106,257	57.924%

Notes:

1. *Long positions in the shares of the Company.*
2. *The percentage of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2018, being 5,258,787,388 shares.*
3. *These shares were beneficially owned by Wide Smart Holdings Limited, a company wholly-owned by COFCO (Hong Kong) Limited.*
4. *These shares were held by Wide Smart Holdings Limited and COFCO (Hong Kong) Limited, a company wholly-owned by COFCO Corporation.*

Save as disclosed above, as at 31 December 2018, so far as was known to the directors, no other persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange of Hong Kong under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register kept by the Company under section 336 of the SFO.

Sufficiency of Public Float

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

Connected Transactions

During the year, the Group conducted the following transactions with certain connected persons of the Company. These transactions constituted connected transactions or continuing connected transactions and are subject to reporting requirements under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

1. *2017 COFCO Mutual Supply Agreement*

The Company and COFCO Corporation ("COFCO") entered into an agreement on 25 October 2017 (the "2017 COFCO Mutual Supply Agreement") to regulate the relationship between COFCO and its associates (excluding the Group but except for the Company's subsidiaries in which COFCO and its associates have indirectly/directly hold at least 10% equity interest not through the Group) (collectively, "COFCO Group") and the Group in respect of the mutual supply of raw materials, products, ancillary products, finance, logistics, agency, leasing and other related services. The 2017 COFCO Mutual Supply Agreement is for a term of three years from 1 January 2018 to 31 December 2020.

During the year, the aggregate value of raw materials, products, ancillary products, finance, logistics, agency, leasing and other related services supplied by COFCO Group to the Group including oil and oilseeds, rice, wheat, raw materials and products of biochemistry and biofuel, brewing materials, feed, packaging materials, services and others was approximately RMB32,296.17 million, while the aggregate value of products and services supplied by the Group to COFCO Group including oil and oilseeds, rice, raw materials and products of biochemistry and biofuel, brewing materials, feed, wheat, services and others was approximately RMB10,416.43 million.

According to the Listing Rules, COFCO is the controlling shareholder of the Company and thus each of the members of COFCO Group is a connected person of the Company.

2. *2017 Wilmar Mutual Supply Agreement*

The Company and Wilmar International Limited ("Wilmar International") entered into an agreement on 25 October 2017 (the "2017 Wilmar Mutual Supply Agreement"), pursuant to which Wilmar International and its subsidiaries ("Wilmar International Group") and the Group would mutually supply raw materials, products, logistics and other related services. The term of the 2017 Wilmar Mutual Supply Agreement is three years from 1 January 2018 to 31 December 2020.

During the year, the aggregate value of the products and services supplied by Wilmar International Group to the Group was approximately RMB182.27 million, and the aggregate value of the products and services supplied by the Group to Wilmar International Group was approximately RMB496.80 million.

According to the Listing Rules, Wilmar International is an associate of a substantial shareholder of certain subsidiaries of the Company and thus Wilmar International Group is a connected person of the Company.

3. *Financial Services Agreement*

3.1 2016 Financial services Agreement

In consideration of the treasury management of the Company taking into account the business development plans and financial needs of the Group, as well as the benefit of the Company and its shareholders as a whole, the Company, COFCO Finance Co., Ltd. ("COFCO Finance") and COFCO Agri-Industries Management Co., Ltd. (the "Management Company") entered into the 2016 Financial Services Agreement on 8 December 2016 for a term of two years commencing from 1 January 2017 to 31 December 2018, whereby relevant members of the Group (including the Management Company) maintained RMB depositary accounts with COFCO Finance which advanced entrustment loans to the Management Company. In turn, the Management Company advanced such fund to certain of the Company's subsidiaries which were in need of fund. COFCO Finance charged handling fee for the entrustment loan service provided, but the deposit services were provided on a free-of-charge basis.

During the year, the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance was approximately RMB620.00 million.

According to the Listing Rules, COFCO Finance is a connected person of the Company by virtue of its being an indirectly wholly-owned subsidiary of COFCO.

3.2 2018 Financial Services Agreement

Before the expiry of the 2016 Financial Services Agreement, the Company entered into the 2018 Financial Services Agreement with COFCO Finance and the Management Company on 6 December 2018 whereby COFCO Finance would further provide depositary and entrustment loan services for a term of two years commencing from 1 January 2019 to 31 December 2020. The annual caps on the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance pursuant to the 2018 Financial Services Agreement are set out in the Company's announcement dated 6 December 2018.

4. *Transactions approved by independent shareholders during the year*

The following connected transactions were approved by independent shareholders at the extraordinary general meeting of the Company held on 2 November 2018. Relevant contracts in respect of these transactions are referred to as "COFCO International Master Agreement", "Capital Increase Agreement" and "Supplemental Deed" in the circular of the Company dated 8 October 2018.

4.1 COFCO International Master Agreement

On 31 August 2018, Oriental Chance Limited, COFCO Oils (HK) No.2 Limited, COFCO Oils & Fats Holdings Limited (as purchasers, which are wholly-owned subsidiaries of the Company) entered into the equity acquisition master agreement with COFCO International Singapore Pte. Ltd., Great Wall Investments Pte. Ltd., Sino Agri-Trade Pte. Ltd. and H.K. Ming Fat International Oil & Fat Chemical Company Limited (as vendors, which are associates of COFCO and therefore connected persons of the Company under the Listing Rules) to acquire 100% equity interests in each of the following target companies: Qinzhou Dayang Cereals and Oils Co., Ltd., Chongqing Xinfu Food Co., Ltd., Longkou Xinlong Edible Oil Co., Ltd. and Ming Fat International Oil & Fat Chemical (Taixing) Co., Ltd. These target companies consist of four oilseeds processing plants located in Mainland China and are mainly engaged in soybean crushing and refining and trading of soybean oil. The acquisition is a continuation of the Company's strategic plan to reinforce itself as a leading integrated player in China for the grains and edible oil processing and branded consumer business.

In accordance with the terms and conditions of the abovementioned master agreement, the aggregate consideration for the acquisition was adjusted from RMB1,341 million to approximately RMB1,294 million, which was paid in US dollars in the amount of approximately US$189.7 million in cash. The closing of the acquisition of equity interests in these target companies was completed on 7 November 2018.

4.2 Capital Increase Agreement

On 31 August 2018, COFCO (Dongguan) Oils & Grains Industries Co., Ltd. (as subscriber, which is a wholly-owned subsidiary of the Company) entered into the capital increase agreement with COFCO Trading (Guangdong) Co., Ltd. (as target company) and COFCO Trading Co., Ltd. (which is wholly-owned by COFCO and was the sole shareholder of the target company prior to the capital increase) in relation to the capital contribution into the target company. The aggregate amount of capital contribution is RMB620 million, of which approximately RMB598 million was paid as registered capital, representing 75.264% of its enlarged registered capital, and the remaining amount of approximately RMB22 million was credited into the capital reserve of the target company.

The target company is mainly engaged in warehousing, loading and uploading services of various grains, oilseeds, edible oils and fats, in relation to which the port terminal facilities are still under construction. The port is a rare asset with significant strategic value, with synergy potentials with the Company's existing businesses and promising prospects for third-party business. The acquisition will reduce the logistics costs for the Company's existing crushing operations in Guangdong.

The closing of the acquisition of 75.264% equity interest in the target company was completed in accordance with the terms and conditions of the abovementioned capital increase agreement on 9 November 2018. The capital contribution into the target company had been fully paid in cash on 31 January 2019.

4.3 Supplemental Deed

On 31 August 2018, COFCO, COFCO (Hong Kong) Limited and the Company entered into the second supplemental deed to amend the Non-competition Deed dated 16 February 2007, as amended on 23 October 2017. The amendments under the second supplemental deed have become effective on 2 November 2018 and, accordingly, the term "dispose" under the Non-competition Deed shall be construed to include, but not limited to, liquidation, winding-up, bankruptcy or any analogous procedure in addition to equity or asset transfer of relevant retained interests to independent third parties within six months of a decision not to exercise an option is made by the Company, and the prescribed period for completion of "disposal" has been clarified.

Related party transactions as disclosed in Note 39 to the financial statements included continuing connected transactions with COFCO Group and Wilmar International Group. The Company has complied with the disclosure requirements for these continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

Annual Review of Continuing Connected Transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in items 1, 2, and 3.1 above (the "CCTs") and have confirmed that the CCTs have been entered into: in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The annual caps for the CCTs have not been exceeded.

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions for the year ended 31 December 2018 disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong.

Non-competition Undertakings

1. Undertakings by COFCO and COFCO (Hong Kong) Limited

COFCO, COFCO (Hong Kong) Limited ("COFCO (HK)") and the Company executed a non-competition deed on 16 February 2007, as amended on 23 October 2017 and supplemented on 31 August 2018 (the "Non-competition Deed"), pursuant to which, COFCO and COFCO (HK) have granted to the Company options to acquire all or part of the prescribed retained interests which compete or may compete with the Company's businesses held by COFCO (the "Retained Interests"), on the basis of a valuation to be conducted by an independent valuer, subject to any relevant laws and applicable rules, relevant authorities' approvals and existing third party pre-emptive rights (if any). Under the Non-competition Deed, if COFCO or COFCO (HK) intends to transfer, sell, lease, license or dispose to any third party any direct or indirect interest in any of such Retained Interests, then the Company has pre-emptive rights to purchase any Retained Interests on terms no less favourable than those offered to such third party. Furthermore, if any new business of the Company is offered to COFCO and/or COFCO (HK) which would potentially compete with the business of the Company, COFCO and/or COFCO (HK) shall refer the new business opportunity to the Company upon terms and conditions which are not less favourable than those offered to each of them. If such offer is not accepted by the Company in writing within 30 days of its receiving of the written notice of the new business opportunity, COFCO and/or COFCO (HK) shall be entitled to accept the new business opportunity upon terms and conditions that are not more favourable than those offered to the Company.

1.1 COFCO International Option

The option for the Company to acquire from COFCO (HK) certain competing business of COFCO Agri Limited in China (the "COFCO International Option", formerly known as COFCO Agri Option) was for a term of five years commencing from 14 October 2014. On 31 August 2018, the Company decided to partially exercise the COFCO International Option and entered into the COFCO International Master Agreement. This acquisition was completed during the year. More details can be found in item 4.1 of the Connected Transactions section on page 52.

As to the remaining Retained Interests under the COFCO International Option, on 6 December 2018, the Company announced that, based on the reasons and considerations set out in the announcement, all independent non-executive directors made a final and definitive decision not to exercise the option to acquire the equity interest in the entity thereunder, namely Nantong COFCO Agri Grain and Protein Co., Ltd. According to the Non-competition Deed, COFCO (HK) shall dispose of the Retained Interests thereof within six months from 6 December 2018 unless extended with the agreement of the independent non-executive directors.

1.2 Chinatex Option

The option for the Company to acquire from COFCO certain competing business in Chinatex Corporation Limited and its subsidiaries in China (the "Chinatex Option") became effective on 14 December 2017 for a term of five years.

On 31 August 2018, the Company announced that, based on the reasons and considerations set out in the announcement, all independent non-executive directors made a final and definitive decision not to exercise the option to acquire the equity interest in five entities under the Chinatex Option, namely Chinatex Agriculture Anhui Co., Ltd., Chinatex Agriculture Hubei Co., Ltd., Chinatex Grains and Oils (Dongguan) Co., Ltd., Chinatex Grains and Oils (Shenyang) Co., Ltd. and Chinatex Edible Oil (Tianjin) Co., Ltd. According to the Non-competition Deed, COFCO shall dispose of the Retained Interests thereof within six months unless extended with the agreement of the independent non-executive directors. Extension of the disposal period was approved and announced on 28 February 2019 that, based on the information provided by COFCO and the reasons and considerations set out in the announcement, the disposal period for the Retained Interests of Chinatex Agriculture Anhui Co., Ltd., Chinatex Agriculture Hubei Co., Ltd., Chinatex Grains and Oils (Dongguan) Co., Ltd. and Chinatex Grains and Oils (Shenyang) Co., Ltd. has been extended to 31 August 2019.

The independent non-executive directors will continue to review the remaining Retained Interests under the Chinatex Option at least annually and to disclose their decision as to whether or not to exercise the option to purchase and the reasons by way of announcement.

2. Undertakings by China Foods Limited

Pursuant to the Non-competition Undertaking dated 25 May 2017 issued by China Foods Limited, it undertakes that:

(i) China Foods Limited and its subsidiaries shall not in any form directly or indirectly engage in or participate in business which may compete with the principal business of COFCO Fortune Foods Sales & Distribution Co., Ltd.;

(ii) China Foods Limited and its subsidiaries shall not directly or indirectly hold, own or hold through a third party to hold any equity interest, shares, options or other investment interests in any enterprise which may compete with COFCO Fortune Foods Sales & Distribution Co., Ltd.'s principal business;

(iii) in the event that China Foods Limited has any significant future investment (i.e. more than 10% in the capital, both in paid up capital or convertible into capital) into companies that engages in business competing with COFCO Fortune Foods Sales & Distribution Co., Ltd.'s principal business, China Foods Limited shall, subject to the relevant laws and regulatory requirement, offer the Company to acquire such investment at the appraised value of such investment as determined by an independent third party valuer recognised by both parties.

For the purpose of the Non-competition Undertaking, the principal business of COFCO Fortune Foods Sales & Distribution Co., Ltd. refers to its sales, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning and grains).

Corporate Governance

The Company is committed in developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 23 to 37.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$6.2 million.

Review by the Audit Committee

The Audit Committee has reviewed with the auditor of the Company the consolidated financial statements for the year ended 31 December 2018 and has also discussed auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

Auditor

Deloitte Touche Tohmatsu was first appointed as auditor of the Company with effect from 1 June 2018 upon the retirement of Ernst & Young.

Deloitte Touche Tohmatsu shall retire at the forthcoming annual general meeting, and a resolution for re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at such meeting.

On behalf of the Board

LUAN Richeng
Chairman

Hong Kong, 27 March 2019

Audited Financial Statements

For the year ended 31 December 2018

Independent Auditor's Report

Deloitte. 德勤

To the Members of China Agri-Industries Holdings Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Agri-Industries Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 191, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Assessment of provision for inventories and provision for loss on non-cancellable purchase commitments	
We have identified the assessment of provision for inventories and provision for loss on non-cancellable purchase commitments as a key audit matter due to the significance of the provisions and the significant management judgement and assumptions involved in the assessment. As disclosed in Note 6 to the consolidated financial statements, management estimated the provision for inventories and provision for loss on non-cancellable purchase commitments for the year ended 31 December 2018 as HK$1,156,878,000 and HK$840,196,000, respectively. The assessment of provisions performed by management involves the key assumptions as set out below: • Estimated selling price of products; and • Estimated costs to be incurred to completion and disposal. The related accounting policies are disclosed in Note 2.4 under the heading "Inventories" and "Provisions".	Our procedures in relation to assessment of provision for inventories and provision for loss on non-cancellable purchase commitments included: • Evaluating the appropriateness and consistency of the methodology used by management in assessing the provisions; • Evaluating the assumption on estimated selling price of major products by comparing to external market information; and • Evaluating the assumption on estimated costs to be incurred to completion and disposal of major products by comparing to the Group's historical information.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment	
We have identified the goodwill impairment assessment of oilseeds processing group of cash-generating units as a key audit matter due to the significance of the goodwill and the significant management judgement and assumptions involved in the impairment assessment. As disclosed in Note 16 to the consolidated financial statements, as at 31 December 2018, the Group had goodwill of HK$1,380,557,000 arising from business combinations and allocated to oilseeds processing group of cash generating units. The goodwill impairment assessment performed by management involves judgements and key assumptions as set out below: • Estimated gross margin; and • Discount rate. Details of the key management estimates are disclosed in Note 3 and 16 to the consolidated financial statements.	Our procedures in relation to goodwill impairment assessment included: • Evaluating the methodology and discount rate used in determining the recoverable amount of cash-generating units by consulting valuation specialists; • Evaluating the key assumptions, including the estimated gross margin, by comparing to the Group's historical information; and • Evaluating management's sensitivity analysis over the key assumptions applied in the impairment assessment.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mr. Mak Chi Lung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CONTINUING OPERATIONS			
REVENUE	4, 5	**108,821,161**	87,856,153
Cost of sales	6	**(99,765,837)**	(81,476,703)
Gross profit		**9,055,324**	6,379,450
Other income and gains	5	**632,943**	1,014,340
Selling and distribution expenses		**(4,966,487)**	(2,857,852)
Administrative expenses		**(1,811,294)**	(1,795,200)
Other expenses		**(631,984)**	(451,645)
Finance costs	7	**(691,640)**	(630,649)
Share of profits and losses of associates		**363,824**	204,007
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**1,950,686**	1,862,451
Income tax expense	10	**(317,718)**	(243,849)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**1,632,968**	1,618,602
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	11	**–**	1,758,880
PROFIT FOR THE YEAR		**1,632,968**	3,377,482
Attributable to:			
Owners of the Company		**1,346,056**	3,042,323
Non-controlling interests		**286,912**	335,159
		1,632,968	3,377,482
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
– For profit for the year		**25.61 HK cents**	57.95 HK cents
– For profit from continuing operations		**25.61 HK cents**	24.72 HK cents
Diluted			
– For profit for the year		**25.57 HK cents**	57.87 HK cents
– For profit from continuing operations		**25.57 HK cents**	24.68 HK cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		**1,632,968**	3,377,482
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(1,174,150)**	2,014,246
Reclassification adjustments for foreign operations disposed of during the year	11, 34	**–**	(695,446)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**(1,174,150)**	1,318,800
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(1,174,150)**	1,318,800
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**458,818**	4,696,282
Attributable to:			
Owners of the Company		**363,994**	4,062,500
Non-controlling interests		**94,824**	633,782
		458,818	4,696,282

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**16,921,331**	16,752,112
Prepaid lease payments	15	**2,137,675**	2,037,602
Deposits for purchases of items of property, plant and equipment		**143,771**	34,817
Goodwill	16	**1,518,670**	1,382,735
Investments in associates	17	**2,294,206**	2,106,847
Equity instruments at fair value through other comprehensive income	19	**28,066**	–
Available-for-sale investments	18	**–**	30,536
Intangible assets	20	**612,338**	640,592
Deferred tax assets	28	**792,674**	568,236
Total non-current assets		**24,448,731**	23,553,477
CURRENT ASSETS			
Inventories	21	**23,314,434**	22,630,782
Accounts and bills receivables	22	**4,102,926**	3,138,320
Prepayments, deposits and other receivables	43	**4,612,215**	4,555,367
Other receivables due from Sinograin	23	**52,183**	520,425
Financial assets at fair value through profit or loss	24	**186,365**	–
Derivative financial instruments	24	**–**	376,607
Due from fellow subsidiaries	39	**5,446,633**	1,681,502
Due from related companies	39	**31,372**	30,016
Due from the ultimate holding company	39	**21,150**	41,294
Due from non-controlling shareholders of subsidiaries	39	**1,505**	5,873
Due from associates	17	**20,979**	215,049
Tax recoverable		**9,030**	16,208
Restricted cash at bank	25	**921,327**	–
Cash and cash equivalents	25	**7,396,978**	10,571,797
Total current assets		**46,117,097**	43,783,240
CURRENT LIABILITIES			
Accounts and bills payables	26	**3,003,744**	4,149,625
Other payables and accruals	43	**4,799,785**	6,261,660
Other financial liabilities	24	**45,682**	–
Derivative financial instruments	24	**–**	238,381
Interest-bearing bank and other borrowings	27	**22,093,866**	19,007,057
Bank borrowings due to ADBC	23	**52,183**	522,820
Due to fellow subsidiaries	39	**2,362,822**	631,906
Due to the ultimate holding company	39	**177,769**	280,817
Due to related companies	39	**10,566**	6,612
Due to non-controlling shareholders of subsidiaries	39	**11,058**	31,014
Due to associates	17	**9,425**	23,816
Contract liabilities	29	**3,079,307**	–
Tax payable		**272,942**	552,985
Deferred income		**30,366**	29,951
Total current liabilities		**35,949,515**	31,736,644

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NET CURRENT ASSETS		**10,167,582**	12,046,596
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,616,313**	35,600,073
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**97,010**	174,181
Due to the ultimate holding company	39	**69,836**	–
Due to non-controlling shareholders of subsidiaries	39	**198,803**	202,644
Deferred income		**643,141**	648,400
Deferred tax liabilities	28	**387,033**	271,089
Other non-current liabilities		**24,561**	24,965
Total non-current liabilities		**1,420,384**	1,321,279
Net assets		**33,195,929**	34,278,794
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**9,797,048**	9,771,664
Other reserves	32	**19,166,147**	20,083,548
		28,963,195	29,855,212
Non-controlling interests		**4,232,734**	4,423,582
Total equity		**33,195,929**	34,278,794

LUAN Richeng

Director

WANG Qingrong

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attributable to owners of the Company								
	Notes	Share capital HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		**9,771,664**	**4,894,122***	**246,407***	**1,519,379***	**1,374,063***	**12,049,577***	**29,855,212**	**4,423,582**	**34,278,794**
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**(982,062)**	**1,346,056**	**363,994**	**94,824**	**458,818**
Transfer from retained profits		**-**	**-**	**-**	**148,243**	**-**	**(148,243)**	**-**	**-**	**-**
Exercise of share options		**25,384**	**-**	**(6,641)**	**-**	**-**	**6,641**	**25,384**	**-**	**25,384**
Transfer upon the expiry of share options		**-**	**-**	**(171,541)**	**-**	**-**	**171,541**	**-**	**-**	**-**
Acquisition of subsidiaries	33	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**268,828**	**268,828**
Equity-settled share option arrangements	31	**-**	**-**	**6,677**	**-**	**-**	**-**	**6,677**	**-**	**6,677**
Dividend declared		**-**	**-**	**-**	**-**	**-**	**(1,288,072)**	**(1,288,072)**	**-**	**(1,288,072)**
Dividends paid to non-controlling shareholders of subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(554,500)**	**(554,500)**
At 31 December 2018		**9,797,048**	**4,894,122***	**74,902***	**1,667,622***	**392,001***	**12,137,500***	**28,963,195**	**4,232,734**	**33,195,929**

		Attributable to owners of the Company								
	Notes	Share capital HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		9,771,664	4,894,122	209,551	1,369,692	353,886	9,650,430	26,249,345	4,062,974	30,312,319
Total comprehensive income for the year		–	–	–	–	1,020,177	3,042,323	4,062,500	633,782	4,696,282
Transfer from retained profits		–	–	–	149,687	–	(149,687)	–	–	–
Disposal of subsidiaries	11	–	–	–	–	–	–	–	(264,933)	(264,933)
Equity-settled share option arrangements	31	–	–	36,856	–	–	–	36,856	–	36,856
Dividend declared		–	–	–	–	–	(493,489)	(493,489)	–	(493,489)
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	(8,241)	(8,241)
At 31 December 2017		9,771,664	4,894,122*	246,407*	1,519,379*	1,374,063*	12,049,577*	29,855,212	4,423,582	34,278,794

* *These reserve accounts comprise the consolidated other reserves of HK$19,166,147,000 (31 December 2017: HK$20,083,548,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**1,950,686**	1,862,451
From a discontinued operation		**–**	2,470,381
Adjustments for:			
Finance costs	7, 11	**691,640**	715,233
Provision for inventories		**1,156,878**	489,646
Provision for loss on non-cancellable purchase commitments	6	**840,196**	366,675
Impairment/(reversal of impairment) of receivables		**15,351**	(2,842)
Depreciation and amortisation		**1,055,104**	1,512,528
Losses on disposal of intangible assets	6	**197**	2,442
Losses on disposal of items of property, plant and equipment		**10,972**	12,968
Impairment of items of property, plant and equipment		**268,055**	58,674
Recognition of prepaid lease payments		**55,246**	65,241
Share of profits of associates		**(363,824)**	(299,586)
Interest income		**(156,542)**	(125,084)
Unrealised gains on derivative financial instruments		**(146,399)**	(133,213)
Government grants		**(158,826)**	(756,842)
Gain from purchase of subsidiaries	33	**(20,334)**	–
Gain on disposal of associates		**(2,356)**	–
Gain on disposal of subsidiaries	11, 34	**–**	(1,528,252)
Equity-settled share option expense	31	**6,677**	36,856
		5,202,721	4,747,276
Increase in inventories		**(1,095,781)**	(5,003,348)
Increase in accounts and bills receivables		**(845,527)**	(207,099)
Decrease in prepayments, deposits and other receivables		**636,999**	322,894
Increase in amounts due from fellow subsidiaries		**(3,853,238)**	(2,947,162)
Decrease/(increase) in amounts due from associates		**57,769**	(23,648)
Increase in amounts due from related companies		**(2,798)**	(87,458)
Decrease in derivative financial instruments and other financial products, net		**165,119**	123,585
Decrease in an amount due from the ultimate holding company		**18,675**	45,653

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Decrease in amounts due from non-controlling shareholders of subsidiaries		**4,194**	4,502
(Decrease)/increase in accounts and bills payables		**(1,955,715)**	1,939,518
Increase in contract liabilities		**341,989**	–
Increase/(decrease) in other payables and accruals		**276,792**	(3,063)
Increase in amounts due to fellow subsidiaries		**1,330,598**	2,101,516
Increase in an amount due to the ultimate holding company		**4,312**	33,998
Increase/(decrease) in amounts due to related companies		**6,749**	(37,340)
Decrease in amounts due to associates		**(13,609)**	(14,298)
Decrease in amounts due to non-controlling shareholders of subsidiaries		**(243)**	(7,445)
Government grants received		**109,881**	654,134
Cash generated from operations		**388,887**	1,642,215
Interest received		**146,151**	125,084
Interest paid		**(684,654)**	(715,233)
Income tax paid		**(732,847)**	(356,313)
Net cash flows (used in)/from operating activities		**(882,463)**	695,753
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in restricted cash at bank		**27,212**	66,859
Acquisition of subsidiaries	33	**(1,164,891)**	(1,206,029)
Disposal of a discontinued operation	11	**–**	7,806,235
Disposal of subsidiaries	34	**–**	202,718
Disposal of an associate		**16,294**	–
Proceeds from disposal of items of property, plant and equipment and intangible assets		**17,251**	16,922
Purchases of items of property, plant and equipment		**(1,392,639)**	(1,815,548)
Additions to prepaid lease payments	15	**(24,596)**	(2,734)
Receipts of government grants		**76,692**	16,277
Additions to intangible assets	20	**(145)**	(51)
Payments for acquisition of financial assets at fair value through other comprehensive income		**(234)**	–
Dividends received from associates		**54,880**	135,113
(Increase)/decrease in loans to associates		**(17,522)**	180,001
Net cash flows (used in)/from investing activities		**(2,407,698)**	5,399,763

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**47,641,653**	59,904,258
New other loans		**6,873,690**	1,906,966
Repayments of bank loans		**(49,949,595)**	(57,468,755)
Repayments of other loans		**(2,290,442)**	(6,791,311)
Advance from the ultimate holding company		**7,931**	–
(Increase)/decrease in amounts related to agency purchase of grains		**(2,395)**	22,667
(Decrease)/increase in amounts due to non-controlling shareholders of subsidiaries		**(23,363)**	15,296
Dividend paid		**(1,728,020)**	(493,489)
Exercise of share options		**25,384**	–
Decrease in cash from discounting bank letter of credit		**(219,369)**	(453,009)
Interest paid		**(5,611)**	(2,793)
Net cash flows from/(used in) financing activities		**329,863**	(3,360,170)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,960,298)**	2,735,346
Cash and cash equivalents at beginning of year		**10,571,797**	7,585,981
Effect of foreign exchange rate changes, net		**(214,521)**	250,470
CASH AND CASH EQUIVALENTS AT END OF YEAR		**7,396,978**	10,571,797
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**6,699,207**	3,966,684
Non-pledged time deposits with original maturity of less than three months when acquired	25	**1,619,098**	6,605,113
Less: Restricted cash at bank		**(921,327)**	–
		7,396,978	10,571,797

Notes to the Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

China Agri-Industries Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 31st Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was involved in the following principal activities:

- oilseeds processing;
- processing and trading of rice;
- wheat processing; and
- production and sale of brewing materials.

The Company is a subsidiary of COFCO (Hong Kong) Limited, a company incorporated in Hong Kong. In the opinion of the directors, the ultimate holding company of the Company is COFCO Corporation ("COFCO"), which is a state owned enterprise registered in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

31 December 2018

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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

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

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014–2016 Cycle*
Amendments to HKAS 40	*Transfer of Investment Property*

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- extraction, refining and trading of edible oil and related products;
- processing and trading of rice;
- production and sale of flour products and related products; and
- processing and trading of brewing materials.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 2.4, respectively.

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15

The transition to HKFRS 15 does not have impact on the Group's retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000
Current Liabilities			
Other payables and accruals	6,261,660	(2,501,242)	3,760,418
Due to fellow subsidiaries	631,906	(6,169)	625,737
Due to the ultimate holding company	280,817	(32,629)	248,188
Due to related companies	6,612	(997)	5,615
Contract liabilities	–	2,541,037	2,541,037

* *The amounts in this column are before the adjustments from the application of HKFRS 9.*

Notes to the Financial Statements

31 December 2018

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position:

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current Liabilities			
Other payables and accruals	4,799,785	2,963,222	7,763,007
Due to fellow subsidiaries	2,362,822	40,231	2,403,053
Due to the ultimate holding company	177,769	16,622	194,391
Due to related companies	10,566	59,232	69,798
Contract liabilities	3,079,307	(3,079,307)	–

Impact on the consolidated statement of cash flows:

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating Activities			
Increase in other payables and accruals	276,792	225,904	502,696
Increase in amounts due to fellow subsidiaries	1,330,598	40,231	1,370,829
Increase in an amount due to the ultimate holding company	4,312	16,622	20,934
Increase in amounts due to related companies	6,749	59,232	65,981
Increase in contract liabilities	341,989	(341,989)	–

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

In addition, the Group applied the hedge accounting prospectively.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 2.4.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale HK$'000	Equity instruments at fair value through other comprehensive income HK$'000	Financial asset at amortized cost (previously classified as loans and receivables) HK$'000
Closing balance at 31 December 2017 – HKAS 39	30,536	–	–
Reclassification			
From available-for-sale investments	(30,536)	30,536	–
From loans and receivables	–	–	17,513,068
Opening balance at 1 January 2018	–	30,536	17,513,068

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

(a) Available-for-sale ("AFS") investments

From AFS equity investments to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as AFS, of which HK$30,536,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$30,536,000 were reclassified from AFS investments to equity instruments at FVTOCI. No fair value changes relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

(b) Derivative financial instruments

Derivatives not designated as effective hedging instruments are presented in financial assets at fair value through profit or loss ("FVTPL") and are continued to be measured at FVTPL. There was no impact on the amounts recognised in relation to these instruments from the application of HKFRS 9.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for accounts receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of bills receivables, deposits, other receivables, restricted cash at bank and amounts due from related parties, measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

No additional credit loss allowance is recognised against retained profits as at 1 January 2018.

(d) Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

31 December 2018

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

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

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Group is required to determine the date of transaction for each payment or receipt of advance consideration.

On initial application, the Group applied the interpretation retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

31 December 2018

2.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

Impacts on opening consolidated statement of financial position arising from the application of all new standards.

As a result of the changes in the Group's accounting policies above, the opening balances in consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (Restated) HK$'000
Non-current Assets				
Equity instruments at FVTOCI	–	–	30,536	30,536
AFS investments	30,536	–	(30,536)	–
Current Assets				
Financial assets at FVTPL	–	–	376,607	376,607
Derivative financial instruments	376,607	–	(376,607)	–
Current Liabilities				
Other payables and accruals	6,261,660	(2,501,242)	–	3,760,418
Due to fellow subsidiaries	631,906	(6,169)	–	625,737
Due to the ultimate holding company	280,817	(32,629)	–	248,188
Due to related companies	6,612	(997)	–	5,615
Other financial liabilities	–	–	238,381	238,381
Derivative financial instruments	238,381	–	(238,381)	–
Contract liabilities	–	2,541,037	–	2,541,037

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

2.3 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or joint venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Materials*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*[1]

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

2 *Effective for annual periods beginning on or after 1 January 2021*

3 *Effective for annual periods beginning on or after a date to be determined*

4 *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020*

5 *Effective for annual periods beginning on or after 1 January 2020*

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

31 December 2018

2.3 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (continued)

HKFRS 16 Leases (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for prepaid lease payments where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$243,082,000 as disclosed in Note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain, a lease which already existed prior to the date of initial application.

31 December 2018

2.3 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (continued)

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

Notes to the Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Buildings	3%
Machinery and equipment	4.5%–18%

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

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

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

Intangible assets (other than goodwill)

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

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

Patent and licences

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2.2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2.2) (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve, and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “other income and gains” line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other income and gains” line item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2.2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts and bills receivables, deposits, other receivables, restricted cash at bank and amounts due from related parties). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2.2) (continued)

(i) Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2.2) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2.2) (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from related parties are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Ageing status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2.2) (continued)

(v) Measurement and recognition of ECL (continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts and bills receivables, other receivables and amount due from related parties where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net change in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition prior to 1 January 2018" below.

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition prior to 1 January 2018" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Financial liabilities at FVTPL (continued)

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liability and is included in the finance cost line item.

Financial liabilities at amortised cost

Financial liabilities including loans and borrowings, accounts and bills payables, other payables, and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as commodity future contracts and foreign currency forward contracts, to hedge its inventory price risk and foreign currency risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative is recognised in the statement of profit or loss in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

The fair value of foreign currency forward contracts is determined using the forward rates quoted by the Group's bankers at the end of the reporting period. The fair value of commodity futures contracts is measured using quoted market prices.

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Assessment of hedging relationship and effectiveness (under HKFRS 9 since 1 January 2018)

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Discontinuation of hedge accounting (under HKFRS 9 since 1 January 2018)

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For fair value hedge, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Notes to the Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. Provision on the onerous contracts is recognised in the consolidated statement of profit or loss accordingly.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2.2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2.2) (continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2.2) (continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

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

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

(b) storage income, on a time proportion basis over the lease terms;

(c) income from the rendering of services, in the period in which the services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(e) compensation income, when the right to receive payment has been established; and

(f) tax refunds, when the acknowledgement of refunds from the tax bureau has been received.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the Group using the Black-Scholes-Merton and Binominal option pricing models, further details of which are given in Note 31 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

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

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

Pension scheme and other retirement benefits

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by either the relevant authorities or the local municipal governments of the provinces in Mainland China in which the Group's subsidiaries are located. The Group is required to contribute to the central pension scheme in respect of its employees in Mainland China and these costs are charged to the statement of profit or loss as incurred.

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in Note 2.4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Additional Corporate Income Tax arising from the distribution of dividends

The Group's determination as to whether to accrue additional tax liabilities arising from the distributions of dividends from certain subsidiaries incorporated outside Mainland China, which are regarded as non-Chinese resident enterprises, to its holding companies, which are regarded as Chinese resident enterprises, is subject to the timing of the payment of the dividends and the additional tax liabilities that would be payable according to the relevant tax jurisdictions. Based on the aforesaid tax jurisdictions and the dividend distribution plan of these non-Chinese resident enterprises incorporated outside Mainland China, management are of the opinion that no additional deferred tax liabilities need to be provided at current stage, except for dividends to be declared that have been accrued for deferred income tax. Further details are given in Note 28 to the financial statements.

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is HK$1,518,670,000 (2017: HK$1,382,735,000). Details of the recoverable amount calculation are disclosed in Note 16.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

Deferred tax asset

As at 31 December 2018, a deferred tax asset of HK$291,382,000 (2017: HK$286,859,000) in relation to unused tax losses for certain operating subsidiaries has been recognised in the Group's consolidated statement of financial position. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Provision of ECL for accounts receivables

The Group uses provision matrix to calculate ECL for the accounts receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, accounts receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivables s are disclosed in Notes 22 and 45 respectively.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in Note 2.4 to the financial statements. The recoverable amount of the property, plant and equipment is the greater of the fair value less costs to sell and value in use, the calculations of which involve the use of estimates. Net impairment of Group's property, plant and equipment of HK$268,055,000 (2017: including the discontinued operation, of HK$58,674,000) was recognised in the consolidated statement of profit or loss for the year. The carrying amount of property, plant and equipment as at 31 December 2018 was HK$16,921,331,000 (2017: HK$16,752,112,000).

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

Impairment of inventories

Impairment of inventories is made based on the assessment of net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Significant management judgements and estimates are required in the estimates. Where the actual outcome or expectation in future is different from the original estimates, the differences will impact on the carrying values of inventories and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed. Impairment of Group's inventories of HK$1,156,878,000 (2017: including the discontinued operation, of HK$489,646,000) was recognised in the consolidated statement of profit or loss for the year. The aggregate carrying amount of inventories at 31 December 2018 was HK$23,314,434,000 (2017: HK$22,630,782,000).

Provision on onerous contracts

Provision on onerous contracts is recognised based on the estimates of the unavoidable costs of meeting the obligation under the purchase contracts and the economic benefits expected to be received under them. Significant management judgements are required in the estimates. Where the actual outcome or expectation in future is different from the original estimates, these differences will impact on the provision and the profit or loss in the periods in which these estimates have been changed. Provision on onerous contracts of HK$840,196,000 (2017: including the discontinued operation, of HK$366,675,000) was recognised in the consolidated statement of profit or loss for the year.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When such data from binding sales transaction in an arm's length transaction is not available, management calculates the fair value less costs to sell based on current available best estimation. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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4. OPERATING SEGMENT INFORMATION

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

(a) the oilseeds processing segment engages in the extraction, refining and trading of edible oil and related products;

(b) the rice processing and trading segment engages in the processing and trading of rice;

(c) the wheat processing segment engages in the production and sale of flour products and related products;

(d) the brewing materials segment engages in the processing and trading of malt; and

(e) the corporate and others segment comprises the Group's corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's profit/loss before tax from continuing operations except that interest income, finance costs and share of profits and losses of associates are managed on a group basis and are not allocated to reportable operating segments.

Segment assets exclude deferred tax assets, tax recoverable, restricted cash at bank, cash and cash equivalents and investments in associates as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

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

Information about major customer

During the years ended 31 December 2018 and 31 December 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Geographical information

As the Group's major operations and customers are located in Mainland China, no further geographical segment information is provided.

Notes to the Financial Statements

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

Continuing operations

	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	77,946,287	15,191,325	12,855,917	2,243,557	584,075	–	108,821,161
Intersegment sales	116	453	7	11,340	35,491	(47,407)	–
Other revenue	262,999	186,461	52,294	10,740	17,925	(54,018)	476,401
Segment results	1,442,789	545,549	113,884	105,176	(80,036)	(5,402)	2,121,960
Interest income							156,542
Finance costs							(691,640)
Share of profits and losses of associates							363,824
Profit before tax from continuing operations							1,950,686
Income tax expense							(317,718)
Profit for the year from continuing operations							1,632,968
Other segment information:							
Depreciation and amortisation[#]	691,384	193,793	106,155	79,737	39,281	–	1,110,350
Impairment losses recognised in the consolidated statement of profit or loss	71,055	25,227	4,557	126,007	56,560	–	283,406
Capital expenditure*	1,650,761	178,492	579,491	80,483	22,621	–	2,511,848

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

Continuing operations

	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	56,232,382	12,465,067	10,563,641	2,374,229	6,220,834	–	87,856,153
Intersegment sales	420,660	9,829	11,494	9,337	134,997	(586,317)	–
Other revenue	553,229	218,047	42,424	39,168	84,080	(46,432)	890,516
Segment results	1,177,798	509,348	158,024	289,596	31,419	(916)	2,165,269
Interest income							123,824
Finance costs							(630,649)
Share of profits and losses of associates							204,007
Profit before tax from continuing operations							1,862,451
Income tax expense							(243,849)
Profit for the year from continuing operations							1,618,602
Other segment information:							
Depreciation and amortisation#	594,281	182,707	98,151	80,791	79,357	–	1,035,287
Impairment losses recognised/(reversed) in the consolidated statement of profit or loss	(9,620)	(2,272)	3,036	–	7,027	–	(1,829)
Capital expenditure*	1,397,128	175,984	114,890	115,876	36,845	–	1,840,723

Depreciation and amortisation consists of depreciation of property, plant and equipment, recognition of prepaid lease payments and amortisation of intangible assets.

* *Capital expenditure consists of additions to property, plant and equipment, prepaid lease payments and intangible assets including assets from the acquisition of subsidiaries.*

Notes to the Financial Statements

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2018

	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Assets and liabilities							
Segment assets	**40,157,356**	**10,601,268**	**5,235,854**	**2,820,899**	**17,957,570**	**(17,621,334)**	**59,151,613**
Corporate and other unallocated assets							**11,414,215**
Total assets							**70,565,828**
Segment liabilities	**21,893,855**	**5,660,220**	**3,099,397**	**735,853**	**747,151**	**(17,617,428)**	**14,519,048**
Corporate and other unallocated liabilities							**22,850,851**
Total liabilities							**37,369,899**

31 December 2017

	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Assets and liabilities							
Segment assets	34,768,729	11,702,091	4,177,850	3,449,082	13,971,548	(13,995,671)	54,073,629
Corporate and other unallocated assets							13,263,088
Total assets							67,336,717
Segment liabilities	17,173,425	5,685,821	2,067,629	802,578	1,318,829	(13,995,671)	13,052,611
Corporate and other unallocated liabilities							20,005,312
Total liabilities							33,057,923

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5. REVENUE, OTHER INCOME AND GAINS

Disaggregation of revenue from contracts with customers

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December 2018						
	Oilseeds processing HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Types of goods or services							
Edible oil and related products	77,946,403	–	–	–	–	(116)	77,946,287
Rice	–	15,191,778	–	–	–	(453)	15,191,325
Flour and related products	–	–	12,855,924	–	–	(7)	12,855,917
Malt	–	–	–	2,254,897	–	(11,340)	2,243,557
Others	–	–	–	–	619,566	(35,491)	584,075
Total	77,946,403	15,191,778	12,855,924	2,254,897	619,566	(47,407)	108,821,161
Timing of revenue recognition							
A point of time	77,946,403	15,191,778	12,855,924	2,254,897	619,566	(47,407)	108,821,161
Total	77,946,403	15,191,778	12,855,924	2,254,897	619,566	(47,407)	108,821,161

The Group's revenue is mainly generated from the sale of products. The revenue is recognised when the control of the goods has transferred. Some of the customers pay the transaction price immediately when they purchase the goods; others need credit approval. For credit sales to customers, credit approval is required and the credit period is generally 30 to 180 days. All contracts are for periods of one year or less.

Notes to the Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of the Group's other income and gains from continuing operations is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Other income			
Interest income		**156,542**	123,824
Government grants*		**130,387**	123,769
Storage income from agency purchase	23	**9,933**	19,342
Logistics service and storage income		**118,451**	104,027
Compensation income		**1,581**	2,392
Tax refunds		**28,439**	32,693
Others		**74,789**	56,909
		520,122	462,956
Gains			
Gains on disposal of raw materials, by-products and scrap items		**58,233**	51,158
Realised and unrealised fair value gains on foreign currency forward contracts, net		**31,775**	–
Gain on foreign exchange, net		**–**	451,073
Gain on disposal of subsidiaries		**–**	29,630
Gain on disposal of associates		**2,356**	–
Gain from purchase of subsidiaries	33	**20,334**	–
Others		**123**	19,523
		112,821	551,384
		632,943	1,014,340

* *Various government grants have been received by the Group in certain provinces in Mainland China, which are available for industries or locations in which the Company's subsidiaries operate. There are no unfulfilled conditions or contingencies relating to these grants.*

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold or services provided		**100,393,161**	82,131,349
Provision for inventories		**1,156,878**	481,875
Provision for loss on non-cancellable purchase commitments*		**840,196**	366,675
Realised and unrealised fair value gains of commodity futures contracts, net	24	**(1,645,259)**	(1,954,735)
Fair value losses/(gains) on foreign currency forward contracts for hedging purpose, net	24	**(979,139)**	451,539
Cost of sales		**99,765,837**	81,476,703
Auditor's remuneration		**3,680**	4,706
Depreciation		**1,028,496**	970,936
Amortisation of intangible assets		**26,608**	14,032
Minimum lease payments under operating leases		**136,240**	32,932
Recognition of prepaid lease payments		**55,246**	50,319
Employee benefit expenses (excluding directors' and chief executive's remuneration in Note 8):			
Wages and salaries		**2,209,750**	1,939,931
Pension scheme contributions***		**212,044**	176,358
Equity-settled share option expenses		**6,322**	36,008
		2,428,116	2,152,297
Loss/(gain) on foreign exchange, net**		**289,480**	(451,073)
Realised and unrealised fair value losses/(gains) on foreign currency forward contracts, net	24	**(31,775)**	417,771
Losses on disposal of items of property, plant and equipment		**10,972**	11,190
Losses on disposal of items of intangible assets		**197**	2,442
Impairment of items of property, plant and equipment		**268,055**	1,246
Impairment of accounts receivables		**14,519**	600
Impairment/(reversal of impairment) of prepayment and other receivables		**832**	(3,675)

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (continued)

* *It is the Group's usual practice to enter into purchase commitments of raw materials with delivery of raw materials at a specified future date. As at 31 December 2018, the Group had certain non-cancellable purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects that the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received under it. The expected loss arising from the aforesaid Purchase Contracts of HK$840,196,000 (2017: HK$366,675,000) is estimated with reference to the expected selling prices of the corresponding products, estimated costs to be incurred to completion and disposal, and a provision thereon has been made in the consolidated statement of profit or loss for the year ended 31 December 2018. The directors of the Company consider that these losses are resulted from the Group's ordinary course of business.*

** *The net loss/(gain) on foreign exchange is included in "other expenses/other income and gains" in the consolidated statement of profit or loss.*

*** *At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).*

7. FINANCE COSTS

The Group's analysis of finance costs from continuing operations is as follows:

	2018 HK$'000	**2017 HK$'000**
Interest on:		
Bank loans	**633,903**	548,838
Loans from fellow subsidiaries	**62,076**	37,979
Loans from an intermediate holding company	**–**	8,864
Loans from the ultimate holding company	**1,273**	37,374
Total interest expenses on financial liabilities not at fair value through profit or loss	**697,252**	633,055
Less: Interest capitalised	**(5,612)**	(2,406)
	691,640	630,649

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK$'000	2017 HK$'000
Fees:		
Independent non-executive directors	**1,260**	1,320
Executive directors and non-executive directors	**–**	–
	1,260	1,320
Other emoluments:		
Salaries, allowances and benefits in kind	**2,709**	2,339
Discretionary bonuses	**6,621**	15,088
Equity-settled share option expenses	**354**	848
Pension scheme contributions	**187**	854
	9,871	19,129
	11,131	20,449

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in Note 31 to the financial statements. The fair value of the share options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above directors' and chief executive's remuneration disclosures.

No directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company was a party during the year.

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

(a) Independent non-executive directors

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

	2018 HK$'000	2017 HK$'000
Mr. Lam Wai Hon, Ambrose	**420**	440
Mr. Patrick Vincent Vizzone	**420**	440
Mr. Ong Teck Chye	**420**	440
	1,260	1,320

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors, non-executive directors and chief executive

	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018					
Executive directors:					
Mr. Wang Qingrong#	**891**	**819**	**–**	**61**	**1,771**
Mr. Dong Wei ^^	**964**	**3,796**	**147**	**60**	**4,967**
Ms. Yang Hong@	**837**	**2,006**	**203**	**65**	**3,111**
Mr. Shi Bo^^^	**17**	**–**	**4**	**1**	**22**
	2,709	**6,621**	**354**	**187**	**9,871**
Non-executive directors:					
Mr. Yu Xubo##	**–**	**–**	**–**	**–**	**–**
Mr. Jia Peng###	**–**	**–**	**–**	**–**	**–**
Mr. Luan Richeng**	**–**	**–**	**–**	**–**	**–**
Mr. Meng Qingguo^	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
	2,709	**6,621**	**354**	**187**	**9,871**

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

(b) Executive directors, non-executive directors and chief executive (continued)

	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Executive directors:					
Mr. Gu Lifeng***	19	4,864	4	5	4,892
Mr. Dong Wei ^^	937	3,641	246	308	5,132
Ms. Yang Hong@	630	2,717	249	233	3,829
Mr. Shi Bo^^^	753	3,866	327	308	5,254
	2,339	15,088	826	854	19,107
Non-executive directors:					
Mr. Yu Xubo##	–	–	22	–	22
Mr. Jia Peng###	–	–	–	–	–
Mr. Li Jian*	–	–	–	–	–
Mr. Meng Qingguo^	–	–	–	–	–
	–	–	22	–	22
	2,339	15,088	848	854	19,129

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

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

(b) Executive directors, non-executive directors and chief executive (continued)

* *Mr. Li Jian was appointed as a non-executive director of the Company with effect from 6 January 2017. Mr. Li resigned as a non-executive director of the Company on 30 August 2017.*

** *Mr. Luan Richeng was appointed as a non-executive director and the chairman of the board of directors of the Company on 7 December 2018.*

*** *Mr. Gu Lifeng resigned as an executive director and deputy managing director of the Company on 6 January 2017.*

Mr. Wang Qingrong was appointed as an executive director and managing director of the Company with effect from 8 January 2018.

Mr. Yu Xubo was appointed as the chairman of the board of directors of the Company on 6 January 2017. Mr. Yu resigned as a non-executive director of the Company and ceased to be the chairman of the board of directors both with effect from 8 January 2018.

Mr. Jia Peng was appointed as a non-executive director of the Company with effect from 6 January 2017.

^ *Mr. Meng Qingguo was appointed as a non-executive director of the Company with effect from 30 August 2017.*

^^ *Mr. Dong Wei was appointed as an executive director and deputy managing director of the Company with effect from 6 January 2017. Mr. Dong was appointed as the chairman of the board of directors of the Company and ceased to be deputy managing director on 8 January 2018. Mr. Dong resigned as an executive director of the Company and ceased to be the chairman of the board of directors both with effect from 7 December 2018.*

^^^ *Mr. Shi Bo resigned as an executive director of the Company with effect from 8 January 2018.*

@ *Ms. Yang Hong was appointed as an executive director of the Company with effect from 29 March 2017.*

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: four) directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining three (2017: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2018 HK$'000	**2017 HK$'000**
Salaries, allowances and benefits in kind	**2,048**	581
Discretionary bonuses	**6,441**	1,461
Equity-settled share option expenses	**363**	280
Pension scheme contributions	**194**	308
	9,046	2,630

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

	Number of employees	
	2018	**2017**
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**1**	–
	3	1

In prior years, share options were granted to the non-director and non-chief executive, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in Note 31 to the financial statements. The fair value of the share options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above non-director and non-chief executive, highest paid employees' remuneration disclosures.

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10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Pursuant to the approvals issued by the State Administration of Taxation of the PRC during 2013, the Company and certain of its subsidiaries incorporated out of Mainland China are regarded as Chinese resident enterprises, and the relevant enterprise income tax policies of PRC are applicable to the Company and these subsidiaries commencing from 1 January 2013.

	2018 HK$'000	2017 HK$'000
Current – Hong Kong		
Charge for the year	**263**	1,718
Overprovision in prior years	**(195)**	(64)
Current – Mainland China		
Charge for the year	**456,159**	126,759
Underprovision in prior years	**15,684**	9,049
Deferred tax	**(154,193)**	106,387
Total tax charge for the year from continuing operations	**317,718**	243,849
Total tax charge for the year from a discontinued operation	**–**	711,501
Total tax charge for the year	**317,718**	955,350

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10. INCOME TAX EXPENSE (continued)

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

2018	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	490,366		1,460,320		1,950,686	
Tax at the statutory tax rate	80,910	16.5	365,080	25.0	445,990	22.9
Profits or losses not subject to tax due to concession*	–	–	(147,782)	(10.1)	(147,782)	(7.6)
Effect of tax on dividends	–	–	71,348	4.9	71,348	3.7
Profits attributable to associates	(38,789)	(7.9)	(32,185)	(2.2)	(70,974)	(3.6)
Income not subject to tax	(1,383)	(0.3)	(29,789)	(2.1)	(31,172)	(1.6)
Expenses not deductible for tax	19,952	4.1	71,094	4.9	91,046	4.7
Adjustment in respect of current tax of previous periods	(195)	(0.1)	15,684	1.1	15,489	0.8
Tax losses utilised during the year	–	–	(283,967)	(19.4)	(283,967)	(14.6)
Tax losses/deductible temporary differences not recognised	–	–	227,740	15.5	227,740	11.6
Tax charge at the Group's effective rate	60,495	12.3	257,223	17.6	317,718	16.3

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10. INCOME TAX EXPENSE (continued)

2017	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax from continuing operations	(82,587)		1,945,038		1,862,451	
Profit before tax from a discontinued operation	–		2,470,381		2,470,381	
	(82,587)		4,415,419		4,332,832	
Tax at the statutory tax rate	(13,627)	16.5	1,103,855	25.0	1,090,228	25.2
Profits or losses not subject to tax due to concession*	–	–	(131,640)	(3.0)	(131,640)	(3.0)
Effect of withholding tax at 8.5% on the distributed profits of the Group's HK subsidiaries	–	–	17,016	0.4	17,016	0.4
Profits attributable to associates	(23,160)	28.0	(39,865)	(0.9)	(63,025)	(1.5)
Income not subject to tax	(9,454)	11.4	(3,472)	(0.1)	(12,926)	(0.3)
Expenses not deductible for tax	7,708	(9.3)	125,900	2.9	133,608	3.1
Adjustment in respect of current tax of previous periods	(64)	0.1	30,140	0.7	30,076	0.7
Tax losses utilised during the year	–	–	(255,857)	(5.8)	(255,857)	(5.9)
Tax losses not recognised	–	–	147,870	3.3	147,870	3.4
Tax charge/(credit) at the Group's effective rate	(38,597)	46.7	993,947	22.5	955,350	22.0
Tax charge/(credit) from continuing operations at the Group's effective rate	(38,597)	46.7	282,446	14.5	243,849	13.1
Tax charge from a discontinued operation at the Group's effective rate	–	–	711,501	28.8	711,501	28.8

* *PRC corporate income tax ("CIT") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to CIT rate of 25%. However, certain subsidiaries of the Group are qualified as high technology enterprises hence are granted a preferential CIT rate of 15%. Besides, certain subsidiaries are also granted income tax exemption on the profits or losses generated from the processing of certain agricultural products.*

The share of tax attributable to associates amounting to HK$66,989,000 (2017: HK$51,569,000), of which HK$66,989,000 (2017: HK$19,882,000) was from continuing operations and was included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

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11. DISCONTINUED OPERATION

On 23 October 2017, Full Extent Group Limited# ("Full Extent"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement and the loan assignment deed (the "Agreements") with COFCO Bio-chemical Investment Co., Ltd., a wholly-owned subsidiary of COFCO. Pursuant to the Agreements, Full Extent agreed to dispose COFCO Biochemical Holdings Limited, COFCO Biofuel Holdings Limited and their subsidiaries (the "Biochemical and Biofuel Subsidiaries") at a total consideration of HK$8,579,341,000. Under the Agreements, Full Extent shall sell its 100% equity interests in the Biochemical and Biofuel Subsidiaries at a cash consideration of HK$5,219,226,000 and assign the loans owed to it by the Biochemical and Biofuel Subsidiaries at a cash consideration of HK$3,360,115,000.

The disposal of the Biochemical and Biofuel Subsidiaries was approved by the independent shareholders of the Company on 15 December 2017 and the above transaction was completed on 27 December 2017. Following the completion of the disposal, the Biochemical and Biofuel Subsidiaries were classified as a discontinued operation, and the biochemical and biofuel segment is no longer included in the note for operating segment information.

Full Extent has changed its company name to COFCO Grains Holdings Limited on 9 August 2018.

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11. DISCONTINUED OPERATION (continued)

The net assets of the Biochemical and Biofuel Subsidiaries as at the completion date of disposal were as below:

	Notes	HK$'000
Property, plant and equipment	14	6,730,343
Prepaid lease payments		519,637
Deposits for purchases of items of property, plant and equipment		12,891
Goodwill	16	412,518
Investments in associates		604,006
Available-for-sale investments		246
Intangible assets	20	22,751
Deferred tax assets	28	53,049
Inventories		1,978,207
Accounts and bills receivables		646,360
Prepayments, deposits and other receivables		6,623,558
Due from related companies		281,618
Tax recoverable		116
Restricted cash at bank		8,267
Cash and cash equivalents		773,106
Accounts and bills payables		(832,699)
Other payables and accruals		(7,671,293)
Interest-bearing bank and other borrowings		(1,819,127)
Due to related companies		(3,460,377)
Tax payable		(59,739)
Deferred income		(120,887)
Deferred tax liabilities	28	(12,411)
Other non-current liabilities		(77)
Non-controlling interests		(264,933)
		4,425,130
Exchange fluctuation reserve		(704,526)
		3,720,604
Gain on disposal of subsidiaries, net of tax and expenses		1,010,735
Tax and expenses		487,887
Gain on disposal of subsidiaries		1,498,622
		5,219,226
Satisfied by:		
Cash consideration		5,219,226

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11. DISCONTINUED OPERATION (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the Biochemical and Biofuel Subsidiaries is as below:

	2017 HK$'000
Cash consideration on equity interest transfer	5,219,226
Cash consideration on loans assignment	3,360,115
Cash and bank balances disposed of	(773,106)
Net inflow of cash and cash equivalents in respect of the disposal of the Biochemical and Biofuel Subsidiaries	7,806,235

The result of the Biochemical and Biofuel Subsidiaries are presented below:

	2017 HK$'000
Revenue	11,324,972
Cost of sales	(9,440,893)
Gross profit	1,884,079
Other income and gains	892,844
Expenses	(1,799,591)
Finance costs	(84,584)
Share of profits of associates	95,579
Profit before tax from a discontinued operation	988,327
Income tax	(240,182)
	748,145
Gain on disposal of subsidiaries, net of tax and expenses	1,010,735
Profit for the year from a discontinued operation	1,758,880

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11. DISCONTINUED OPERATION (continued)

The net cash flows incurred by the Biochemical and Biofuel Subsidiaries are as below:

	2017 HK$'000
Operating activities	1,495,259
Investing activities	(94,546)
Financing activities	(861,949)
Net cash inflow	538,764
Earnings per share	
Basic, from a discontinued operation	33.23 HK cents
Diluted, from a discontinued operation	33.19 HK cents

The calculations of basic and diluted earnings per share from a discontinued operation are based on:

	2017 HK$'000
Profit attributable to ordinary equity holders of the Company from a discontinued operation (Note 13)	1,744,654

	2017
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations (Note 13)	5,249,880,788
Weighted average number of ordinary shares used in the diluted earnings per share calculations (Note 13)	5,257,483,420

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12. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim dividend – 3.6 HK cents (2017: 4.0 HK cents) per ordinary share	**189,313**	209,995
Proposed final dividend – 1.5 HK cents (2017: 0.9 HK cents) per ordinary share	**78,882**	47,249
Proposed special dividend – Nil (2017: 20.0 HK cents) per ordinary share	**–**	1,049,976
	268,195	1,307,220

The proposed final dividend was calculated based on 5,258,787,388 (31 December 2017: 5,249,880,788) ordinary shares in issue as at 31 December 2018.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of 5,255,249,299 ordinary shares (2017: 5,249,880,788 ordinary shares) in issue during the year.

For the year ended 31 December 2018, the calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculations of basic and diluted earnings per share attributable to ordinary equity holders of the Company are based on:

	2018 HK$'000	2017 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations		
From continuing operations	**1,346,056**	1,297,669
From a discontinued operation	**–**	1,744,654
	1,346,056	3,042,323

	2018	2017
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**5,255,249,299**	5,249,880,788
Effect of dilution – weighted average number of ordinary shares:		
Share options	**8,987,229**	7,602,632
	5,264,236,528	5,257,483,420

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018				
At 31 December 2017 and at 1 January 2018:				
Cost	**12,628,252**	**12,060,832**	**916,269**	**25,605,353**
Accumulated depreciation and impairment	**(2,918,201)**	**(5,935,040)**	**–**	**(8,853,241)**
Net carrying amount	**9,710,051**	**6,125,792**	**916,269**	**16,752,112**
At 1 January 2018, net of accumulated depreciation and impairment	**9,710,051**	**6,125,792**	**916,269**	**16,752,112**
Additions	**210,286**	**317,403**	**682,492**	**1,210,181**
Acquisition of subsidiaries (Note 33)	**450,111**	**292,733**	**311,283**	**1,054,127**
Disposals	**(709)**	**(20,484)**	**(6,706)**	**(27,899)**
Depreciation provided during the year	**(397,237)**	**(631,259)**	**–**	**(1,028,496)**
Impairment	**(121,433)**	**(146,622)**	**–**	**(268,055)**
Transfers	**319,336**	**462,237**	**(781,573)**	**–**
Exchange realignment	**(452,514)**	**(281,206)**	**(36,919)**	**(770,639)**
At 31 December 2018, net of accumulated depreciation and impairment	**9,717,891**	**6,118,594**	**1,084,846**	**16,921,331**
At 31 December 2018:				
Cost	**13,003,445**	**12,416,950**	**1,084,846**	**26,505,241**
Accumulated depreciation and impairment	**(3,285,554)**	**(6,298,356)**	**–**	**(9,583,910)**
Net carrying amount	**9,717,891**	**6,118,594**	**1,084,846**	**16,921,331**

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017				
At 31 December 2016 and at 1 January 2017:				
Cost	15,125,778	16,703,691	1,064,367	32,893,836
Accumulated depreciation and impairment	(3,200,623)	(7,893,688)	(9,268)	(11,103,579)
Net carrying amount	11,925,155	8,810,003	1,055,099	21,790,257
At 1 January 2017, net of accumulated depreciation and impairment	11,925,155	8,810,003	1,055,099	21,790,257
Additions	28,412	411,319	1,669,139	2,108,870
Acquisition of a subsidiary (Note 33)	–	10,245	–	10,245
Disposals	(4,734)	(22,038)	–	(26,772)
Disposal of subsidiaries (Note 11, 34)	(3,133,431)	(3,156,444)	(831,219)	(7,121,094)
Depreciation provided during the year	(487,973)	(1,008,318)	–	(1,496,291)
Impairment	(37,169)	(21,505)	–	(58,674)
Transfers	582,360	490,441	(1,072,801)	–
Exchange realignment	837,431	612,089	96,051	1,545,571
At 31 December 2017, net of accumulated depreciation and impairment	9,710,051	6,125,792	916,269	16,752,112
At 31 December 2017:				
Cost	12,628,252	12,060,832	916,269	25,605,353
Accumulated depreciation and impairment	(2,918,201)	(5,935,040)	–	(8,853,241)
Net carrying amount	9,710,051	6,125,792	916,269	16,752,112

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2018, certain of the Group's property, plant and equipment with a net carrying amount of approximately HK$23,497,000 (2017: HK$147,589,000) were pledged to secure banking facilities granted to the Group (Note 27).

As at 31 December 2018, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of approximately HK$1,223,249,000 (2017: HK$1,012,640,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

During the year, the directors of the Company conducted a review of the Group's plant and machinery and determined that a number of those assets were impaired, due to ceased operation and technical obsolescence. Accordingly, impairment losses of HK$268,055,000 have been recognised in respect of plant and equipment in other expenses. The recoverable amounts of the relevant assets have been determined on the basis of the higher of the assets' fair value less costs of disposal and their value in use.

15. PREPAID LEASE PAYMENTS

	2018 **HK$'000**	**2017** **HK$'000**
Carrying amount at 1 January	**2,085,172**	2,551,748
Additions	**24,596**	2,734
Acquisition of subsidiaries (Note 33)	**227,629**	–
Disposal of subsidiaries	**–**	(574,453)
Recognised during the year	**(55,246)**	(65,241)
Exchange realignment	**(92,383)**	170,384
Carrying amount at 31 December	**2,189,768**	2,085,172
Current portion included in prepayments, deposits and other receivables	**(52,093)**	(47,570)
Non-current portion	**2,137,675**	2,037,602

* *As at 31 December 2018, prepaid lease payments are for land use rights and oceanic area use rights.*

As at 31 December 2018, certain land use rights of the Group with a net carrying amount of approximately HK$14,556,000 (31 December 2017: HK$15,527,000) were pledged to secure bank loans granted to the Group (Note 27).

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16. GOODWILL

	HK$'000
31 December 2018	
At 31 December 2017 and 1 January 2018:	
Cost	**1,382,735**
Accumulated impairment	**–**
Net carrying amount	**1,382,735**
Cost at 1 January 2018, net of accumulated impairment	**1,382,735**
Acquisition of subsidiaries (Note 33)	**138,286**
Exchange realignment	**(2,351)**
At 31 December 2018, net of accumulated impairment	**1,518,670**
At 31 December 2018:	
Cost	**1,518,670**
Accumulated impairment	**–**
Net carrying amount	**1,518,670**
31 December 2017	
At 31 December 2016 and 1 January 2017:	
Cost	1,073,220
Accumulated impairment	–
Net carrying amount	1,073,220
Cost at 1 January 2017, net of accumulated impairment	1,073,220
Acquisition of a subsidiary (Note 33)	718,649
Disposal of subsidiaries (Note 11)	(412,518)
Exchange realignment	3,384
At 31 December 2017, net of accumulated impairment	1,382,735
At 31 December 2017:	
Cost	1,382,735
Accumulated impairment	–
Net carrying amount	1,382,735

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16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is mainly allocated to the following groups of cash-generating units, which are reportable operating segments, for impairment testing:

- Oilseeds processing group of cash-generating units; and
- Rice processing and trading group of cash-generating units.

Oilseeds processing group of cash-generating units

The recoverable amount of the oilseeds processing group of cash-generating units has been determined based on a value in use calculation using cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate (after tax) applied to the cash flow projection is 9% (2017: 9%). The growth rate used to extrapolate the cash flows of the oilseeds processing unit beyond the five-year period is zero (2017: zero).

Rice processing and trading group of cash-generating units

The recoverable amount of the rice processing and trading group of cash-generating units has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate (after tax) applied to the cash flow projection is 9.5% (2017: 9.5%). The growth rate used to extrapolate the cash flows of the rice processing and trading unit beyond the five-year period is zero (2017: zero).

The carrying amounts of goodwill allocated to each of the cash-generating unit groups are as follows:

	2018 HK$'000	2017 HK$'000
Oilseeds processing	**1,380,557**	1,250,420
Rice processing and trading	**129,132**	129,132
Wheat processing	**8,981**	3,183
	1,518,670	1,382,735

Assumptions were used in the value in use calculation of each of the cash-generating unit groups for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased or decreased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for countries from where the raw materials are sourced.

The values assigned to the key assumptions on discount rates and raw materials price inflation are consistent with external information sources.

17. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	**2,147,862**	1,960,503
Goodwill on acquisition	**16,642**	16,642
	2,164,504	1,977,145
Loans to associates	**129,702**	129,702
	2,294,206	2,106,847

The loans to associates included in non-current assets are unsecured, interest-free and the Group does not expect these loans to be repaid. In the opinion of the directors, these loans are considered as part of the Group's net investments in the associates.

The balances with associates included in current assets and current liabilities are unsecured, interest-free and repayable within one year except for loans to an associate of nil (2017: HK$141,164,000 included in current assets, which were unsecured and bore interest at rate of: 4.35% per annum).

Impairment testing of goodwill

The goodwill of HK$16,642,000 acquired through business combinations is allocated to the oilseeds processing group of cash-generating units, which are reportable segments, for impairment testing. Details of the basis of determination of recoverable amounts and assumptions used in the value in use calculation are set out in Note 16 to the financial statements.

In the opinion of the directors, there was no associate considered individually material to the Group. The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the associates' profit for the year	**363,824**	204,007
Share of the associates' total comprehensive income	**363,824**	204,007
Share of the associates' post tax profit from a discontinued operation	**–**	95,579
Aggregate carrying amount of the Group's investments in the associates	**2,294,206**	2,106,847

Particulars of the Group's principal associates as at 31 December 2018 are set out in Note 42 to the financial statements.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000
Available-for-sale investments:	
Unlisted equity investments, at cost	30,536

These available-for-sale investments were stated at cost less any impairment because the directors were of the opinion that their fair values cannot be measured reliably.

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK$'000
Unlisted investments:	
Equity instruments	**28,066**

The above unlisted equity investments represent the Group's equity interest in a private entity established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as the equity investment is not held for trading.

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20. INTANGIBLE ASSETS

	Trademark HK$'000	Golf club membership HK$'000	Others HK$'000	Total HK$'000
31 December 2018				
Cost at 31 December 2017 and 1 January 2018, net of accumulated amortisation	**597,758**	**2,115**	**40,719**	**640,592**
Additions	**145**	**–**	**–**	**145**
Amortisation provided during the year	**(20,212)**	**–**	**(6,396)**	**(26,608)**
Disposal	**(144)**	**–**	**(377)**	**(521)**
Exchange realignment	**(501)**	**–**	**(769)**	**(1,270)**
At 31 December 2018	**577,046**	**2,115**	**33,177**	**612,338**
At 31 December 2018:				
Cost	**604,652**	**2,115**	**57,801**	**664,568**
Accumulated amortisation	**(27,606)**	**–**	**(24,624)**	**(52,230)**
Net carrying amount	**577,046**	**2,115**	**33,177**	**612,338**
31 December 2017				
Cost at 31 December 2016 and 1 January 2017, net of accumulated amortisation	6,020	6,545	44,689	57,254
Additions	–	–	51	51
Acquisition of a subsidiary (Note 33)	600,344	–	21,641	621,985
Amortisation provided during the year	(6,918)	–	(7,104)	(14,022)
Disposal	–	(4,513)	(1,047)	(5,560)
Disposal of subsidiaries (Note 11)	(2,458)	–	(20,293)	(22,751)
Exchange realignment	770	83	2,782	3,635
At 31 December 2017	597,758	2,115	40,719	640,592
At 31 December 2017:				
Cost	605,244	2,115	59,760	667,119
Accumulated amortisation	(7,486)	–	(19,041)	(26,527)
Net carrying amount	597,758	2,115	40,719	640,592

21. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**12,493,407**	12,636,702
Work in progress	**1,222,584**	1,345,646
Finished goods	**9,598,443**	8,648,434
	23,314,434	22,630,782

22. ACCOUNTS AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Accounts and bills receivables	**4,136,107**	3,160,001
Less: Allowance for credit losses	**(33,181)**	(21,681)
	4,102,926	3,138,320

As at 31 December 2018 and 31 December 2017, accounts receivables, net of allowance for credit losses, from contracts with customers amounted to HK$3,574,498,000 and HK$2,909,351,000 respectively.

An ageing analysis of the accounts and bills receivables at the end of the reporting period, based on the invoice date and bill issue date, net of allowance for credit losses, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	**3,931,031**	2,996,961
3 to 12 months	**169,850**	140,110
1 to 2 years	**1,425**	1,249
2 to 3 years	**620**	–
	4,102,926	3,138,320

As at 31 December 2018, total bills received amounting to HK$528,428,000 (31 December 2017: HK$228,969,000) are held by the Group for future settlement. All bills received by the Group are with a maturity period of less than one year.

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22. ACCOUNTS AND BILLS RECEIVABLES (continued)

The movements in the allowance for credit losses of accounts receivable are as follows:

	2018 HK$'000	**2017 HK$'000**
At 1 January	**21,681**	24,205
Impairment losses recognised	**14,519**	1,488
Impairment write-off	**–**	(3,300)
Disposal of subsidiaries	**–**	(4,891)
Exchange realignment	**(3,019)**	4,179
At 31 December	**33,181**	21,681

As at 31 December 2018, included in the Group's accounts and bills receivables balance are debtors with aggregate carrying amount of HK$93,428,000 which are past due as at the reporting date. Out of the past due balances, HK$37,039,000 has been past due 90 days or more and is not considered as in default.

As at 31 December 2017, ageing analysis of accounts and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 HK$'000
Neither past due nor impaired	2,708,991
Less than 1 month past due	37,045
1 to 3 months past due	304,701
More than 3 months but less than 12 months past due	79,904
More than 1 year past due	7,679
	3,138,320

Details of impairment assessment of accounts and other receivables for the year ended 31 December 2018 are set out in Note 45.

23. AGENCY PURCHASE OF GRAINS

Pursuant to the Fagaidian [2013] No. 229, Guoliangtiao [2013] No. 265, Guoliangtiao [2014] No. 254 and Guoliangtiao [2015] No.169 issued by certain Chinese government authorities (the "Notices"), during the period from 30 November 2013 to 30 April 2014, the period from 30 November 2014 to 30 April 2015 and the period from 1 November 2015 to 30 April 2016 (the "Designated Grain Purchase Periods"), certain subsidiaries (the "Entrusted Subsidiaries") of biochemical and biofuel business and rice processing and trading business entered into agency purchase agreements (the "Agency Purchase Agreements") with branch companies of China Grain Reserves Corporation ("Sinograin"), which is a state-owned enterprise, and local grain authorities of State Administration of Grain to purchase certain quantities of grains from farmers as agent of Sinograin at prices fixed in the Agency Purchase Agreements during the Designated Grain Purchase Periods. According to the Notices and the Agency Purchase Agreements, (a) the grains purchased are national grains reserve and should be stored in separate warehouses of the Entrusted Subsidiaries and Sinograin is obliged to pay the Entrusted Subsidiaries with custody fees; (b) the funds for purchase of grains would be financed by Agricultural Development Bank of China ("ADBC"), which is a bank incorporated to implement the Chinese government's agricultural policies, through bank loans lent to the Entrusted Subsidiaries; (c) the interest expenses related to these bank loans would be fully reimbursed by Sinograin to these Entrusted Subsidiaries once the related government subsidies were granted to Sinograin; and (d) the principal of the bank loans should be repaid to ADBC upon receipt of funds transferred from Sinograin when the grains are sold by Sinograin.

As at 31 December 2018, the balance owed by Sinograin to the Group and short term unsecured bank loans owed by the Group to ADBC as a result of the aforesaid arrangements amounted to HK$52,183,000 (31 December 2017: HK$520,425,000) and HK$52,183,000 (31 December 2017: HK$522,820,000), respectively. In view of the fact that the interest expenses to ADBC can be fully reimbursed by the related interest income from Sinograin, the interest expenses to ADBC and the related interest income from Sinograin were presented in the consolidated statement of profit or loss on a net basis. The storage income arising from the aforesaid arrangements attributable to current year was HK$9,933,000 (2017: HK$252,830,000), of which HK$9,933,000 (2017: HK$19,342,000) was from continuing operations (Note 5), which is recorded as other income in the consolidated statement of profit or loss.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER FINANCIAL LIABILITIES/DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets HK$'000	**Liabilities HK$'000**	**Assets HK$'000**	**Liabilities HK$'000**
Commodity futures contracts	**120,409**	**10,936**	376,607	–
Foreign currency forward contracts	**43,426**	**33,781**	–	238,381
Others	**22,530**	**965**	–	–
	186,365	**45,682**	376,607	238,381

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24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/ OTHER FINANCIAL LIABILITIES/DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group has entered into various commodity futures contracts to manage commodity price risk in future purchases or sales of soybeans, soybean meal, soybean oil and corn. The commodity futures are not designated for hedging purpose and are measured at fair value through profit or loss. Net fair value gain on commodity futures contracts of HK$1,645,259,000 (2017: HK$1,954,735,000) was recognised in the consolidated statement of profit or loss during the year (Note 6).

In addition, the Group has entered into various foreign currency forward contracts to manage its foreign currency risk exposures. The Group has applied fair value hedge accounting to certain foreign currency forward contracts that are designated to offset the foreign currency risk related to certain unrecognised firm commitments, denominated in US dollars, of the Group's subsidiaries operate in Mainland China and the hedges are considered to be effective to achieve such purpose. The related net fair value gain of approximately HK$979,139,000 (2017: loss of HK$451,539,000) was recognised in the consolidated statement of profit or loss and offset with a similar fair value loss on the hedged items, of which the gain of approximately HK$979,139,000 (2017: loss of HK$451,539,000) was from continuing operations. The foreign currency forward contracts not applied for hedge accounting are measured at fair value through profit or loss, and the related net fair value gain on foreign currency forward contracts of HK$31,775,000 (2017: loss of HK$418,200,000) was recognised in the consolidated statement of profit or loss during the year (Note 6), of which the gain of HK$31,775,000 (2017: loss of HK$417,771,000) was from continuing operations.

25. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BANK

	Notes	2018 HK$'000	2017 HK$'000
Cash and bank balances		**6,699,207**	3,966,684
Time deposits		**1,619,098**	6,605,113
		8,318,305	10,571,797
Less: Pledged for bills payable	26	**5,865**	–
Pledged for short-term bank loans	27	**526,713**	–
Pledged for letters of credit		**376,879**	–
Pledged for forward contracts		**11,870**	–
		921,327	–
Cash and cash equivalents		**7,396,978**	10,571,797

25. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BANK (continued)

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$5,591,121,000 (2017: HK$3,544,940,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. ACCOUNTS AND BILLS PAYABLES

An ageing analysis of the accounts and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 **HK$'000**	**2017** **HK$'000**
Within 3 months	**2,911,538**	4,000,236
3 to 12 months	**72,192**	135,863
1 to 2 years	**16,592**	11,077
Over 2 years	**3,422**	2,449
	3,003,744	4,149,625

The accounts and bills payables are non-interest-bearing and are normally settled within one to three months.

As at 31 December 2018, HK$388,039,000 (31 December 2017: Nil) of the Group's bills payable are secured by bank deposits of the Group (Note 25).

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**HK$'000**	**Effective interest rate (%)**	**Maturity**	**HK$'000**
Current						
Bank loans – unsecured	**3.14-4.57 LIBOR+0.45% –LIBOR+0.76%**	**2019**	**15,145,809**	1.53–4.79, LIBOR+0.3% –LIBOR+0.75%	2018	17,993,192
Bank loans – secured	**3.40-5.22**	**2019**	**753,830**	4.35–4.57	2018	107,667
Other loans – unsecured	**1.08-4.57**	**2019**	**6,194,227**	3.2–4.35	2018	906,198
			22,093,866			19,007,057
Non-current						
Bank loans – unsecured			**–**	4.75	2019	6,101
Bank loans – secured			**–**	4.9	2019–2022	48,450
Other loans – unsecured	**1.08**	**2020-2027**	**97,010**	1.08	2019–2027	119,630
			97,010			174,181
			22,190,876			19,181,238

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**15,899,639**	18,100,859
In the second year	**–**	35,411
In the third to fifth years, inclusive	**–**	19,140
	15,899,639	18,155,410
Other loans repayable:		
Within one year or on demand	**6,194,227**	906,198
In the second to fifth years, inclusive	**45,652**	53,833
Beyond five years	**51,358**	65,797
	6,291,237	1,025,828
	22,190,876	19,181,238

The exposure of the Group's borrowings are as follows:

	2018 HK$'000	2017 HK$'000
Fixed-rate borrowings	**8,211,329**	7,880,434
Variable-rate borrowings	**13,979,547**	11,300,804
	22,190,876	19,181,238

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The Group's variable-rate borrowings carry interest at LIBOR. Interest is reset every week/month.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018 HK$'000	2017 HK$'000
Effective interest rate:		
Fixed-rate borrowings	**1.08% to 5.22%**	1.08% to 4.9%
Variable-rate borrowings	**LIBOR+0.45% to LIBOR+0.76%**	LIBOR+0.3% to LIBOR+0.75%

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) certain property, plant and equipment of the Group with a net carrying amount of approximately HK$23,497,000 (2017: HK$147,589,000) (Note 14);

(ii) certain land use rights of the Group with a net carrying amount of approximately HK$14,556,000 (2017: HK$15,527,000) (Note 15);

(iii) certain deposits of the Group of approximately HK$526,713,000 (2017: Nil) (Note 25); and

(iv) certain bills receivable of the Group of approximately HK$159,781,000 (2017: Nil).

(b) Except for bank and other borrowings of HK$13,828,917,000 (2017: HK$9,572,680,000) which are denominated in United States dollars, all other borrowings are denominated in RMB.

(c) The other loans represented loans from fellow subsidiaries and loans from the ultimate holding company.

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28. DEFERRED TAX

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

Deferred tax assets

	Provision against inventories and non-cancellable purchase contracts HK$'000	Impairment of receivables HK$'000	Unrealised losses on other financial liabilities HK$'000	Tax losses available for offsetting against future taxable profits HK$'000	Accrued expense, deferred income and others HK$'000	Total HK$'000
At 1 January 2017	31,392	13,052	13,671	432,107	158,762	648,984
Deferred tax credited/(charged) to the statement of profit or loss during the year	81,875	5,248	(1,842)	(150,405)	15,721	(49,403)
Acquisition of a subsidiary (Note 33)	–	–	–	6,819	–	6,819
Disposal of subsidiaries (Notes 11 & 34)	(4,330)	(15,057)	–	(7,676)	(33,522)	(60,585)
Exchange realignment	2,588	1,099	894	6,014	11,826	22,421
At 31 December 2017 and at 1 January 2018	**111,525**	**4,342**	**12,723**	**286,859**	**152,787**	**568,236**
Deferred tax credited/(charged) to the statement of profit or loss during the year	**142,028**	**(469)**	**(6,084)**	**(44,507)**	**75,704**	**166,672**
Acquisition of subsidiaries (Note 33)	**15,237**	**–**	**6,904**	**49,543**	**2,842**	**74,526**
Exchange realignment	**(6,676)**	**(188)**	**(390)**	**(513)**	**(8,993)**	**(16,760)**
Gross deferred tax assets at 31 December 2018	**262,114**	**3,685**	**13,153**	**291,382**	**222,340**	**792,674**

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28. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value adjustment on acquisition of subsidiaries HK$'000	Unrealised gains on derivative financial instruments HK$'000	Tax on dividends HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	41,890	1,086	–	41,022	83,998
Deferred tax charged/(credited) to the statement of profit or loss during the year	(4,650)	80,246	–	(35,814)	39,782
Acquisition of a subsidiary (Note 33)	156,151	–	–	–	156,151
Disposal of subsidiaries (Note 11)	(12,411)	–	–	–	(12,411)
Exchange realignment	675	2,884	–	10	3,569
At 31 December 2017 and at 1 January 2018	**181,655**	**84,216**	**–**	**5,218**	**271,089**
Deferred tax charged/(credited) to the statement of profit or loss during the year	**(9,114)**	**(49,755)**	**71,348**	**–**	**12,479**
Acquisition of subsidiaries (Note 33)	**97,613**	**9,492**	**–**	**–**	**107,105**
Exchange realignment	**(981)**	**(2,659)**	**–**	**–**	**(3,640)**
Gross deferred tax liabilities at 31 December 2018	**269,173**	**41,294**	**71,348**	**5,218**	**387,033**

The Group has tax losses arising in Mainland China of HK$1,316,628,000 (2017: HK$2,578,669,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised in the future.

Pursuant to the PRC Corporate Income Tax Law, dividends income received by China Resident Enterprise ("CRE") from its investment in non-CREs established outside Mainland China will be subject to Chinese income tax whereas the related income tax expenses paid by these non-CREs incorporated in Hong Kong are deductible due to the availability of double taxation relief between Mainland China and Hong Kong. In the current year, the deferred income tax is due to the fact that the Group's Hong Kong subsidiary which is preparing to declare dividends to its holding company in the Mainland. Except that, deferred tax liability of HK$38,733,000 (2017: HK$74,029,000) has not been recognised for corporate income tax liabilities that would be payable on the unremitted earnings in non-CREs of the Group as in the opinion of the directors, it is not probable to distribute such unremitted earnings in the foreseeable future.

As the Company is regarded as a CRE in the approval by the State Administration of Taxation, the Enterprise Income Tax Law and the Implementation Rules is applicable to the Company since 1 January 2013. The Company is required to withhold 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders on or after 1 January 2013.

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29. CONTRACT LIABILITIES

	31/12/2018 HK$'000	1/1/2018* HK$'000
Advances from customers:		
Edible oil and related products	**1,975,720**	1,513,091
Rice	**944,525**	931,369
Flour products and related products	**143,376**	67,403
Malt	**14,640**	10,811
Other	**1,046**	18,363
	3,079,307	2,541,037
Current	**3,079,307**	2,541,037
Non-current	**–**	–
	3,079,307	2,541,037

* *The amounts in this column are after the adjustments from the application of HKFRS 15.*

The above carried-forward contract liabilities at 1 January 2018 were recognised as revenue during the current year.

	Edible oil and related products HK$'000	Rice HK$'000	Flour products and related products HK$'000	Malt HK$'000	Other HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,513,091	931,369	67,403	10,811	18,363

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

The Group receives at a certain proportion of the contract value as deposits from customers when they sign the sale and purchase agreement.

30. SHARE CAPITAL

Shares

	Numbers of shares		Share capital	
	2018	2017	2018 HK$'000	2017 HK$'000
Issued and fully paid				
At the beginning of the year	**5,249,880,788**	5,249,880,788	**9,771,664**	9,771,664
Exercise of share options	**8,906,600**	–	**25,384**	–
At the end of the year	**5,258,787,388**	5,249,880,788	**9,797,048**	9,771,664

Share options

Details of the Company's share option scheme and share options issued under the scheme are included in Note 31 to the financial statements.

31. SHARE OPTION SCHEME

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating directors and eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but are not limited to, any directors (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors may propose. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in any 12-month period is limited to 1% of the shares in issue at the relevant time unless it is approved by shareholders in a general meeting of the Company.

Any grant of share options under the Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors. Any share options granted to a substantial shareholder of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by each grantee. The exercise period of the share options granted is determinable by the board of directors.

31. SHARE OPTION SCHEME (continued)

The exercise price of share options is determinable by the board of directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) HK$0.1.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 31 March 2011, a total of 45,300,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2011 Options"). The 2011 Options had an exercise price of HK$8.720 per share and an exercise period from 31 March 2013 to 30 March 2018. The closing price of the Company's share of the 2011 Options at the date of grant was HK$8.720 per share.

In accordance with the terms of the Scheme, with effect on 28 March 2013, the exercise prices and the outstanding number of share options of the 2011 Options had been adjusted (the "Adjustments") as a result of the rights issue of the Company made in 2012. After the Adjustments, the exercise prices of the 2011 Options is HK$8.220 per share and the outstanding number of share options of the 2011 Options had been increased by 2,646,000 shares.

On 4 December 2015, a total of 134,500,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2015 Options"), the new vesting schedule of which was approved by the Company's shareholders in the annual general meeting on 1 June 2016. The 2015 Options have an exercise price of HK$2.850 per share and an exercise period from 4 December 2017 to 3 December 2020. The closing price of the Company's share of the 2015 Options on 1 June 2016 was HK$2.560 per share.

The following 2011 Options were outstanding under the Scheme during the year:

	2018		**2017**	
	Weighted average exercise price HK$ per share	**Number of options '000**	**Weighted average exercise price HK$ per share**	**Number of options '000**
At 1 January	**8.220**	**41,177**	8.220	42,491
Forfeited during the year	**8.220**	**(41,177)**	8.220	(1,314)
At 31 December	**8.220**	**–**	8.220	41,177

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31. SHARE OPTION SCHEME (continued)

The vesting periods, exercise price and exercise periods of the 2011 Options outstanding as at 31 December 2018 and 2017 are as follows:

2018	2017			
Number of options granted*			Exercise price*	
Total '000	Total '000	Vesting period (dd-mm-yyyy)	per share HK$	Exercise period (dd-mm-yyyy)
–	8,235	**31-3-2011 to 30-3-2013**	**8.220**	**31-3-2013 to 30-3-2018**
–	8,235	**31-3-2011 to 30-3-2014**	**8.220**	**31-3-2014 to 30-3-2018**
–	8,235	**31-3-2011 to 30-3-2015**	**8.220**	**31-3-2015 to 30-3-2018**
–	8,236	**31-3-2011 to 30-3-2016**	**8.220**	**31-3-2016 to 30-3-2018**
–	8,236	**31-3-2011 to 30-3-2017**	**8.220**	**31-3-2017 to 30-3-2018**
–	41,177			

* *The exercise price and number of share options were subject to adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The following 2015 Options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**2.850**	**108,814**	2.850	131,790
Forfeited during the year	**2.850**	**(2,597)**	2.850	(22,976)
Exercised during the year	**2.850**	**(8,907)**	2.850	–
At 31 December	**2.850**	**97,310**	2.850	108,814

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31. SHARE OPTION SCHEME (continued)

The vesting periods, exercise price and exercise periods of the 2015 Options outstanding as at 31 December 2018 and 2017 are as follows:

2018	2017			
Number of options granted*			Exercise price*	
Total	Total	Vesting period	per share	Exercise period
'000	'000	(dd-mm-yyyy)	HK$	(dd-mm-yyyy)
32,112	42,088	**4-12-2015 to 3-12-2017**	**2.850**	**4-12-2017 to 3-12-2020**
32,112	32,865	**4-12-2015 to 3-12-2018**	**2.850**	**4-12-2018 to 3-12-2020**
33,086	33,861	**4-12-2015 to 3-12-2019**	**2.850**	**4-12-2019 to 3-12-2020**
97,310	108,814			

* *The exercise price and number of share options shall be subject to adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair values of the 2011 Options and the fair values of the 2015 Options at their respective grant dates were approximately HK$173,616,000 and HK$102,238,000, respectively, of which the Group recognised share option expenses of HK$6,677,000 (2017: HK$36,856,000) during the year.

The fair values of the equity-settled share options were estimated as at the date of grant, using option pricing models, taking into account of the according terms and conditions. The following table lists the inputs to the models used:

	2011 Options	2015 Options
Date of grant	31 March 2011	1 June 2016
Dividend yield (%)	1.43	1.49
Expected volatility (%)	47.49	43.09
Historical volatility (%)	47.49	–
Risk-free interest rate (%)	2.369	1.00
Expected life of options (year)	7.0	5.0
Closing share price (HK$ per share)	8.72	2.56

31. SHARE OPTION SCHEME (continued)

The expected life of the options is determined with reference to the vesting term and original contractual term of the Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 97,310,000 (2017: 149,991,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 97,310,000 (2017: 149,991,000) additional ordinary shares of the Company and additional share capital of HK$277,333,500 (2017: HK$648,594,840) (before issue expenses).

At the date of the approval of these financial statements, the Company had share options outstanding under the Scheme, which represented approximately 1.8% (2017: 2.8%) of the Company's shares in issue as at that date.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Group's capital reserve mainly represents contributed surplus which is the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the previous nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises and foreign invested enterprises, a portion of the profits of the Group's joint ventures and foreign invested enterprises entities which are established in the PRC has been transferred to reserve funds which are restricted as to use.

33. BUSINESS COMBINATIONS

Business combinations for the year ended 31 December 2018

1. On 31 August 2018, the Company's wholly-owned subsidiaries, Oriental Chance Limited, COFCO Oils (HK) No. 2 Limited and COFCO Oils & Fats Holdings Limited (as purchasers) and COFCO International Singapore Pte. Ltd., Great Wall Investments Pte. Ltd., Sino Agri-Trade Pte. Ltd. and H.K. Ming Fat International Oil & Fat Chemical Company Limited (as sellers), wholly-owned subsidiaries of COFCO International Limited, entered into the equity acquisition master agreement. A total of RMB1,294,286,000 (equivalent to approximately HK$1,484,644,000) was paid in US dollars for the purchase of 100% equity interest in Qinzhou Dayang Cereals and Oils Co., Ltd., Chongqing Xinfu Food Co., Ltd., Longkou Xinlong Edible Oil Co., Ltd. and Ming Fat International Oil & Fat Chemical (Taixing) Co., Ltd. (collectively referred to as the "COFCO International Target Companies").

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33. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2018 (continued)

1. (continued)

On 7 November 2018, the transaction was completed and the COFCO International Target Companies became wholly-owned subsidiaries of the Company.

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	**604,070**
Prepaid lease payments	15	**165,546**
Deferred tax assets	28	**73,838**
Cash and cash equivalents		**244,505**
Restricted cash at bank		**948,539**
Financial assets at fair value through profit or loss		**43,365**
Accounts and bills receivables		**232,596**
Prepayments, deposits and other receivables		**465,671**
Inventories		**1,677,157**
Other current assets		**308,617**
Interest-bearing bank and other borrowings		**(970,409)**
Other financial liabilities		**(14,813)**
Accounts and bills payables		**(1,976,452)**
Contract liabilities		**(191,360)**
Other payables and accruals		**(111,279)**
Other current liabilities		**(46,178)**
Deferred tax liabilities	28	**(98,987)**
Total identifiable net assets at fair value		**1,354,426**
Goodwill on acquisition	16	**130,218**
		1,484,644
Satisfied by:		
Cash consideration		**1,484,644**

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33. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2018 (continued)

1. (continued)

Net cash outflow on acquisition

	2018 HK$'000
Cash consideration	**(1,484,644)**
Cash and cash equivalents acquired	**244,505**
Net outflow of cash and cash equivalents in respect of the acquisition	**(1,240,139)**

2. On 8 November 2017, COFCO International (Beijing) Ltd., a wholly-owned subsidiary of the Company, and Xinjiang Grain and Oil Group Co., Ltd. and COFCO & Bayi Flour (Hutubi) Co., Ltd.* signed a capital increase subscription agreement, stipulating that COFCO International (Beijing) Ltd. would inject new capital of RMB30,000,000 (equivalent to approximately HK$36,131,000) into COFCO & Bayi Flour (Hutubi) Co., Ltd.* for its 60% equity interest.

   The transaction was completed on 5 January 2018. COFCO & Bayi Flour (Hutubi) Co., Ltd.* became a non-wholly-owned subsidiary of the Company.

3. On 31 January 2018, COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd., a wholly-owned subsidiary of the Company, acquired 70% equity interest in Inner Mongolia Yihe Flour Co., Ltd.* through judicial auction, and the transaction price was RMB10,829,000 (equivalent to approximately HK$13,451,000).

   The transaction was completed on 1 March 2018. Inner Mongolia Yihe Flour Co., Ltd.* became a non-wholly-owned subsidiary of the Company. On 22 March 2018, Inner Mongolia Yihe Flour Co., Ltd.* has changed its name to Hohhot COFCO Flour Industry Co., Ltd.*

4. On November 2017, COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. (the Company's non-wholly-owned subsidiary as purchaser) and COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd. (the Company's associate as seller) signed two equity transaction contracts to purchase from the seller its directly holding 71.6% equity interest in COFCO Aerocean Oils & Grain Industrial Co., Ltd, Shawan* and 42% equity interest in BEST FOOD/GREASE LTD* at an aggregate consideration of RMB6,190,000 (equivalent to approximately HK$7,733,000).

   The transaction was completed on 12 April, 2018. COFCO Aerocean Oils & Grain Industrial Co., Ltd, Shawan* and BEST FOOD/GREASE LTD* became non-wholly-owned subsidiaries of the Company.

5. On 31 August 2018, COFCO (Dongguan) Oils & Grains Industries Co., Ltd., a wholly-owned subsidiary of the Company, COFCO Trading Co., Ltd. and COFCO Trading (Guangdong) Co., Ltd. signed a capital increase agreement, stipulating that COFCO (Dongguan) Oils & Grains Industries Co., Ltd would inject new capital of RMB620,000,000 (equivalent to approximately HK$700,193,000) into COFCO Trading (Guangdong) Co., Ltd. for the 75.264% equity interest.

   The transaction was completed on 9 November 2018. COFCO Trading (Guangdong) Co., Ltd. became the non-wholly-owned subsidiary of the Company.

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33. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2018 (continued)

Recognised fair value on acquisition of the transactions 2-5

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	**450,057**
Prepaid lease payments	15	**62,083**
Deferred tax assets	28	**688**
Cash and cash equivalents		**373,285**
Accounts and bills receivables		**70,813**
Prepayments, deposits and other receivables		**614,077**
Inventories		**148,792**
Other current assets		**28,955**
Interest-bearing bank and other borrowings		**(363,560)**
Accounts and bills payables		**(72,291)**
Contract liabilities		**(141,472)**
Other payables and accruals		**(124,707)**
Deferred tax liabilities	28	**(8,118)**
Total identifiable net assets at fair value		**1,038,602**
Less: non-controlling interests		**(268,828)**
Gain from purchase of subsidiaries	5	**(20,334)**
Goodwill arising on acquisition	16	**8,068**
		757,508
Cash consideration		**298,037**
Prepayments		**7,734**
Other payable		**451,737**
Total		**757,508**

The non-controlling interests recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests. This fair value was estimated by applying asset based approach.

33. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2018 (continued)

Net cash inflow on acquisition of the transactions 2-5

	2018 HK$'000
Cash consideration	**(298,037)**
Cash and cash equivalents acquired	**373,285**
Net inflow of cash and cash equivalents in respect of the acquisition	**75,248**

Included in the net profit for the year is HK$28,229,000 attributable to the additional business generated by the acquired companies. Revenue for the year includes HK$2,293,466,000 generated from the acquired companies.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been HK$115,408,684,000, and profit for the year would have been HK$1,559,494,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the acquired companies been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

* *The English name of the entities represents the translation of their Chinese names for identification purpose only.*

Business combinations for the year ended 31 December 2017

On 25 May 2017, COFCO Fortune Holdings Limited ("COFCO Fortune"), a wholly-owned subsidiary of the Company, entered into the equity transfer agreement with COFCO Food Sales & Distribution Co., Ltd., a wholly owned subsidiary of China Foods Limited, pursuant to which COFCO Fortune shall acquire 100% equity interest in COFCO Fortune Foods Sales & Distribution Co., Ltd.* ("COFCO Fortune Sales") at a total cash consideration of RMB1,050,000,000 (equivalent to approximately HK$1,235,788,000).

The acquisition of COFCO Fortune Sales was approved by the independent shareholders of the Company at the extraordinary general meeting held on 7 July 2017 and the above transaction was completed in September 2017. Following the completion of the acquisition, COFCO Fortune Sales became a subsidiary of the Company. COFCO Fortune Sales is primarily engaged in the sales, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate, seasoning and grains).

33. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2017 (continued)

The fair value of the identifiable assets and liabilities of COFCO Fortune Sales at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	10,245
Intangible assets	20	621,985
Inventories		983,193
Deferred tax assets	28	6,819
Accounts and other receivables		917,939
Cash and cash equivalents		29,759
Accounts and other payables		(1,896,650)
Deferred tax liabilities	28	(156,151)
Total identifiable net assets at fair value		517,139
Goodwill on acquisition	16	718,649
		1,235,788
Satisfied by:		
Cash consideration		1,235,788

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33. BUSINESS COMBINATIONS (continued)

Business combinations for the year ended 31 December 2017 (continued)

An analysis of the cash flows in respect of the acquisition of COFCO Fortune Sales is as follows:

	2017 HK$'000
Cash consideration	(1,235,788)
Cash and cash equivalents acquired	29,759
Net outflow of cash and cash equivalents in respect of the acquisition of COFCO Fortune Sales	(1,206,029)

Since the acquisition date, COFCO Fortune Sales contributed revenue of HK$1,968,757,000 and net profit of approximately HK$18,827,000 to the Group for the year ended 31 December 2017.

34. DISPOSAL OF SUBSIDIARIES

The details of disposal of subsidiaries which were engaged in the discontinued operation during the year ended 31 December 2017 are included in Note 11 to the financial statements.

On 8 September 2017, Full Extent (currently known as COFCO Grains Holdings Limited), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement and loan transfer agreement (the "Agreement A") with COFCO Feed Co., Ltd. ("COFCO Feed"). Pursuant to the Agreement A, Full Extent shall sell its 100% equity interests in COFCO Feed Holdings Limited ("Feed Holdings") at a cash consideration of RMB7,248,783 (equivalent to approximately HK$8,698,000) and assign the loans owed to it by Feed Holdings at a cash consideration of RMB207,196,600 (equivalent to approximately HK$248,625,000).

Meanwhile, COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("EOGI"), a non-wholly-owned subsidiary of the Company, entered into the equity transfer agreement (the "Agreement B") with COFCO Feed. Pursuant to the Agreement B, EOGI shall sell its 32% equity interests in COFCO Feed (Dongtai) Co., Ltd. ("COFCO Feed (Dongtai)"), a non-wholly-owned subsidiary of Feed Holdings, at a cash consideration of RMB28,554,617 (equivalent to approximately HK$34,160,000).

The above transactions under Agreement A was completed on 22 December 2017, following which, the Company did not hold any equity interests in Feed Holdings and its subsidiaries which are no longer subsidiaries of the Company. On 29 January 2018, the above transaction under Agreement B was completed and the Company ceased to hold any equity interests in COFCO Feed (Dongtai).

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34. DISPOSAL OF SUBSIDIARIES (continued)

Details of the net assets disposed of under the share transfer agreement and the financial impacts are summarised below:

	Notes	2017 HK$'000
Net assets disposed of:		
Property, plant and equipment	14	390,751
Prepaid lease payments		29,630
Deposits for purchases of items of property, plant and equipment		18,428
Deferred tax assets	28	7,536
Inventories		147,016
Accounts and bills receivables		107,546
Prepayments, deposits and other receivables		45,021
Due from related companies		130,948
Cash and cash equivalents		54,605
Accounts and bills payables		(166,690)
Other payables and accruals		(61,795)
Interest-bearing bank and other borrowings		(430,970)
Due to related companies		(267,028)
Tax payable		(121)
Deferred income		(3,584)
		1,293
Exchange fluctuation reserve		9,080
		10,373
Gain on disposal of a subsidiary, net of tax and expenses		24,895
Tax and expenses		4,735
Gain on disposal of a subsidiary	5	29,630
		40,003
Satisfied by:		
Cash consideration		8,698
Increase in investment in an associate		31,305

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34. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the cash flows in respect of the disposal of a subsidiary is as below:

	2017 HK$'000
Cash consideration on equity interest transfer	8,698
Cash consideration on loan transfer	248,625
Cash and bank balances disposed of	(54,605)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	202,718

35. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to five years, and that for land use rights for terms of fifty years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**103,315**	69,295
In the second to fifth years, inclusive	**103,529**	15,047
After five years	**36,238**	38,574
	243,082	122,916

36. MAJOR NON-CASH TRANSACTIONS

During the year, a subsidiary have paid the dividend to non-controlling interests, of which HK$76,701,000 was offset by other receivables.

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37. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in Note 35 above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**1,248,739**	247,651

38. OTHER COMMITMENTS

Commitments under commodity futures contracts with aggregate notional amount:

	2018 HK$'000	2017 HK$'000
Sales contracts	**4,612,284**	13,276,023
Purchases contracts	**4,224,579**	167,084

Commitments under foreign currency forward contracts with aggregate notional amount:

As at 31 December 2018, the Group has commitments under foreign currency forward contracts of sales with aggregate notional amount of HK$601,490,000 (31 December 2017: HK$738,510,000) and contracts of purchase with an aggregate notional amount of HK$18,336,984,000 (31 December 2017: HK$11,045,947,000).

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39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 HK$'000	2017 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	**6,731,078**	7,868,324
Purchases of goods**	(i)	**33,518,635**	35,243,039
Operating lease rental paid*	(i)	**3,906**	8,820
Interest income	(iii)	**276**	–
Interest expense	(ii)	**62,076**	42,682
Brokerage fees paid*	(i)	**10,286**	5,116
Other service expenses **	(i)	**63,384**	80,663
Other service income **	(i)	**116,618**	22,981
Transactions with the ultimate holding company:			
Sales of goods**	(i)	**370,774**	619,743
Purchases of goods**	(i)	**133,089**	3,389
Operating lease rental paid*	(i)	**41,005**	32,827
Interest expense	(ii)	**1,273**	46,300
Other service expenses **	(i)	**747**	–
Other service income **	(i)	**22,993**	–
Transaction with an intermediate holding company:			
Interest expense	(ii)	**–**	8,864
Transactions with associates:			
Sales of goods**	(i)	**115,180**	163,168
Purchases of goods**	(i)	**119,813**	158,389
Interest income*	(iii)	**1,554**	9,663
Other service income**	(i)	**3,532**	15,431
Other service expenses **	(i)	**–**	22,621
Transactions with related companies#:			
Sales of goods**	(i)	**560,768**	1,338,910
Purchases of goods**	(i)	**1,702,344**	1,455,216
Other service income**	(i)	**66**	–
Other service expenses **	(i)	**98,626**	–
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods	(i)	**–**	300,507
Purchases of goods**	(i)	**27,299**	242,389
Other service income **	(i)	**1,473**	–

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39. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

* *These related party transactions also constituted connected transactions or continuing connected transactions discloseable in accordance with the Listing Rules.*

** *A certain portion of these related party transactions constituted connected transactions or continuing connected transactions discloseable in accordance with the Listing Rules.*

Related companies are companies under significant influence of the Group's ultimate holding company.

Notes:

(i) *For the years ended 31 December 2017 and 31 December 2018, all transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.*

(ii) *The interest expense to fellow subsidiaries arose from the loans from fellow subsidiaries which were unsecured and bore interest at rates ranged from 2.96% to 4.57% (2017: 1.40% to 4.95%) per annum. The interest expenses to the ultimate holding company arose from the loans from COFCO which were unsecured and bore interest at rate of 1.08% (2017: 1.08% to 3.92%) per annum.*

(iii) *The interest income from associates arose from loans to an associate, which were unsecured and bore interest at rates ranged from 4.35 % to 4.65% (2017: 3.92% to 4.35%) per annum. The interest income from fellow subsidiaries arose from loans to fellow subsidiaries, which were unsecured and bore interest at rates ranged from 4.10 % to 4.35% (2017: 3.92% to 4.35%) per annum.*

(b) Outstanding balances with related parties

Except for the following, balances with the related parties as at the end of the reporting period are unsecured, interest-free and have no fixed terms of repayment:

(1) The following loans are included in other borrowings. Loans from fellow subsidiaries of HK$6,182,814,000 (31 December 2017: HK$906,198,000) bear interest at rates ranged from 2.96% to 4.57 % (31 December 2017: 3.20% to 4.35%) per annum and are repayable within one year. Loans from the ultimate holding company of HK$108,423,000 (31 December 2017: HK$119,630,000) bear interest at a rate of 1.08% (31 December 2017: 1.08%) per annum and repayable from 2019 to 2027.

(2) Amounts due to non-controlling shareholders of subsidiaries of HK$198,803,000 (31 December 2017: HK$202,644,000) are financing in nature and not repayable within one year.

(3) Details of the Group's loans to its associates as at the end of the reporting period are included in Note 17 to the financial statements.

(c) Commitments with related parties

As at 31 December 2018, the Group entered into purchase agreements with COFCO Resources S.A. ("COFCO Resources"), a fellow subsidiary of the Group, pursuant to which the Group agreed to purchase malt, soybean and other oilseeds processing materials from COFCO Resources with a total consideration of approximately HK$2,888,028,000. The Group expects that these transactions will be taken place in the first half of 2019.

As at 31 December 2017, the Group entered into purchase agreements with COFCO Resources, pursuant to which the Group agreed to purchase soybean from COFCO Resources with a total consideration of approximately HK$2,838,337,000. These transactions had taken place in 2018.

The amount of total transactions with related parties for the year is included in Note 39(a) to the financial statements. The transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.

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39. RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel of the Group

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**17,933**	24,770
Post-employment benefits	**381**	1,785
Equity-settled share option expense	**874**	1,590
Total compensation paid to key management personnel	**19,188**	28,145

Further details of directors' and chief executive's emoluments are included in Note 8 to the financial statements.

(e) Transactions and balances with other state-owned enterprises

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Group enters into extensive transactions covering, but not limited to, purchases of agricultural raw materials, sales of diversified products, purchases of property, plant and equipment and other assets, receiving of services, and making deposits and borrowings with State-owned Enterprises, other than the COFCO group, in the normal course of business at terms comparable to those with other non-state-owned enterprises. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the business, and that dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions constitutes a related party transaction that requires separate disclosure.

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	100	Investment holding
COFCO Agri-Industries Management Co., Ltd. ***	The PRC/ Mainland China	US$10,000,000	100	Provision of management services
Glory River Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	Investment holding
China Agri Trading (HK) Limited *	Hong Kong/ Hong Kong	Ordinary HK$10,000	100	Trading of agricultural products
COFCO Oils & Fats Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$2	100	Investment holding
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("EOGI") ***	The PRC/ Mainland China	US$145,000,000	54	Production and sale of edible oil, and trading of soybeans and rapeseeds
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. **	The PRC/ Mainland China	US$84,159,095	70.62	Production and sale of edible oil
China Agri Oils Trading Limited*	Hong Kong/ Hong Kong	Ordinary HK$1	100	Trading of soybeans and oils
中糧四海豐（張家港）貿易有限公司****	The PRC/ Mainland China	RMB20,000,000	80.58	Trading of soybeans and oils
COFCO Oils (Qinzhou) Co., Ltd.**	The PRC/ Mainland China	RMB948,036,187	95.32	Production and sale of edible oil
COFCO Xinsha Oils & Grains Industries (Dongguan) Co., Ltd.***	The PRC/ Mainland China	US$34,850,000	100	Production and sale of edible oil
COFCO Excel Joy (Tianjin) Co., Ltd. **	The PRC/ Mainland China	US$269,068,392.44	75.95	Production and sale of edible oil

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Malt (Dalian) Co., Ltd. ***	The PRC/ Mainland China	US$32,526,000	100	Production and sale of brewing materials
COFCO Malt (Jiangyin) Co., Ltd. ***	The PRC/ Mainland China	US$35,000,000	100	Production and sale of brewing materials
COFCO International (Beijing) Ltd. ***	The PRC/ Mainland China	RMB315,000,000	100	Trading of rice
COFCO Jiangxi Rice Processing Limited **	The PRC/ Mainland China	RMB110,200,000	83.47	Processing and trading of rice
COFCO Dalian Rice Processing Limited ***	The PRC/ Mainland China	RMB196,600,000	100	Processing and trading of rice
COFCO Suihua Rice Processing Limited ***	The PRC/ Mainland China	RMB227,354,600	100	Processing and trading of rice
Shenyang Xiangxue Flour Limited Liability Company **	The PRC/ Mainland China	RMB106,108,449	68.71	Production and sale of wheat products
COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd. ***	The PRC/ Mainland China	US$17,340,000	100	Production and sale of wheat products
中糧（成都）糧油工業有限公司***	The PRC/ Mainland China	US$84,620,000	100	Production and sale of edible oil, rice, wheat, feed and biochemicals
COFCO Fortune Foods Sales & Distribution Co., Ltd.***	The PRC/ Mainland China	RMB100,000,000	100	Distribution of consumer pack edible oils and other consumer food products
中糧（東莞）糧油工業有限公司***	The PRC/ Mainland China	US$380,530,000	100	Production and sale of edible oil and rice

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

* *Audited by Deloitte Touche Tohmatsu Certified Public Accountants or another member firm of Deloitte global network*

** *Sino-foreign equity joint ventures*

*** *Wholly-foreign-owned enterprises*

**** *Domestic-funded enterprises*

Except for China Agri Oils Trading Limited and China Agri Trading (HK) Limited, the statutory audits for the above subsidiaries were not performed by Deloitte Touche Tohmatsu Certified Public Accountants or another member firm of the Deloitte global network.

Except for China Agri-Industries Limited, COFCO Agri-Industries Management Co., Ltd. and Glory River Holdings Limited, all of the above subsidiaries are indirectly held by the Company.

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

41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of a subsidiary of the Company, namely EOGI, which in the opinion of the directors, has material non-controlling interests are set out below:

	2018	**2017**
Percentage of equity interest held by non-controlling interests	**46%**	46%

	2018 **HK$'000**	**2017** **HK$'000**
Profit for the year allocated to non-controlling interests	**273,903**	168,811
Accumulated balances of non-controlling interests at the reporting dates	**2,812,969**	2,660,951

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41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

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

	2018 HK$'000	2017 HK$'000
Revenue and other income	**18,615,226**	19,541,534
Total expenses	**(18,019,784)**	(19,174,554)
Profit for the year	**595,442**	366,980
Attributable to:		
Owners of EOGI	**594,919**	366,974
Non-controlling interests of EOGI	**523**	6
Total comprehensive income for the year	**330,997**	742,464
Attributable to:		
Owners of EOGI	**330,474**	742,458
Non-controlling interests of EOGI	**523**	6
Current assets	**4,882,826**	7,143,769
Non-current assets	**1,830,784**	1,954,247
Current liabilities	**(1,364,484)**	(3,137,915)
Non-current liabilities	**(26,824)**	(44,968)
Net cash flows from operating activities	**323,366**	760,254
Net cash flows from/(used in) investing activities	**577,444**	(656,334)
Net cash flows used in financing activities	**(901,988)**	(119,714)
Effect of foreign exchange rate changes, net	**(30,534)**	(1,566)
Net decrease in cash and cash equivalents	**(31,712)**	(17,360)

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42. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the principal associates as at 31 December 2018 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Great Ocean Oil and Grains Industries (Fang Cheng Gang) Co., Ltd.#	US$69,500,000	The PRC	40	Soybean oil extraction, and refining packaging and production of soybean meal
Laiyang Luhua Fragrant Peanut Oil Co., Ltd. #	US$19,219,300	The PRC	24	Production and sale of peanut oil
Shandong Luhua Fragrant Peanut Oil Co., Ltd. #	RMB197,284,200	The PRC	24	Production and sale of peanut oil
COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd. #	US$51,557,000	The PRC	50.45	Production and sale of edible oil
Lassiter Limited *#	Ordinary share US$100	Samoa	49	Investment holding
Shenzhen Nantian Oilmills Co., Ltd. #	US$10,000,000	The PRC	20	Oilseeds processing

* *Lassiter Limited has a 61.74% equity interest in Shenzhen Southseas Grains Industries Ltd., a Sino-foreign equity joint venture registered in the PRC, the principal activity of which is the production and sale of wheat products in Mainland China.*

\# *Not audited by Deloitte Touche Tohmatsu Certified Public Accountants or another member firm of the Deloitte global network.*

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the share of profits and losses of associates for the year or formed a substantial portion of the investments in associates of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

All of the above associates are indirectly held by the Company.

Notes to the Financial Statements

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43. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2018	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Equity instruments at FVTOCI HK$'000	Total HK$'000
Equity instruments at FVTOCI	–	–	28,066	28,066
Accounts and bills receivables	–	4,102,926	–	4,102,926
Other receivables due from Sinograin	–	52,183	–	52,183
Financial assets included in prepayments, deposits and other receivables*	–	1,821,835	–	1,821,835
Financial assets at fair value through profit or loss	186,365	–	–	186,365
Due from related parties	–	5,410,563	–	5,410,563
Restricted cash at bank	–	921,327	–	921,327
Cash and cash equivalents	–	7,396,978	–	7,396,978
Total	186,365	19,705,812	28,066	19,920,243

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43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial assets (continued)

2017	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	30,536	30,536
Accounts and bills receivables	–	3,138,320	–	3,138,320
Other receivables due from Sinograin	–	520,425	–	520,425
Financial assets included in prepayments, deposits and other receivables*	–	1,363,614	–	1,363,614
Derivative financial instruments	376,607	–	–	376,607
Due from related parties	–	1,918,912	–	1,918,912
Cash and cash equivalents	–	10,571,797	–	10,571,797
Total	376,607	17,513,068	30,536	17,920,211

* *Included in "Prepayments, deposits and other receivables" of HK$4,612,215,000 (31 December 2017: HK$4,555,367,000) in the consolidated statement of financial position are prepayments to suppliers of HK$1,429,484,000 (31 December 2017: HK$1,714,906,000), and deposits relating to commodity futures contracts of HK$932,554,000 (31 December 2017: HK$628,971,000) and other miscellaneous prepayments, deposits and other receivables of HK$2,250,177,000 (31 December 2017: HK$2,211,490,000), of which HK$1,821,835,000 (31 December 2017: HK$1,363,614,000) are financial assets as disclosed above.*

Notes to the Financial Statements

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43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial liabilities

2018	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payables	–	**3,003,744**	**3,003,744**
Other payables*	–	**2,801,754**	**2,801,754**
Bank borrowings due to ADBC	–	**52,183**	**52,183**
Interest-bearing bank and other borrowings	–	**22,190,876**	**22,190,876**
Other financial liabilities	**45,682**	–	**45,682**
Due to related parties	–	**2,830,347**	**2,830,347**
Total	**45,682**	**30,878,904**	**30,924,586**

2017	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payables	–	4,149,625	4,149,625
Other payables*	–	2,383,929	2,383,929
Bank borrowings due to ADBC	–	522,820	522,820
Interest-bearing bank and other borrowings	–	19,181,238	19,181,238
Derivative financial instruments	238,381	–	238,381
Due to related parties	–	1,136,297	1,136,297
Total	238,381	27,373,909	27,612,290

* *Included in "Other payables and accruals" of HK$4,799,785,000(31 December 2017: HK$6,261,660,000) in the consolidated statement of financial position are advances from customers of nil (31 December 2017: HK$2,651,834,000), accrued staff payroll and benefits of HK$705,730,000 (31 December 2017: HK$631,864,000), and other miscellaneous payables and accruals of HK$4,094,055,000 (31 December 2017: HK$2,977,962,000), of which HK$2,801,754,000 (31 December 2017: HK$2,383,929,000) are financial liabilities as disclosed above.*

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44. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets/ financial liabilities	Fair value as at 31 December 2018	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)
1) Foreign currency forward contracts	**Assets – HK$43,426,000; and Liabilities – HK$33,781,000**	Assets – nil; and Liabilities – HK$238,381,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted rates.
2) Commodity futures contracts	**Assets – HK$120,409,000; and Liabilities – HK$10,936,000**	Assets – HK$376,607,000; and Liabilities – nil	Level 2	Discounted cash flow. Future cash flows are estimated based on commodity price (from observable commodity price at the end of the reporting period) and contracted rates.

In addition, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

44. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation processes

Management has assessed that the fair values of cash and cash equivalents, restricted cash at bank, accounts and bills receivables, accounts and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, other receivables due from Sinograin, bank borrowings due to ADBC, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for derivative financial liabilities, interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

The Group enters into financial assets at fair value through profit or loss with various counterparties, principally established commodity trading exchanges or financial institutions with good credit ratings. Financial assets at fair value through profit or loss, including commodity futures contracts and foreign currency forward contracts, are measured using market quoted prices or quoted prices from financial institutions with which the forward currency contracts are entered into. The carrying amounts of commodity futures contracts and foreign currency forward contracts are the same as their fair values.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments other than derivatives, comprise bank and other interest-bearing loans, cash and cash equivalents and restricted cash at bank. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and bills receivables, accounts and bills payables and balances with related parties, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign currency forward contracts and commodity futures contracts. The purpose is to manage the foreign currency risks and commodity price risk arising from the Group's operations and its sources of finance.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are market risk (interest rate risk, foreign currency risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks with material impact on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term interest-bearing bank and other borrowings with a floating interest rate. The effective interest rates and terms of repayment of the interest-bearing bank and other borrowings of the Group are disclosed in Note 27. It is the Group's policy to negotiate the terms of the interest-bearing bank and other borrowings in order to minimise the respective finance cost.

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

	Increase/ (decrease) in basis points %	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2018	**100**	**–**	**–**
	(100)	**–**	**–**
2017	100	(546)	(431)
	(100)	546	431

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 10% (2017: 1%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 50% (2017: 47%) of costs are denominated in currencies other than the functional currency of the operating units incurring the purchases. The Group usually enters into foreign currency forward contracts to manage its foreign currency risks, especially the foreign exchange risk of US dollars. As of 31 December 2018, the Group had open foreign currency forward contracts which were entered into to manage the foreign currency risk of its liabilities or assets denominated in foreign currency of its operating units, as well as to manage the foreign currency risk of its future cash flows that are denominated in foreign currency of its operating units. In the opinion of the directors, the Group's business is not subject to significant foreign exchange risk of US dollars at the end of the reporting period.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's equity.

	Increase/ (decrease) in basis points %	(Decrease)/ increase in equity HK$'000
2018		
If Renminbi weakens against Hong Kong dollar	**5**	**(1,276,731)**
If Renminbi strengthens against Hong Kong dollar	**(5)**	**1,276,731**
2017		
If Renminbi weakens against Hong Kong dollar	5	(1,436,628)
If Renminbi strengthens against Hong Kong dollar	(5)	1,436,628

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's foreign operations equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period for presentation purposes.

Commodity price risk

The raw material costs and product selling prices of the Group's soybean oil, soybean meal and other related commodity products are substantially correlated to the prices of the commodities future markets. Commodity price risk arises from price fluctuations of raw material cost and product selling price during the delivery, production and storage processes. To minimise the Group's commodity price risk exposure, the Group enters into commodities futures contracts of soybeans, soybean meal and soybean oil etc.

The following table demonstrates the sensitivity to a reasonably possible change in the Group's major raw material prices, with all other variables held constant and no hedging investments available, of the Group's profit before tax and the Group's equity.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Commodity price risk (continued)

	Change in raw materials prices %	Change in profit before tax HK$'000	Change in equity HK$'000
2018			
Soybeans	**5**	**2,174,600**	**1,725,698**
Rice	**5**	**496,067**	**372,050**
Barley	**5**	**83,327**	**62,493**
Wheat	**5**	**496,758**	**372,576**
2017			
Soybeans	5	2,101,414	1,559,286
Rice	5	501,716	376,278
Barley	5	78,719	59,024
Wheat	5	389,143	291,857

Credit risk

The carrying amount of the accounts receivable represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Credit risk and impairment assessment

As at 31 December 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

Accounts and bills receivables, other receivable and amounts due from related parties

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Bank balances

The credit risk on bank balances is limited because the counterparties are banks institutions with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	**Note**	**12-month or lifetime ECL**	**Gross carrying amount HK'000**
Financial assets at amortised cost			
Other receivables	2	12-month ECL	4,627,950
Accounts receivables – goods and services	1	Lifetime ECL (provision matrix)	3,607,679

Notes:

1. *For accounts receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by debtors' ageing. More than 90% of accounts receivables are aged within 3 months.*

2. *For other receivables, bills receivables, amounts due from related parties, pledged bank deposits and bank balances, the expected credit risk exposures are very low.*

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

Provision matrix – accounts receivables' ageing

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. During the year ended 31 December 2018, the Group provided HK$14,519,000 impairment allowance for accounts receivables, based on the provision matrix. The average loss rate of the Group's accounts receivable is very low and is not significant to the Group.

The Group writes off an accounts receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The following table shows reconciliation of loss allowances that has been recognised for other receivables.

	12m ECL HK$'000
As at 1 January 2018 – As restated	18,566
Changes due to financial instruments recognised as at 1 January:	
– Impairment losses reversed	(1,399)
Foreign exchange gains and losses	(1,432)
As at 31 December 2018	15,735

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

	2018			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Accounts and bills payables	**3,003,744**	**–**	**–**	**3,003,744**
Other payables	**3,507,484**	**–**	**–**	**3,507,484**
Other financial liabilities	**45,682**	**–**	**–**	**45,682**
Bank borrowings due to ADBC	**52,183**	**–**	**–**	**52,183**
Interest-bearing bank and other borrowings	**22,093,921**	**11,475**	**86,059**	**22,191,455**
Due to related parties	**2,561,708**	**–**	**–**	**2,561,708**
	31,264,722	**11,475**	**86,059**	**31,362,256**

	2017			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Accounts and bills payables	4,149,625	–	–	4,149,625
Other payables	3,243,151	–	–	3,243,151
Derivative financial instruments	238,381	–	–	238,381
Bank borrowings due to ADBC	522,820	–	–	522,820
Interest-bearing bank and other borrowings	19,036,700	40,550	123,950	19,201,200
Due to related parties	1,136,297	–	–	1,136,297
	28,326,974	40,550	123,950	28,491,474

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to owners of the Company. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents and restricted cash at bank. The gearing ratios as at the end of the reporting period were as follows:

	2018 **HK$'000**	**2017** **HK$'000**
Interest-bearing bank and other borrowings	**22,190,876**	19,181,238
Less: Cash and cash equivalents	**(7,396,978)**	(10,571,797)
Restricted cash at bank	**(921,327)**	–
Net debt	**13,872,571**	8,609,441
Equity attributable to owners of the Company	**28,963,195**	29,855,212
Gearing ratio	**47.90%**	28.8%

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46. STATEMENT OF COMPANY FINANCIAL POSITION

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**7**	6
Investments in subsidiaries	**21,350,542**	13,653,376
Total non-current assets	**21,350,549**	13,653,382
CURRENT ASSETS		
Due from subsidiaries	**1,191,132**	16,243
Dividend receivable	**–**	36
Prepayments, deposits and other receivables	**1,233**	3,323
Cash and cash equivalents	**896,811**	6,664,679
Total current assets	**2,089,176**	6,684,281
CURRENT LIABILITIES		
Other payables and accruals	**6,043**	12,285
Total current liabilities	**6,043**	12,285
NET CURRENT ASSETS	**2,083,133**	6,671,996
TOTAL ASSETS LESS CURRENT LIABILITIES	**23,433,682**	20,325,378
Net assets	**23,433,682**	20,325,378
EQUITY		
Share capital	**9,797,048**	9,771,664
Other reserves (Note)	**13,636,634**	10,553,714
Total equity	**23,433,682**	20,325,378

LUAN Richeng
Director

WANG Qingrong
Director

46. STATEMENT OF COMPANY FINANCIAL POSITION (continued)

Note:

	Notes	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017		5,689,788	209,551	4,880,720	10,780,059
Total comprehensive income for the year		–	–	230,288	230,288
Dividend declared		–	–	(493,489)	(493,489)
Equity-settled share option arrangements	31	–	36,856	–	36,856
At 31 December 2017 and at 1 January 2018		**5,689,788**	**246,407**	**4,617,519**	**10,553,714**
Total comprehensive income for the year		**–**	**–**	**4,364,316**	**4,364,316**
Dividend declared		**–**	**–**	**(1,288,073)**	**(1,288,073)**
Exercise of share options		**–**	**(6,641)**	**6,641**	**–**
Transfer upon the expiry of share options		**–**	**(171,541)**	**171,541**	**–**
Equity-settled share option arrangements	31	**–**	**6,677**	**–**	**6,677**
At 31 December 2018		**5,689,788**	**74,902**	**7,871,944**	**13,636,634**

The Company's capital reserve mainly represents contributed surplus which is the excess of carrying amount of China Agri-Industries Limited acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the previous nominal value of the Company's shares issued in exchange therefor.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in Note 2.4 to the financial statements. The amount will either be transferred to the share capital account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2018 HK$'000	**2017 HK$'000**
Guarantees given to banks in connection with facilities granted to subsidiaries	**6,828,606**	8,925,687

As at 31 December 2018, the banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$4,367,256,000 (31 December 2017: HK$4,035,009,000).

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47. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans HK$'000
At 1 January 2018	**19,181,238**
Changes from financing cash flows	**2,275,306**
Foreign exchange movement	**(433,486)**
Increase arising from purchase of subsidiaries	**1,167,818**
At 31 December 2018	**22,190,876**

	Bank and other loans HK$'000
At 1 January 2017	23,190,225
Changes from financing cash flows	(2,448,842)
Foreign exchange movement	689,952
Decrease arising from disposal of subsidiaries	(2,250,097)
At 31 December 2017	19,181,238

48. EVENTS AFTER REPORTING PERIOD

On 13 March 2019, COFCO Rice (HK) No.6 Limited ("Rice No.6"), a wholly-owned subsidiary of the Company, and COFCO entered into the Shenyang Rice Capital Increase Agreement, to agree upon the capital increase in COFCO Shenyang Rice Processing Limited ("Shenyang Rice") on a pro-rata basis. Pursuant to which, Rice No.6 and COFCO shall make a capital increase in an amount of RMB87,609,000 and RMB12,253,000 in Shenyang Rice, respectively. The proposed capital increase of Rice No.6 will be paid in cash out of the internal funds of the Group. Immediately after the completion of capital increase in Shenyang Rice, the shareholders and shareholding ratio of Shenyang Rice will remain the same, and Shenyang Rice will continue be held as to 87.73% by Rice No.6 and 12.27% by COFCO.

On 13 March 2019, COFCO Rice (HK) No.2 Limited ("Rice No.2"), a wholly-owned subsidiary of the Company, and COFCO entered into the Yancheng Rice Capital Increase Agreement, to agree upon the capital increase in COFCO Rice (Yancheng) Co., Ltd. ("Yancheng Rice") on a pro-rata basis. Pursuant to which, Rice No.2 and COFCO shall make a capital increase in an amount of RMB17,846,000 and RMB2,154,000 in Yancheng Rice, respectively. The proposed capital increase of Rice No.2 will be paid in cash out of the internal funds of the Group. Immediately after the completion of capital increase in Yancheng Rice, the shareholders and shareholding ratio of Yancheng Rice will remain the same, and Yancheng Rice will continue be held as to 89.23% by Rice No.2 and 10.77% by COFCO.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

中粮
COFCO
自然之源 重塑你我

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