



2022
ANNUAL
REPORT

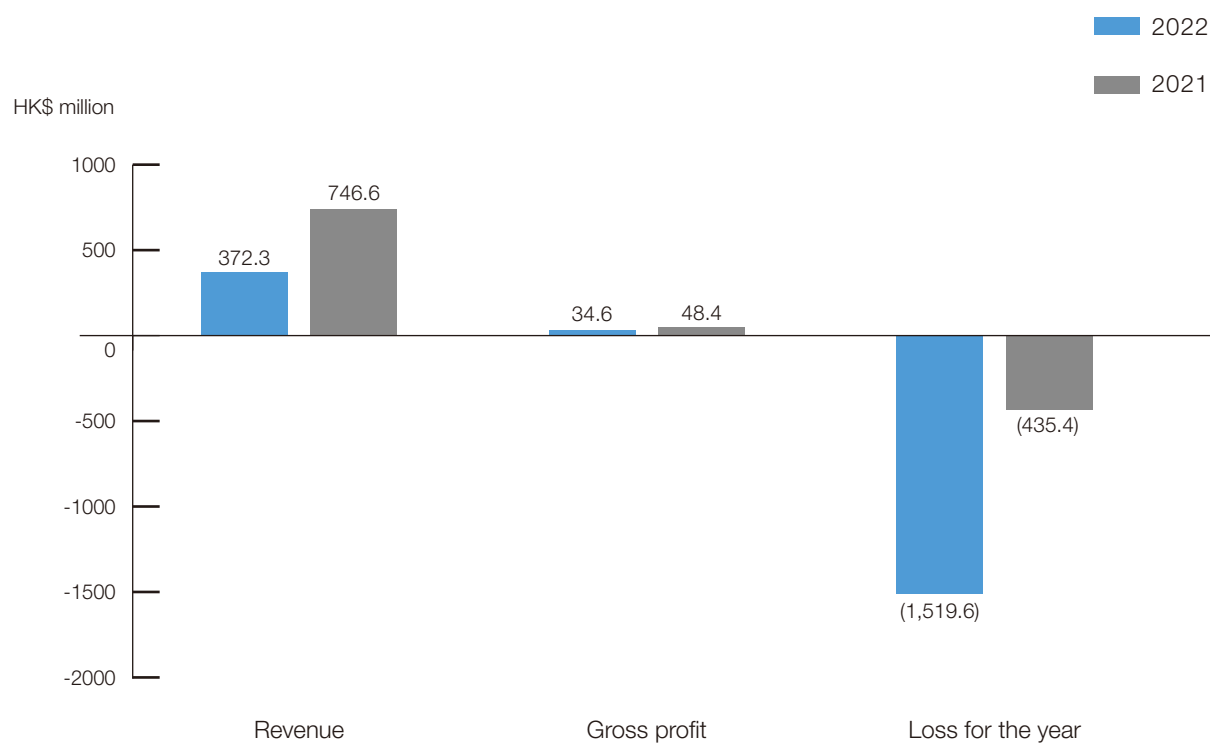
Contents

Financial Highlights	2
Corporate Information	3
Message to Shareholders	4
Management Discussion and Analysis	6
Biographical Details of Directors and Senior Management	20
Corporate Governance Report	22
Report of the Directors	43
Independent Auditor's Report	56
Consolidated Financial Statements	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	58
Consolidated Statement of Financial Position	59
Consolidated Statement of Changes in Equity	61
Consolidated Statement of Cash Flows	64
Notes to the Consolidated Financial Statements	66
Five Year Financial Summary	142



Financial Highlights

FINANCIAL HIGHLIGHTS	2022	2021	Change %
Revenue (HK\$'Mn)	372.3	746.6	(50.1)
Gross profit (HK\$'Mn)	34.6	48.4	(28.5)
Loss for the year (HK\$'Mn)	(1,519.6)	(435.4)	N/A
Loss attributable to owners of the Company (HK\$'Mn)	(1,443.1)	(400.8)	N/A
Basic loss per share (HK cents)	(16.2)	(4.5)	N/A
Proposed final dividend per share (HK cents)	—	—	N/A



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Jian (*Chairman*)

(*Appointed on 31 October 2022*)

Mr. Wang Guicheng

(*Appointed on 31 October 2022*)

Mr. Zhang Zihua (*Resigned on 11 October 2022*)

Mr. Liu Shuhang (*Resigned on 31 October 2022*)

Non-executive Director

Mr. Gao Dongsheng

Independent non-executive Directors

Ms. Dong Hongxia

Mr. Ng Kwok Pong

Mr. Yeung Kit Lam

COMPANY SECRETARY

Mr. Chan Sing Fai, ACG, HKACG, HKICPA

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Hung Luen Road
Hung Hom
Kowloon
Hong Kong

AUDITOR

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

LEGAL ADVISERS AS TO HONG KONG LAWS

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

PRINCIPAL BANKERS

Bank of Jilin Co., Ltd.
Bank of Jinzhou Co., Ltd.
China Construction Bank Corporation

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
Cricket Square
PO Box 1093, Boundary Hall
Grand Cayman KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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17th Floor, Far East Finance Centre
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STOCK CODE

00809





Message to Shareholders

Dear Shareholders,

In 2022, repeated COVID-19 outbreaks and implementation of pandemic control and lockdown measures in various areas had affected economic activities, people's livelihood and consumption to varying degrees. In addition, rising inflationary pressure worldwide and increasing geopolitical tensions had dealt a blow to international trade and domestic business environment. Economic growth slowed down significantly. China's gross domestic product in 2022 amounted to RMB121 trillion, representing a year-on-year increase of 3%, which was the second lowest growth in 50 years.

During the year under review, the intermittent lockdown measures in various cities in mainland China not only hampered economic recovery, but also inevitably interrupted production activities and the flow of raw material and goods. The operation of the Group's sweetener production base in Shanghai was also suspended for two months due to pandemic control measures. The financial crisis of certain property developers had caused the domestic property market to slump as well as market concerns about the economic outlook, which had indirectly affected consumption sentiment.

During the year under review, upstream refinery business struggled in the face of high corn price, which had once surpassed the average selling price of corn starch. The Group had basically suspended most of its upstream operation during the year under review. Up until the operation of amino acids production facilities resumed in December 2022, the Group partially resumed its upstream operation.

The resumption of operation of the lysine production facilities of 長春大合生物技術開發有限公司 (Changchun Dahe Bio Technology Development Co., Ltd.*) ("**Changchun Dahe**"), a wholly-owned subsidiary of the Group located in Jilin province, signified an important step for the Group on its path to resume normal production operation. The resumption will also generate cash inflow for the Group in 2023.

As the Group recognised a one-off gain on debt restructuring in the previous year which was absent in the year under review, a substantial decrease in the Group's other income and gains was recorded during the year under review. The Group therefore recorded a significant year-on-year increase in net loss during the year under review.

As shareholders may have already learned from the joint announcement of the Company, its indirect non-wholly-owned subsidiary, Global Sweeteners Holdings Limited ("**GSH**", together with its subsidiaries, the "**GSH Group**"), Mr. Kong Zhanpeng, a former executive director of GSH and Mr. Wang Tieguang, a former director of the Company (collectively, the "**Strategic Investors**") dated 6 April 2023, pursuant to a sale and purchase agreement dated the same date, the Group has agreed to sell approximately 47% of the issued share capital of GSH to the Strategic Investors. On the other hand, pursuant to another two sale and purchase agreements dated 6 April 2023 the Group has agreed to acquire the entire equity interests in 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.*) and 長春帝豪結晶糖開發實業有限公司 (Changchun Dihao Crystal Sugar Industry Development Co., Ltd.*) from the GSH Group.

Upon the completion of the above proposed transactions, GSH will cease to be a subsidiary of the Group. Accordingly, the assets, liabilities and financial results of GSH will no longer be consolidated into the consolidated financial statements of the Group, which will help improve the Group's financial position. And more importantly, through the restructuring, the operations of the two groups can be rationalised in terms of their respective business lines and geographic locations, enabling each of the two groups to have a clearer business direction. In addition, the land and buildings situated in the old production site in Luyuan District, Changchun (the "**Remaining Properties**"), will then be entirely owned by the Group (excluding GSH Group). This will enable the Group to have greater flexibility when negotiating with local government in relation to the resumption of the Remaining Properties. Moreover, the proposed transactions is expected to speed up the negotiation process between the Group and its creditors in relation to the implementation of the final stage of the Group's debt restructuring. Further announcement(s) will be made by the Group in respect of the progress of the aforementioned proposed transactions and when they proceed to completion as and when appropriate.

Message to Shareholders

OUTLOOK

With the China's society and economy gradually returning to normal and cross-border travel resumed, the market shows signs of robustness. The market in general remains optimistic about China's economic development in 2023. The International Monetary Fund and a number of world leading financial institutions have raised their forecasts on China's economic growth to above 5% in 2023.

Against the backdrop of accelerating economic recovery, China's market's consumption demand for various types of commodities is gradually picking up. It is expected that domestic meat consumption will increase, thus driving demand for amino acid products as feed additives. Although corn price in 2023 is expected to stay at high levels due to supply shortage, stable market demand for lysine will provide support to product price to a certain extent. The Group is relatively optimistic about the downstream operations.

Since the resumption of the production operation of Changchun Dahe last December and up to February 2023, approximately 34,000 tonnes of amino acid products have been sold. The resumption of operation of the amino acid production lines is expected to generate new cash flow to the Group, further alleviate its financial stress and provide opportunities for resuming other production facilities.

The successful resumption of amino acids production, coupled with the restructuring plan between the Group and the GSH Group, will help improve the Group's financial condition significantly, thereby speeding up the implementation of the final stage of its debt restructuring plan.

Upon the completion of the disposal of the equity interests in GSH, the Group can focus its resources on amino acids operations. Furthermore, the Group can leverage the abundant resources and financial strengths of its controlling shareholder, a state-owned enterprise, in Jilin province to focus on enhancing the operational efficiency of its business in the province.

After years of management's dedication, the Group has finally made a key breakthrough in the resumption of production operation, resolving the issues relating to its debt and business structure. Upon the completion of implementation of the aforesaid plans, the Group expects its business operation to be gradually back on track. By then, it will be in a better position to seek strategic collaboration with third party investors. We will further leverage our controlling shareholder's resource in Jilin province to enable the Group's business to achieve greater synergistic effects.

We are grateful that our staff have stayed with us despite all the difficulties we encountered over the years. We are also thankful to our Shareholders for their support, and creditor banks and business partners for their patience and understanding. We will continue to work hard to steer the Group's business back on track.

Chairman
Yang Jian

30 March 2023





Management Discussion and Analysis

Global Bio-chem Technology Group Company Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) are principally engaged in the manufacture and sale of corn refined products, amino acids, corn sweeteners and polyol chemicals. The upstream corn refinery serves as a feedstock which breaks down corn kernels into corn starch, gluten meal, fibre and corn oil; and corn starch is further refined through a series of biochemical and/or chemical processes into a wide range of high value-added downstream products. The corn sweeteners segment is operated by Global Sweeteners Holdings Limited (Stock Code: 03889) (“**GSH**”, together with its subsidiaries, the “**GSH Group**”), a non-wholly-owned subsidiary of the Group, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

BUSINESS REVIEW

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

During the year ended 31 December 2022 (the “**Year**”), as the impact of the coronavirus disease (“**COVID-19**”) pandemic weakened, cross-border travels and normal economic activities resumed in many countries. However, inflationary pressure, geopolitical conflicts and soaring energy prices continued to put pressure on the global economy. As a result, the recovery pace has been slow and the global economy grew at a rate of 2.9% for the Year. In the People’s Republic of China (the “**PRC**” or “**China**”), property market slump and the stringent COVID-19 pandemic control measures have posed immense pressure on the PRC economy. In addition, investments in the manufacturing sector and the employment rate have yet to return to the levels before the outbreak of COVID-19. Surging commodity and energy prices together with shrunken demand continued to put pressure on many businesses. Consequently, China’s GDP growth rate lowered to 3.0% in 2022, lagging behind its initial growth target of 5.5%. The operating environment of the Group, therefore, continued to be challenging during the Year.

With respect to corn supply, global corn production for the year 2022/23 is estimated at 1,151.4 million metric tonnes (“**MT**”) (2021/22: 1,216.0 million MT), according to the estimates from the United States Department of Agriculture in February 2023. With respect to corn price, driven by the shortage in grain supply and the increase in shipping cost intensified by the war in Ukraine, international corn price once reached 818 US cents per bushel (equivalent to RMB2,129 per MT) in April 2022. In the second half of the Year, the appreciation of US dollars and Federal Reserves’ attempts to curb inflation have cooled the demand for commodities. As a result, international corn price closed at 678.5 US cents per bushel (equivalent to RMB1,843 per MT) (end of 2021: 593 US cents per bushel (equivalent to RMB1,487 per MT)) by the end of 2022. In the PRC, domestic corn harvest in 2022/23 is estimated to produce approximately 277.2 million MT (2021/22: approximately 272.6 million MT) of corn, with consumption volume estimated at 286.6 million MT (2021: 287.7 million MT) for 2022. It is estimated that China has imported approximately 21.2 million MT of corn in 2022. As a result, corn price in the PRC rose to RMB2,816 per MT (end of 2021: RMB2,734 per MT) by the end of 2022. The high corn price, together with economic slowdown in the PRC as a result of the implementation of strict pandemic control measures and the real estate crisis have made the operating environment for the Group’s upstream corn refinery challenging during the Year.

Management Discussion and Analysis

During the first half of the Year, global supply shortage, high corn cost and fuel prices have supported global lysine price. Entering into the second half of the Year, global lysine price was put under pressure as the outlook on the global economy turned gloomy with concerns over global recession. In the PRC, the government has continued its effort to facilitate husbandry industry consolidation as well as feed formula improvements. To increase the efficiency of grains usage in feed products, 農業農村部畜牧獸醫局 (Animal Husbandry and Veterinary Bureau under the Ministry of Agriculture and Rural Affairs) has issued a guideline titled 《飼料中玉米豆粕減量替代工作方案》(Work Plan for Reduction and Replacement of Corn and Soybean Meal in Feed*) to lower the proportion of corn and soybean as simple feed and increase the proportion of feed additives such as lysine in animal feed products. These changes, together with a relatively stable outlook on the husbandry industry, have supported the PRC lysine price during the first half of the Year. However, as the pace of global recovery slowed down, overseas demand for lysine products turned weak in the second half of the Year. In addition, the lockdown measures in China had caused suspension of many economic activities. The average lysine price in China for the Year has dropped by 3.1% to RMB10,570 per MT year-on-year. As China lifted most of the pandemic control measures at the end of 2022, and normal economic activities gradually resumed subsequently, the Group saw the opportunity to resume its lysine operation. As such, as announced by the Company on 29 December 2022, the operation of the Group's lysine production facilities of 長春大合生物技術開發有限公司 (Changchun Dahe Bio Technology Development Co., Ltd.*) ("**Changchun Dahe**") had resumed. The resumption of production in Changchun Dahe is expected to generate cash inflow to the Group in 2023.

As for the sugar market, global sugar production for 2021/22 was 180.3 million MT (2020/21: 180.2 million MT) with consumption estimated at 173.2 million MT (2020/21: 172.1 million MT). Despite the slight surplus, driven by the uncertainties due to the war in Ukraine and the inflation of commodity prices, international sugar price increased to 18.91 US cents per pound (equivalent to RMB2,883 per MT) (end of 2021: 18.88 US cents per pound (equivalent to RMB2,658 per MT)) by the end of 2022. It is estimated that sugar surplus will continue as global sugar production in 2022/23 harvest will reach 183.2 million MT with consumption estimated at 176.4 million MT. In the PRC, domestic sugar production reduced slightly to 9.6 million MT (2020/21 10.7 million MT) in the 2021/22 harvest, while consumption stayed at around 15.5 million MT. Due the decrease in demand as a result of the lockdowns in major cities and slow economic recovery in China during the Year, domestic sugar price dropped to RMB5,710 per MT (end of 2021: RMB5,834 per MT) by the end of 2022. In addition, the suspension of operation of the Group's production facilities in Shanghai (the "**Shanghai Temporary Suspension**") during the second quarter of the Year due to the lockdown measures implemented in Shanghai as announced by the Company and GSH on 14 April 2022 has substantially lowered the production output of the Group and negatively impacted the financial performance of the Group during the Year.

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





Management Discussion and Analysis

The operating environment of the Group in 2023 is expected to improve as the PRC economy gradually gets back on track. However, due to shortage in corn supply, the PRC corn price is expected to remain high in 2023, while the geopolitical complexity will continue to add uncertainty to the global economy. As for the outlook on the lysine market, meat consumption is likely to increase year-on-year as driven by a relatively positive economic outlook in China which will drive the demand for feed related products such as lysine. The resumption of production in Changchun Dahe is expect to generate cash inflow to the Group in 2023. With respect to the sugar market, it is estimated that China will increase its sugar production to 10.1 million MT in 2022/23 with consumption estimated at 15.6 million MT. Although global sugar price is expected to turn bearish in 2023 due to the increase in global production, the expected increase in demand due to China's economic resumption may counterbalance part of the effect of the sugar surplus. On the other hand, changes in consumption pattern and increased health awareness of the general public are expected to put pressure on the traditional sugar/sweetener product market. In the short run, the Group will continue to monitor closely the market conditions as well as the financial conditions of the Group and be cautious in making decisions on the Group's business strategies so as to optimise the Group's production facilities to maintain a relatively healthy cash flow while balancing its market presence. In the long run, the Group will continue to strengthen its market position by utilising its brand name, strive to provide excellent customer service and be customer-oriented to better understand their ever-changing demands and product requirements, as well as to further improve cost effectiveness and product mix through continuous research and development efforts. With respect to the Group's financial position, the Group will continue to leverage on the synergies with its resourceful shareholders with state-owned enterprise background and devote its energy in facilitating the implementation of the Group's debt restructuring plan to achieve significant improvement of the Group's financial position, and seek opportunities with other potential investors that will bring both financial and business synergies to the Group.

UPDATE ON REMEDIAL MEASURES

The consolidated financial statements of the Group for the year ended 31 December 2021 was subject to the disclaimer of opinion by Mazars CPA Limited, the external auditor (the "**Auditor**") of the Company as detailed in the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"). The management of the Company wishes to provide the latest update on the relevant remedial measures taken or to be taken as follows, which have been considered, recommended and agreed by the audit committee (the "**Audit Committee**") of the Company after its critical review of the management's position for the Year:

Material uncertainty relating to going concern

As detailed in the 2021 Annual Report, the Auditor has raised material uncertainty relating to the ability of the Group to continue as going concern. In addition to the actions disclosed in the 2021 Annual Report, the management of the Company has taken and will take steps as outlined in note 2.2 to the consolidated financial statements on page 67 to page 68 of this report to improve the financial position of the Group.

Management Discussion and Analysis

Further to the steps as outlined in note 2.2 to the consolidated financial statements, the management of the Company would like to provide further updates on the remedial measures:

(1) Group restructuring to streamline operation and improve the financial position of the Group

Reference is made to the joint announcement of the Company GSH, Mr. Kong Zhanpeng and Mr. Wang Tieguaung (the “**Strategic Investors**”) dated 6 April 2023 (the “**Joint Announcement**”) in relation to, among others, (i) the disposal of approximately 47.0% of the issued share capital of GSH by the Group (the “**GSH Disposal**”) to the Strategic Investors; and (ii) the acquisition of 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.*) (“**Dihao Foodstuff**”) and 長春帝豪結晶糖開發實業有限公司 (Changchun Dihao Crystal Sugar Industry Development Co., Ltd.*) (“**Dihao Crystal Sugar**”) by the Group from the GSH Group (the “**Dihao Transfer**”). The proposed transactions aimed at rationalising the operations of the Group and the GSH Group in terms of their respective strategic locations and business segments. Upon completion of the GSH Disposal, the GSH Group will cease to be subsidiaries of the Group. Accordingly, the assets, liabilities and financial results of the GSH Group will no longer be consolidated into the consolidated financial statements of the Group. The proceeds from the GSH Disposal will amount to approximately HK\$43.1 million and for illustrative purpose, the Group is expected to record a gain of approximately HK\$298.0 million (the actual gain shall be subject to the financial impact of the Dihao Transfer and the counter-guarantees to be given and received by the Company as detailed in the Joint Announcement). The new controlling shareholders of GSH, being the Strategic Investors, are expected to resolve the funding needs of the GSH Group, including the settlement of the loans and outstanding interest accrued thereon due to 中國建設銀行股份有限公司錦州分行 (Jinzhou Branch of China Construction Bank*) (“**Jinzhou CCB**”) to resolve the relevant disputes between the GSH Group and Jinzhou CCB by GSH’s own financial resources. Therefore, the Group’s financial burden and working capital requirement will be reduced. The restructuring of the Group and the GSH Group, if completed, would also allow the Group to focus on the operation of the Group’s various business segments with the support of its resourceful controlling shareholder with state-owned enterprise background in Jilin Province. The board (the “**Board**”) of directors (the “**Directors**”) of the Company is of the view that the Group will benefit from quicker decision-making process in the execution of the Group’s debt restructuring plan and resumption of the land and buildings owned by the Group which are located in Luyuan District, Changchun, the PRC (the “**Relevant Properties**”). For further details of the GSH Disposal, the Dihao Transfer and the related transactions, please refer to the Joint Announcement. After the completion of the GSH Disposal and the debt restructuring plan of the Group as detailed in note 2.2 to the consolidated financial statements, the financial position of the Group will improve significantly. The Directors expect that the Group will then be in a better position to seek co-operation and investment opportunities with different industrial players or potential investors in order to further strengthen the financial positions and the business profile of the Group.

Depending on the successful and favourable outcomes of such steps, the Board, including the Audit Committee, is of the view that the Group would have sufficient working capital for operation need for at least 12 months from 31 December 2022.

Management Discussion and Analysis

FINANCIAL PERFORMANCE

During most of the time of the Year, as the PRC government maintained its strict pandemic control measures which led to lockdowns and suspensions of certain economic activities, the Group continued to suspend the operation of its production facilities as detailed in the Company's announcements dated 24 September 2019, 16 December 2019, 10 February 2020 and 29 May 2020 (collectively, the "**Suspension of Operation Announcements**") to minimise financial risks and secure financial resources amidst economic uncertainties. In addition, due to the Shanghai Temporary Suspension, the sales volume of the Group had dropped by approximately 51.1% during the Year. The consolidated revenue and gross profit of the Group for the Year decreased significantly by approximately 50.1% and 28.5% respectively to approximately HK\$372.3 million (2021: HK\$746.6 million) and HK\$34.6 million (2021: HK\$48.4 million) respectively. Due to the improvement in corn sweetener prices as driven by rising sugar price during the Year, the average selling price of the Group's sweetener products had increased during the Year. Such increase was able to offset the increase in raw material costs. As a result, the gross profit margin of the Group increased by 2.8 percentage points to 9.3% (2021: 6.5%).

On the other hand, other income and gains of the Group decreased significantly during the Year by approximately HK\$1,375.6 million to approximately HK\$30.9 million (2021: HK\$1,406.5 million), with the absence of the recognition of the one-off gain on debt restructuring of approximately HK\$1,325.0 million recorded for the year ended 31 December 2021 subsequent to the completion of the repurchase agreements dated 26 March 2021 entered into between certain subsidiaries of the Company and GSH and 長春潤德投資集團有限公司 (Changchun Rudder Investment Group Co., Ltd.*) ("**Changchun Rudder**") and the completion of the repurchase agreement dated 26 March 2021 entered into between 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.*) ("**Dajincang**") and Changchun Rudder (collectively, the "**Repurchase Agreements**" and each, a "**Repurchase Agreement**"), all of which took place on 31 March 2021 and as disclosed in the joint announcements of the Company and GSH dated 26 March 2021 and 31 March 2021. As such, the Group recorded a net loss of approximately HK\$1,519.6 million (2021: HK\$435.4 million) and LBITDA (i.e. loss before interest, taxation, depreciation and amortisation) of approximately HK\$517.1 million (2021: EBITDA (i.e. earnings before interest, taxation, depreciation and amortisation): HK\$783.6 million) during the Year.

To improve the financial position of the Group and to rationalise the business strategies and resources allocation of the Group and the GSH Group, the Company and GSH announced the proposed restructuring of GSH (the "**GSH Restructuring**") in the Joint Announcement which includes, among others, (i) the GSH Disposal, (ii) the Dihao Transfer and (iii) the issuance of convertible bonds in the aggregate principal amount of RMB120.0 million (equivalent to approximately HK\$138.0 million) by GSH to the Strategic Investors. Upon the completion of the GSH Restructuring, the Group will benefit from improved financial position and streamlined management. The Group will also be able to mitigate the risks of repayment of loans in connection with GSH that were under disputes with banks out of the Group's financial resources. Apart from this, the management of the Group will continue its efforts in (1) speeding up the process of resumption of the Relevant Properties in order to reduce the financial burden of the Group; (2) actively negotiating with banks/creditors to push forward the debt restructuring plan to lower the debt level of the Group; (3) closely monitoring market changes to streamline the production processes and identify opportunities for further resumption of production to improve the Group's financial conditions and operational efficiency; and (4) introducing potential investors to further strengthen the working capital and financial position of the Group.

Management Discussion and Analysis

Upstream products

(Revenue: HK\$0.8 million (2021: HK\$0.8 million))
(Gross profit: HK\$0.1 million (2021: HK\$0.1 million))

The upstream products recorded insignificant sales volume as all the Group's upstream operations have been suspended during most of the time of the Year and most of the inventory has been exhausted prior to the Year. As a result, the revenue of the upstream products amounted to approximately HK\$0.8 million (2021: HK\$0.8 million) with sales volume of 170 MT (2021: 200 MT) for the Year.

Consequently, the upstream products recorded an insignificant gross profit of less than HK\$0.1 million (2021: less than HK\$0.1 million), with a gross profit margin of 12.5% (2021: 12.5%). No internal consumption of corn starch was recorded during the Year (2021: Nil).

Amino acids

(Revenue: HK\$5.3 million (2021: HK\$1.5 million))
(Gross profit: HK\$0.6 million (2021: HK\$0.1 million))

The amino acids segment consists of lysine, protein lysine and threonine products. Although the Group resumed its amino acids operation since mid December 2022, the sales contract signed at the end of 2022 would only be reflected in 2023. Thus, the Group's amino acids segment recorded insignificant sales volume of approximately 800 MT (2021: 180 MT) during the Year. As a result, the revenue of the amino acids segment amounted to approximately HK\$5.3 million (2021: HK\$1.5 million) for the Year, with a gross profit of HK\$0.6 million (2021: HK\$0.1 million) and gross profit margin of 11.3% (2021: 6.7%). It is expected that pork production in China will gradually pick up its recovery momentum in 2023 as China reopened to the world since the end of the Year and its economic activities gradually returns to normal. The resumption of the Group's lysine production is expected to generate a substantial revenue and gross profit to the Group in 2023.

Corn sweeteners

(Revenue: HK\$359.6 million (2021: HK\$727.3 million))
(Gross profit: HK\$27.3 million (2021: HK\$41.5 million))

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

Due to the Shanghai Temporary Suspension together with the continued suspension of the Group's sweeteners production facilities in the Jinzhou and Xinglongshan sites, the revenue of the corn sweeteners segment decreased by approximately 50.6% to approximately HK\$359.6 million (2021: HK\$727.3 million). Such decrease was mainly attributable to the decrease in sales volume by approximately 52.2% to approximately 85,000 MT (2021: 178,000 MT). As the portion of expenses in relation to suspension of operation has been allocated to other expenses during the Year and the increase in the selling price of corn sweeteners has offset the increase in the raw material cost, the gross profit of the corn sweeteners segment dropped only by 34.2% to approximately HK\$27.3 million (2021: HK\$41.5 million) during the Year, with a gross profit margin improved to 7.6% (2021: 5.7%).





Management Discussion and Analysis

Polyol chemicals

(Revenue: HK\$6.6 million (2021: HK\$17.0 million))
(Gross profit: HK\$6.6 million (2021: HK\$6.7 million))

The polyol chemicals segment consists of polyol chemicals such as glycols and resins, anti-freeze products, hydrogen and ammonia. The Group has suspended most of its polyol chemicals production since March 2014. During the Year, the Group continued to utilise its polyol chemicals inventory to produce and sell a small amount of anti-freeze products.

During the Year, the revenue of polyol chemicals segment decreased by 61.2% to approximately HK\$6.6 million (2021: HK\$17.0 million), with sales volume dropped by approximately 40.0% to approximately 6,000 MT (2021: 10,000 MT). As substantial provision in relation to the closing inventories of polyol chemicals has been made in previous years, the polyol chemicals segment recorded a gross profit of approximately HK\$6.6 million (2021: HK\$6.7 million) with a gross profit margin of 100.0% (2021: 39.4%).

Export sales

During the Year, export sales which comprised entirely the sales of corn sweeteners accounted for 3.5% (2021: 2.0%) of the Group's total revenue. The export sales of the Group amounted to approximately HK\$13.0 million (2021: HK\$14.7 million) during the Year, representing a decline of approximately 11.6% as compared to the corresponding period last year. Such decline was mainly attributable to the suspension of most of the Group's production facilities and the exhaustion of most of the inventory prior to the Year. Consequently, no export sales of upstream products, amino acids and polyol chemicals were recorded during the Year and the previous year.

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

Other income and gains

During the Year, other income and gains decreased by approximately 97.8% to approximately HK\$30.9 million (2021: HK\$1,406.5 million). Such difference was mainly attributable to the absence of the recognition of the one-off gain on debt restructuring of approximately HK\$1,325.0 million as a result of the completion of the Repurchase Agreements in 2021.

Selling and distribution costs

During the Year, the selling and distribution costs decreased by 37.5% to approximately HK\$39.7 million (2021: HK\$63.5 million), accounting for approximately 10.7% (2021: 8.5%) of the Group's revenue. Such decrease was mainly attributable to the decline in sales volume.

Management Discussion and Analysis

Administrative expenses

During the Year, administrative expenses decreased by 12.0% to approximately HK\$328.2 million (2021: HK\$372.8 million). Such decrease was mainly attributable to (i) the decrease in depreciation expense by approximately HK\$10.8 million to approximately HK\$134.3 million (2021: HK\$145.1 million) as a result of loss on properties revaluation on buildings recorded in 2021; and (ii) the decrease in salary expense by approximately HK\$14.0 million to approximately HK\$47.1 million (2021: HK\$61.1 million) as a result of the effective cost control measurement of the Group during the Year.

Other expenses

During the Year, other expenses decreased by 14.2% to approximately HK\$545.2 million (2021: HK\$635.5 million). Such decrease was mainly attributable to the absence of guarantee interest (2021: HK\$41.1 million) as a result of the discharge of financial obligations pursuant to the financial guarantee contracts subsequent to the completion of the Repurchase Agreement entered into between Dajincang and Changchun Rudder.

Finance costs

During the Year, finance costs of the Group decreased by 8.1% to approximately HK\$726.2 million (2021: HK\$790.6 million), which was mainly attributable to the decrease in interest payables to suppliers subsequent to the agreements reached with creditors to reschedule the repayment plan during the Year.

Income tax credit (expenses)

Due to the recognition of temporary differences, the Group recorded a deferred tax credit of approximately HK\$54.2 million (2021: deferred tax expense: HK\$25.9 million) during the Year. Meanwhile, during the Year, all the subsidiaries of the Group recorded tax losses or the estimated assessable profits are wholly absorbed by tax losses brought forward from previous years, no income tax expenses were recorded for the Year (2021: Nil). As a result, the Group recorded tax credit of approximately HK\$54.2 million (2021: tax expense HK\$25.9 million) for the Year.

Loss shared by non-controlling shareholders

During the Year, GSH and another non-wholly-owned subsidiary recorded loss of approximately HK\$212.5 million (2021: HK\$98.3 million), leading to loss attributable to non-controlling interests amounted to approximately HK\$76.5 million (2021: HK\$34.6 million).





Management Discussion and Analysis

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

The total borrowings as at 31 December 2022 decreased by approximately HK\$387.7 million to approximately HK\$7,113.6 million (31 December 2021: HK\$7,501.3 million) as a result of the completion of net addition of certain bank and other borrowings of approximately HK\$123.7 million and exchange rate adjustment of approximately HK\$511.4 million during the Year. On the other hand, the cash and bank balances and pledged bank deposits as at 31 December 2022 which were mainly denominated in Renminbi and Euro increased by approximately HK\$19.6 million to approximately HK\$41.9 million (31 December 2021: HK\$22.3 million, denominated in Renminbi, Hong Kong Dollars and Euro). As a result, the net borrowings decreased by approximately HK\$407.3 million to HK\$7,071.7 million (31 December 2021: HK\$7,479.0 million).

Structure of interest-bearing bank and other borrowings

As at 31 December 2022, the Group's interest-bearing bank and other borrowings amounted to approximately HK\$7,113.6 million (31 December 2021: HK\$7,501.3 million), all (31 December 2021: all) of which were denominated in Renminbi. As at 31 December 2022, all (31 December 2021: all) the interest-bearing bank and other borrowings of the Group were wholly repayable within one year or on demand.

As at 31 December 2022, interest-bearing bank and other borrowings amounted to approximately RMB318.6 million (31 December 2021: RMB328.6 million) have been charged at fixed interest rates ranging from 7.0% to 13.6% (31 December 2021: 5.8% to 13.6%) for terms from one year to three years. Other than that, the rest of the Group's interest-bearing bank and other borrowings were charged with reference to floating interest rate.

Convertible bonds

Upon completion of the subscription of shares by Modern Agricultural Industry Investment Limited ("**Modern Agricultural**") and the issuance of convertible bonds (the "**Convertible Bonds**") by the Company to Modern Agricultural in October 2015 (the "**Original CB Subscription**"), Convertible Bonds, among others, in the aggregate principal amount of HK\$1,086,279,565 which may be converted into 4,722,954,631 conversion shares of the Company based on the initial conversion price of HK\$0.23 (subject to adjustment) per share upon full conversion, were issued by the Company to Modern Agricultural. The Convertible Bonds carry coupon interest at the rate of 0.01% per annum payable quarterly in arrears with a term of five years. Pursuant to the terms of the Original CB Subscription, the holder of the Convertible Bonds has the right to convert the whole or any part (in the denominations of HK\$1,000,000 and integral multiples thereof) of the outstanding principal amount of the Convertible Bonds into new shares of the Company at any time after the date falling three calendar months following the date of issue of the Convertible Bonds until the date seven days before (and excluding) the date falling on the fifth anniversary of the date of issue, provided that the public float of the shares of the Company shall not be less than 25% or any given percentage as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. The Convertible Bonds first became mature on 15 October 2020 (the "**Original Maturity Date**"), and all the Convertible Bonds remained outstanding on the Original Maturity Date.

Management Discussion and Analysis

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

On 25 September 2020, the Company and Modern Agricultural entered into a supplemental agreement for the proposed extension of the Original Maturity Date by 32 months to 15 June 2023 (the “**Extension**”). The resolutions to approve the Extension were passed by way of poll at the extraordinary general meeting (“**EGM**”) of the Company held on 30 November 2020 and the Extension took effect from that date. For details of the Extension, please refer to the announcement of the Company dated 25 September 2020 and the circular of the Company dated 5 November 2020.

Save for the Conversion Price Adjustment and the Extension, all other terms and conditions of the Convertible Bonds remain unchanged.

At 31 December 2022, the Convertible Bonds were divided into liability component and equity component which amounted to HK\$1,037.5 million and HK\$972.1 million (31 December 2021: HK\$938.9 million and HK\$972.1 million) respectively and effective imputed interest of HK\$98.6 million (2021: HK\$89.2 million) was charged during the Year.

Turnover days, liquidity ratios and gearing ratios

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. During the Year, trade receivables turnover days increased to approximately 59 days (31 December 2021: 55 days) as longer credit period were granted to a number of customers with good track records.

As the Group has resumed the operation of the production facilities of Changchun Dahe since the end of the Year, the Group has resumed the procurement of corn kernels in December 2022. Consequently, trade payables balance and inventory level of the Group increased by approximately 2.5% and approximately 166.2% respectively to approximately HK\$1,201.5 million (31 December 2021: HK\$1,172.2 million) and approximately HK\$216.7 million (31 December 2021: HK\$81.4 million) respectively. As such, the trade payables turnover days and the inventory turnover days increased to approximately 1,283 days (31 December 2021: 661 days) and approximately 235 days (31 December 2021: 43 days), respectively.

As at 31 December 2022, the current ratio and the quick ratio of the Group were 0.05 (31 December 2021: 0.05) and 0.03 (31 December 2021: 0.04) respectively. The Group recorded a net loss of approximately HK\$1,519.6 million (2021: HK\$435.4 million) during the Year, leading to recorded net liabilities of approximately HK\$7,787.1 million (31 December 2021: HK\$6,700.8 million). Gearing ratio in terms of debts (i.e. total interest-bearing bank, other borrowings and Convertible Bonds) to total assets (i.e. sum of current assets and non-current assets) was approximately 139.3% (31 December 2021: 130.2%). To improve the financial position of the Group, the Company has adopted a series of strategic measures as outlined in the section “Update on remedial measures” on page 8 to page 9 of this report and note 2.2 to the consolidated financial statements.





Management Discussion and Analysis

MAJOR INVESTMENTS

The Group had no material investments during the Year. As at the date of this report, the Group has no other future plans for material investments or capital assets.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2022, the Group's interest-bearing bank and other borrowings amounted to approximately HK\$4,642,417,000 (31 December 2021: HK\$5,018,414,000) were secured by pledge of certain property, plant and equipment and right-of-use assets of the Group which amounted to approximately HK\$1,480,503,000 (31 December 2021: HK\$2,084,565,000) and HK\$124,208,000 (31 December 2021: HK\$141,092,000), respectively, and a receivable from disposal of assets which amounted to approximately HK\$113,636,000 (31 December 2021: HK\$121,951,000).

FOREIGN EXCHANGE EXPOSURE

Most of the operations of the Group were carried out in the PRC in which transactions were denominated in Renminbi, while export sales, which were denominated in US dollars, accounted for approximately 3.5% (2021: 2.0%) of the Group's revenue during the Year. The Board has been closely monitoring the Group's exposure to foreign exchange fluctuations in Renminbi and is of the view that there is no material unfavourable exposure to foreign exchange fluctuation in the short run. Therefore, the Group does not intend to hedge its exposure to foreign exchange fluctuations in Renminbi. However, the Group will constantly review the economic situation, development of the Group's business segments and its overall foreign exchange risk profile, and will consider appropriate hedging measures in the future as and when necessary.

Management Discussion and Analysis

IMPORTANT TRANSACTIONS DURING THE YEAR

The subscription and termination of the subscription of new shares of the Company under the general mandate

As disclosed in the announcement of the Company dated 19 January 2022, the Group was in imminent need of cash, therefore, the Company entered into the subscription agreement (the “**2022 Subscription Agreement**”) with Rationale (Holdings) Investment Limited (“**Rationale Holdings**”) on 19 January 2022, pursuant to which the Rationale Holdings has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,781,481,143 new ordinary shares (the “**2022 Subscription Shares**”) at the subscription price of HK\$0.1345 per 2022 Subscription Share (the “**2022 Subscription**”). The gross proceeds from the 2022 Subscription shall amount to approximately HK\$239,610,000 with the aggregate nominal value amounting to HK\$17,814,811.4. The net proceeds from the 2022 Subscription, after the deduction of relevant expenses, is estimated to be approximately HK\$239,500,000 and the net price to the Company of each 2022 Subscription Share is estimated to be approximately HK\$0.1344. The closing price of each of shares of the Company on 18 January 2022, being the last trading day prior to the date of the 2022 Subscription Agreement was HK\$0.168. The 2022 Subscription Shares represent 20.0% of the total issued share capital of the Company immediately before the completion of the 2022 Subscription and approximately 16.7% of the total issued share capital of the Company as enlarged by the allotment and issue of the 2022 Subscription Shares. The Company intends to use the net proceeds from the 2022 Subscription primarily for the partial resumption of the Group’s Xinglongshan site in Changchun, Jilin Province. For further details of the 2022 Subscription and the intended use of the net proceeds, please refer to the announcement of the Company dated 19 January 2022 and 25 January 2022.

As disclosed in the announcement of the Company dated 10 October 2022, after taking into account the then market conditions and the prolonged time that has passed since the entering into of the 2022 Subscription Agreement, the original timetable and intended use of proceeds have lapsed and become invalid. The Company had attempted to negotiate with Rationale Holdings on the change of use of proceeds but the parties failed to reach consensus. Therefore, the parties decided not to proceed with the 2022 Subscription. As such, the Company and the Rationale Holdings entered into a termination agreement on 10 October 2022 (after trading hours) to terminate the 2022 Subscription Agreement with immediate effect. Pursuant to the termination agreement, all rights and obligations of the parties under the 2022 Subscription Agreement (save for the confidentiality obligations of the parties under the 2022 Subscription Agreement) shall cease and determine and neither party shall have any claim against the other in respect of the 2022 Subscription.

IMPORTANT EVENTS AFFECTING THE GROUP SUBSEQUENT TO THE YEAR UNDER REVIEW

Termination of deemed disposal of equity interest in GSH

Reference is made to the announcement of the Company dated 24 July 2022 in relation to the deemed disposal of the Company’s interest in the issued share capital in GSH under the conditional subscription agreement (the “**GSH Subscription Agreement**”) entered into between GSH and Hartington Profits Limited, a company incorporated in the British Virgin Islands with limited liability and an independent third party of the Group (the “**GSH Subscriber**”). As detailed in the announcement of GSH dated 28 February 2023 and the announcement of the Company dated 2 March 2023, as the conditions precedent under the GSH Subscription Agreement have not been fully fulfilled (or waived by the GSH Subscriber, as the case may be) by the extended long stop date of the GSH Subscription Agreement, the GSH Subscription Agreement has therefore been terminated and all obligations of GSH and the GSH Subscriber under the GSH Subscription Agreement have ceased and determined. Deemed disposal by the Company of its interest in the issued share capital of GSH was terminated as a result of the termination of the GSH Subscription Agreement.



Management Discussion and Analysis

GSH Restructuring

Very substantial disposal in relation to (i) the GSH Disposal; and (ii) the deemed disposal of interest in GSH as a result of the issue of convertible bonds by GSH to the Strategic Investors

Reference is made to the Joint Announcement. On 6 April 2023 (after trading hours), Global Corn Bio-Chem Technology Company Limited (“**Global Corn Bio-chem**”), a wholly-owned subsidiary of the Company, as vendor, and the Strategic Investors, as purchasers entered into a sale and purchase agreement (the “**GSH SPA**”). Pursuant to the GSH SPA, the Strategic Investors have conditionally agreed to acquire, and Global Corn Bio-chem has conditionally agreed to sell, 717,965,000 shares of GSH (the “**GSH Sale Shares**”), representing approximately 47.0% of the entire issued share capital of GSH as at the date of the GSH SPA, at a total consideration of HK\$43,077,900, equivalent to HK\$0.06 per GSH Sale Share, for the reason as set out in page 9 of this report.

As further disclosed in the Joint Announcement, on 6 April 2023 (after trading hours), GSH, as issuer, entered into a conditional subscription agreement (the “**GSH CB Subscription Agreement**”) with the Strategic Investors, as subscribers. Pursuant to the GSH CB Subscription Agreement, GSH has conditionally agreed to issue, and the Strategic Investors have conditionally agreed to subscribe for, the 3 year, 5 per cent convertible bonds (the “**GSH Convertible Bonds**”) in the aggregate principal amount of RMB120.0 million (equivalent to approximately HK\$138.0 million), which may be converted into new ordinary share(s) of HK\$0.10 each to be allotted and issued by GSH (the “**GSH Conversion Shares**”) pursuant to the exercise of the conversion rights attached to the GSH Convertible Bonds (the “**GSH CB Conversion Rights**”) at an initial conversion price of HK\$0.1 per GSH Conversion Share (the “**GSH CB Conversion Price**”), subject to the adjustment pursuant to the terms and condition of the GSH Convertible Bonds (the “**GSH CB Subscription**”).

The GSH CB Subscription is considered a deemed disposal of the Group (excluding GSH Group)’s interest in GSH under Rule 14.29 of the Listing Rules. Assuming exercise of the GSH CB Conversion Rights in full at the initial GSH CB Conversion Price, GSH will issue a total of 1,380,000,000 GSH Conversion Shares. Assuming no further change in the shareholding structure of GSH other than the GSH Disposal and full exercise the GSH CB Conversion Rights, the Group’s shareholding in GSH will be further reduced to approximately 8.96% upon the Strategic Investors’ exercise of the GSH CB Conversion Rights in full (the “**GSH Deemed Disposal**”).

Dihao Transfer

Reference is further made to the Joint Announcement. On 6 April 2023 (after trading hours), (i) Global Sweeteners (China) Limited (the “**Dihao Vendor A**”) and Global Starch (Changchun) Investments Limited (the “**Dihao Vendor B**”), each a wholly-owned subsidiary of the GSH, as vendors, and Global Bio-Chem Technology (HK) Limited (the “**Dihao Purchaser**”), a wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement (the “**Dihao SPA I**”), pursuant to which, among others, the Dihao Vendor A and the Dihao Vendor B have conditionally agreed to sell and the Dihao Purchaser has conditionally agreed to purchase the entire equity interests in Dihao Foodstuff, at the consideration of RMB1.0. On the same day, the Dihao Vendor A and Global Sorbitol (H.K.) Company Limited (the “**Dihao Vendor C**”), a wholly-owned subsidiary of GSH, as vendors, and the Dihao Purchaser, as purchaser, entered into another sale and purchase agreement (the “**Dihao SPA II**”, together with the Dihao SPA I, the “**Dihao SPAs**”), pursuant to which, among others, the Dihao Vendor A and the Dihao Vendor C have conditionally agreed to sell and the Dihao Purchaser has conditionally agreed to purchase the entire equity interests in Dihao Crystal Sugar, at the consideration of RMB1.0, for the reason as set out in page 9 of this report.

Upon completion of the Dihao Transfer (the “**Dihao Completion**”), each of Dihao Foodstuff and Dihao Crystal Sugar will cease to be subsidiaries of GSH, and become part of the Group (excluding GSH Group).

Management Discussion and Analysis

Provision of Counter-Guarantee and Indemnity by the Company to the GSH Group

Pursuant to a term of the Dihao SPAs, the Company shall execute and deliver to GSH a deed of counter-guarantee (the “**GBT Counter-guarantee**”) at Dihao Completion, such that the Company will, among others, provide counter-guarantee and indemnity with a maximum liability of RMB250.0 million to GSH in respect of the obligations and liabilities that GSH may suffer under the guarantee provided by GSH to 中國農業銀行股份有限公司農安縣支行 (Nongan Branch of Agricultural Bank of China Co., Ltd.*) (“**Nongan Branch ABC**”) on 20 May 2019 in respect of the debts owed by Dihao Foodstuff to Nongan Branch ABC.

For further details of the proposed transactions under the GSH Restructuring, including, among others, (i) the GSH Disposal, (ii) the GSH CB Subscription and therefore GSH Deemed Disposal, (iii) the Dihao Transfer, and (iv) the GBT Counter-guarantee, please refer to the Joint Announcement.

FUTURE PLANS AND PROSPECTS

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

In short run, the Group will continue its collaboration with distributors, actively participate in animal feed industry conferences and campaigns to maintain close business relationships with prominent animal feed producers and maintain the stable production of its lysine products to strengthen its position in the industry. The Group targets to resume all its production capacity of the lysine production lines in second half of 2023. It is expected that the full resumption of the Group’s lysine production would generate cash inflow to the Group in 2023 and provide sufficient capital for upgrading its existing production technologies and equipment. On the other hand, the Group will continue to monitor closely the market conditions as well as the financial conditions of the Group and be cautious in making decisions on the Group’s business strategies and determining the best timing to resume the operation of other production facilities.

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

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2022, the Group had approximately 3,500 (2021: 3,700) full time employees in Hong Kong and the PRC. During the Year, employee cost, including Directors’ remuneration, was about HK\$274,033,000 (2021: HK\$272,259,000). The Group appreciates the correlation between human resources and its success, and recognises the value of human resources management as a source of competitive advantage in the increasingly turbulent environment. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards to its employees to align employees’ performance with the Group’s strategies. The Company also acknowledges the contribution of its employees and strives to maintain competitive remuneration packages and career development opportunities to retain current employees. Remuneration packages include discretionary bonuses payable on a merit basis, which are in line with industrial practice. Staff benefits provided by the Group include mandatory funds, insurance schemes and discretionary bonuses.



Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yang Jian, aged 53, was appointed as an executive Director and the chairman (the “**Chairman**”) of the Board on 31 October 2022. Mr. Yang graduated from 吉林工商學院 (Jilin Business and Technology College*) (formerly known as 吉林糧食高等專科學校 (Jilin Grain College*)) in July 1992, majoring in granary mechanisation. Mr. Yang graduated from the postgraduate programme of economic management in 吉林省委黨校 (The Party School of the Chinese Communist Party Jilin Provincial Committee*) in July 1999. Mr. Yang has over 30 years of experience in the food and agricultural industry. From December 1992 to March 2018, Mr. Yang successively served in various provincial units/bodies in Jilin Province’s food and agricultural sector, including 吉林省糧食廳 (Jilin Provincial Food Department*), 吉林省糧油信息中心 (Jilin Provincial Grain and Oil Information Center*), 吉林糧食中心批發市場 (Jilin Grain Center Wholesale Market*), 吉林省糧食局 (Jilin Provincial Food Bureau*) and 吉林省軍糧供應管理中心 (Jilin Provincial Military Grain Supply Management Center*). Since March 2018, Mr. Yang has been serving as the deputy general manager of 吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.*) (“**Nongtou**”, together with its subsidiaries, the “**Nongtou Group**”), an indirect controlling shareholder of the Company. Currently, Mr. Yang also serves as the chairman and party committee secretary in 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.*), a wholly-owned subsidiary of Nongtou.

Mr. Wang Guicheng, aged 55, was appointed as an executive Director on 31 October 2022. Mr. Wang graduated from 吉林工商學院 (Jilin Business and Technology College*) (formerly known as 吉林糧食高等專科學校 (Jilin Grain College*)) in July 1990, majoring in grain storage and analysis. Mr. Wang has over 32 years of experience in the agricultural industry. Mr. Wang joined 長春大成玉米開發有限公司 (Changchun Dacheng Corn Development Company Limited*), a subsidiary of the Group, as a quality inspection officer in April 1997. Mr. Wang has then served various senior positions in the Group and the GSH Group and has actively engaged in operational management and the development of production technology. In March 2017, Mr. Wang was appointed as the deputy general manager of the production and operation department of both the Group and the GSH Group, overseeing the overall production operation of the Group and the GSH Group. In December 2018, Mr. Wang has been promoted to the chief operating officer of both the Group and the GSH Group and has been serving in this capacity since then. Mr. Wang was also appointed as an executive director and the chairman of GSH on 31 October 2022.

NON-EXECUTIVE DIRECTOR

Mr. Gao Dongsheng, aged 53, was appointed as a non-executive Director on 30 June 2020. Mr. Gao obtained a bachelor’s degree in structural geology and geomechanics from Peking University in 1991 and a master’s degree in business administration from Jilin University in 2005. Mr. Gao has been working in 長春市國有資本投資運營(集團)有限公司 (Changchun State-Owned Capital Investment and Operation Co., Ltd.*) since August 2008, currently holding the position of deputy general manager. Mr. Gao was the general manager of 長春市新興產業股權投資基金有限公司 (Changchun Emerging Industry Equity Investment Fund Co., Ltd.*) from April 2020 to March 2022.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Dong Hongxia, aged 37, was appointed as an independent non-executive Director on 30 June 2020. Ms. Dong completed the economic management program in Huazhong University of Science and Technology in 2011. Ms. Dong has extensive experience in banking, investments and agricultural sectors. Ms. Dong was a manager in the corporate department of Shenzhen Development Bank Co., Ltd. (now known as Ping An Bank Co., Ltd.) from October 2006 to October 2009. From October 2009 to March 2013, Ms. Dong served as a manager in the investment development department of Shenzhen Selen Science & Technology Co., Ltd., a company listed on Shenzhen Stock Exchange (Stock Code: 002341), responsible for investments in agricultural sector. Ms. Dong is currently the general manager of 深圳市隆豐糧油飼料有限公司 (Shenzhen Longfeng Grain, Oil and Feed Co., Ltd.*).

Mr. Ng Kwok Pong, aged 50, was appointed as an independent non-executive Director on 1 March 2015. Mr. Ng graduated from University of Greenwich with a Bachelor of Arts (Hons) degree in Accountancy and Finance. He is a member of Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and a member of Association of Chartered Certified Accountants. Mr. Ng worked at various companies listed on the Main Board of the Stock Exchange from 2008 to 2021 as senior financial positions. Mr. Ng is currently a financial controller of a retail group. Mr. Ng has over 23 years’ experience in auditing and accounting, including working experience in listed companies in Hong Kong.

Mr. Yeung Kit Lam, aged 60, was appointed as an independent non-executive Director on 23 April 2015. Mr. Yeung is a practicing solicitor of Hong Kong. He obtained a Bachelor’s degree in social sciences majoring in economics from the University of Hong Kong in 1985. He was awarded with the postgraduate certificate in laws by the University of Hong Kong in 1992, and was admitted as a solicitor of the High Court of Hong Kong in 1994. He also obtained a Bachelor’s degree in laws from Peking University in 2001. Mr. Yeung is currently the consultant of Messrs. Yip, Tse & Tang, a firm of solicitors and notaries in Hong Kong. Mr. Yeung has over 28 years of post-qualification experience in the legal field, and has various experiences in litigation and commercial practices.

SENIOR MANAGEMENT

Mr. Chan Sing Fai, aged 39, was appointed as the company secretary and financial controller of the Company on 23 April 2018, and has over 15 years of experience in the related fields of finance, auditing, accounting and corporate governance practices. Mr. Chan graduated from the Hong Kong Polytechnic University with a Bachelor’s degree with honours in accountancy in 2007 and attained a Master’s degree in Corporate Governance from the Hong Kong Polytechnic University in 2015. He is a member of the HKICPA and is an associate member of the Hong Kong Chartered Governance Institute. Mr. Chan has served the Group for over 7 years. He is also the company secretary and financial controller of GSH.



Corporate Governance Report

The Company is committed to ensuring high standards of corporate governance at all times and in all areas of its operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND THE MODEL CODE

To the best knowledge and belief of the Board, the Company has applied and complied with all code provisions in part 2 of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules that was in force during the Year.

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

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

BOARD OF DIRECTORS

The number of meetings and attendance by Board members during the Year are set out in the table below:

Name of Directors	Meetings held and attended by the Directors						
	Board meeting	Audit Committee meeting	Nomination committee meeting	Remuneration committee meeting	Corporate governance committee meeting	Executive committee meeting	Annual general meeting
Executive Directors							
Yang Jian (Chairman) (a)	1/1		1/1	1/1	1/1	–	–
Wang Guicheng (b)	1/1					–	–
Zhang Zihua (c)	9/9		–	–	–	–	1/1
Liu Shuhang (d)	10/10					–	1/1
Non-executive Director							
Gao Dongsheng	11/11						1/1
Independent non-executive Directors							
Dong Hongxia	11/11	3/3	2/2	2/2	1/1		1/1
Ng Kwok Pong	11/11	3/3	2/2	2/2	1/1		1/1
Yeung Kit Lam	11/11	3/3					1/1

Corporate Governance Report

Remarks:

- (a) Mr. Yang Jian has been appointed as an executive Director, the Chairman, the chairman of the nomination committee (the "**Nomination Committee**") of the Company, and a member of each of the executive committee (the "**Executive Committee**") of the Company, the remuneration committee (the "**Remuneration Committee**") of the Company, the corporate governance committee (the "**Corporate Governance Committee**") of the Company with effect from 31 October 2022.
- (b) Mr. Wang Guicheng has been appointed as an executive Director and the chairman of the Executive Committee with effect from 31 October 2022.
- (c) Mr. Zhang Zihua has resigned as an executive Director, and has ceased to be the acting chairman of the Board, the chairman of the Nomination Committee, a member of each of the Remuneration Committee, the Corporate Governance Committee and the Executive Committee with effect from 11 October 2022.
- (d) Mr. Liu Shuhang has resigned as an executive Director, and has ceased to be the chairman of the Executive Committee with effect from 31 October 2022.

As of the date of this report, the Board comprises six Directors, being two executive Directors, one non-executive Director and three independent non-executive Directors. There is no relationship (including financial, business, family or other material/relevant relationship) between any of the Directors. Details of the biographies of individual Directors and their range of specialist experience and expertise are set out on page 20 to page 21 of this report.

The Company believes its independent non-executive Directors comprise a synergy of financial management, accounting and legal experts. The Board believes such composition is ideally qualified to advise the management team on future strategic development, financial and other statutory requirements, and to guard interest of the shareholders (the "**Shareholders**") of the Company.

The Company has established sound mechanism(s) to ensure that the Board has a strong independent element and that independent views and input are available to the Board, and the mechanism(s) will be reviewed annually to ensure they are effective. The mechanism(s) for enhancing the independence of the Board are incorporated in our recruitment and selection process of independent non-executive Directors as set out below:

Recruitment process of independent non-executive Directors

When recruiting independent non-executive Directors, the Company will give special consideration to the time the candidates for the role of independent non-executive Directors can devote and/or contributions they can bring to the Company, as well as their professional qualifications. In considering the suitability of each candidate, the Company will take into account the time each candidate can spend in attending to the matters of the Company. With respect to this, the Company will consider the time spent/contributed by each candidate in other roles taken up by them, including:

- directorship(s) at other issuer(s) undergoing a period with particularly active transactions, such as acquisition(s) or takeover(s);
- chairing the board(s) and/or board committee(s) of other issuer(s);
- membership(s) of board committee(s) of other issuer(s);
- acting as chief executive officer or full-time executive director for other issuer(s); and
- being an independent non-executive director for multiple boards and taking up significant commitments at governmental or non-profit making organisations.





Corporate Governance Report

On top of the above, areas of expertise and skills the Company considers for each candidate for the role of individual independent non-executive Directors may include accounting and auditing, compliance, ethics, internal controls, legal, risk management, technical knowledge, people management, business strategy and investments. The Company will also take into consideration whether the relevant expertise of each candidate is consistent with the Company's corporate culture, values and strategies.

Number of independent non-executive Directors

According to rule 3.10 and 3.10A of the Listing Rules, the Board must: (1) include at least three independent non-executive Directors and at least one of them must have appropriate professional qualifications or accounting or related financial management expertise; and (2) appoint independent non-executive Directors representing at least one-third of the Board. In compliance with abovementioned Listing Rules, the Board has three independent non-executive Directors, representing more than one-third of the Board. Among the three of them, Mr. Ng Kwok Pong, being a member of the HKICPA, has the appropriate professional accounting qualifications and related financial management experience.

Independence of the long serving independent non-executive Directors

Pursuant to code provision B.2.3 to part 2 of the CG Code, if an independent non-executive Director has served more than nine years, such Director's further appointment should be subject to a separate resolution to be approved by the Shareholders. The papers to the Shareholders accompanying that resolution should state why the Board (or the Nomination Committee) believes that the Director is still independent and should be re-elected, including the factors considered, the process and the discussion of the Board (or the Nomination Committee) in arriving at such determination. As at the date of this report, none of the independent non-executive Directors has served for more than nine years in the Board.

External independent professional advice

In order to ensure that independent views are available to the Directors, the Directors, in addition to their own expert advice, may also obtain external independent professional advice to assist them when carrying out their duties.

Review the independence of independent non-executive Directors annually

The Company reviews the independence of independent non-executive Directors at least annually (including requiring each independent non-executive Director to confirm through the execution of an independence declaration confirmation letter) and reviews the number and composition (including skills, knowledge and experience), and makes any recommendations in relation to the appointment, re-election or removal of independent non-executive Directors in accordance with the Company's strategy and proposes changes to the Board.

The Board has received written confirmation from each independent non-executive Director regarding each of their independence pursuant to rule 3.13 of the Listing Rules. As of the date of this report, the Board considers all independent non-executive Directors to be independent.

Board diversity

The Company specialises and embraces the benefits of building a diverse and inclusive Board and has adopted the board diversity policy in order to achieve and maintain its sustainable development and competitive advantage.

Corporate Governance Report

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

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

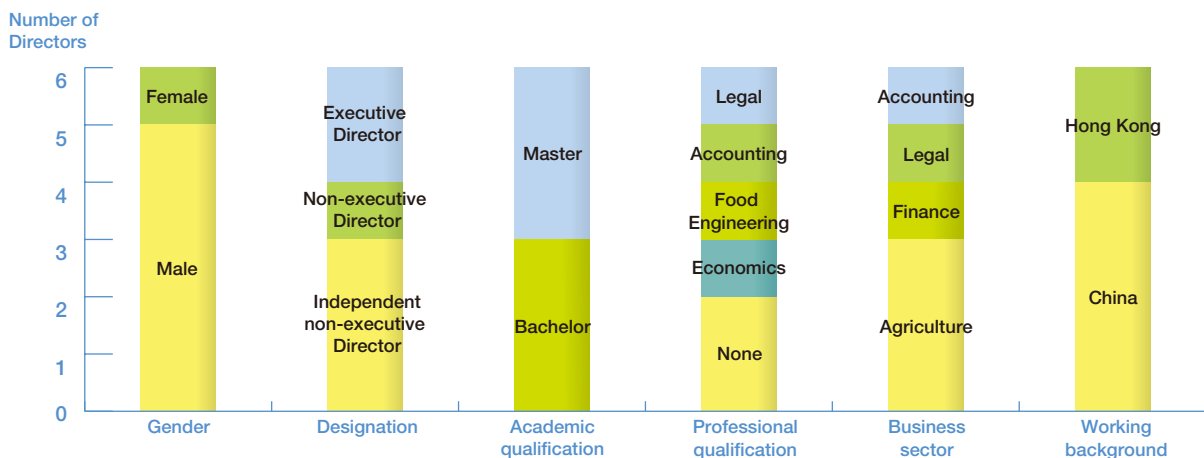
The Board annually discusses and establishes measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

With reference to the business needs of the Group, the following measurable objectives have been set for implementing the board diversity policy:

- 1) At least one female member on the Board;
- 2) A prescribed proportion of independent non-executive Directors on the Board;
- 3) A prescribed proportion of members on the Board holding bachelor's degree or above;
- 4) A prescribed proportion of members on the Board possessing accounting or other professional qualifications;
- 5) A prescribed proportion of members on the Board possessing experience in the industry he/she specialised in; and
- 6) A prescribed proportion of members on the Board possessing China-related work experience.

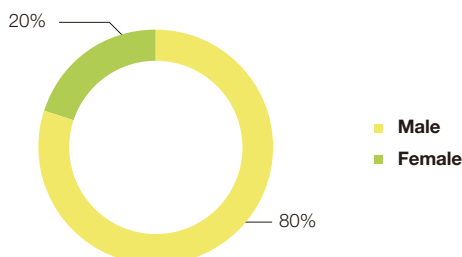
Based on its review, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the board diversity policy of the Company. The Company will continue to take gender diversity into consideration during recruitment such that there is a pipeline of potential successors to maintain gender diversity.

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



Corporate Governance Report

Up to the date of this report, below chart shows an overview of the Group's employment structure in terms of gender diversity (including senior management):



Given the nature of the Group's business and the industry the Group operates in remain heavily reliant on machines operation and manual labour, equality of gender ratio shall be difficult to achieve within the Group. Nonetheless, the Group will strive to enhance gender diversity (in terms of gender ratio) across all levels of the workforce so far as reasonable practicable.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's overall strategy, operation and financial performance. Measures have been taken by the Company to ensure the Board receives all necessary and up to standard information in a timely manner in order to effectively discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision. Topics discussed at these quarterly Board meetings included but not limited to: overall strategies; enterprise risk management and internal control; major acquisitions and disposals, annual budgets, interim and annual results, recommendations on appointment(s) or reappointment(s) of the Directors, matters relating to share capital, approval of major capital projects, dividend policies, and other significant operational and financial matters. All businesses transacted at individual Board meetings are recorded in the minutes of the respective meeting. All Board members have access to the advice and services of the company secretary of the Company. If necessary, the Directors also have recourse to external professional advice at the Company's expense. During the intervals between Board meetings, individual Directors are provided with appraisals of all major changes that may affect the Group's businesses.

All new directors, if any, will receive a comprehensive, formal and tailored induction on appointment including but not limited to: their duties, responsibilities and obligations as a director of a listed company. Newly-appointed directors will also receive any briefing and professional development necessary to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities as Directors under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. Newly-appointed directors are also encouraged to discuss with the chairman of the Company any additional information or training they may require, in order to discharge their duties in a more effective manner.

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

Directors' Training

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

Corporate Governance Report

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

	Type of trainings	
	A	B
Executive Directors		
Yang Jian (<i>Appointed on 31 October 2022</i>)	✓	✓
Wang Guicheng (<i>Appointed on 31 October 2022</i>)	✓	✓
Zhang Zihua (<i>Resigned on 11 October 2022</i>)		✓
Liu Shuhang (<i>Resigned on 31 October 2022</i>)		✓
Non-executive Director		
Gao Dongsheng		✓
Independent non-executive Directors		
Dong Hongxia	✓	✓
Ng Kwok Pong		✓
Yeung Kit Lam		✓

A: Seminars/conferences relevant to the Directors' duties and responsibilities

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer of the Company are separate and exercised by different persons. As at the date of this report, Mr. Yang Jian is the Chairman and is mainly responsible for providing leadership and directions to the Board. Mr. Wang Guicheng is the chief operating officer and responsible for overseeing the operation management and product development of the Group.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Gao Dongsheng was appointed as a non-executive Director on 30 June 2020. Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam were appointed as the independent non-executive Directors on 30 June 2020, 1 March 2015 and 23 April 2015, respectively. The terms of initial appointment of the non-executive Director and the independent non-executive Directors have been fixed for two years, which shall be renewable automatically for a successive term of one year commencing from the day after the expiry of the then current term of the appointment, unless terminated by not less than three months' notice in writing served by either party at any time during the then existing term.



Corporate Governance Report

DIRECTORS' AND OFFICER'S LIABILITY INSURANCE AND INDEMNITY

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

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

During the Year, the Directors' remuneration were as follows:

	2022 HK\$'000	2021 <i>HK\$'000</i>
Fees	1,252	1,472
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	–	–
Pension scheme contributions	177	213
	177	213
Total	1,429	1,685

(a) Independent non-executive Directors

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

	Director's fees <i>HK\$'000</i>	Basic salaries, housing benefits, other allowances and benefits in kind <i>HK\$'000</i>	Pension contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
2022				
Dong Hongxia	119	–	19	138
Ng Kwok Pong	240	–	–	240
Yeung Ki Lam	240	–	–	240
Total	599	–	19	618
2021				
Dong Hongxia	123	–	20	143
Ng Kwok Pong	240	–	–	240
Yeung Ki Lam	240	–	–	240
Total	603	–	20	623

There were no other emoluments payable to the independent non-executive Directors during the Year (2021: Nil).

Corporate Governance Report

(b) Non-executive Director

The non-executive Director is not entitled to any fees, salaries or management bonuses. There were no emoluments payable to the non-executive Director during the Year (2021: Nil).

(c) Executive Directors

The executive Directors' remuneration during the Year were as follows:

	Director's fees <i>HK\$'000</i>	Basic salaries, housing benefits, other allowances and benefits in kind <i>HK\$'000</i>	Pension contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
2022				
Yang Jian (a) and (b)	—	—	—	—
Wang Guicheng (b)	50	—	18	68
Zhang Zihua (a) and (c)	—	—	—	—
Liu Shuhang (d)	603	—	140	743
Total	653	—	158	811
2021				
Yuan Weisen (a) and (e)	—	—	—	—
Liu Shuhang	869	—	193	1,062
Zhang Zihua (a)	—	—	—	—
Total	869	—	193	1,062

Remarks:

- (a) According to the Directors' service contracts entered into between the Company and each of Mr. Yang Jian, Mr. Zhang Zihua and Mr. Yuan Weisen were not entitled to any basic salary, allowances, management bonus, pension scheme contribution and any benefits in kind.
- (b) Mr. Yang Jian and Mr. Wang Guicheng were appointed as executive Directors on 31 October 2022.
- (c) Mr. Zhang Zihua resigned as an executive Director on 11 October 2022.
- (d) Mr. Liu Shuhang resigned as an executive Director on 31 October 2022.
- (e) Mr. Yuan Weisen resigned as an executive Director on 9 February 2021.



Corporate Governance Report

(d) Senior Management

The remuneration of the senior management of the Group by band and related number of senior management personnel for the Year were set out below:

Remuneration bands	Number of senior management
Nil to HK\$1,000,000	—
HK\$1,000,000 to HK\$2,000,000	1

Further details of the Directors' remuneration and the five highest paid employees are set out in notes 8 and 9 to the consolidated financial statements respectively.

ACCOUNTABILITY AND AUDIT

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

The Directors are responsible for overseeing the preparation of consolidated financial statements of each financial year. In preparing the consolidated financial statements for the Year, the Directors have selected suitable accounting policies and applied them consistently, approved adoption of all applicable Hong Kong Financial Reporting Standards in effect, made judgments and estimates that are appropriate, and prepared the consolidated financial statements on a going concern basis. The management of the Company is of the view that the Group will continue its operation in foreseeable future for reasons stated as set out in note 2.2 to the consolidated financial statements.

MANAGEMENT FUNCTIONS

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

BOARD COMMITTEES

In compliance with the CG Code, the Company has set up the Audit Committee, the Nomination Committee, the Remuneration Committee and the Corporate Governance Committee with clearly defined written terms of reference adopted in compliance with the CG code. The Company also set up the Executive Committee for the purpose of effective and timely management of the day to day activities of the Group on 23 March 2017.

Corporate Governance Report

AUDIT COMMITTEE

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

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

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

1. Reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgment, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval;
2. Reviewed, in conjunction with the Auditor, the developments of accounting standards and assessed their potential impacts on the Group's financial statements;
3. Reviewed and monitored the Auditor's independence, objectivity and the effectiveness of audit process in accordance with applicable standards;
4. Assessed the independence of the Auditor, prior to formally engaging the Auditor to carry out the audit for the Group's financial statements for the Year;
5. Discussed the proposed scope of work and approach of the audit with the Auditor prior to the actual commencement of the audit. Upon completion of the audit, the Audit Committee reviewed the results of the external audit, and discussed with the Auditor on any significant findings and audit issues;
6. Recommended to the Board regarding the appointment and remuneration of the Auditor;
7. Reviewed and approved the internal audit planning, and discussed any significant issues with the internal audit team and the Group's senior management;
8. Reviewed the independence of the internal audit function and the level of support and co-operation given by the Group's management to the internal audit team, as well as the resources of the internal audit team when undertaking its duties and responsibilities;
9. Reviewed the adequacy and effectiveness of the Group's systems of enterprise risk management and internal control through a review of the work undertaken by the Group's internal audit team and external consultant and discussions with the Board; and
10. Reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget through a review of the work undertaken by the Group's senior financial management and internal audit team, and discussions with the Board.

During the Year, the Audit Committee held three meetings.



NOMINATION COMMITTEE

As at the date of this report, the Nomination Committee comprises an executive Director, Mr. Yang Jian (chairman of the Nomination Committee), and two independent non-executive Directors, Ms. Dong Hongxia and Mr. Ng Kwok Pong. The Nomination Committee operates pursuant to written terms of reference which are available on the websites of the Stock Exchange and the Company.

The duties of the Nomination Committee are, among others, determining policy for the nomination of the Directors, including the nomination procedures, process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the Year. The Nomination Committee also reviews the structure, size and composition of the Board, evaluates the nomination policy, assesses the independence of the independent non-executive Directors and makes recommendations on any proposed changes to the Board and on the selection of individuals nominated for directorships, and reviews the board diversity policy adopted by the Company. For more information on the Company's policy on board diversity, please refer to the section headed "Board diversity" in this report.

The Board has adopted written policy for the nomination of new directors. In evaluating and selecting candidates for directorship, the criteria to be taken into account when considering the suitability of a candidate shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities.

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a candidate:

- 1) Succession planning of the Directors;
- 2) Leadership required for the Group to maintain or strengthen its competitive edges;
- 3) Changes in market environment and commercial needs of the market in which the Group operates;
- 4) Skills and expertise required for being a member of the Board;
- 5) Relevant requirements for a candidate to be a director of the Company under the Listing Rules;
- 6) Character and integrity;
- 7) Commitment of sufficient time for performance of the duties as a member of the Board; and
- 8) The Board's diversity in all aspects as mentioned in page 24 to page 26 of this report.

The Board has adopted procedures for the nomination of new directors, pursuant to which (i) a meeting of the Nomination Committee in relation to the nominations of new directors to the Board will be held; and (ii) the Board will consider and, if thought fit, approve the appointment of the new directors by way of board meeting or written resolution. To ensure a proper understanding of the operations and businesses of the Company and that he/she is fully aware of his/her responsibilities under the applicable laws and regulations (including the Listing Rules), the newly appointed directors will be provided with a comprehensive, tailored and formal induction of the Company on the first occasion of his/her appointment.

During the Year, the Nomination Committee held two meetings to review the structure, size and composition of the Board, evaluate the nomination policy of the Company, assess the independence of the independent non-executive Directors and make recommendation to the Board on the re-election and appointment of the Directors at the forthcoming AGM.

Corporate Governance Report

REMUNERATION COMMITTEE

At the date of this report, the Remuneration Committee comprises an executive Director, Mr. Yang Jian and two independent non-executive Directors, namely, Mr. Ng Kwok Pong (chairman of the Remuneration Committee) and Ms. Dong Hongxia. The Remuneration Committee operates pursuant to written terms of reference which are available on the websites of the Stock Exchange and the Company.

The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the Group's policy and structure for the remuneration package of the Directors and the senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee also assesses performance of the Directors and approves the terms of the Directors' service contracts. The Board has adopted remuneration policy of the Directors on the basis of their merit, qualification and competence with reference to the market benchmarks.

During the Year, the Remuneration Committee held two meetings to review and make recommendations to the Board on the remuneration packages of the executive Directors and the senior management.

CORPORATE GOVERNANCE COMMITTEE

As at the date of this report, the Corporate Governance Committee comprises an executive Director, Mr. Yang Jian and two independent non-executive Directors, namely, Mr. Ng Kwok Pong (chairman of the Corporate Governance Committee) and Ms. Dong Hongxia. The Corporate Governance Committee operates pursuant to written terms of reference which are available on the websites of the Stock Exchange and the Company.

The duties of the Corporate Governance Committee are, among others, to determine, develop and review the Company's policies and practices on corporate governance and provide supervision over the Board and its committees' compliance with their respective terms of reference and relevant requirements under the CG Code, or other applicable laws, regulations, rules and codes.

During the Year, the Corporate Governance Committee has performed the following works:

1. Reviewed the Company's policies and practices on corporate governance and made recommendations to the Board;
2. Reviewed and monitored the training and continuous professional development of the Directors and the senior management;
3. Reviewed and monitored the Company's policies and practices in compliance with legal and regulatory requirements;
4. Reviewed the Company's compliance with the code provisions of the CG Code and the corporate governance report issued by the Stock Exchange; and
5. Ensured that good corporate governance practices and procedures had been established and applied.

The Corporate Governance Committee considered that the Company has complied with all code provisions in part 2 of the CG Code during the Year.

During the Year, the Corporate Governance Committee held one meeting.





Corporate Governance Report

EXECUTIVE COMMITTEE

At the date of this report, the Executive Committee comprises two executive Directors, namely Mr. Wang Guicheng (chairman of the Executive Committee) and Mr. Yang Jian. The Executive Committee operates pursuant to written terms of reference which are available on the websites of the Stock Exchange and the Company.

The duties of the Executive Committee are, among others, to approve and enter into any agreement or document or transaction on behalf of the Company and to approve, execute and authorise the issue, publication or despatch of all such documents as the committee may consider necessary or desirable in connection with the normal and ordinary course of business and the day-to-day management and operation of the Company.

The powers and authorities of the Executive Committee shall not be extended to:

- (a) Approval of final and interim results of the Company;
- (b) Declaration, recommendation or payment of any dividend or other distributions;
- (c) Proposal to the Shareholders to put the Company into liquidation;
- (d) Approval of any discloseable transaction, major transaction, very substantial acquisition or disposal within the meaning of Chapter 14 of the Listing Rules;
- (e) Approval of any connected transaction within the meaning of Chapter 14A of the Listing Rules;
- (f) Matters involving a conflict of interest for a substantial Shareholder and/or a Director;
- (g) Approving any proposed change in the capital structure, including any redemption of the Company's securities listed on the Stock Exchange;
- (h) Approving any decision to change the general character or nature of the business of the Company;
- (i) Matters specifically set out in the Listing Rules which require approval at a full Board meeting; and
- (j) Any regulations or resolutions or restrictions that may be imposed upon the committee by the Board from time to time.

AUDITOR'S REMUNERATION

The Auditor's remuneration amounted to HK\$3,700,000 was incurred for the audit services provided by Mazars CPA Limited for the Year.

During the Year, service fees for the review of interim report and limited assurance to report on the continuing connected transactions in the aggregate amount of HK\$460,000 were paid as professional fee to Mazars CPA Limited for the provision of non-audit services to the Group.

The statement about the Auditor's reporting responsibilities for the Company's financial statements is set out in the section headed "Independent Auditor's Report" on page 56 of this report.

Corporate Governance Report

COMPANY SECRETARY

The company secretary of the Company, Mr. Chan Sing Fai, is responsible for supporting the Board, ensuring good information flow within the Board and that the Board policies and procedures are followed, advising the Board on corporate governance matters, facilitating induction and monitoring the training and continuous professional development of the Directors. He has attained no less than 15 hours of relevant professional training during the Year. Mr. Chan's biography is set out on page 21 of this report.

INVESTOR RELATIONS

The Group establishes and maintains different communication channels with the Shareholders through the publication of annual and interim reports, information on the Stock Exchange, a corporate website, and general and investor meetings held either face-to-face or via telephone conference calls where Shareholders are given chances to raise questions. The Group also maintains a corporate website "www.globalbiochem.com" to disclose an up-to-date information of the Group's business operations and developments, financial information, corporate governance practices and other information to the public. The Group reports the financial performance of the Company to the Shareholders twice a year and maintains a regular dialogue with investors.

The AGM provides a useful forum for the Shareholders to exchange views with the Board. The Chairman, all members of the Board committees and the Auditor will also attend the AGM to answer questions from the Shareholders.

The notice of AGM will be distributed to all Shareholders at least 21 days prior to the AGM. Separate resolutions are proposed at the AGM on each substantially separate issue, including the election of the Directors. Details of the proposed resolutions will be contained, where necessary, in circulars of the Company. The chairman of the AGM shall exercise his/her power under the Articles of Association to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll will be explained at the meeting. Poll results will be posted on the websites of the Company and the Stock Exchange after the meeting.

Further details in relation to the Group's communication channels with the Shareholders are set out in the Shareholders' communication policy (the "**Policy**") adopted by the Company, which is available on the website of the Company to maintain an on-going dialogue with the Shareholders, to encourage them to communicate actively with the Company and for the Company to solicit and understand the views of the shareholders and stakeholders. The Company has reviewed and assessed the Policy and considered that it is effectively implemented during the Year on the basis that:

- All announcements, circulars, annual and interim reports are available on the website of the Company in a timely manner after publishing the same on the website of the Stock Exchange so that the Shareholders and investment community at large are provided with timely access to the latest information and current development about the Company;
- Physical AGM was held reaching out to individual Shareholders and stakeholders to encourage their participation and for them to raise questions; and
- Shareholders' request or enquiries, as received through the Company's share registrar in Hong Kong, was attended to by the Company promptly.



Corporate Governance Report

To the best knowledge of the Directors, as of 31 December 2022, details of the Shareholders by type and aggregate shareholding are as follow:

	Number of shares held	Percentage of shareholding	Market capitalisation (HK\$ million)
Modern Agricultural	3,135,509,196	35.2%	489.1
HK Bloom	2,508,407,357	28.2%	391.3
Public float in Hong Kong	3,263,489,164	36.6%	509.1
Total	8,907,405,717	100.0%	1,389.5

The 2022 AGM was held on 6 June 2022 to approve the 2021 audited consolidated financial statements, grant of the new issue mandate and the repurchase mandate and the re-election of the Directors. All resolutions proposed were passed by way of poll.

The 2023 AGM will be held on 25 May 2023 to approve, among others, the 2022 audited consolidated financial statements, grant of the new issue mandate and the repurchase mandate and the re-election of the Directors.

DIVIDEND POLICY

The Board has adopted a dividend policy to provide the Shareholders with regular dividends. The Company considers stable and sustainable returns to the Shareholders to be our goal and endeavours to maintain a progressive dividend policy. The Board shall take the following factors into account when considering the declaration and payment of dividends, inter alia:

1. Declaration of dividends will be subject to the discretion of the Directors, depending on factors including but not limited to the results, working capital, cash positions and capital requirements of the Group and statutory and regulatory restrictions.
2. Subject to the factors mentioned at paragraph 1, it is the Directors' present intention to recommend annual distribution to the Shareholders of not less than 15% of the annual profits attributable to equity holders of the Company as dividends in the foreseeable future.
3. The declaration of dividends is subject to the absolute discretion of the Board and any final dividend for the year is subject to the approval of the Shareholders. The amounts of dividends actually declared and distributed to the Shareholders will be subject to the absolute discretion of the Board and will depend upon a number of factors, including but not limited to availability of the Company's cash and distributable reserves, investment requirements, and the cash flow and working capital requirements of the Group and any factors considered and thought fit by the Board.
4. The payment of dividends by the Company is also subject to the restrictions under the Laws of the Cayman Islands and the Articles of Association, if any.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL

Internal control

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

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

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

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

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

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

The role of the Audit Committee is, through discussion with the management and internal audit team, to review annually the effectiveness of internal control and risk management systems, including financial, operational and compliance controls and risk management functions, and to report to the Board any significant risk issues (including Environmental, Social and Governance ("ESG") related risks). The annual review also covers the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions as well as those relating to the ESG performance and reporting of the Group. No significant control failings or weaknesses have been identified by the Audit Committee during the Year.

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





Corporate Governance Report

Internal audit department

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

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

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

Copies of internal audit reports are sent to the Audit Committee, the senior management and the Auditor. Management is called upon to present action plans in response to internal audit team's recommendations.

Group risk management

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

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

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

Corporate Governance Report

Our risk management objectives:

- Strategic level: The Company focuses on the identification and management of material risks at different levels – the Group, business units and functional units so as to better position the Company in pursuing its strategic and business objectives. In seeking growth opportunities, the Company strives to optimise risk/return trade-offs while establishing strong and independent review and challenge processes.
- Operational level: The Company aims to identify, assess, evaluate and minimise operational hazards and risks to create a safe, healthy and efficient workplace for its employees while respecting our community and neighbourhood to ensure public safety and health, and minimising our environmental footprint.

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

- material financial loss that substantially impacts the Group's ability to execute its business strategies and long-term financial well-being,
- consequence that affects the safety and health of our staff and the public,
- material breach of regulations and subsequently leading to the deterioration of the Group's reputation and brand name,
- business/supply interruption leading to severe impact on the community, and severe environmental incidents.

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



Corporate Governance Report

Principal risks and uncertainties

Risk description	Changes in 2022	Key risk mitigations
<p><i>Financial risks:</i> Liquidity risk of inadequate funding</p>	Suspension of productions increased the liquidity risk	<p>Continued effort to facilitate the resumption of the Relevant Properties to improve the liquidity of the Group</p> <p>Consolidation of the Group's resources in production base with higher efficiency</p> <p>Initiating talks with potential investors to invest in the Company in order to raise fund</p>
Inability to renew the bank borrowings on time	Repaid a portion of bank borrowings and reached repayment agreement/ schedule with banks	Actively negotiating with the local government and creditors to implement the debt restructuring plan
<p><i>Compliance risk:</i> Default of repayment of loan agreement(s)</p>	<p>Creditor(s) applied for preservation order(s) from the court to request for settlement by the Group</p> <p>Settlement agreements have been reached between the respective parties for certain defaulted loans</p> <p>Creditor(s) has applied to the court to wind up a subsidiary which is insolvent</p>	<p>The Group has been negotiating with creditors on settlement arrangements for on-going cases</p> <p>Sought legal advice and protected significant portion of the assets before the winding up of subsidiary</p>
<p><i>Strategic risk:</i> Market competition</p>	Facing direct keen competition in lysine market as the Group resumed its lysine operation since the end of 2022	<p>Additional research and development efforts targeted to diversify product range and mix to serve changing market needs</p> <p>Exploring new export markets for the Group's products</p> <p>Continue its sales strategies of collaboration with distributors and active participation in industry conferences to maintain close business relationships with prominent animal feed producers and identify new emerging markets</p>

Corporate Governance Report

Risk description	Changes in 2022	Key risk mitigations
<p><i>Operation risks:</i> The COVID-19 pandemic is raging globally</p>	The operating environment has been materially affected by the COVID-19 pandemic	Streamlining operation to secure the liquidity of the Group and closely monitor market changes
Ageing production plants	Productivity lowered with ageing production facilities	<p>Continuous research and development efforts to improve efficiency and introduce new products</p> <p>Upgrading production facilities so as to improve production technology efficiency and product mix to cope with market changes</p>

In the Year, the internal audit department conducted a review on the effectiveness of the risk management and internal control systems of the Group, and where weaknesses were identified, means for improvement were recommended to the Audit Committee. The Board has reviewed the effectiveness of the Group's risk management and internal control systems based on the assessment of the Audit Committee and considered them effective and adequate. The Company has complied with the relevant code provisions as set out in part 2 of the CG Code on internal controls and risk management during the Year. As such, the Board considers that the Group's internal control procedures and risk management functions are both effective and adequate.

Inside information

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company has been publishing the ESG report (the “ESG Report”) on the websites of the Company and the Stock Exchange on an annual basis. Please view and download the ESG Report from the Company's website at <http://www.globalbiochem.com> under the heading “Investor Relations” or the website of the Stock Exchange.

CONSTITUTIONAL DOCUMENT

The Company did not make any change to its constitutional document during the Year. The memorandum and articles of association of the Company are available on the websites of the Company and the Stock Exchange.



SHAREHOLDERS' RIGHTS

1. Procedures for Shareholders to convene an EGM

- 1.1 The following procedures for Shareholders to convene an EGM are prepared in accordance with Article 64 of the Articles of Association:
- (1) One or more Shareholders (the “**Requisitionist(s)**”) holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice (the “**Requisition**”), to require an EGM to be called by the Directors for the transaction of any business specified therein.
 - (2) Such Requisition shall be made in writing to the Board or the company secretary of the Company via email at the email address of the Company at ir@globalbiochem.com.
 - (3) The EGM shall be held within two months after the deposit of such Requisition.
 - (4) If the Directors fail to proceed to convene such meeting within 21 days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

2. Procedures for raising enquiries

- 2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company’s branch share registrar in Hong Kong, details of which are set out in the section headed “Corporate Information” of this report.
- 2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at ir@globalbiochem.com.
- 2.3 Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

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

- 3.1 To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her/its proposal (the “**Proposal**”) with his/her/its detailed contact information via email at the email address of the Company at ir@globalbiochem.com.
- 3.2 The identity of that Shareholder and his/her/its request will be verified with the Company’s branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by that Shareholder, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.
- 3.3 The notice period to be given to all the Shareholders for the consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:
 - (1) Notice of not less than 21 days in writing if the Proposal requires approval in an AGM or by a special resolution of the Company;
 - (2) Notice of not less than 14 days in writing if the Proposal requires approval in meeting other than (i) an AGM; or (ii) a meeting for the passing of a special resolution of the Company.

Report of the Directors

The Directors present their report and the consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of corn refined products and corn-based biochemical products. Details of the principal activities of the principal subsidiaries are set out in note 16 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group and an analysis of the Group's performance using financial key performance indicators during the Year are provided in the Message to Shareholders and Management Discussion and Analysis on page 4 to page 5 and page 6 to page 19 of this report respectively. In addition, discussions on the Group's environmental policies and performance are provided in the ESG Report.

The principal risks and uncertainties are disclosed in Corporate Governance Report under section headed "Risk management and internal control" on page 37 to page 41 of this report. Particulars of important events affecting the reporting entity that have occurred since the end of the financial year are disclosed in Management Discussion and Analysis under section headed "Important events affecting the Group subsequent to the year under review" on page 17 to page 19 of this report. An indication of likely future development of the Group is disclosed in Management Discussion and Analysis under section headed "Future plans and prospects" on page 19 of this report.

RESULTS AND DIVIDENDS

The Group's loss for the Year and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on page 58 to page 141 of this report.

The Directors do not recommend the payment of any dividend for the Year (2021: Nil). The Company adopts a dividend policy which is set out on page 36 of this report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the consolidated financial statements, and restated as appropriate, is set out on page 142 of this report. This summary does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the Company's share capital during the Year are set out in note 31 to the consolidated financial statements.





Report of the Directors

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

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

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

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 37(a) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2022, the Company did not have reserves available for distribution, calculated in accordance with the provisions of the Companies Act, Chapter 22 (Law 3 of 1961, as consolidated and revised) (the "**Companies Act**") of the Cayman Islands. Under the Companies Act, the share premium of the Company of approximately HK\$3,137,033,000 as at 31 December 2022 is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for 61.3% of the total sales for the Year, and sales to the largest customer included therein accounted for 23.3% of the total sales of the Year. Purchases from the Group's five largest suppliers accounted for 71.6% of the total purchases for the Year and the purchase from the largest supplier included therein accounted for 43.9% of the total purchases for the Year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5.0% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Report of the Directors

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's business is mainly operated by its subsidiaries established in the PRC and the Company was incorporated in the Cayman Islands and is a listed company on the Main Board of the Stock Exchange. Therefore, the Group should comply with relevant laws and regulations of the Cayman Islands, Hong Kong and the PRC.

The Company promotes the culture of adhering to the highest ethical standards of business conduct and commits to comply with all prevailing laws and regulations in all its operating regions. During the Year, the Company was not aware of any material non-compliance or breach of the applicable legislation or regulations that have a significant impact on the Group.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from our key stakeholders which comprise employees, customers, suppliers and Shareholders.

Employees

The Group believes its employees serve as the backbone of the Group's development. The Group places great emphasis on the selection and recruitment of new staff, on-the-job training, appraisal and rewards to its employees to align employees' performance with the Group's strategies. The Company also acknowledges the contribution of its employees and strives to maintain competitive remuneration packages and career development opportunities to retain current employees.

Customers

The Group has established good and long-term business relationship with the customers, and believe that these customers will continue to place the purchase orders to the Group. Meanwhile, the Group will actively seek for the new customers, in order to minimise the possible negative impact on the Group's business and profitability resulting from the discontinuance of order from any major customer.

Suppliers

The Group holds supply chain management in high regard and strives to select quality suppliers through an open and transparent screening process to achieve mutual benefits. The Group will also review and assess the performance of suppliers annually to decide whether to continue cooperating with them, and such reviews will also be taken into consideration when identifying other suppliers.

Shareholders

One of the corporate goals of the Group is to enhance corporate value to the Shareholders. The Group is committed to fostering business developments for achieving the sustainable growth.





Report of the Directors

DIRECTORS

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

Executive Directors:

Yang Jian (*Appointed on 31 October 2022*)
Wang Guicheng (*Appointed on 31 October 2022*)
Zhang Zihua (*Resigned on 11 October 2022*)
Liu Shuhang (*Resigned on 31 October 2022*)

Non-executive Director:

Gao Dongsheng

Independent non-executive Directors:

Dong Hongxia
Ng Kwok Pong
Yeung Kit Lam

According to article 108(A) of the Articles of Association, not less than one-third of the Directors shall retire from office by rotation at each AGM. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Gao Dongsheng and Ms. Dong Hongxia will retire as Directors. Mr. Gao Dongsheng and Ms. Dong Hongxia, being eligible, will offer themselves for re-election as Directors at the AGM.

In addition, pursuant to article 112 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an additional Director shall hold office until the next following general meeting of the Company (in the case of a Director appointed to fill a casual vacancy) or the next AGM (in the case of a Director appointed as an additional Director) and shall then be eligible for re-election at the meeting. By virtue of article 112 of the Articles of Association, the office of Mr. Yang Jian and Mr. Wang Guicheng, being executive Directors will end at the AGM. Mr. Yang Jian and Mr. Wang Guicheng being eligible, will offer themselves for re-election as Directors at the AGM.

The Company has received annual confirmations from each of Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam of their independence pursuant to rule 3.13 of the Listing Rules during the Year. As at the date of this report, the Company considers all independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on page 20 to page 21 of this report.

Report of the Directors

DIRECTORS' SERVICE AGREEMENTS AND APPOINTMENT LETTERS

Each of the executive Directors, Mr. Yang Jian and Mr. Wang Guicheng entered into a service agreement with the Company for an initial term of one year commencing from 31 October 2022, which shall be renewable automatically for successive terms of one year commencing from the day after the expiry of the then current term and subject to termination by either party by giving not less than three months' notice in writing.

The non-executive Director, Mr. Gao Dongsheng has entered into an appointment letter with the Company for a term of two years commencing on 30 June 2020. The independent non-executive Directors, Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, have each entered into an appointment letter with the Company for a term of two years commencing on 30 June 2020, 1 March 2015 and 23 April 2015, respectively. The terms of service of the non-executive Director/independent non-executive Directors shall be renewable automatically for successive terms of one year commencing from the day after the expiry of the then current terms and subject to termination by either party by giving not less than three months' notice in writing.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

PERMITTED INDEMNITY PROVISIONS

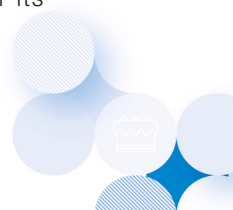
During the Year and up to the date of this report, there was or is permitted indemnity provision (within the meaning in Section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) in the Articles of Association being in force. The Company has maintained directors' and officers' liability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

MANAGEMENT CONTRACTS

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

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" on page 50 to page 51 of this report, there was no other contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the Year.



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, the interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) of the Directors and chief executives of the Company as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Number of shares held, capacity and nature of interest			Approximate percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Wang Guicheng	500,000	–	500,000	0.01

Long positions in ordinary shares of GSH:

Name of Director	Number of shares held, capacity and nature of interest			Approximate percentage of GSH's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Wang Guicheng	300,000	–	300,000	0.02

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company:

Name	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
HK Bloom (a)	2,508,407,357	28.16
Modern Agricultural (b)	8,308,269,029	93.27
Bank of Jilin Co., Ltd (c)	1,749,858,609	19.64

Remarks:

- (a) HK Bloom is beneficially owned as to 50.0% and 50.0% by Mr. Li Zhenghao ("**Mr. Li**") and Ms. Sun Zhen ("**Ms. Sun**"), respectively. Under the SFO, each of Mr. Li and Ms. Sun is deemed to be interested in all the shares of the Company interested by HK Bloom.
- (b) (i) The entire issued capital of Modern Agricultural is held by Modern Agricultural Industry Investment Holdings Limited ("**Modern Agricultural Holdings**") which is in turn wholly-owned by Jilin Province Modern Agricultural Industry Investment Fund (LLP) ("**PRC LLP**"). The sole general partner of PRC LLP is Jilin Province Modern Agricultural Industry Fund Limited ("**GP**"). As at the date of this report, the investment capital of PRC LLP is owned as to 60.0% by Nongtou (Nongtou is controlled by 吉林省人民政府國有資產監督管理委員會 (The State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province*) ("**Jilin SASAC**")), as to 26.7% by 銀華長安資本管理(北京)有限公司 (Yinhua Wealth Capital Management (Beijing) Co., Ltd.*) and as to 13.3% by 長春市新興產業股權投資基金有限公司 (Changchun Emerging Industry Equity Investment Fund Co., Ltd.*). Accordingly, each of Modern Agricultural Holdings, PRC LLP, GP, Nongtou and Jilin SASAC is deemed to be interested in the shares of the Company held by Modern Agricultural in the Company under the SFO).
- (ii) Amongst 8,308,269,029 shares of the Company held by Modern Agricultural, 5,172,759,833 shares represented shares which may be issued to it upon full conversion of the Convertible Bonds. As such, as at 31 December 2022, Modern Agricultural was the beneficial owner of 3,135,509,196 shares of the Company, representing approximately 35.2% of the issued share capital of the Company. Upon full conversion of the Convertible Bonds, Modern Agricultural will become the holder of 8,308,269,029 shares of the Company, representing approximately 59.0% of the issued share capital of the Company as enlarged by the allotment and issue of conversion shares under the Convertible Bonds. As approved by the independent Shareholders at the EGM held on 30 November 2020, Modern Agricultural has obtained a waiver under note 1 on dispensations from Rule 26 of The Codes on Takeovers and Mergers and Share Buy-backs (the "**Takeovers Code**"), therefore, no offer under Rule 26 of the Takeovers Code would arise upon full conversion of the Convertible Bonds by Modern Agricultural.
- (c) Bank of Jilin Co., Ltd is a person having a security interest in shares of the Company.

Save as disclosed above, as at 31 December 2022, no person, other than the Directors or chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares" above, had interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

On 27 November 2020, 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd*) and 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.*) (collectively, the “**Nongtou Subsidiaries**”) and the Company entered into (i) the new master supply agreement dated 27 November 2020 (the “**New Master Supply Agreement**”) in relation to the supply of corn kernels by members of the Nongtou Subsidiaries and their respective subsidiaries from time to time (the “**Nongtou Subsidiaries Group**”) to members of the Group, and the related annual caps on an ongoing basis; and (ii) the new master sales agreement dated 27 November 2020 (the “**New Master Sales Agreement**”) in relation to the supply of corn starch and other corn-based products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners and amino acid products (“**Corn Starch and Other Products**”) by members of the Group to members of the Nongtou Subsidiaries Group, and the related annual caps on an ongoing basis. The New Master Supply Agreement and the New Master Sales Agreement will expire on 31 December 2023. During the Year, due to the suspension of operation of most of the Group’s production facilities, there was no purchase of corn kernels by the Group from the Nongtou Subsidiaries Group under the New Master Supply Agreement nor any sale of Corn starch and Other Products by members of the Group to the Nongtou Subsidiaries Group under the New Master Sales Agreement.

Pursuant to the New Master Supply Agreement, members of the Group shall enter into purchase orders or sales contracts with the Nongtou Subsidiaries Group from time to time during the term of the New Master Supply Agreement for the purpose of confirming the purchase of corn kernels by the relevant members of the Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method, quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the New Master Supply Agreement, at pricing terms and otherwise on terms in compliance with those set out in the New Master Supply Agreement.

Under the New Master Supply Agreement, the Nongtou Subsidiaries Group shall supply corn kernels to the Group at market rates and such price (exclusive of transportation, storage, insurance cost, interest and/or other handling charges) shall not be higher than the highest price of the prices below:

- (1) the latest average unit corn price in Liaoning Province, Jilin Province and Heilongjiang Province as published and announced on the official website of National Grain Trade Centre of the PRC (www.grainmarket.com.cn) within 15 days before the proposed date of the placing of purchase order by any member of the Group;
- (2) the average unit corn transaction price published on the official website of Dalian Commodity Exchange (www.dce.com.cn) of the latest trade matching day before the proposed date of the placing of purchase order by any member of the Group; and
- (3) the highest corn price in each of Liaoning Province, Jilin Province and Heilongjiang Province (whichever is applicable) obtained from China Corn Network (www.yumi.com.cn), an independent third party price consulting platform, on the date immediately before the proposed date of the placing of purchase order by any member of the Group.

Report of the Directors

Pursuant to the New Master Sales Agreement, the Nongtou Subsidiaries Group shall enter into purchase orders or sales contracts with members of the Group from time to time during the term of the New Master Sales Agreement for the purpose of confirming the purchase of Corn Starch and Other Products by the respective members of the Nongtou Subsidiaries Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including but not limited to the form of delivery, payment and remittance time and method (if there is any delay in payment by any member of the Nongtou Subsidiaries Group, interest rate of interest chargeable by the Group shall not be lower than (a) the payment overdue interest rate charged by the Group to the independent customers from time to time; and (b) the payment overdue interest rate charged by the Nongtou Subsidiaries Group to the Group in other transactions), quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the New Master Sales Agreement, at pricing terms and otherwise on terms in compliance with those set out in the New Master Sales Agreement.

Under the New Master Sales Agreement, the Group shall supply Corn Starch and Other Products to the Nongtou Subsidiaries Group at market rates and the unit price charged by the Group shall not be lower than the average unit price of Corn Starch and Other Products of the same or similar type sold by the Group to independent third parties in the most recent one-month period (price exclusive of transportation and storage costs, insurance costs, interest and/or other handling charges). In determining the market rates, the Group refers to price information obtained from other industry players in different regions of the PRC from time to time in preparing the price quotations for its customers.

As the Nongtou Subsidiaries comprise of (i) 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.*), which is principally engaged in the investment in agriculture and asset management in agriculture sector; and (ii) 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.*), which are wholly-owned by Nongtou. Nongtou is a controlling Shareholder through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural, Nongtou is a connected person of the Company. Accordingly, the transactions contemplated under the New Master Supply Agreement and the New Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that the terms of the New Master Supply Agreement and the New Master Sale Agreement are fair and reasonable, and the continuing connected transactions as contemplated under the New Master Supply Agreement and the New Master Sale Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole. The Auditor has confirmed that the above continuing connected transactions have complied with the matters as set out in rule 14A.56 of the Listing Rules. The Company had also complied with all disclosure requirements applicable to the above continuing connected transactions under Chapter 14A of the Listing Rules.

Save for the above continuing connected transactions, the other related party transactions entered into between the Group and the Nongtou Subsidiaries Group which are disclosed in note 34 to the consolidated financial statements also constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and such transactions are fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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





Report of the Directors

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the latest practicable date prior to the issue of this report, there was sufficient prescribed public float of the issued shares of the Company under the Listing Rules at any time during the Year.

FUNDRAISING ACTIVITIES

Other than the 2022 Subscription as mentioned in the paragraph headed “Important Transactions during the Year – The subscription and termination of the subscription of new shares of the Company under the general mandate” on page 17 of this report which was terminated and did not proceed to completion, the Company did not conduct any fundraising activities during the Year.

DISCLOSURE PURSUANT TO RULES 13.19 AND 13.21 OF THE LISTING RULES

Breach of loan agreements

- (1) Reference is made to the joint announcement of the Company and GSH dated 4 May 2020, among others, 錦州元成生化科技有限公司 (Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*) (“**Jinzhou Yuancheng**”), a subsidiary of GSH, failed to satisfy certain financial covenants under the various loan agreements entered into between Jinzhou Yuancheng and Jinzhou CCB for the aggregate principal amount of RMB189.9 million (“**Yuancheng CCB Loans**”), such failure to perform or comply the financial covenants would entitle Jinzhou CCB to declare the outstanding principal amount, accrued interest and all other sums payable under the Yuancheng CCB Loans immediately due and payable. In addition, such breach may also trigger cross default provisions in other loan agreements entered into by the GSH Group. The Yuancheng CCB Loans were jointly and severally guaranteed by the Company and certain subsidiaries of GSH with a maximum guaranteed principal amount of not more than RMB200.0 million.

As detailed in the joint announcements of the Company and GSH dated 14 January 2022 and 22 February 2022, Jinzhou CCB has applied to 遼寧省瀋陽市中級人民法院 (Intermediate People’s Court of Shenyang City, Liaoning Province*) (the “**Shenyang Intermediate Court**”), and the Shenyang Intermediate Court has granted, various orders in favour of Jinzhou CCB for preservation of the bank balance (or assets of equivalent value) of certain members of the Group and the GSH Group in the aggregate amount of RMB213,882,635.55 in respect of the Yuancheng CCB Loans. As at the date of this report, the outstanding principal amount of the Yuancheng CCB Loans is approximately RMB188.7 million.

Report of the Directors

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

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

As disclosed in the announcement of the Company dated 8 March 2022, 中國信達資產管理股份有限公司吉林省分公司 (Jilin Branch of China Cinda Asset Management Co., Ltd.*) (“**Jilin Cinda**”) has entered into transfer agreements with Export-Import Bank, pursuant to which Export-Import Bank has transferred to Jilin Cinda all of the rights (including security rights) and benefits of certain loans owed by the Group with outstanding principal amount of approximately RMB1.2 billion together with outstanding interest (i.e., the Export-Import Bank Transferred Loans), which included the GBT Jilin Branch Export-Import Loan and the portion of the GBT Syndicated Loan owed to Export-Import Bank. As at the date of this report, the outstanding principal amounts under Export-Import Bank Transferred Loans are approximately RMB1.2 billion.

- (3) Reference is made to the joint announcement of the Company and GSH dated 23 December 2020 regarding certain loan agreements entered into between certain subsidiaries of the Company with each of Nongan Branch ABC and Changchun CCB with aggregate outstanding principal amounts of RMB920.0 million (excluding the loans owed by the GSH Group) together with outstanding interest (the “**GBT ABC Loan**”) and RMB740.0 million together with outstanding interest (the “**GBT CCB Loan**”) respectively, that have become immediately due and payable before their maturity dates in June 2021 in contemplation of the debt restructuring plan of the Group and the GSH Group. The Group has defaulted in the repayment of such loans and the outstanding principal amounts under the GBT ABC Loan and the GBT CCB Loan are approximately RMB920.0 million and RMB740.0 million, respectively. The maximum liability guaranteed by the Company under the GBT ABC Loan is RMB1,660.0 million, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements and certain subsidiaries of the Company have also provided collaterals to secure such loan. The maximum guaranteed principal amount by the Company under the GBT CCB Loan is RMB1,000.0 million.

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

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



Report of the Directors

As further disclosed in the joint announcement of the Company and GSH dated 23 December 2020, transfer agreements have also been entered into between Jilin Cinda and each of 中國農業銀行股份有限公司吉林省分行 (Jilin Branch of Agricultural Bank of China Co., Ltd.*) ("**Jilin Branch ABC**") and Jilin Branch CCB. Jilin Branch ABC (acting on behalf of Nongan Branch ABC) and Jilin Branch CCB (also acting on behalf of Changchun CCB) have each agreed to sell to Jilin Cinda, and Jilin Cinda has agreed to purchase, all of the rights (including security rights) and benefits of (i) the loans owed by, among others, the Group and the GSH Group, with an aggregate outstanding principal amount of approximately RMB1,400.0 million and the aggregate outstanding interest of approximately RMB42.8 million (i.e., the ABC Transferred Loans) at a consideration of approximately RMB414.7 million; and (ii) the loans owed by the Group with an aggregate outstanding principal amount of approximately RMB1,983.5 million and the aggregate outstanding interest of approximately RMB128.5 million (i.e., the CCB Transferred Loans) at a consideration of approximately RMB583.6 million. The ABC Transferred Loans include, among others, the GBT ABC Loan and the GSH ABC Loan. The CCB Transferred Loans include, among others, the GBT CCB Loan and the portion of the GBT Syndicated Loan owed to Jilin Branch CCB and Changchun CCB. As at the date of this report, the outstanding principal amounts under ABC Transferred Loans and the CCB Transferred Loans are approximately RMB1,400.0 million and RMB1,983.5 million, respectively.

- (4) Reference is made to the joint announcement of the Company and GSH dated 27 April 2021. 哈爾濱大成生物科技有限公司 (Harbin Dacheng Bio Technology Co., Ltd.*) ("**Harbin Dacheng**"), which is an indirect wholly-owned subsidiary of the Company, has defaulted in the repayment of the fixed-term loan under a loan agreement (the "**Harbin Dacheng Daxinganling Loan Agreement**") entered into between Harbin Dacheng and 大興安嶺農村商業銀行股份有限公司 (Daxinganling Rural Commercial Bank Co., Ltd.*) ("**Daxinganling Bank**"), with outstanding principal amount of RMB50.0 million, together with outstanding interests (the "**Daxinganling Loan**"). Harbin Dacheng has provided collaterals to secure the Daxinganling Loan. As at the date of this report, the outstanding principal amount under the Harbin Dacheng Daxinganling Loan Agreement is RMB50.0 million and Harbin Dacheng has yet to receive any waiver from Daxinganling Bank in respect of the default of repayment of the Daxinganling Loan.

On the other hand, as further detailed in the joint announcement of the Company and GSH dated 5 August 2022, Dihao Foodstuff has defaulted in the repayment of the fixed-term loan under a loan agreement (the "**Jiyin Rural Loan Agreement**") entered into between Dihao Foodstuff and 長春雙陽吉銀村鎮銀行股份有限公司 (Changchun Shuangyang Jiyin Rural Bank Co., Ltd.*) ("**Jiyin Rural Bank**") with outstanding principal amount of RMB4.9 million (the "**Jiyin Rural Loan**"). Such loan is guaranteed by 上海好成食品發展有限公司 (Shanghai Haocheng Foods Development Co., Ltd*), a wholly-owned subsidiary of GSH. As at the date of this report, the outstanding principal amount under the Jiyin Rural Loan Agreement is RMB4.9 million and Dihao Foodstuff has yet to receive any waiver in written form from Jiyin Rural Bank in respect of the default of repayment of the Jiyin Rural Loan.

Report of the Directors

SUPPLEMENTARY INFORMATION IN RELATION TO THE YEAR UNDER REVIEW

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

Despite most parts of the world reopened as the impact of the COVID-19 pandemic weakened and cross-border travels and normal economic activities resumed in many countries, inflationary pressure, geopolitical conflicts and soaring energy prices continued to put pressure on the global economy. With respect to the Group's business, corn price is expected to remain high throughout 2023. Coupled with the increasingly competitive operating environment, the year of 2023 is expected to remain challenging for the Group. It is not commercially viable for the Group to resume its upstream operation without downstream production. As a result, the Group has continued to suspend most of its upstream operation during the Year. However, as China lifted most of the pandemic control measures at the end of 2022 and normal economic activities gradually resumed since then, the Group saw the opportunity to resume its lysine operation with the expectation of demand recovery in China. As such, the operation of the Group's lysine production facilities of Changchun Dahe has resumed since mid December 2022. The resumption of production in Changchun Dahe is expected to generate cash inflow to the Group in 2023. Apart from the resumption of its lysine operation, the Group will continue to monitor the market conditions closely and seek opportunities with industrial players and/or strategic investors to raise additional fund to resume the operation of other production sites as soon as possible to the extent practicable.

AUDITOR

Mazars CPA Limited will retire and a resolution for their reappointment as the Auditor will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Yang Jian
Chairman

Hong Kong
30 March 2023



Independent Auditor's Report



MAZARS CPA LIMITED
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To the shareholders of
Global Bio-chem Technology Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Global Bio-chem Technology Group Company Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on page 58 to page 141, which comprise the consolidated statement of financial position at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

Material uncertainty related to going concern

As discussed in note 2.2 to the consolidated financial statements, at 31 December 2022, the Group had net current liabilities and capital deficiency of HK\$12,818 million and HK\$7,787 million respectively, and the Group has incurred losses since 2012 and reported a loss of HK\$1,520 million for the year ended 31 December 2022. These conditions, along with other matters as set forth in note 2.2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern.

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

We were unable to obtain sufficient appropriate audit evidence regarding the use of going concern assumption in the preparation of the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at 31 December 2022. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

Independent Auditor's Report

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

Mazars CPA Limited

Certified Public Accountants
42/F, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

30 March 2023

The engagement director on the audit resulting in this independent auditor's report is:

So Chun Wai

Practising Certificate number: P07513



**Consolidated Statement of Profit or Loss and
Other Comprehensive Income**
Year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
REVENUE	5	372,278	746,551
Cost of sales		(337,681)	(698,200)
Gross profit		34,597	48,351
Other income and gains	5	30,874	1,406,507
Selling and distribution costs		(39,650)	(63,450)
Administrative expenses		(328,207)	(372,761)
Other expenses		(545,180)	(635,527)
Share of loss of a joint venture	18	—	(2,004)
Finance costs	6	(726,218)	(790,585)
LOSS BEFORE TAX	7	(1,573,784)	(409,469)
Income tax credit (expenses)	10	54,219	(25,920)
LOSS FOR THE YEAR		(1,519,565)	(435,389)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that are reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside Hong Kong		433,334	(128,279)
		433,334	(128,279)
Items that will not be reclassified subsequently to profit or loss:			
Loss on properties revaluation, net		—	(160,110)
Income tax effect		—	40,028
		—	(120,082)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		433,334	(248,361)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,086,231)	(683,750)
LOSS ATTRIBUTABLE TO:			
Owners of the Company		(1,443,068)	(400,801)
Non-controlling interests		(76,497)	(34,588)
		(1,519,565)	(435,389)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		(1,021,289)	(656,559)
Non-controlling interests		(64,942)	(27,191)
		(1,086,231)	(683,750)
LOSS PER SHARE			
Basic	12	HK(16.2) cents	HK(4.5) cents
Diluted	12	HK(16.2) cents	HK(4.5) cents

Consolidated Statement of Financial Position

At 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	4,706,470	5,381,367
Right-of-use assets	14	451,069	504,279
Deposits paid for acquisition of property, plant and equipment		835	902
Intangible assets	15	3,751	3,751
Interests in an associate	17	—	—
Interests in a joint venture	18	—	—
Equity investment at fair value through other comprehensive income (“Designated FVOCI”)	19	208	208
		5,162,333	5,890,507
CURRENT ASSETS			
Inventories	20	216,720	81,418
Trade receivables	21	59,845	112,211
Prepayments, deposits and other receivables	22	367,995	376,239
Due from a joint venture		1,055	—
Pledged bank deposits	23	173	530
Cash and bank balances	23	41,766	21,810
		687,554	592,208
CURRENT LIABILITIES			
Trade payables	24	1,201,524	1,172,159
Other payables and accruals	25	4,046,184	3,252,963
Due to an associate		840	990
Due to a joint venture		—	145
Tax payables		104,553	106,256
Interest-bearing bank and other borrowings	26	7,113,550	7,501,280
Lease liabilities	27	1,902	1,891
Convertible bonds	28	1,037,451	—
		13,506,004	12,035,684
NET CURRENT LIABILITIES		(12,818,450)	(11,443,476)
TOTAL ASSETS LESS CURRENT LIABILITIES		(7,656,117)	(5,552,969)
NON-CURRENT LIABILITIES			
Lease liabilities	27	345	2,247
Deferred income	29	100,806	115,232
Deferred tax liabilities	30	29,788	91,522
Convertible bonds	28	—	938,855
		130,939	1,147,856
NET LIABILITIES		(7,787,056)	(6,700,825)

Consolidated Statement of Financial Position

At 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
CAPITAL AND RESERVES			
Share capital	31	890,741	890,741
Reserves		(8,429,734)	(7,408,445)
Deficit attributable to owners of the Company		(7,538,993)	(6,517,704)
Non-controlling interests		(248,063)	(183,121)
TOTAL DEFICIT		(7,787,056)	(6,700,825)

These consolidated financial statements on page 58 to page 141 were approved and authorised for issue by the board of directors of the Company on 30 March 2023 and signed on its behalf by

Yang Jian
Director

Wang Guicheng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Properties revaluation reserve HK\$'000	Convertible bond reserve HK\$'000	Other reserve HK\$'000	Statutory reserve fund HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2022	890,741	2,849,298	745,826	972,056	15,677	113,808	1,655,726	(13,760,836)	(6,517,704)	(183,121)	(6,700,825)
Loss for the year	-	-	-	-	-	-	-	(1,443,068)	(1,443,068)	(76,497)	(1,519,565)
Other comprehensive income for the year – Exchange realignment	-	-	-	-	-	-	421,779	-	421,779	11,555	433,334
Total comprehensive income (loss) for the year	-	-	-	-	-	-	421,779	(1,443,068)	(1,021,289)	(64,942)	(1,086,231)
At 31 December 2022	890,741	2,849,298*	745,826*	972,056*	15,677*	113,808*	2,077,505*	(15,203,904)*	(7,538,993)	(248,063)	(7,787,056)



Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Share capital HK\$'000	Share premium HK\$'000	Properties revaluation reserve HK\$'000	Attributable to owners of the Company			Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
				Convertible bond reserve HK\$'000	Other reserve HK\$'000	Statutory reserve fund HK\$'000					
At 1 January 2021	890,741	2,849,298	875,804	972,056	15,677	113,808	1,781,506	(13,360,035)	(5,861,145)	(155,930)	(6,017,075)
Loss for the year	-	-	-	-	-	-	-	(400,801)	(400,801)	(34,588)	(435,389)
Other comprehensive loss for the year											
– Exchange realignment	-	-	-	-	-	-	(125,780)	-	(125,780)	(2,499)	(128,279)
– Loss on properties revaluation, net of deferred tax	-	-	(129,978)	-	-	-	-	-	(129,978)	9,896	(120,082)
Total comprehensive loss for the year	-	-	(129,978)	-	-	-	(125,780)	(400,801)	(656,559)	(27,191)	(683,750)
At 31 December 2021	890,741	2,849,298*	745,826*	972,056*	15,677*	113,808*	1,655,726*	(13,760,836)*	(6,517,704)*	(183,121)	(6,700,825)

* These reserve accounts comprise the negative reserves of HK\$8,429,734,000 (2021: HK\$7,408,445,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

SHARE PREMIUM

The share premium includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the shares of Global Sweeteners Holdings Limited (“**GSH**” together with its subsidiaries, the “**GSH Group**”), a subsidiary of the Company, in a prior year and the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from capitalisation issues in prior years; and (iii) the premium arising from the placing and subscriptions of shares of the Company.

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

PROPERTIES REVALUATION RESERVE/CONVERTIBLE BOND RESERVE/EXCHANGE RESERVE

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

STATUTORY RESERVE FUND

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

OTHER RESERVE

Other reserve includes the difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received, on changes in the Group’s interests in subsidiaries that do not result in the Group losing control.



Consolidated Statement of Cash Flows

Year ended 31 December 2022

Notes	2022 HK\$'000	2021 HK\$'000
OPERATING ACTIVITIES		
Loss before tax	(1,573,784)	(409,469)
Adjustments for:		
Finance costs	726,218	790,585
Bank interest income	(45)	(271)
Loss on disposal of property, plant and equipment, net	5,904	379
Gain on debt restructuring	—	(1,325,031)
Amortisation of deferred income	(7,637)	(9,417)
Depreciation of property, plant and equipment	308,372	378,258
Depreciation of right-of-use assets	22,137	24,255
Impairment of property, plant and equipment	4,721	—
Loss on properties revaluation, net	—	36,457
Impairment (Reversal of impairment) of deposits paid for acquisition of property, plant and equipment, net	5,421	(12,873)
Impairment (Reversal of impairment) of prepayments and deposits, net	2,142	(27,306)
Impairment of other receivables, net	10,400	10,657
Reversal of impairment of trade receivables, net	(1,276)	(411)
Write-back of payables	(2,538)	—
(Reversal of write-down) Write-down of inventories, net	(1,996)	28,591
Share of loss of a joint venture	—	2,004
Changes in working capital:		
Inventories	(142,133)	36,066
Trade receivables	47,031	25,942
Prepayments, deposits and other receivables	(35,771)	30,535
Pledged deposits	328	29,710
Trade payables	114,106	(216,283)
Other payables and accruals	431,647	137,225
Due to an associate	(85)	(448)
Due to a joint venture	(1,217)	(4,633)
Cash used in operations	(88,055)	(475,478)
Interest received	45	271
Net cash used in operating activities	(88,010)	(475,207)

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(6,176)	(25,812)
Compensation for resumption of the Dihao Properties received		—	418,275
Proceeds from disposal of property, plant and equipment		5,763	127
Net cash (used in) generated from investing activities		(413)	392,590
FINANCING ACTIVITIES			
Proceeds from new bank and other borrowings		192,665	416,951
Repayment of bank and other borrowings		(68,945)	(404,268)
Repayment of lease liabilities		(1,915)	(3,372)
Interest paid		(12,055)	(57,969)
Net cash generated from (used in) financing activities	32	109,750	(48,658)
Net increase (decrease) in cash and cash equivalents		21,327	(131,275)
Cash and cash equivalents at beginning of year		21,810	153,323
Effect of foreign exchange rate changes, net		(1,371)	(238)
Cash and cash equivalents at end of year	23	41,766	21,810



Notes to the Consolidated Financial Statements

Year ended 31 December 2022

1. CORPORATE INFORMATION

Global Bio-chem Technology Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) was incorporated in the Cayman Islands under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability. The principal activity of the Company is investment holding. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 1002, 10th Floor, Tower A, Cheung Kei Center, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong.

The Group is principally engaged in the manufacture and sale of corn refined products and corn based biochemical products. There were no significant changes in the nature of the Group’s principal activities during the year ended 31 December 2022 (the “**Year**”).

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Hong Kong Companies Ordinance (Cap. 622).

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2021 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 2.3 to the consolidated financial statements. A summary of the principal accounting policies adopted by the Group is set out in note 2.5 to the consolidated financial statements.

2.2 GOING CONCERN

The Group recorded a loss of approximately HK\$1,519.6 million (2021: approximately HK\$435.4 million) for the Year, and as at 31 December 2022, the Group had net current liabilities of approximately HK\$12,818.5 million (31 December 2021: approximately HK\$11,443.5 million) and net liabilities of approximately HK\$7,787.1 million (31 December 2021: approximately HK\$6,700.8 million). There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of these circumstances and based on the recommendations of the audit committee (the "**Audit Committee**") of the Company after its critical review of the management's position, the management of the Company has taken the following steps to improve the financial position of the Group:

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

As announced by the Company and GSH on 23 December 2020, each of 中國農業銀行股份有限公司吉林省分行 (Jilin Branch of Agricultural Bank of China Co., Ltd.*) ("**Jilin Branch ABC**") (acting on behalf of 中國農業銀行股份有限公司農安縣支行 (Nongan Branch of Agricultural Bank of China Co., Ltd.*) ("**Nongan Branch ABC**")) and 中國建設銀行股份有限公司吉林省分行 (Jilin Branch of China Construction Bank Corporation*) ("**Jilin Branch CCB**") announced that they have each reached a transfer agreement with 中國信達資產管理股份有限公司吉林省分公司 (Jilin Branch of China Cinda Asset Management Co., Ltd.*) ("**Jilin Cinda**") to transfer all rights (including security rights) and benefits of certain loans to Jilin Cinda. Jilin Branch ABC has transferred all of its rights (including security rights) and benefits of the loans owed by, among others, the Group and the GSH Group with an aggregate outstanding principal amount of approximately RMB1,400.0 million and the aggregate outstanding interest of approximately RMB42.8 million (the "**ABC Transferred Loans**") to Jilin Cinda at a consideration of approximately RMB414.7 million; and Jilin Branch CCB has transferred all of its rights (including security rights) and benefits of the loans owed by the Group with an aggregate outstanding principal amount of approximately RMB1,983.5 million and the aggregate outstanding interest of approximately RMB128.5 million (the "**CCB Transferred Loans**") to Jilin Cinda at a consideration of approximately RMB583.6 million.

Moreover, as announced by the Company on 8 March 2022, 中國進出口銀行 (The Export-Import Bank of China*) ("**Export-Import Bank**") has entered into transfer agreements with Jilin Cinda to transfer all rights (including security rights) and benefits of certain loans owed by the Group with an aggregate outstanding principal amount of approximately RMB1.2 billion together with outstanding interest (the "**Export-Import Bank Transferred Loans**") to Jilin Cinda. The Export-Import Bank Transferred Loans included (i) the loan under the loan agreements entered into between an indirect wholly-owned subsidiary of the Company and 中國進出口銀行吉林省分行 (Jilin Branch of The Export-Import Bank of China*) ("**Jilin Branch Export-Import Bank**") with an aggregate outstanding principal amount of approximately RMB648.0 million together with outstanding interest (the "**GBT Jilin Branch Export-Import Loan**") and (ii) a portion of the syndicated loan under the syndicated loan agreement entered into among an indirect wholly-owned subsidiary of the Company and Jilin Branch CCB, 中國建設銀行股份有限公司長春西安大路支行 (Changchun Xian Road Branch of China Construction Bank Corporation*) ("**Changchun CCB**") and Export-Import Bank with an aggregate outstanding principal amount of approximately RMB1.8 billion together with outstanding interest (the "**GBT Syndicated Loan**").

With the support from 吉林省人民政府國有資產監督管理委員會 (The State-Owned Assets Supervision and Administration Commission of the People's Government of Jilin Province*), the Company will endeavour to facilitate the implementation of the next stage of the debt restructuring plan. It is currently expected that debt restructuring in relation to a portion of the loans owed by the Group and the GSH Group could be completed by the end of 2023, pending and subject to the internal approval from the respective creditors and relevant local government authorities. The directors of the Company expect that the financial position of the Group will improve significantly upon the completion of the debt restructuring plan.

2.2 GOING CONCERN *(Continued)*

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

It is expected that the resumption of the remaining part of the land and buildings owned by the Group which are located in Luyuan District, Changchun, the PRC (the “**Relevant Properties**”) by the local government will be conducted in stages according to the PRC’s Slum Redevelopment Policy. The management expects that a substantial part of the remaining Relevant Properties will be resumed by the local government in 2024-2025. The directors of the Company believe that the proceeds from the resumption of the Relevant Properties will help to relieve the financial and cash flow pressure of the Group during the period of suspension.

(c) Monitoring of the Group’s operating cash flows and partial resumption of production operation

The Group has taken various measures to minimise operating cash outflow and secure financial resources during market turbulence as a result of, among others, the coronavirus disease (“**COVID-19**”) pandemic. During the Year, the Group has suspended the production operation of most of the Group’s production facilities and consolidated its resources in higher efficiency segments. As China lifted most of the pandemic control measures by the end of the Year, the Group took the opportunity to resume its amino acids operation in mid December 2022. The resumption of the amino acids operation is expected to generate cash inflow to the Group in 2023.

(d) Financial support from the indirect major shareholder

The Group has received an updated written confirmation dated 25 April 2022 from 吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.) (“**Nongtou**”, together with its subsidiaries, the “**Nongtou Group**”) that it would continue to provide financial support to the Group in the following 24 months on a going concern basis. Such assistance received by the Group is not secured by any assets of the Group.

Nongtou, being a state-owned enterprise, was established in August 2016 and its unaudited net assets value as at 31 December 2022 amounted to approximately RMB2,105.5 million (31 December 2021: approximately RMB2,323.5 million). It is tasked to consolidate the state-owned investments in the agricultural sector in Jilin Province. The management of the Company is of the view that Nongtou would be able to support the operations of the Group, provide synergistic effects among its various investments in the agricultural sector in Jilin Province and provide adequate and sufficient financial support to the Group.

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

2.3 CHANGES IN ACCOUNTING POLICIES

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2021 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

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

Amendments to HKFRS16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Proceeds before Intended Use
Amendments to HKAS 37	Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements Projects to HKFRSs	2018-2020 Cycle

Amendments to HKFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendment does not affect lessors.

Amendments to HKAS 16: Proceeds before Intended Use

The amendments clarify the accounting requirements for proceeds received by an entity from selling items produced while testing an item of property, plant or equipment before it is used for its intended purpose. An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss and measures the cost of those items applying the measurement requirements of HKAS 2.

Amendments to HKAS 37: Cost of Fulfilling a Contract

The amendments clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (for example, direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Amendments to HKFRS 3: Reference to the Conceptual Framework

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



2.3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Annual Improvements Project – 2018-2020 Cycle

HKFRS 1: Subsidiary as a First-time Adopter

This amendment simplifies the application of HKFRS 1 for a subsidiary that becomes a first-time adopter of HKFRSs later than its parent — i.e. if a subsidiary adopts HKFRSs later than its parent and applies HKFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to HKFRSs.

HKFRS 9: Fees in the “10 per cent” Test for Derecognition of Financial Liabilities

This amendment clarifies that — for the purpose of performing the “10 per cent test” for derecognition of financial liabilities — in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

HKFRS 16: Lease Incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, Example 13 is not clear as to why such payments are not a lease incentive.

HKAS 41: Taxation in Fair Value Measurements

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13.

The adoption of the above new/revised HKFRSs and HKAS does not have any significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

2.4 NEW AND REVISED HKFRSS NOT YET ADOPTED

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

Amendments to HKAS 1	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ The effective date to be determined

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

Subsidiaries

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associate and joint venture

An associate is an entity over which the Group has 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is a 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 reassesses whether it has joint control of an arrangement and whether the type of joint arrangement in which it is involved has changed, if facts and circumstances change.

The Group's investment in an associate or a joint venture is stated in the consolidated statement of financial position initially at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets under the equity method of accounting, less any impairment losses, except when the investment or a portion thereof is classified as held for sale. The Group's share of the post-acquisition results and other comprehensive income of an associate or a joint venture is included in the consolidated statement of profit or loss and other comprehensive income. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate or a joint venture, the Group discontinues recognising its share of further losses when the Group's share of losses of the associate or the joint venture equals or exceeds the carrying amount of its interest in the associate or the joint venture, which includes any long term interests that, in substance, form part of the Group's net investment in the associate or the joint venture.

Goodwill arising on an acquisition of an associate or a joint venture is measured as the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate or joint venture. Such goodwill is included in interests in associates or joint ventures. On the other hand, any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture is eliminated to the extent of the Group's interest in the associate and joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Business combinations and goodwill

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



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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 or other comprehensive income as appropriate.

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

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

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) 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 CGU (or group of CGUs) 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 CGU retained.

Fair value measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of the parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

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

Leasehold buildings	2.0% to 6.7%
Plant and machinery	6.7%
Leasehold improvements, furniture, equipment and motor vehicles	20.0%

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

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

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



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

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 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 the end of each reporting period.

Intangible assets with indefinite useful lives are tested for impairment at least annually either individually or at the CGU level. These 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.

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset.

Golf club membership

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the Group; and
- (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option — in which case depreciation is provided over the estimated useful life of the underlying asset) as follows:

Land	11-52 years
Office premises	3 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate;
- (c) amounts expected to be payable under residual value guarantees;
- (d) exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, the Group remeasures the lease liability using a revised discount rate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

- (a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above.
- (b) the Group determines the lease term of the modified contract.
- (c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term.
- (d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss.
- (e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

The Group has applied the practical expedient provided in Amendments to HKFRS 16: COVID-19-Related Rent Concessions and does not assess whether eligible rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modification. The Group accounts for any change in lease payments resulting from the rent concession the same way it would account for the change applying HKFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets

Recognition and derecognition

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

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Classification and measurement

Financial assets (except for trade receivables without a significant financing component which are initially measured at their transaction price) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial assets.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income ("**FVOCI**"); (iii) Designated FVOCI; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its 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 at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

Designated FVOCI

Upon initial recognition, the Group may make an irrevocable election to present subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies in other comprehensive income. The classification is determined on an instrument-by-instrument basis.

These equity investments are subsequently measured at fair value and are not subject to impairment. Dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains or losses are recognised in other comprehensive income and shall not be subsequently reclassified to profit or loss.

The Group's financial assets measured at FVOCI include the Group's equity interests in an equity investment which is not held for trading.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities

Recognition and derecognition

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

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

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group's financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated).

Subsequently, the financial guarantee is measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with HKFRS 15 and (ii) the amount of the loss allowance determined in accordance with the expected credit losses ("ECL") model under HKFRS 9, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

- (i) past due information
- (ii) nature of instrument
- (iii) nature of collateral, if any
- (iv) industry of debtors
- (v) geographical location of debtors



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument meets any of the following criteria:

- (i) 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); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, 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.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument 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. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For financial guarantee contracts, the date that the Group becomes a party to the financial guarantee contracts is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment and the Group considers the changes in the risk that the specified debtor will default on the financial guarantee contracts.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items *(Continued)*

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

Simplified approach of ECL

For trade receivables and contract assets without a significant financing components or otherwise for which the Group applies the practical expedient not to account for the significant financing components, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events 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.
- (e) the disappearance of an active market for that financial asset because of financial difficulties.
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items *(Continued)*

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Convertible bond

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond equity reserve is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond reserve is transferred to accumulated profits or losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

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 the estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

Government grants

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The Group engages in the manufacture and sale of corn refined products and corn based biochemical products.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers within HKFRS 15 *(Continued)*

Timing of revenue recognition (Continued)

- (c) 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.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of corn refined products and corn based biochemical products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost or Mandatory FVOCI that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

In accordance with the standard payment terms of the Group, payments are normally not due or received from the customer until when the goods are delivered, although the Group may request from the customer the whole or some of the contractual payments before the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue.

Contract costs

Contract costs are either incremental costs of obtaining or costs (other than those that are accounted for as inventories, property, plant and equipment, or intangible assets) to fulfil contracts with customers. Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses.

The costs to obtain contracts are capitalised if they are incremental and recoverable, except to the extent that the practical expedient in paragraph 94 of HKFRS 15 is applied. The capitalised costs are amortised on a straight-line basis over the term of the specific existing and anticipated contracts to which the costs relate. The Group applies the practical expedient in HKFRS 15 and recognises the incremental costs as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract costs *(Continued)*

The costs to fulfil contracts are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, generate or enhance resources that will be used to provide goods or services in the future, and are expected to be recovered. Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred. The costs are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services under the specific existing and anticipated contracts to which the costs relate.

An impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset exceeds (a) the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates; less (b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses. A reversal of impairment loss is recognised in profit or loss when the impairment conditions no longer exist or have improved provided the increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognised previously.

Borrowing costs

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

Dividends

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

Employee benefits

Short term employee benefits

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Retirement benefits

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

Under the MPF Scheme, no forfeited contributions for the MPF Scheme may be used by the employer to reduce the existing level of contributions as the contributions are fully vested to the employees upon payments to the MPF Scheme.

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

Under the PRC RB Schemes, no forfeited contributions may be used by the employer to reduce the existing level of contributions.

Foreign currencies

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

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



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

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

Deferred tax liability for withholding taxes

The Group determines that no dividends are to be distributed by the PRC subsidiaries to the Company or any subsidiary outside the PRC in the foreseeable future. Therefore, no deferred tax liability for withholding taxes has been recognised in these consolidated financial statements. Please refer to note 30 to the consolidated financial statements for more details of the unrecognised deferred tax liability for withholding taxes.

Estimation uncertainty

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Loss allowance for ECL

The Group's management estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivable. Details of the key assumptions and inputs used in estimating ECL are set out in note 35 to the consolidated financial statements.

Fair value of property, plant and equipment

The Group estimates the fair value of its leasehold buildings and other property, plant and equipment (for impairment purpose) with reference to valuations performed by an independent professional valuer. The valuation of leasehold buildings is performed using the direct comparison approach or the depreciated replacement cost (the "DRC") approach. The direct comparison approach requires adjustments to transaction price of similar properties regarding differences in key valuation attributes such as size, age and location etc. between the properties under appraisal and the comparable. The DRC approach requires an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation. The valuation of property, plant and equipment (other than leasehold buildings) is performed using the market approach or where no second hand prices are available, the cost approach. The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transport, installation, commissioning and consultants' fees. Adjustment is then made for accrued depreciation, which encompasses condition, utility, age, wear and tear, functional and economic obsolescence.

Useful lives and residual values of property, plant and equipment

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



3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of property, plant and equipment and right-of-use assets

Determining an appropriate amount of an impairment requires an estimation of recoverable amounts of relevant property, plant and equipment and right-of-use assets or the respective CGU to which the property, plant and equipment and right-of-use assets belong, which is the higher of value in use and fair value less cost of disposal. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the CGU to which the asset belongs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the relevant assets or the CGU and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset or the CGU for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected or there is a downward revision of future estimated cash flows due to unfavourable changes in facts and circumstances, an additional impairment loss may arise.

Write-down of inventories

The Group reviews ageing analysis and condition of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving items that are no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Income taxes

At 31 December 2022, a deferred tax asset of approximately HK\$404.1 million (2021: HK\$407.9 million) in relation to deductible temporary difference and tax losses was recognised in the consolidated statement of financial position to the extent of the recognised taxable temporary difference. No deferred tax asset has been recognised on the remaining tax losses of approximately HK\$7,219.5 million (2021: HK\$7,946.1 million) and the remaining deductible temporary difference of approximately HK\$2,833.5 million (2021: HK\$3,779.9 million) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits or taxable temporary differences are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four (2021: four) reportable operating segments as follows:

- (a) the upstream products segment engages in the manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products;
- (b) the amino acids segment engages in the manufacture and sale of corn based biochemical products, including lysine and threonine;
- (c) the corn sweeteners segment engages in the manufacture and sale of corn sweeteners, including glucose, maltose, high fructose corn syrup and maltodextrin; and
- (d) the polyol chemicals segment engages in the manufacture and sale of corn based biochemical products, including polyol chemicals, anti-freeze products, hydrogen and ammonia.

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

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



Notes to the Consolidated Financial Statements

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION *(Continued)*

(i) Segment results

Year ended 31 December 2022

	Upstream products HK\$'000	Amino acids HK\$'000	Corn sweeteners HK\$'000	Polyol chemicals HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue from:						
External customers	801	5,351	359,567	6,559	–	372,278
Intersegment	–	137	–	–	(137)	–
Revenue	801	5,488	359,567	6,559	(137)	372,278
Segment results	(355,689)	(299,567)	(92,847)	(13,688)	–	(761,791)
Bank interest income						45
Unallocated income						26,456
Corporate and other unallocated expenses						(112,276)
Finance costs						(726,218)
Loss before tax						(1,573,784)
Income tax credit						54,219
Loss for the year						(1,519,565)

Year ended 31 December 2021

	Upstream products HK\$'000	Amino acids HK\$'000	Corn sweeteners HK\$'000	Polyol chemicals HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue from:						
External customers	791	1,492	727,325	16,943	–	746,551
Intersegment	579	1,151	–	1,372	(3,102)	–
Revenue	1,370	2,643	727,325	18,315	(3,102)	746,551
Segment results	(369,106)	(340,459)	(84,747)	(78,304)	–	(872,616)
Bank interest income						271
Unallocated income						53,447
Corporate and other unallocated expenses						(123,013)
Gain on debt restructuring						1,325,031
Share of loss of a joint venture						(2,004)
Finance costs						(790,585)
Loss before tax						(409,469)
Income tax expenses						(25,920)
Loss for the year						(435,389)

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION *(Continued)*

(ii) Other segment information

Year ended 31 December 2022

	Upstream products HK\$'000	Amino acids HK\$'000	Corn sweeteners HK\$'000	Polyol chemicals HK\$'000	Total HK\$'000
Capital expenditure	688	5,339	136	13	6,176
Depreciation of property, plant and equipment	127,280	120,673	51,168	9,251	308,372
Depreciation of right-of-use assets (a)	10,063	8,169	1,484	671	20,387
Loss on disposal of property, plant and equipment, net	5,904	—	—	—	5,904
(Reversal of write-down) Write-down of inventories, net	(1,652)	(1,624)	—	1,280	(1,996)
Impairment of deposits paid for acquisition of property, plant and equipment, net	5,415	6	—	—	5,421
(Reversal of impairment) Impairment of trade receivables, net	(1,537)	(1,582)	434	1,409	(1,276)
Impairment of prepayments and deposits, net	2,142	—	—	—	2,142
Impairment of other receivables, net	9,775	220	405	—	10,400
Impairment of property, plant and equipment	—	4,315	406	—	4,721
Write-back of payables	(1,598)	(616)	—	(324)	(2,538)

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION *(Continued)*

(ii) Other segment information *(Continued)*

Year ended 31 December 2021

	Upstream products HK\$'000	Amino acids HK\$'000	Corn sweeteners HK\$'000	Polyol chemicals HK\$'000	Total HK\$'000
Capital expenditure	10,277	13,985	1,543	7	25,812
Depreciation of property, plant and equipment	135,348	191,723	41,406	9,781	378,258
Depreciation of right-of-use assets (a)	10,428	8,335	1,516	671	20,950
Loss on disposal of property, plant and equipment, net	—	—	379	—	379
Write-down of inventories, net	558	19,796	3,085	5,152	28,591
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net	(4,074)	—	—	(8,799)	(12,873)
(Reversal of impairment) Impairment of trade receivables, net	(709)	(323)	27	594	(411)
Reversal of impairment of prepayments and deposits, net	(735)	(26,571)	—	—	(27,306)
Impairment (reversal of impairment) of other receivables, net	15,614	—	(4,957)	—	10,657
Loss on properties revaluation, net	3,869	32,588	—	—	36,457

Remark:

- (a) Depreciation of right-of-use assets that was not attributable to any of the above segments which amounted to HK\$1,750,000 (2021: HK\$3,305,000) was included in corporate and other unallocated expenses.

(iii) Geographical information

Revenue information based on locations of customers

	2022 HK\$'000	2021 HK\$'000
The PRC	359,286	731,878
Asia, the Americas and other regions	12,992	14,673
	372,278	746,551

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION *(Continued)*

(iii) Geographical information *(Continued)*

Non-current assets information based on locations of assets

	2022 HK\$'000	2021 HK\$'000
The PRC	5,159,792	5,886,216
Hong Kong	2,333	4,083
	5,162,125	5,890,299

(iv) Information about major customers

Revenue from customer individually accounted for 10% or more of the Group's revenue is as follows:

	2022 HK\$'000	2021 HK\$'000
Corn sweeteners Customer A	66,495	111,504



Notes to the Consolidated Financial Statements
Year ended 31 December 2022

5. REVENUE, OTHER INCOME AND GAINS

	Note	2022 HK\$'000	2021 HK\$'000
Revenue from contracts with customers within HKFRS 15			
Sale of goods (a)		372,278	746,551
Other income and gains			
Amortisation of deferred income	29	7,637	9,417
Bank interest income		45	271
Government grants (b)		995	5,345
Gain on debt restructuring		—	1,325,031
Foreign exchange gain, net		—	1,020
Reversal of impairment of deposits paid for acquisition of property, plant and equipment, net		—	12,873
Reversal of impairment of prepayments and deposits, net		—	27,306
Reversal of impairment of trade receivables, net		1,276	411
Reversal of write-down of inventories, net		559	—
Subcontracting income		1,964	5,385
Write-back of payables		2,538	—
Others		15,860	19,448
		30,874	1,406,507

Remarks:

- (a) The revenue from contracts with customers within HKFRS 15 is based on fixed price and recognised at a point in time. The amount of revenue recognised for the Year that was included in the contract liabilities at the beginning of the Year was HK\$87,024,000 (2021: HK\$116,597,000).
- (b) Government grants represented rewards to certain subsidiaries of the Company located in the PRC and Hong Kong with no further obligations and conditions to be complied with.

6. FINANCE COSTS

	Note	2022 HK\$'000	2021 HK\$'000
Interest on bank and other borrowings		505,145	519,545
Interest on financial guarantees given by Nongtou		20,349	20,385
Interest on payables to suppliers		102,104	161,348
Imputed interest on convertible bonds	28	98,596	89,234
Interest on lease liabilities		24	73
		726,218	790,585

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

7. LOSS BEFORE TAX

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

	2022 HK\$'000	2021 HK\$'000
Employee benefits expenses (excluding directors' remuneration):		
Wages and salaries	207,500	196,868
Pension scheme contributions (a)	65,105	72,940
	272,605	269,808
Cost of inventories sold (b)	337,681	698,200
Depreciation of property, plant and equipment	308,372	378,258
Depreciation of right-of-use assets	22,137	24,255
Amortisation of deferred income	(7,637)	(9,417)
Auditor's remuneration	3,700	4,400
Impairment of property, plant and equipment	4,721	—
Impairment (Reversal of impairment) of deposits paid for acquisition of property, plant and equipment, net	5,421	(12,873)
Impairment (Reversal of impairment) of prepayments and deposits, net	2,142	(27,306)
Impairment of other receivables, net	10,400	10,657
Research and development costs	10,229	13,348
Reversal of impairment of trade receivables, net	(1,276)	(411)
Loss on disposal of property, plant and equipment, net	5,904	379
Gain on debt restructuring	—	(1,325,031)
Foreign exchange loss (gain), net	16,304	(1,020)
(Reversal of write-down) Write-down of inventories, net (c)	(1,996)	28,591
Loss on properties revaluation, net	—	36,457

Remarks:

- (a) During the Year, the government of the PRC granted reductions of or exemptions from pension scheme contributions to certain subsidiaries operating in the PRC due to the COVID-19 pandemic.
- (b) Cost of inventories sold includes employee benefits expenses, depreciation and write-down/reversal of write-down of inventories, which are also included in the respective total amounts disclosed separately above for each of these types of income and expenses.
- (c) Reversal of write-down of inventories comprised reversal of write-down of inventories included in other income and cost of sales of HK\$559,000 and HK\$1,437,000, respectively, during the Year. (2021: Write-down of inventories comprised write-down of inventories included in other expenses of HK\$23,087,000 and cost of sales of HK\$5,504,000.)

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

	2022			
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
Executive directors				
Mr. Wang Guicheng (appointed on 31 October 2022)	50	—	18	68
Mr. Yang Jian (appointed on 31 October 2022)	—	—	—	—
Mr. Zhang Zihua (resigned on 11 October 2022)	—	—	—	—
Mr. Liu Shuhang (resigned on 31 October 2022)	603	—	140	743
Non-executive director				
Mr. Gao Dongsheng	—	—	—	—
	653	—	158	811
Independent non-executive directors				
Ms. Dong Hongxia	119	—	19	138
Mr. Ng Kwok Pong	240	—	—	240
Mr. Yeung Kit Lam	240	—	—	240
	599	—	19	618

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

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

	2021			Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	
Executive directors				
Mr. Yuan Weisen (resigned on 9 February 2021)	—	—	—	—
Mr. Zhang Zihua	—	—	—	—
Mr. Liu Shuhang	869	—	193	1,062
Non-executive director				
Mr. Gao Dongsheng	—	—	—	—
	869	—	193	1,062
Independent non-executive directors				
Ms. Dong Hongxia	123	—	20	143
Mr. Ng Kwok Pong	240	—	—	240
Mr. Yeung Kit Lam	240	—	—	240
	603	—	20	623
Chief operating officer				
Mr. Wang Guicheng	—	614	152	766

No emolument was paid or payable by the Group to any of the directors and chief executive of the Company as inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2022 and 2021. None of the directors and chief executive of the Company waived or agreed to waive any emoluments during the years ended 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

9. FIVE HIGHEST PAID EMPLOYEES

One (2021: One) of the five highest paid employees during the Year is a director of the Company, details of his remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2021: four) highest paid employees who are not directors of the Company are as follows:

	2022 HK\$'000	2021 HK\$'000
Salaries, allowances and benefits in kind	3,619	3,657
Pension scheme contributions	72	201
	3,691	3,858

The highest paid employees fell within the following bands:

	2022 Number of individuals	2021 Number of individuals
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	2	2
	4	4

No performance related bonus was paid or payable by the Group to any of the highest paid non-director employees during the years ended 31 December 2022 and 2021. No emolument was paid or payable by the Group to any of the highest paid non-director employees as inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2022 and 2021. The highest paid non-director employees did not waive any emoluments during the years ended 31 December 2022 and 2021.

10. INCOME TAX (CREDIT) EXPENSES

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Year (2021: Nil). No provision for the PRC enterprise income tax has been made as the subsidiaries operating in the PRC incurred tax losses or the estimated assessable profits are wholly absorbed by tax losses brought forward during the years ended 31 December 2022 and 2021.

	2022 HK\$'000	2021 HK\$'000
Deferred tax		
Origination and reversal of temporary differences, net	(54,219)	25,920
Income tax (credit) expenses	(54,219)	25,920

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

10. INCOME TAX (CREDIT) EXPENSES *(Continued)*

Reconciliation of income tax (credit) expenses

	2022 HK\$'000	2021 HK\$'000
Loss before tax	(1,573,784)	(409,469)
Income tax at applicable tax rate	(384,282)	(172,313)
Non-deductible expenses	21,193	61,411
Tax-exempt income	(20)	(20,097)
Unrecognised temporary difference	16,366	1,751
Unrecognised tax losses	288,856	265,394
Utilisation of previously unrecognised tax losses	—	(82,006)
Recognition of previously unrecognised deferred taxes and reversal of deferred taxes	3,668	(28,220)
Income tax (credit) expenses	(54,219)	25,920

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

11. DIVIDENDS

The board of directors of the Company does not recommend the payment of any dividend for the Year (2021: Nil).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the Year attributable to owners of the Company of approximately HK\$1,443,068,000 (2021: HK\$400,801,000), and the weighted average number of ordinary shares in issue during the Year of 8,907,405,717 (2021: 8,907,405,717) shares.

As the assumed conversion of the convertible bonds has an anti-dilutive effect, the diluted loss per share was equal to the basic loss per share for the years ended 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount – Year ended 31 December 2022	Leasehold improvement, furniture, equipment and motor vehicles					Total HK\$'000
	Leasehold buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvement, furniture, equipment and motor vehicles HK\$'000	Construction in-progress HK\$'000		
At 1 January 2022	4,426,856	497,098	11,624	445,789		5,381,367
Additions	–	253	–	5,923		6,176
Disposals	–	(11,667)	–	–		(11,667)
Depreciation	(203,590)	(101,252)	(3,530)	–		(308,372)
Impairment	–	–	–	(4,721)		(4,721)
Exchange realignment	(296,522)	(28,824)	(732)	(30,235)		(356,313)
At 31 December 2022	3,926,744	355,608	7,362	416,756		4,706,470

Reconciliation of carrying amount – Year ended 31 December 2021	Leasehold improvement, furniture, equipment and motor vehicles					Total HK\$'000
	Leasehold buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvement, furniture, equipment and motor vehicles HK\$'000	Construction in-progress HK\$'000		
At 1 January 2021	4,738,884	632,097	14,688	411,665		5,797,334
Additions	–	1,322	679	23,811		25,812
Loss on properties revaluation, net	(196,567)	–	–	–		(196,567)
Disposals	–	(488)	(18)	–		(506)
Depreciation	(222,969)	(151,250)	(4,039)	–		(378,258)
Exchange realignment	107,508	15,417	314	10,313		133,552
At 31 December 2021	4,426,856	497,098	11,624	445,789		5,381,367

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvement, furniture, equipment and motor vehicles HK\$'000	Construction in-progress HK\$'000	Total HK\$'000
At 31 December 2022					
At cost	–	9,420,628	166,398	587,047	10,174,073
At valuation	4,130,334	–	–	–	4,130,334
Accumulated depreciation and impairment losses	(203,590)	(9,065,020)	(159,036)	(170,291)	(9,597,937)
	3,926,744	355,608	7,362	416,756	4,706,470
At 31 December 2021					
At cost	–	10,135,108	188,545	623,739	10,947,392
At valuation	4,426,856	–	–	–	4,426,856
Accumulated depreciation and impairment losses	–	(9,638,010)	(176,921)	(177,950)	(9,992,881)
	4,426,856	497,098	11,624	445,789	5,381,367

Leasehold buildings

The leasehold buildings are situated on parcels of land of the Group in the PRC with remaining lease terms ranging from 9 to 50 years.

At 31 December 2022, the Group has not obtained building certificates for certain leasehold buildings with a total carrying amount of HK\$1,198,803,000 (2021: HK\$1,443,658,000).

Had the Group's leasehold buildings been carried under the cost model, their carrying amount at 31 December 2022 would have been approximately HK\$3,426,435,000 (2021: HK\$3,907,471,000).

The Group's leasehold buildings owned by a subsidiary of the GSH Group which are located in Luyuan District in Changchun and other leasehold buildings were revalued at 30 September 2021 and 31 December 2021, respectively, by Roma Appraisals Limited, an independent professionally qualified valuer, at an aggregate open market value of HK\$4,426,856,000 based on their then existing use. A loss on properties revaluation of HK\$160,110,000 (before income tax effect) was recognised in other comprehensive income and debited to properties revaluation reserve and a loss on properties revaluation of approximately HK\$36,457,000 was recognised in profit or loss during the year ended 31 December 2021.

The directors of the Company were of the opinion that there were no material difference between the carrying amount and fair value of the leasehold buildings at 31 December 2022. Therefore, no revaluation was performed at that date.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leasehold buildings *(Continued)*

Valuation processes

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

Fair value hierarchy

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

	Fair value measurement at 30 September 2021/31 December 2021 using			Total HK\$'000
	Quoted prices in active market (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for:				
Industrial properties	—	—	4,402,955	4,402,955
Residential properties	—	1,341	22,560	23,901
	—	1,341	4,425,515	4,426,856

During the years ended 31 December 2022 and 2021, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leasehold buildings *(Continued)*

Fair value hierarchy (Continued)

Certain residential properties in the PRC were valued using the direct comparison approach at 31 December 2021 and were categorised as Level 2 fair value measurements. The other properties in the PRC were valued using the DRC approach and were categorised as Level 3 fair value measurements. The movements in Level 3 fair value measurements during the years are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	4,425,515	4,737,574
Loss on properties revaluation, net	—	(196,567)
Depreciation	(203,497)	(222,895)
Exchange realignment	(296,524)	107,403
At 31 December	3,925,494	4,425,515

Below is a summary of the valuation technique and the key inputs used in the valuation of the leasehold buildings at 30 September 2021 (leasehold buildings owned by a subsidiary of the GSH Group) and 31 December 2021 (other leasehold buildings) that were categorised as Level 3 fair value measurements:

Valuation technique	Significant unobservable inputs	Industrial properties	Residential properties
DRC approach	Construction cost (Renminbi/square meter)	RMB540 – RMB4,400	RMB650 – RMB2,100

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

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

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

14. RIGHT-OF-USE ASSETS

	Land HK\$'000	Office premises HK\$'000	Total HK\$'000
Reconciliation of carrying amount – Year ended 31 December 2022			
At 1 January 2022	500,196	4,083	504,279
Depreciation	(20,387)	(1,750)	(22,137)
Exchange realignment	(31,073)	–	(31,073)
At 31 December 2022	448,736	2,333	451,069
Reconciliation of carrying amount – Year ended 31 December 2021			
At 1 January 2021	508,943	2,139	511,082
Addition	–	5,249	5,249
Depreciation	(20,950)	(3,305)	(24,255)
Exchange realignment	12,203	–	12,203
At 31 December 2021	500,196	4,083	504,279
At 31 December 2022			
Cost	784,745	16,242	800,987
Accumulated depreciation and impairment losses	(336,009)	(13,909)	(349,918)
	448,736	2,333	451,069
At 31 December 2021			
Cost	840,262	16,242	856,504
Accumulated depreciation and impairment losses	(340,066)	(12,159)	(352,225)
	500,196	4,083	504,279

The leasehold land is granted with remaining lease terms ranging from 9 to 50 years and is situated in the PRC.

The Group leases an office premise for its daily operations. The lease term is 3 years, with no option for both lessor and lessee to terminate or renew the lease after expiration of the lease term.

Restrictions or covenants:

For lease of office premise, the lease imposes a restriction that, unless approval is obtained from the lessor, the premise can only be used by the Group and the Group is prohibited from selling or pledging the underlying premise. In addition, the Group is required to keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

15. INTANGIBLE ASSETS

	<i>HK\$'000</i>
Reconciliation of carrying amount – Years ended 31 December 2021 and 31 December 2022 At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	3,751
At 31 December 2022	
Cost	5,290
Accumulated impairment losses	(1,539)
	3,751
At 31 December 2021	
Cost	5,290
Accumulated impairment losses	(1,539)
	3,751



Notes to the Consolidated Financial Statements

Year ended 31 December 2022

16. SUBSIDIARIES

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal place of business and place of incorporation/ registration	Kind of legal entity	Particulars of registered/paid-up capital	Proportion of ownership interests held by the Group	Principal activities
GSH	Cayman Islands	Limited liability company	HK\$152,758,600	64	Investment holding
Changchun Dihao Foodstuff Development Co., Ltd. [#]	The PRC	Limited liability company	Registered capital: RMB725,100,000/ Paid-up capital: RMB307,574,472	64	Manufacture and sale of corn sweeteners
Jinzhou Yuancheng Bio-chem Technology Co., Ltd. [#]	The PRC	Limited liability company	US\$62,504,000	64	Manufacture and sale of corn refined products
Jinzhou Dacheng Food Development Co., Ltd. [#]	The PRC	Limited liability company	US\$7,770,000	64	Manufacture and sale of corn sweeteners
Shanghai Haocheng Foods Development Co., Ltd. [#]	The PRC	Limited liability company	US\$9,668,000	64	Manufacture and sale of corn sweeteners
Harbin Dacheng Bio Technology Co., Ltd. [#]	The PRC	Limited liability company	RMB303,000,000	100	Manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products
Changchun Dacheng Industrial Group Co., Ltd. [#]	The PRC	Limited liability company	RMB193,000,000	100	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd. [#]	The PRC	Limited liability company	US\$49,227,952	100	Manufacture and sale of corn based biochemical products
Changchun Dahe Bio Technology Development Co., Ltd. [#]	The PRC	Limited liability company	Registered capital: US\$168,450,000/ Paid-up capital: US\$140,409,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Biology Technology Development Co., Ltd. [#]	The PRC	Limited liability company	RMB2,066,150,000	100	Manufacture and sale of corn starch, gluten meal, corn oil and other corn refined products
Changchun Dacheng Industrial Group Huicheng International Co., Ltd. [#]	The PRC	Limited liability company	RMB20,000,000	100	Sale of corn based biochemical products

[#] Wholly foreign-owned enterprise

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

None of the subsidiaries issue debt securities.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

16. SUBSIDIARIES *(Continued)*

The following table shows the information relating to each of the non-wholly owned subsidiaries that has material non-controlling interests (“**NCI**”). The summarised financial information represents amounts before inter-company eliminations.

	The GSH Group	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Percentage of equity interest held by NCI	36%	36%
Revenue, other income and gains	375,870	873,789
Costs and expenses	(595,792)	(971,718)
Income tax credit	7,431	1,667
Loss for the year	(212,491)	(96,262)
Other comprehensive income	32,099	20,545
Total comprehensive loss for the year	(180,392)	(75,717)
NCI within the GSH Group	451	(157)
Total comprehensive loss attributable to owners of the GSH Group	(180,843)	(75,560)
Loss for the year attributable to NCI	(76,497)	(34,654)
Total comprehensive loss for the year attributable to NCI	(64,652)	(27,359)
Dividends paid to NCI	—	—
Current assets	122,245	255,531
Non-current assets	564,862	679,546
Current liabilities	(1,329,029)	(1,381,078)
Non-current liabilities	(39,045)	(54,574)
Net liabilities	(680,967)	(500,575)
NCI within the GSH Group	(5,931)	(6,382)
Net liabilities attributable to owners of the GSH Group	(675,036)	(494,193)
Carrying amount of NCI	(248,944)	(184,291)
Net cash flows from (used in):		
Operating activities	13,275	(283,862)
Investing activities	19,635	383,121
Financing activities	(36,130)	(112,926)

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

17. INTERESTS IN AN ASSOCIATE

Interests in the associate represents 40% (2021: 40%) of the registered and paid-in capital of Changchun Dacheng Hexin Technology Development Co., Ltd. ("**Dacheng Hexin**"), a company incorporated in the PRC. It is principally engaged in the manufacture and sale of botanical straw based sweetener products in the PRC.

The Group has discontinued the recognition of its share of losses of Dacheng Hexin when applying the equity method because the share of losses of Dacheng Hexin exceeded the Group's interests in Dacheng Hexin and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of Dacheng Hexin for the Year and cumulatively were HK\$65,000 (2021: HK\$1,230,000) and HK\$9,826,000 (2021: HK\$9,761,000) respectively.

The following table illustrates the summarised financial information of Dacheng Hexin extracted from its unaudited management accounts:

	2022 HK\$'000	2021 HK\$'000
<i>Gross amounts:</i>		
Current assets	7,346	7,876
Non-current assets	55,100	59,132
Current liabilities	(82,269)	(88,112)
Net liabilities	(19,823)	(21,104)
	2022 HK\$'000	2021 HK\$'000
<i>Gross amounts:</i>		
Revenue	—	—
Loss and total comprehensive loss	(161)	(3,075)

18. INTERESTS IN A JOINT VENTURE

	2022 HK\$'000	2021 HK\$'000
Goodwill	12,115	12,115
Share of net liabilities	(9,992)	(9,992)
Unrealised portion of the gain on disposal of a parcel of land	(2,123)	(2,123)
	—	—

Interests in the joint venture represents 43.5% of the registered and paid-in capital of Changchun Wanxiang Corn Oil Co., Ltd. ("**Wanxiang**"), a company incorporated in the PRC. It is principally engaged in the manufacture and sale of corn oil products in the PRC. Although a majority of board members of Wanxiang shall be nominated by the Group, the decision of certain key matters shall be approved by both the Group and the other owner of Wanxiang. Therefore, Wanxiang is considered a joint venture of the Group.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

18. INTERESTS IN A JOINT VENTURE (Continued)

The following table illustrates the summarised financial information of Wanxiang extracted from its unaudited management accounts:

	2022 HK\$'000	2021 HK\$'000
<i>Gross amounts:</i>		
Current assets	3,683	3,982
Non-current assets	35,503	40,239
Current liabilities	(77,187)	(74,636)
Net liabilities	(38,001)	(30,415)
<i>Included in above:</i>		
Cash and cash equivalents	279	52
Financial liabilities (excluding trade and other payables and provisions)	(49,370)	(51,377)
<i>Reconciliation:</i>		
Gross amount of equity	(38,001)	(30,415)
Group's ownership interests	43.5%	43.5%
Group's share of net liabilities (limited to investment cost)	(9,992)	(9,992)
Goodwill	12,115	12,115
Unrealised portion of the gain on disposal of a parcel of land	(2,123)	(2,123)
Carrying amount of interests	—	—
<i>Gross amounts:</i>		
Revenue	787	4,854
Loss and total comprehensive loss	(9,497)	(12,052)
<i>Included in above:</i>		
Depreciation and amortisation	(3,023)	(3,417)
Interest expense	(4,465)	(3,684)
Group's share of loss of a joint venture (a)	—	(2,004)

Remark:

- (a) The Group has discontinued the recognition of its share of losses of Wanxiang when applying the equity method because the share of losses of Wanxiang exceeded the Group's interests in Wanxiang and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of Wanxiang for the current year and cumulatively were HK\$4,131,000 (2021: HK\$3,239,000) and HK\$7,370,000 (2021: HK\$3,239,000) respectively.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

19. DESIGNATED FVOCI

	2022 HK\$'000	2021 HK\$'000
Unlisted equity securities, at fair value	208	208

The balance represents the Group's equity interests in Changchun Dacheng Trading Company Limited, a company incorporated in the PRC with limited liabilities. The Group has designated the unlisted equity securities as Designated FVOCI because these equity securities represent investments that the Group intends to hold for long term strategic purposes. The Group considers the accounting treatments under this classification provide more relevant information for those investments.

20. INVENTORIES

	2022 HK\$'000	2021 HK\$'000
Raw materials	205,806	67,810
Finished goods	10,914	13,608
	216,720	81,418

21. TRADE RECEIVABLES

	2022 HK\$'000	2021 HK\$'000
Trade receivables	477,422	558,188
Loss allowance	(417,577)	(445,977)
	59,845	112,211

The Group normally allows credit terms of 30 to 90 days (2021: 30 to 90 days) to established customers. An ageing analysis of the trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	2022 HK\$'000	2021 HK\$'000
Within 1 month	38,455	70,991
1 to 2 months	11,647	24,910
2 to 3 months	3,585	11,980
3 to 6 months	2,703	1,187
Over 6 months	3,455	3,143
	59,845	112,211

Information about the Group's exposure to credit risks and loss allowance for the trade receivables is included in note 35 to the consolidated financial statement.

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 HK\$'000	2021 HK\$'000
Prepayments	95,707	45,365
Deposits and other debtors	53,885	87,321
PRC value-added tax ("VAT") and other tax receivables	84,177	99,506
Receivables from disposal of assets (a)	134,226	144,047
	367,995	376,239

Remark:

- (a) Included in the receivables from disposal of assets was the remaining consideration receivable in respect of the disposal of certain buildings, machineries and fixtures erected on a piece of land located in Luyuan District in Changchun during the year ended 31 December 2014, which amounted to approximately HK\$113,636,000 (31 December 2021: HK\$121,951,000) as at 31 December 2022.

23. CASH AND CASH EQUIVALENTS

	2022 HK\$'000	2021 HK\$'000
Cash and bank balances	41,766	21,810
Pledged bank deposits	173	530
	41,939	22,340
Less: pledged bank deposits for issuance of bills payables	(173)	(530)
	41,766	21,810

At the end of the reporting period, the cash and bank balances and pledged bank deposits of the Group denominated in Renminbi amounted to HK\$34,617,000 (2021: HK\$7,979,000). Renminbi held by subsidiaries in the PRC is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

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

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

24. TRADE PAYABLES

	2022 HK\$'000	2021 HK\$'000
Trade payables		
— To third parties	925,167	875,581
— To the Nongtou Group (a)	276,357	296,578
	1,201,524	1,172,159

Remark:

- (a) The trade payables to the Nongtou Group are unsecured and interest-bearing at 6.5% to 8.5% per annum (2021: 7.2% to 12.0% per annum) after the lapse of the credit periods.

The Group normally obtains credit terms ranging from 30 to 90 days (2021: 30 to 90 days) from its suppliers.

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

	2022 HK\$'000	2021 HK\$'000
Within 1 month	166,091	64,993
1 to 2 months	2,761	8,912
2 to 3 months	106	3,024
Over 3 months	1,032,566	1,095,230
	1,201,524	1,172,159

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

25. OTHER PAYABLES AND ACCRUALS

	2022 HK\$'000	2021 HK\$'000
Accruals for employee benefits	717,310	571,447
Payables for purchases of machinery	114,791	124,349
Receipts in advance (a)	119,132	92,211
Payables to the Nongtou Group (b)	757,032	684,019
VAT and other duties payables	226,862	213,474
Accruals and other creditors	735,314	627,004
Interest payables	1,375,743	940,459
	4,046,184	3,252,963

Remarks:

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

	2022 HK\$'000	2021 HK\$'000
At 1 January	92,211	114,377
Recognised as revenue	(87,024)	(116,597)
Receipt of advances or recognition of receivables	119,132	92,211
Exchange realignment	(5,187)	2,220
At 31 December	119,132	92,211

Unsatisfied or partially unsatisfied performance obligations

All the performance obligations that were unsatisfied (or partially unsatisfied) at 31 December 2022 and 2021 were parts of contracts that had an original expected duration of one year or less. Given that the Group applies the practical expedient in paragraph 121(a) of HKFRS 15, the transaction price allocated to these performance obligations is not disclosed.

- (b) The payables represent advances from the subsidiaries of Nongtou which are unsecured, interest-bearing at 6.5% to 12.0% per annum (2021: 7.2% to 12.0% per annum) and are repayable on demand and guarantee charge payables to Nongtou which bear interest at 3.5% per annum (2021: 3.5% per annum).

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective interest rate	Maturity	HK\$'000	Effective interest rate	Maturity	HK\$'000
Current						
Short term bank borrowings – secured	5.9%-12.0%	On demand/ 2023	298,295	5.9%-12.0%	On demand/ 2022	356,431
Short term bank borrowings – unsecured	5.0%-10.0%	On demand/ 2023	935,735	6.8%-10.0%	On demand/ 2022	883,903
Other borrowings – secured	5.9%-10.0%	On demand	4,344,122	5.9%-10.0%	On demand	4,661,983
Other borrowings – unsecured (a)	5.7%-13.6%	On demand	1,535,398	5.7%-13.6%	On demand	1,598,963
			7,113,550			7,501,280

Analysed into:	2022 HK\$'000	2021 HK\$'000
Bank borrowings repayable: Within one year or on demand	1,234,030	1,240,334
Other borrowings repayable: Within one year or on demand	5,879,520	6,260,946
	7,113,550	7,501,280
Secured	4,642,417	5,018,414
Unsecured	2,471,133	2,482,866
	7,113,550	7,501,280

Remark:

- (a) As at 31 December 2022, the balance included the other borrowings from the subsidiaries of Nongtou amounted to HK\$103.6 million (2021: HK\$62.4 million) which were unsecured, interest-bearing at 8.0% to 13.6% (2021: 13.6%) per annum and were repayable on demand.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2022 HK\$'000	2021 HK\$'000
Additional information		
Collaterals pledged for security:		
Property, plant and equipment	1,480,503	2,084,565
Receivables from disposal of assets	113,636	121,951
Right-of-use-assets	124,208	141,092
Corporate guarantee by:		
The Company	5,889,960	6,322,029
Certain subsidiaries	333,594	418,703
Nongtou	340,909	365,854
A subsidiary and independent third parties (joint guarantee)	1,488,634	60,976
Denominated in Renminbi	7,113,550	7,501,280

Certain of the banking facilities are subject to the fulfillment of covenants relating to certain ratios based on the borrowing subsidiaries' statement of financial position, as are commonly found in lending arrangements with financial institutions. If the entities were to breach the covenants, the drawn down facilities would become repayable on demand. These borrowings were classified as current liabilities even though the directors of the Company do not expect that the lenders would exercise their rights to demand immediate repayment.

Further details of the Group's management of liquidity risk are set out in note 35 to the consolidated financial statements. At 31 December 2022, the Group has defaulted in the repayment of certain bank and other borrowings of aggregate outstanding principal amount of approximately HK\$5,012.1 million (2021: HK\$5,620.3 million), which had been included in the breach of covenant, such breach and default in repayment may also trigger cross default provisions in other loan agreements.

In respect of the loans in the aggregate principal amount of RMB189.0 million and outstanding interest accrued thereon due to 中國建設銀行股份有限公司錦州分行 (Jinzhou Branch of China Construction Bank*) ("Jinzhou CCB"), preservation of the bank balances (or assets of equivalent value) of approximately RMB213.9 (2021: RMB213.9 million) of certain members of the Group and the GSH Group was granted by the order of the court in the PRC in favour of Jinzhou CCB.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

27. LEASE LIABILITIES

	2022 HK\$'000	2021 HK\$'000
Current portion	1,902	1,891
Non-current portion	345	2,247
	2,247	4,138

28. CONVERTIBLE BONDS

The convertible bonds in an aggregate principal amount of HK\$1,086,279,565 were issued to and subscribed by Modern Agricultural Industry Investment Limited ("**Modern Agricultural**"), a major shareholder of the Company (the "**Convertible Bonds**") in October 2015 with the maturity date on 15 October 2020. On 25 September 2020, the Company and Modern Agricultural entered into a supplemental agreement to extend the maturity date by 32 months from 15 October 2020 to 15 June 2023 (the "**Extended Maturity**"), which was approved at an extraordinary general meeting held on 30 November 2020 (the "**Modification Date**").

As at 31 December 2022, the Convertible Bonds may be converted into 5,172,759,833 conversion shares of the Company based on the conversion price of HK\$0.21 per share upon full conversion.

The Convertible Bonds carry coupon interest at the rate of 0.01% per annum. Modern Agricultural shall have the right to convert the whole or any part (in the denominations of HK\$1,000,000 and integral multiples thereof) of the outstanding principal amount of the Convertible Bonds into the shares at any time after the Modification Date until the date seven days before (and excluding) 15 June 2023, provided that the public float of the shares of the Company shall not be less than 25% as required by the Listing Rules. The effective interest rate of the liability component is 10.0% (2021: 10.0%) per annum under the Extended Maturity.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

28. CONVERTIBLE BONDS *(Continued)*

The carrying amounts of the Convertible Bonds at the end of the reporting period are calculated as follows:

	2022 HK\$'000	2021 HK\$'000
Equity component		
<i>Extended Maturity:</i>		
Fair value of the Convertible Bonds at the Modification Date	1,814,470	1,814,470
Fair value of the liability component at the Modification Date	(842,414)	(842,414)
	972,056	972,056
Liability component		
<i>Extended Maturity:</i>		
At 1 January	938,855	849,621
Imputed interest	98,596	89,234
At 31 December	1,037,451	938,855



Notes to the Consolidated Financial Statements
Year ended 31 December 2022

29. DEFERRED INCOME

	2022 HK\$'000	2021 HK\$'000
At 1 January	115,232	120,839
Addition	914	966
Amortisation	(7,637)	(9,417)
Exchange realignment	(7,703)	2,844
At 31 December	100,806	115,232

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

30. DEFERRED TAX

The movements of the Group's net deferred tax liabilities are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	91,522	103,877
(Credited) Charged to profit or loss	(54,219)	25,920
Credited to other comprehensive income	—	(40,028)
Exchange realignment	(7,515)	1,753
At 31 December	29,788	91,522

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Depreciation allowances	252,907	263,140	13,299	15,248
Revaluation of properties	—	—	259,583	275,010
Deferred income arising from resumption of the Dihao Properties	—	—	109,174	117,162
Tax losses	124,359	116,765	—	—
Others	26,821	28,018	51,819	92,025
	404,087	407,923	433,875	499,445
Offsetting	(404,087)	(407,923)	(404,087)	(407,923)
Deferred tax liabilities, net	—	—	29,788	91,522

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

30. DEFERRED TAX *(Continued)*

Unrecognised deferred tax assets arising from:

	2022 HK\$'000	2021 HK\$'000
Deductible temporary differences	2,833,488	3,779,863
Tax losses	7,219,529	7,946,137
	10,053,017	11,726,000

Deductible temporary differences of approximately HK\$2,833.5 million (2021: HK\$3,779.9 million) and tax losses arising in Hong Kong of approximately HK\$453.6 million (2021: HK\$438.1 million) have no expiry date under current tax legislations. Tax losses arising in the PRC of approximately HK\$6,765.9 million (2021: HK\$7,508.0 million) which are available for offsetting against future taxable profits of the companies in which the losses arose will expire in one to five years. The directors of the Company consider that no deferred tax assets should be recognised as it is uncertain whether future taxable profits can be generated by these companies to utilise these tax losses and deductible temporary differences.

Deferred tax has not been recognised for withholding taxes and other taxes that would be payable on the unremitted earnings of certain subsidiaries totaling HK\$537.6 million at 31 December 2022 (2021: HK\$611.9 million). The directors of the Company consider that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

31. SHARE CAPITAL

	2022 HK\$'000	2021 HK\$'000
Authorised:		
20,000,000,000 (2021: 20,000,000,000) ordinary shares of HK\$0.1 each	2,000,000	2,000,000
Issued and fully paid:		
8,907,405,717 (2021: 8,907,405,717) ordinary shares of HK\$0.1 each	890,741	890,741

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

32. OTHER CASH FLOW INFORMATION

Changes in liabilities arising from financing activities

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

	Interest-bearing bank and other borrowings HK\$'000	Convertible Bonds HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
Year ended 31 December 2022				
At 1 January 2022	7,501,280	938,855	4,138	8,444,273
Changes from financing cash flows:				
Proceeds from new interest-bearing bank and other borrowings	192,665	—	—	192,665
Repayment of interest-bearing bank and other borrowings	(68,945)	—	—	(68,945)
Repayment of lease liabilities	—	—	(1,915)	(1,915)
Interest paid	(12,055)	—	—	(12,055)
Total changes from financing cash flows	111,665	—	(1,915)	109,750
Exchange realignment	(511,450)	—	—	(511,450)
Other changes:				
Interest expenses	12,055	98,596	24	110,675
At 31 December 2022	7,113,550	1,037,451	2,247	8,153,248

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

32. OTHER CASH FLOW INFORMATION *(Continued)*

Changes in liabilities arising from financing activities *(Continued)*

	Interest- bearing bank and other borrowings <i>HK\$'000</i>	Convertible Bonds <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2021				
At 1 January 2021	8,109,642	849,621	2,188	8,961,451
Changes from financing cash flows:				
Proceeds from new interest-bearing bank and other borrowings	416,951	—	—	416,951
Repayment of interest-bearing bank and other borrowings	(404,268)	—	—	(404,268)
Repayment of lease liabilities	—	—	(3,372)	(3,372)
Interest paid	(57,969)	—	—	(57,969)
Total changes from financing cash flows	(45,286)	—	(3,372)	(48,658)
Exchange realignment	187,991	—	—	187,991
Other changes:				
Interest expenses	57,969	89,234	73	147,276
Gain on debt restructuring	(809,036)	—	—	(809,036)
Addition of lease	—	—	5,249	5,249
Total other changes	(751,067)	89,234	5,322	(656,511)
At 31 December 2021	7,501,280	938,855	4,138	8,444,273



Notes to the Consolidated Financial Statements
Year ended 31 December 2022

33. CAPITAL COMMITMENTS

	2022 HK\$'000	2021 HK\$'000
Contracted but not provided for:		
Purchase/Construction of property, plant and equipment	548,753	588,259

34. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year and at the end of the reporting period, the Group had the following transactions/balances with related parties:

(i) Transactions with related parties

Related party relationship	Nature of transactions	2022 HK\$'000	2021 HK\$'000
Key management personnel	Short-term employee benefits	3,272	5,813
	Post-employment benefits	311	832
		3,583	6,645
The Nongtou Group	Interest on payables	74,343	115,951
	Interest on other borrowings	9,114	10,512
Nongtou	Guarantees charge	20,349	20,385

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

34. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Balances with related parties

	2022 HK\$'000	2021 HK\$'000
Due from (to) a joint venture (a)	1,055	(145)
Due to an associate (a)	(840)	(990)
Trade payables to the Nongtou Group (b)	276,357	(296,578)
Other payables to the Nongtou Group (c)	757,032	(684,019)
Other borrowings from the Nongtou Group (d)	103,580	(62,378)

Remarks:

- (a) The balances are unsecured, non-interest bearing and have no fixed repayment terms.
- (b) The trade payables to the Nongtou Group are unsecured and interest-bearing at 6.5% to 8.5% per annum (2021: 7.2% to 12.0% per annum) after the lapse of the credit periods.
- (c) The payables represent advances from the subsidiaries of Nongtou which are unsecured, interest-bearing at 6.5% to 12.0% per annum (2021: 7.2% to 12.0% per annum) and are repayable on demand and guarantee charge payables to Nongtou which bear interest at 3.5 % per annum (2021: 3.5% per annum).
- (d) The other borrowings from the Nongtou Group are unsecured, interest-bearing at 8.0% to 13.6% per annum (2021: 13.6% per annum) and payable on demand.

(iii) Compensation of key management personnel

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	2022 HK\$'000	2021 HK\$'000
Financial assets at amortised cost		
Trade receivables	59,845	112,211
Financial assets included in prepayments, deposits and other receivables	188,111	231,368
Due from a joint venture	1,055	—
Pledged bank deposits	173	530
Cash and bank balances	41,766	21,810
	290,950	365,919
Financial liabilities at amortised cost		
Trade payables	1,201,524	1,172,159
Financial liabilities included in other payables and accruals	2,982,880	2,392,105
Due to an associate	840	990
Due to a joint venture	—	145
Interest-bearing bank and other borrowings	7,113,550	7,501,280
Convertible Bonds	1,037,451	938,855
Lease liabilities	2,247	4,138
	12,338,492	12,009,672

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

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

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

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

At the end of the reporting period, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's loss before tax would have increased/decreased by HK\$67,117,000 (2021: HK\$71,006,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for all financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2021.

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, pledged bank deposits, trade receivables and financial assets included in prepayments, deposits and other receivables.

The carrying amount of financial assets recognised on the consolidated statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

Cash and bank balances and pledged bank deposits

Substantially all of the Group's pledged bank deposits and cash and bank balances were deposited in creditworthy global financial institutions and state-controlled financial institutions in Hong Kong, Europe and the PRC, which management considers they are without significant credit risk.

Trade receivables

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group normally allows credit terms of 30 to 90 days (2021: 30 to 90 days) to established customers. The Group maintains strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management of the Company. The Group does not hold any collateral or other credit enhancements over its trade receivable balances and the trade receivables are non-interest-bearing.

At the end of the reporting period, the Group had a concentration of credit risk as 23.3% (2021: 21.1%) and 61.3% (2021: 48.7%) of the Group's total trade receivables were due from the Group's largest customer and the five largest customers respectively.



Notes to the Consolidated Financial Statements

Year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Trade receivables (Continued)

The Group's customer base consists of a wide range of customers and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions for the Year.

The information about the exposure to credit risk and ECL for trade receivables using a provision matrix is summarised below.

	Expected loss rate	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit-impaired
At 31 December 2022				
Not past due	0.4%-0.6%	52,776	(320)	No
1 to 30 days past due	0.6%	2,479	(16)	No
31 to 270 days past due	1.1%-1.4%	4,981	(55)	No
Over 271 days past due	100.0%	417,186	(417,186)	Yes
		477,422	(417,577)	
At 31 December 2021				
Not past due	0.4%-0.6%	107,531	(652)	No
1 to 30 days past due	0.6%	765	(5)	No
31 to 270 days past due	1.1%-1.4%	4,622	(50)	No
Over 271 days past due	100.0%	445,270	(445,270)	Yes
		558,188	(445,977)	

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Trade receivables (Continued)

At 31 December 2022, the Group recognised loss allowance of HK\$417,577,000 (2021: HK\$445,977,000) on the trade receivables. The movements in the loss allowance for trade receivables during the years are summarised below.

	Notes	2022 HK\$'000	2021 HK\$'000
At 1 January		445,977	439,117
Increase in allowance	7	1,660	1,016
Reversal of allowance	7	(2,936)	(1,427)
Exchange realignment		(27,124)	7,271
At 31 December		417,577	445,977

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

Other receivables

The Group performs impairment assessment on other receivables from various parties based on 12-month or lifetime ECL based on the assessed credit risk. The credit risk of the Group's other receivables arises from default of the counterparties, with maximum exposure equal to the carrying amounts of these receivables. Individual credit limits are set based on the assessments of the credit quality.

In estimating the ECL, the Group has taken into account the historical actual credit loss experience and the financial position of the counterparties, past collection history, current creditworthiness, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. There was no change in the estimation techniques or significant assumptions made for the Year.

At 31 December 2022, the Group recognised loss allowance of HK\$115,408,000 (2021: HK\$112,774,000) on the other receivables based on lifetime ECL.

The movements in the loss allowance for the other receivables are summarised below.

	2022 HK\$'000	2021 HK\$'000
At 1 January	112,774	102,600
Increase in allowance	10,400	26,116
Reversal of allowance	—	(15,459)
Exchange realignment	(7,766)	(483)
At 31 December	115,408	112,774

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

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

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

	On demand HK\$'000	Less than 3 months HK\$'000	More than 3 months but less than 12 months HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000
At 31 December 2022						
Trade payables	1,201,524	—	—	—	—	1,201,524
Financial liabilities included in other payables and accruals	2,982,880	—	—	—	—	2,982,880
Due to an associate	840	—	—	—	—	840
Interest-bearing bank and other borrowings	6,352,703	13,339	786,219	—	—	7,152,261
Convertible Bonds	—	—	1,086,280	—	—	1,086,280
Lease liabilities	—	522	1,393	348	—	2,263
	10,537,947	13,861	1,873,892	348	—	12,426,048

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	On demand HK\$'000	Less than 3 months HK\$'000	More than 3 months but less than 12 months HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000
At 31 December 2021						
Trade payables	1,172,159	—	—	—	—	1,172,159
Financial liabilities included in other payables and accruals	2,392,105	—	—	—	—	2,392,105
Due to an associate	990	—	—	—	—	990
Due to a joint venture	145	—	—	—	—	145
Interest-bearing bank and other borrowings	5,809,330	42,315	1,799,202	—	—	7,650,847
Convertible Bonds	—	—	—	—	1,086,280	1,086,280
Lease liabilities	—	522	1,393	1,916	348	4,179
	9,374,729	42,837	1,800,595	1,916	1,086,628	12,306,705

The above analysis is based on the scheduled repayment dates as set out in the loan agreements ignoring the effect of any repayment on demand clause.

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

36. LITIGATIONS

Delayed payments to suppliers

In previous years, the Group delayed settlement of payables to suppliers due to shortage of working capital. As a result, several subsidiaries in the PRC have been involved in litigations initiated by various suppliers related to overdue payables. Up to the date of approval of these consolidated financial statements, a majority of the litigations has been concluded by the court and/or settled, while some of the litigations are still pending judgment. Since the Group has already recorded these payables in the consolidated financial statements, the directors of the Company are of the view that the litigations will not have any significant financial impact to the Group.

Notes to the Consolidated Financial Statements
Year ended 31 December 2022

37. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	2022 HK\$'000	2021 HK\$'000
Non-current assets		
Investments in subsidiaries	—	—
Current assets		
Other receivables	962	962
Cash and cash equivalents	220	354
	1,182	1,316
Current liabilities		
Other payables and accruals	4,561	5,062
Financial guarantee contracts	940,452	457,948
Convertible bonds	1,037,451	—
	1,982,464	463,010
Net current liabilities	(1,981,282)	(461,694)
Total assets less current liabilities	(1,981,282)	(461,694)
Non-current liabilities		
Convertible bonds	—	938,855
Financial guarantee contracts	41,844	198,006
	41,844	1,136,861
NET LIABILITIES	(2,023,126)	(1,598,555)
Equity		
Share capital	890,741	890,741
Reserves (a)	(2,913,867)	(2,489,296)
TOTAL DEFICIT	(2,023,126)	(1,598,555)

The statement of financial position was approved and authorised for issue by the board of directors of the Company on 30 March 2023 and signed on its behalf by

Yang Jian
Director

Wang Guicheng
Director

Notes to the Consolidated Financial Statements

Year ended 31 December 2022

37. THE COMPANY'S STATEMENT OF FINANCIAL POSITION *(Continued)*

(a) Reserves

	Share premium <i>HK\$'000</i>	Convertible bond reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021	3,137,033	972,056	(6,827,661)	(2,718,572)
Profit and total comprehensive loss for the year	—	—	229,276	229,276
At 31 December 2021 and 1 January 2022	3,137,033	972,056	(6,598,385)	(2,489,296)
Loss and total comprehensive loss for the year	—	—	(424,571)	(424,571)
At 31 December 2022	3,137,033	972,056	(7,022,956)	(2,913,867)

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

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

38. EVENTS AFTER THE REPORTING PERIOD

Termination of deemed disposal of equity interest in GSH

Reference is made to the announcement of GSH dated 28 February 2023 and the announcement of the Company dated 2 March 2023, as the conditions precedent under the conditional subscription agreement dated 24 July 2022 (the "**GSH Subscription Agreement**") entered into between GSH and Hartington Profits Limited, a company incorporate in the British Virgin Islands with limited liability and an independent third party of the Group (the "**GSH Subscriber**") have not been fully fulfilled (or waived by the GSH Subscriber, as the case may be) by the extended long stop date of the GSH Subscription Agreement, the GSH Subscription Agreement has therefore been terminated and all obligations of GSH and the GSH Subscriber under the GSH Subscription Agreement have ceased and determined. Deemed disposal by the Company of its interest in the issued share capital of GSH terminated as a result of the termination of the GSH Subscription Agreement.

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 30 March 2023.

Five Year Financial Summary

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

	2022 [®] HK\$'000	Year ended 31 December			
		2021 [^] HK\$'000	2020 [^] HK\$'000	2019 [^] HK\$'000	2018 [^] HK\$'000
RESULTS					
REVENUE	372,278	746,551	848,867	4,561,391	5,657,726
Cost of sales	(337,681)	(698,200)	(774,767)	(4,357,862)	(5,398,016)
Gross profit	34,597	48,351	74,100	203,529	259,710
Other income and gains	30,874	1,406,507	389,748	684,375	321,630
Selling and distribution costs	(39,650)	(63,450)	(85,876)	(407,789)	(584,130)
Administrative expenses	(328,207)	(372,761)	(362,313)	(440,695)	(439,187)
Other expenses	(545,180)	(635,527)	(971,237)	(510,420)	(360,098)
Loss on modification of convertible bonds	—	—	(728,190)	—	—
Share of loss of a joint venture	—	(2,004)	(2,332)	(1,541)	—
Finance costs	(726,218)	(790,585)	(724,826)	(604,076)	(565,040)
LOSS BEFORE TAX	(1,573,784)	(409,469)	(2,410,926)	(1,076,617)	(1,367,115)
Income tax credit (expenses)	54,219	(25,920)	(22,340)	(39,717)	67,896
LOSS FOR THE YEAR	(1,519,565)	(435,389)	(2,433,266)	(1,116,334)	(1,299,219)
Loss attributable to:					
Owners of the Company	(1,443,068)	(400,801)	(2,429,949)	(1,067,819)	(1,222,322)
Non-controlling interests	(76,497)	(34,588)	(3,317)	(48,515)	(76,897)
	(1,519,565)	(435,389)	(2,433,266)	(1,116,334)	(1,299,219)
TOTAL ASSETS	5,849,887	6,482,715	7,601,594	8,234,929	9,824,839
TOTAL LIABILITIES	(13,636,943)	(13,183,540)	(13,618,669)	(12,580,920)	(13,395,373)
NON-CONTROLLING INTERESTS	248,063	183,121	155,930	148,126	122,653
	(7,538,993)	(6,517,704)	(5,861,145)	(4,197,865)	(3,447,881)

[®] Details of the disclaimer of audit opinion are set out in the independent auditor's report on page 56 to page 57.

[^] Disclaimer of audit opinion was issued in respect of the Group's consolidated financial statements for the years ended 31 December 2021, 2020, 2019, and 2018. Please refer to the Company's 2021, 2020, 2019, and 2018 annual reports for details.