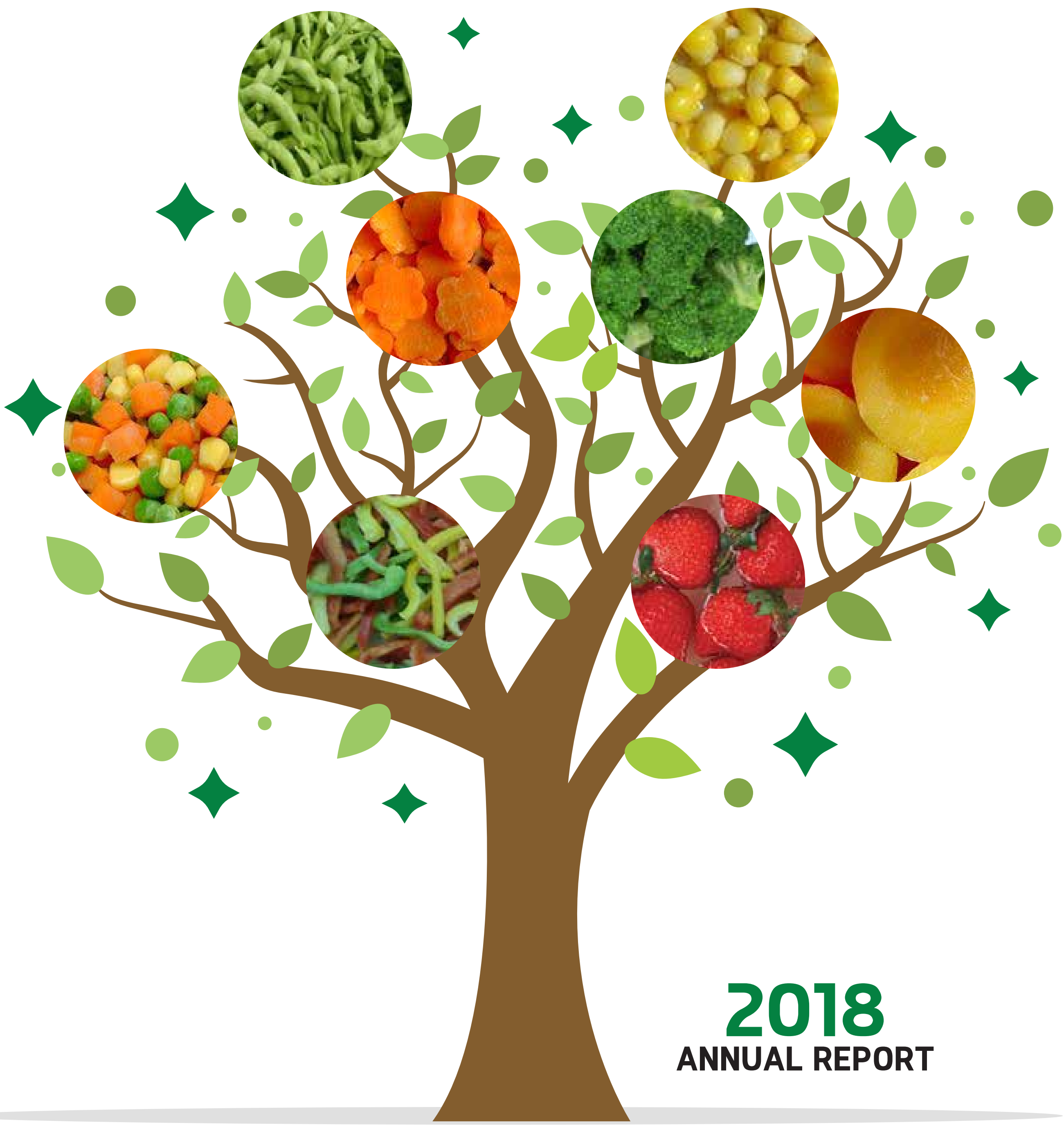
恒宝环球

# HB GLOBAL LIMITED



# 2018
# ANNUAL REPORT

(Company Registration No.:200608505W)
(Incorporated in Singapore under the Companies Act (Chapter 50) of Singapore)
(Malaysian Foreign Company Registration No.: 995221-H)
(Registered as a foreign company in Malaysia under the Companies Act, 1965 of Malaysia)

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# CORPORATE INFORMATION

**Board of Directors**
Shen Hengbao (申恒宝) – *Chief Executive Officer*
Meng Xiangzhen (孟祥贞) – *Executive Director*
Sun Shimin (孙世民) - *Independent Non-Executive Director*
Yang Chin Shen (杨景升) - *Independent Non-Executive Director*
Ho Pui Hold (何沛豪) - *Independent Non-Executive Director*

**Audit Committee**
Yang Chin Shen – Chairman
*(Independent Non-Executive Director)*
Ho Pui Hold – Member
*(Independent Non-Executive Director)*
Sun Shimin – Member
*(Independent Non-Executive Director)*

**Nomination Committee**
Ho Pui Hold - Chairman
*(Independent Non-Executive Director)*
Yang Chin Shen – Member
*(Independent Non-Executive Director)*
Sun Shimin – Member
*(Independent Non-Executive Director)*

**Remuneration Committee**
Sun Shimin – Chairman
*(Independent Non-Executive Director)*
Shen Hengbao - Member
*(Chief Executive Officer)*
Yang Chin Shen - Member
*(Independent Non-Executive Director)*

**Company Secretary**
Ang Kong Siang *(Acting Secretary)*

**Agent in Malaysia**
Boardroom.com Sdn Bhd
Suite 10.02, Level 10
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

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Singapore 068898
Republic of Singapore
Telephone No.: + 65 6222 8008

**Registered Office in Malaysia**
Suite 10.02, Level 10
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia
Telephone No.: + 6 (03) 2298 0263
Facsimile No.: + 6 (03) 2298 0268

**Stock Exchange Listing**
Main Market of Bursa Malaysia Securities Berhad
(Listed since 17 December 2010)
Stock name: HBGLOB
Stock Code: 5187

Website: www.hbglobal.asia

**Head / Management Office**
Weifang Road
Juxian Industry Garden
Shandong Province
PRC
Telephone No.: + 86 633 617 5066
Email: hengbao@hengbaofood.com
Website: www.hengbaofood.com

**Auditors**
Messrs UHY Lee Seng Chan & Co.
6001 Beach Road
#14-01 Golden Mile Tower
Singapore 199589
Telephone No.: +65 6395 5100

**Share Registrar in Malaysia**
Boardroom Share Registrars Sdn Bhd
(Formerly known as Symphony Share Registrars Sdn Bhd)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Telephone No.: + 6 (03) 7841 8000
Facsimile No.: + 6 (03) 7841 8151

**Principal Bankers**
China Construction Bank Corporation
(Ju County Branch)
No. 25, Zhenxin Road
Ju County Shandong Province
PRC

Industrial and Commercial Bank of China Limited
(Ju County Branch)
No. 102, Fulai Middle Road
Ju County
Shandong Province
PRC

**Shen Hengbao** (申恒宝)

Shen Hengbao, a national of the People's Republic of China ("PRC"), male, aged 57, was appointed as our Chief Executive Officer on 12 October 2009. He is a member of Remuneration Committee of the Company. He is the founder of our Group and has more than 25 years of experience in the PRC food industry and export business. He has been spearheading the expansion and growth of our Group since the commencement of our Group's business in 2005.

He graduated from Linyi Agricultural Academy in 1982 and obtained his Masters in Business Administration from the Graduate School of the Chinese Academy of Social Sciences in 1998. He also obtained his Masters in Business Administration from the California American University in 2001.

He started his career with Ju County Foreign Trade Company (莒县外贸公司) in 1982 as the head of department of livestock obstetrics. He joined Ju County Foreign Trade Canned Food Factory (莒县外贸罐头厂) as the factory manager in 1990 where he was put in-charge of the day-to-day management. In 1998, he joined Shandong Foodstuffs Import and Export Company (山东食品进出口公司), a provincial level state-owned enterprise based in Qingdao as deputy general manager in-charge of overseeing and assisting in the management of several state-owned companies in Shandong Province which were engaged in the manufacturing of foodstuffs for export markets, in particular, to Japan.

In 2005, he left Shandong Foodstuffs Import and Export Company and founded Rizhao Hengbao together with Meng Xiangzhen and several other individuals. With the sales network and contacts he had accumulated in the course of his career (in particular those with major Japanese food companies), he successfully grew Rizhao Hengbao into a well established food export company over a short time span.

**Meng Xiangzhen** (孟祥贞)

Meng Xiangzhen, a national of PRC, female, aged 52, was appointed as our Executive Director on 12 October 2009. She graduated with a degree in accounting from the Shandong Economics Academy (山东经济学院) in 1986.

She co-founded the Group with Shen Hengbao and has more than 20 years of experience in the PRC food industry and export business. She started her career as an accountant with Ju County Foreign Frozen Foodstuffs Factory in 1986. In 1989, she joined Ju County Shanfu Foodstuffs Co., Ltd. (莒县山孚食品有限公司) as the head of the accounts department. In 1998, she joined Shandong Foodstuffs Import and Export Company (山东食品进出口公司) as the head of accounts department. In 1999, she re-joined Ju County Shanfu Foodstuffs Co., Ltd as deputy general manager where she established an invaluable network of contacts in the food industry, and gained valuable experience in managing food related operations.

As our Executive Director, her main responsibilities include overseeing the day-to-day operations of Rizhao Hengbao.

### **Sun Shimin** (孙世民)

Professor Sun Shimin, a national of PRC, male, aged 57, was appointed as our Independent Non-Executive Director on 12 October 2009. He is the Chairman of the Remuneration Committee and a member of Audit Committee and Nomination Committee of the Company. He obtained his Master in Engineering Project Management in 1996 from the College of Mechanical and Electronic Engineering of Shandong Agricultural University and subsequently in 2003, obtained his Doctorate in Economics and Management from China Agricultural University.

He has more than 25 years of lecturing and research experience in the agricultural field. He started his career in 1980 as an agricultural mechanisation and automation research assistant at the College of Mechanical and Electronic Engineering of Shandong Agricultural University and was a Researcher specialising in agricultural mechanisation from 1984 to 1996.

From 1996 to 2003, he was an assistant lecturer at the College of Economics and Management of China Agricultural University. He is currently a lecturer at the College of Economics and Management of China Agricultural University.

### **Yang Chin Shen** (杨景升)

Yang Chin Shen, a Malaysian, male, aged 42, was appointed as the Independent Non-Executive Director on 28 February 2014. He is the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee of the Company. He is a Practicing Member of the Institute of Singapore Chartered Accountants (ISCA), and also a member of the Malaysian Institute of Accountants (MIA) and holds a Bachelor of Business in Accountancy from Queensland Univerisity of Technology, Australia (with Distinction).

He has over 20 years of international audit experience including 10 years with the Big Four firms in Malaysia, Singapore and USA, and 6 years with small and mid-sized firms.

He brings along extensive experiences in servicing both multinationals and local companies in wide variety of industries such as property developers, hotels, real estate investment trusts, credit cards, retail, semiconductor, investment companies, retail malls, manufacturing, construction, hospitals, plantations, steel mills, education, statutory board, software, trading, logistics, shipping and leasing.

### **Ho Pui Hold** (何沛豪)

Ho Pui Hold, a Malaysian, male, aged 37, was appointed as Independent Non-Executive Director on 18 September 2015. He is the Chairman of the Nomination Committee and a member of the Audit Committee of the Company. He is an Accountant by profession, a fellow member of the Association of Chartered Certified Accountants (FCCA), United Kingdom, a member of Malaysian Institute of Accountants (MIA) and a member of Asean Chartered Professional Accountant (ACPA).

Mr Ho has over 12 years of professional experience in auditing, banking and corporate finance. He started his career in 2004 by joining a Singapore advisory firm as IPO consultant where he participated in a few successful listing of companies in Singapore Exchange Limited ("SGX"). He then joined Ernst & Young as Senior Audit Associate until 2009 before he left to join AmBank (M) Berhad – Corporate & Institutional Banking. In the bank, he was responsible in client credit evaluation and marketing of the Bank's products mainly in debt capital market, offshore loan syndication, corporate finance advisory & treasury products. To further advance his career, he took up the chief financial officer position in a foreign company listed on Bursa Malaysia Securities Berhad until 2013. He now sits on the board of Permaju Industries Berhad, Multi-Usage Holdings Berhad, Milux Corporation Berhad and Malaysia Pacific Corporation Berhad, Companies listed on Main Market of Bursa Malaysia Securities Berhad.

Note :

*Save as disclosed above, none of the Directors hold directorships in any other public companies, have any family relationship with any director and / or major shareholder of the Company nor any conflict of interest with the Company and has no conviction for any offences within the past 5 years other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.*

**Ang Kong Siang**

Ang Kong Siang, a Malaysian, male, aged 46, was appointed as Chief Financial Officer of the Company on 1 December 2013. Currently, he also assists in corporate secretarial duties of the Company. He is a fellow member of the Association of Chartered Certified Accountants (FCCA), United Kingdom and a member of Malaysian Institute of Accountants (MIA) and holds a Master Science of Finance from University of Portsmouth (UK).

Mr Ang has accumulated over 7 years of professional experience in auditing and corporate advisory. Prior to his appointment as Chief Financial Officer of the Company, he was the group accountant for few private companies and Chief Financial Officer for companies listed in Singapore and Malaysia.

Mr Ang does not hold any directorships in any public companies. He has no relationship with any Director and/or major shareholder(s) of the Company. He does not have any conflict of interest with the Company and has no conviction of any offences within the past 5 years other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.

On behalf of the Board of Directors of HB Global Limited ("HB Global" or "the Company") and its subsidiaries (collectively known as "the Group"), it gives me great pleasure to present the Annual Report and the Audited Financial Statements of the Group and the Company for the financial year ended 31 December 2018.

**2018 Performance Overview**

HB Group's revenue slightly decreased by RMB3.9 million or approximately 2.3% from RMB167.7 million in financial year ended 31 December 2017 ("FYE2017") to RMB163.8 million in financial year ended 31 December 2018 ("FYE2018") was due to the slightly decrease in sales of Frozen Vegetable products. In 2018, Management continuous facing various challenges in export market, increasing trend on raw material and tight competition in local market. Despite the above, the Group recorded profit after tax of RMB18.3 million (FY2017: profit after tax of RM22.1 million) which include reversal of impairment of property, plant and equipment, land use rights and inventories of RMB22.3 million but offset by a general provision of doubtful debts of RMB10.3 million and impairment loss of RMB4.4 million.

HB Global is a China based company and primarily dealing with Foods Processing business which specialising in the research & development, and manufacture of variety Ready-To-Serve foods ("RTS"). These include market survey and foods design & development to suit their local living style.

The Group has two (2) 100%-owned subsidiaries and two (2) 90% owned Subsidiaries as follow:

**100% owned Subsidiaries:**
a) Shandong Hengbao Foodstuffs Co.,Ltd. ("SHF")– the main operating plant situated in China;
b) Juxian Hengbao Farming Co., Ltd. ("JHF")– the main operating plant situated in China;

**90% owned Subsidiaries:**
a) Juxian Wan Hui Food Co., Ltd.- Dormant
b) Juxian Houz Best Food Co., Ltd. –Dormant

As the main subsidiary, SHF is principally involved in the design, research & development of RTS products and marketing activities, while JHF are rearing and trading of livestock and currently has ceased operation.

**Expectation**

The food industry continues to be affected by Governmental controls with the goal of environmental friendly and healthy. While our customers are introducing alternatives to conventional cooking products, the food industry's operating environment remains challenging as demand on quality and delivery expectations increases. To overcome these severe challenges, the Group continues to look beyond our current customers' base and explore new opportunities in other industries. In the short and medium term, the Group remains positive that we have the knowledge, capabilities and resources to continue to be the winning company in the food industry. Our strategy of focusing on being a business partner to our customers to help drive efficiencies and cost reductions continue to remain our top priority.

The year under review marked another challenging year for food processing players as we experienced strenuous business conditions amidst, continuous increase of structure labour cost and industry undergoing structural changes. In 2018, industry players had to contend with a lower price environment, excess supply and subdued trade growth amidst reduced spending by customers or end users. All of these elements led to a drop in low operating margins and business activities.

At HB Global, we believe that the costs and various production capabilities are our unique competencies. Ever since the Group was established in 2005, our goal has been to exceed our customers' expectations and their needs. We commit to consistently reach higher quality, clean, healthy and delicious standard products as our mission. We are also constantly improving ourselves by enhancing existing production facilities and products chain to yield higher cost efficiency and better performance, and striving to attain a more competent production cycle.

Majority of our customers are from different part of the world that include Japan, Europe, Australia and South East Asia. HB Global continued to maintain a steadfast focus on its core businesses in the international market whilst placing an emphasis on cost management and cash management activities as well as opportunities in the domestic arena. The year 2018 saw us focusing our efforts on optimising cost efficiencies and working capital to turn around.

**Financial Review**

Our revenue slightly decreased by RMB3.9 million or approximately 2.3% from RMB167.7 million in financial year ended 31 December 2017 ("FYE2017") to RMB163.8 million in financial year ended 31 December 2018 ("FYE2018"). The decrease was mainly due to the slightly decrease in sales of Frozen Vegetable products.

The Group's Gross Profit ("GP") margin decrease from 31.5% in FYE2017 to 27.3% in FYE2018. This was mainly attributable to the depreciation of currency of Chinese Renminbi. Our products, Frozen Vegetable had shown decreased in GP margin of 3.3% in FYE2018 and others products had shown a sharp decrease from 23.2% in FYE2017 to 9.2% in FYE2018. Other products to include frozen spring roll and had shown a decrease of GP margin 6.5% where its revenue represent 96.5% of total revenue achieved for other products hence had significant affect the GP margin.

Other operating income increased to RMB24.7 million in FYE2018 was mainly attributable to the reversal of impairment loss of PPE, inventories, land use right and prepayment for land use right for an amount of RMB22.3 million.

Selling and distribution expenses increased by RMB0.6 million to RMB2.4 million in FYE2018 was mainly due to the increase in transportation cost. General and administration expenses decreased by RMB2.0 million in FYE2018 was mainly due to decrease in employment/staff cost of approximately RMB1.7 million and the cost control in other areas. The Group achieved a net profit before taxation of RMB18.3 million in FYE2018 which shown an improvement in operation and a performing business strategy as compared to FYE2017, these had demonstrated the management commitment towards improving the financial health of the Company.

Other expenses decreased by RMB0.5 million in FYE2018. There is a RMB10.3 million provision of doubtful debts according to new International Financial Reporting Standard ruling to make such provision in FYE2018.

The decrease in net profit before taxation from RMB22.1 million in FYE2017 to RMB18.3 million in FYE2018 was the result of the above explanations and the reduction in gross profits achieved during the financial year.

Net cash generated in operating activities decreased in FYE2018 by approximately RMB20.1 million was mainly due to the decrease of GP margin of our products, the prompt repayment period to trade and other payables and extend credit term given to our local customers.

Net cash used in investing activities increased RMB9.4 million in FYE2018 was due to a disposal of old plants in FYE2017. Also there were additional production facilities acquired to meet the growing volume in our frozen vegetable products.

With a debt ratio of less than 1 for both years and operating gross profit margin, management expected that the Group should have sufficient cash flows to meet both short-term and long-term liabilities.

**Operations Review**

HB Global expenditure can be categorised into six components, i.e. costs of sales, selling and distribution expenses, administrative expenses, other expenses, finance costs and impairment loss on financial assets.

The year under review saw costs of sales taking up the highest percentage of the Group's expenditure at 70.0%. This was followed by selling and distribution expense at 1.4%, administrative expenses at 15.8%, other expenses at 2.6%, finance costs at 4.2% and impariment loss on financial assets at 6.0%.

Duck farming segment was originally a major segment of the Group's operations after successful listing in Bursa. As this segment had been badly affected by bird flu, low pricing and thigh competition in nature which led to gross losses in the past few years and shown no sign of recovery, management had taken a stringent measure to cease the duck farming operation since July 2016 and will continuously looking for lessee that could generate some flow of income to the group.

2018 saw the Group spending RMB2.0 million in capital expenditure, most of which was used to improve production efficiencies. This had allowed the Group to manage its labour costs and factory overhead which could lead to improved or maintain products' GP margin.

In recognising the volatile nature of the currency market and change in end consumers behavior, HB has effective contingency plans on hand to mitigate such risks. Management adopt a tight control operating model to minimise costs and introduce technology to improve efficiency in our operations.

**Self-rescue exercise**

Without any reliance on external factors, the Group had shown its own self-rescue exercise or plans had successfully implemented and workable, management will continuously take stringent measure on the ceased duck farming segment.

Our financial year ended 31 December 2018, closed the page on a challenging but rewarding year for us at HB Global Ltd. It was a year of positives that led us to achieve our goals of nourishing life, and challenges that we had to face and overcome to emerge a stronger and more dynamic team. 2018 was certainly a volatile year, with international political and economic headwinds and tailwinds, increased competition, global food price fluctuations and the waning and rising of the local or US currency. These were some of the factors that impacted the performance of the Company. Nevertheless, we remain committed to ensuring that our products are affordable and readily available to our consumers.

In spite of the challenges, the Group was able to record satisfactory progress, posting a profit before tax of RMB18.3 million. This was achieved through ongoing efforts to drive efficiencies, which have been able to cushion the negative impact of the headwinds mentioned above.

The management is optimistic that the current business remains viable and sees no reason to deviate from current business and attempt on new business or entering into any arrangement with other parties to turnaround the Group.

**A Cautiously Optimistic Future**

While consensus indicates a slight reduction in China's GDP or World average GDP in 2019 and uncertainties still remain both locally and globally with events such as the US-China trade war, we at HB Global Ltd remain optimistic in our performance for the upcoming financial year. As we remain committed to our purpose of nourishing life, the Group continues to explore product innovations to tap into market trends and maintain affordability so as to increase the country's and oversea market consumption.

Barring any unforeseen circumstances, the Group should continue to perform well ever since the cessation of duck farming segment in July 2016.

We do not expect any significant changes in our principal geographical areas of distribution and product group contributions.

The Group will continue to encourage positive performances, improving product quality, developing new products and looking out for new market.

**Declaration of Dividends**

With the current financial position and further unknown challenges ahead, no dividend is to be declared.

**Appreciation**

At HB Global, we would like to extend our heartfelt gratitude to all our stakeholders who have supported us through the years. These include our valued customers, business associates, vendors, relevant authorities, bankers and financiers and investors. The Group also takes this opportunity to acknowledge the contributions of our amazing management and staff members who have worked tirelessly to help us attain our goals as well as the Board of Directors for their invaluable time and guidance. We look forward to your continued support in the coming year.

**Shen Hengbao**
**Group Chief Executive Officer**

We perceived corporate sustainability as our commitment to create long term value for our shareholders, environment and society through innovation and overall operational excellency. We understand our choices today have an impact on our customers and suppliers and the success of their businesses in the future. Our business imperative is to carry out our activities responsibly and with integrity. Our people are expected to behave in an honest and ethical manner in accordance with our policies, business rules and guidelines.

**Our Corporate Sustainability Commitment**

As part of the Group's Corporate Sustainability Commitment, we defined our commitment through efforts towards its employees, the community and the environment where its businesses are conducted, the following activities are in place:

**Environmental Care**

The Group strictly complies with the environmental guidelines set by provincial and municipal governments for the discharge of pollutants. The Group has also obtained the Emission Permit issued by the Environmental Protection Bureau of Ju County, PRC.

**Employee Welfare**

Efforts are in place for the provision of a conducive working environment for the workers and personnel of the Group who are the driving force behind the Group's growth and operational success.

The Group focuses on improving the quality and living standards of its employees and will continue monitoring the same, working towards the provision of providing its employees with a good and healthy environment under the Group's care in the coming years.

**Occupational Safety and Health at the Work Site**

It is crucial to maintain high occupational safety and health standards for all employees and others at the work place. The Group is readily committed to improving its health and safety performance and conducting business in a socially responsible manner from time to time.

**Promoting Employment Opportunities for Local Community**

As part of the requirement of the local council in China which has been supporting the Group's land acquisition through subsidies given in recent years, the Group is committed to maintain its food processing plants to continue create employment opportunities for the local community.

The Board is committed to ensure that a high standard of corporate governance is practised throughout HB Global Limited ("HB Global" or "the Company") and its subsidiaries ("the Group") in discharging its responsibilities with integrity, transparency and professionalism, to protect and enhance shareholders' value and the financial position of the Group.

The Board recognises the importance of good corporate governance and fully supports the principles and best practices promulgated in the Malaysian Code on Corporate Governance ("MCCG") to enhance business prosperity and maximise shareholders' value. In 2017, the MCCG, which supercedes its earlier edition, takes on a new approach to promote greater internalisation of corporate governance culture. The Board will continuously evaluate the Group's corporate governance practices and procedures, and where appropriate will adopt and implement the best practices as enshrined in MCCG to the best interest of the shareholders of the Company.

Below is a statement and description in general on how the Group has applied the principles and complied with the best practice provisions as laid out in MCCG throughout the financial year ended 31 December 2018 pursuant to Paragraph 15.25 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing Requirements").

**PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS**

**Board Leadership**

The Group is led and controlled by an effective Board. The Board provides strategic direction for the Group and regularly meets to review corporate strategies, resolve operational affairs and monitor the financial performance of the Group.

The Board assumes responsibility for the effective stewardship and control of the Group and its members have established a term of reference to assist them in the discharge of their responsibilities.

The Board has a formal schedule of matters reserved to itself for decision, which includes the overall Group strategy and direction, investment policy, major capital expenditures, consideration of significant financial matters and review of the financial and operating performance of the Group.

The management, including the Chief Executive Director and Executive Directors of the Company, is responsible for managing the day-to-day running of the business activities in accordance with the direction and delegation of the Board. The management meets regularly to discuss and resolve operational issues. The Executive Director briefs the Board on business performance and operations as well as the management initiatives during quarterly Board's meetings.

The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. Hence, to develope corporate objectives and position descriptions including the limits to management's responsibilities, which the management are aware and are responsible for meeting.

The Board understands the principal risks of all aspects of the business that the Group is engaged in recognising that business decisions require the incurrence of risk. To achieve a proper balance between risks incurred and potential returns to shareholders, the Board ensures that there are in place systems that effectively monitor and manage these risks with a view to the long term viability of the Group.

The principal roles and responsibilities assumed by the Board are as follows:

- Review and adopt strategic plan of the Group

  The Board plays an active role in the development of the Group's overall corporate strategy, marketing plan and financial plan. The Board is presented with the short and long-term strategy of the Group together with its proposed business plans for the forthcoming year. The Board also monitors budgetary exercises which support the Group's business plan and budget plan.

- Implementation of internal compliance controls and justifies measures to address principal risks

  The Board is fully alert of the responsibilities to maintain a proper internal control system. The Board is responsible for the Group's system of internal controls including financial condition of the business, operational, regulatory compliance as well as risk management matters.

- To formulate and have in place an appropriate succession plan

  The Board is responsible to formulate and have in place an appropriate succession plan encompassing the appointment, training, and determination of compensation for senior management of the Group, as well as assessing the performance of Directors and Committee members and, where appropriate, retiring and appointing new members of the Board and Executive Directors.

- Developing and implementing an investor relations program or shareholder communications policy for the Group

  The Board recognises that shareholders and other stakeholders are entitled to be informed in a timely and readily accessible manner of all material information concerning the Company through a series of regular disclosure events during the financial year. Hence, The Company website is the primary medium in providing information to all shareholders and stakeholders.

The Board will normally hold meetings at least four (4) times in each financial year to consider:

i) relevant operational reports from the management;
ii) reports on the financial performance;
iii) specific proposals for capital expenditure and acquisitions, if any;
iv) major issues and opportunities for the Company, if any; and
v) quarterly financial statements for announcement to authorities.

In addition, the Board will, at intervals of not more than one (1) year:

i) approve annual financial statements, and other reports to shareholders;
ii) consider and, if appropriate, declare or recommend the payment of dividends;
iii) review the Board composition, structure and succession plan;
iv) review the Company's audit requirements;
v) review the performance of, and composition of Board committees;
vi) undertake Board and individual Board member evaluations;
vii) review Board remuneration; and
viii) review risk assessment policies and controls and compliance with legal and regulatory requirements.

The roles and responsibilities of the Independent Non-Executive Directors and Executive Directors are clearly defined and properly segregated. All the Independent Non-Executive Directors are independent of the Executive Directors, management and major shareholders of the Company, and are free from any business or other relationship with the Group that could materially interfere with the exercise of their independent judgement. This offers a strong check and balance on the Board's deliberations.

The Executive Directors are responsible for the overall performance and operations as well as the corporate affairs and administrations of the Group. They are assisted by the senior management personnel of the Group in managing the business activities of the Group in the manner that is consistent with the policies, standards, guidelines, procedures and/or practices of the Group and in accordance with the specific plans, instructions and directions set by the Board.

The Chief Executive Director holds the principal obligations in focusing, guiding, addressing, supervising, regulating, managing and controlling as well as communicating the Company's goals and objectives, as well as all significant corporate matters, corporate restructuring plans, business extension plans and proposals. The Chief Executive Director, assisted by other Executive Directors, is also responsible for proposing, developing and implementing applicable and relevant new policies and procedures.

The Independent Non-Executive Directors of the Company play a key role in providing unbiased and independent views, advice and contributing their knowledge and experience toward the formulation of policies and in the decision making process. The Board structure ensures that no individual or group of individuals dominates the Board's decision-making process. Although all the Directors have equal responsibility for the Company and the Group's operations, the role of the Independent Directors are particularly important in ensuring that the strategies proposed by the Executive Directors are deliberated on and have taken into account the interest, not only of the Company, but also that of the shareholders, employees, customers, suppliers and the community.

In discharging its fiduciary duties, the Board has delegated specific tasks to three (3) Board Committees namely the Audit Committee, Nomination Committee and Remuneration Committee. All the Board Committees have its own terms of reference and has the authority to act on behalf of the Board within the authority as lay out in the terms of reference and to report to the Board with the necessary recommendation.

**Independent Chairman**

The MCCG recommends that the Board of Directors of a public listed company should be composed of a majority of independent directors where the Chairman of the Board is not an independent director. The Chief Executive Officer of the Company currently assumed the role of the Chairman of the Company and has the obligation to preside at various meetings, namely the shareholders' general meetings and the Board meetings. The Board of Directors of the Company, notwithstanding that the role of the Chairman is current assumes by the Chief Executive Officer, is of the opinion that the element of independence which currently exists is adequate to provide assurance that there is a balance of power and authority on the Board. In addition, the presence of the three (3) Independent Non-Executive Directors are sufficient to provide the necessary checks and balances on the decision making process of the Board. The contributions of the Independent Non-Executive Directors in the decision making process is evidenced in their participation as members of the various committees of the Board.

The Board therefore believes that balance of power and authority exists within its current structure to sufficiently enable it to discharge its duties objectively.

**Qualified and Competent Company Secretary**

The Chief Financial Officer who is also the Acting Company Secretary will attend all Board and Committee meetings and is responsible for the proper maintenance of records of the discussions on key deliberations and decisions taken during the Board and Committee meetings. Where necessary, he will seek guidance from the Company's Agent in Malaysia.

The Acting Company Secretary renders necessary assistance to the Board and ensures meeting procedures are followed and the applicable laws and regulations are complied with.

The Acting Company Secretary shall keep himself abreast with the development and new changes in relation to any legislation and regulations concerning the corporate administration and to highlight the same to the Board of Directors accordingly.

Under the direction of the Chief Executive Officer, the Acting Company Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors, as well as facilitating orientation and assisting with professional development as required.

**Access to Information Information and Support for Directors**

Unless otherwise agreed, notice of each meeting confirming the venue, time, date and agenda of the meeting together with relevant Board papers shall be forwarded to each director no later than two (2) days before the date of the meeting. This is to ensure that Board papers comprising of due notice of issues to be discussed and supporting information and documentations were provided to the Board sufficiently in advance. Furthermore, Directors are given sufficient time to read the Board paper and seek for any clarification as and when they may need advisers or further explanation from management and Company Secretary. The deliberations of the Board in terms of the issues discussed during the meetings and the Board's conclusions in discharging its duties and responsibilities are recorded in the minutes of meetings by the Company Secretary.

The Board has unrestricted access to all information within the Company as a full Board to enable them to discharge their duties and responsibilities and is supplied on a timely basis with information and reports on financial, regulatory and audit matters by way of Board papers for informed decision making and meaningful discharge of its duties.

In addition, external advisers are invited to attend meetings to provide insights and professional views, advice and explanation on specific items on the meeting agenda, when required. Senior management team from different business units are also invited to participate at the Board meetings to enable all Board members to have equal access to the latest updates and developments of business operations of the Group presented by the senior management team. The Chairman of the Board Committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee briefs the Board on matters discussed as well as decisions taken at the meetings of their respective Board Committees meetings.

When necessary, Directors may whether as a full Board or in their individual capacity, seek independent professional advice, including the internal and external auditors, at the Company's expense to enable the directors to discharge their duties with adequate knowledge on the matters being deliberated, subject to approval by the Chairman of the Board, and depending on the quantum of the fees involved.

**Board Charter**

As part of governance process, the Board is in the midst of finalising its Board Charter which sets out the composition and balance, roles and responsibilities, operation and processes of the Board. The Board will undertake to finalise the said Board Charter and upload the same on the Company's website in due course.

**Code of Conduct and Ethics**

The Board is committed in maintaining a corporate culture which engenders ethical conduct. The Company is in the midst of preparing its Code of Conduct and Ethics, which summarises what the Company must endeavour to do proactively in order to increase corporate value, and which describes the areas in daily activities that require caution in order to minimise any risks that may occur. The Board will undertake to develop the said Code of Conduct and Ethics and upload the same on the Company's website in due course.

**Whistle-blowing Policy**

The Company is in the midst of preparing its Whistle-blowing Policy, with the aim to provide an avenue for raising concerns related to possible breach of business conduct, non-compliance of laws and regulatory requirements as well as other malpractices. The Board undertake to develop the said policy and upload the same on the Company's website in due course.

**Promote Sustainability**

The Board ensures that the Company's strategies promote sustainability with attention given particularly to environmental, social and governance ("ESG") aspects of business which underpin sustainability. The Board understands that balancing ESG aspects with the interests of various stakeholders is essential to enhancing investor perception and public trust. Disclosures on corporate responsibility are presented under "Corporate Sustainability Statement" of this Annual Report.

**Board Composition**

The Board of HB Global comprises of five (5) members of whom two (2) are Executive Directors and three (3) are Independent Non-Executive Directors thereby meeting the minimum one-third (1/3) requirement for independent directors to be appointed to the Board as required under the Listing Requirements as well as the recommendation of MCCG whereby at least half of the Board comprises of independent directors.

The current composition of the Board provides an effective Board with a mix of industry specific knowledge, broad based business and commercial experience together with independent judgement on matters of strategy, operations, resources and business conduct. The combination of professionals with diverse and varied backgrounds, wealth of experience and expertise in finance and corporate affairs also enables the Board to discharge its responsibilities effectively and efficiently. The profiles of the Directors and Key Senior Management are set out in this Annual Report.

**Tenure of Independent Directors**

Currently, the Board does not have a formal policy on the tenure for Independent Director as the Board is of the view that a term of more than nine (9) years may not necessary impair independence and judgement of an Independent Director and therefore the Board does not deem it appropriate to impose a fixed term limit for Independent Director at this juncture.

However, as recommended by the MCCG, the tenure of an Independent Director should not exceed cumulative term of nine (9) years. Upon completion of the nine (9) years, an Independent Director may continue to serve on the Board subject to the re-designation of the said person as a Non-Independent Director. In the event the Board intends to retain such Director as Independent Director after the latter has served a cumulative term of nine (9) years, the Board must justify the decision and seek annual shareholders' approval. If the Board continues to retain the Independent Director after the twelfth (12) years, the Board will seek annual shareholders' approval through a two-tier voting process.

During the financial year under review, none of the Independent Non-Executive Directors of the Company had served the Company for more than nine (9) years as per recommendation of MCCG.

**New Candidates for Board Appointment**

The appointment of new Directors is the responsibility of the full Board after considering the recommendations of the Nomination Committee. As a whole, the Company maintains a very lean number of Board members. New appointees will be considered and evaluated by the Nomination Committee. The Nomination Committee will then recommend the candidates to be approved and appointed by the Board. The Company Secretary will ensure that all appointments are properly made, and that legal and regulatory obligations are met.

Generally, the Board adopts a flexible approach when selecting and appointing new Directors depending upon the circumstances and timing of the appointment. The Nomination Committee will help assess and recommend to the Board, the candidature of Directors, appointment of Directors to Board Committees, review of Board's succession plans and training programmes for the Board.

In assessing suitability of candidates, consideration will be given to the core competencies, commitment, contribution and performance of the candidates to ensure that there is a range of skills, experience and diversity (including gender diversity) represented in addition to an understanding of the Business, the Markets and the Industry in which the Group operates and the accounting, finance and legal matters.

In general, the process for the appointment of director to the Board is as follows:

i) The Nomination Committee reviews the Board's composition through Board assessment/evaluation;

ii) The Nomination Committee determines skills matrix;

iii) The Nomination Committee evaluates and matches the criteria of the candidates, and will consider diversity, including gender, where appropriate;

iv) The Nomination Committee recommends to the Board for appointment; and

v) The Board approves the appointment of the candidates.

Factors considered by the Nomination Committee when recommending a person for appointment as a director include:

i) the merits and time commitment required for a Non-Executive Director to effectively discharge his or her duties to the Company;

ii) the outside commitments of a candidate to be appointed or elected as a Non-Executive Director and the need for that person to acknowledge that they have sufficient time to effectively discharge their duties; and

iii) the extent to which the appointee is likely to work constructively with the existing Directors and contribute to the overall effectiveness of the Board.

**Boardroom Diversity**

The Board acknowledges the importance of boardroom diversity and is supportive of the recommendation of MCCG to the establishment of boardroom and workforce gender diversity policy. However, the Board does not adopt any formal boardroom diversity policy in the selection of new Board candidates and does not have specific policies on setting target for female candidates in the Group. The Group basically evaluate the suitability of candidates as new Board member or as a member of the workforce based on the candidates' competency, skills, character, time commitment, knowledge, experience and other qualities in meeting the needs of the Group, regardless of gender. Equal opportunity is given and does not practise discrimination of any form, whether based on age, gender, race and religion, throughout the organisation. Nevertheless, the Board will evaluate and match the criteria of the potential candidate as well as considering the boardroom diversity for any new proposed appointment of Directors of the Company in the future.

Currently, our Board comprise of one (1) female Director and the Board may consider appointing more females onto the Board in future to bring about a more diverse perspective

**Time Commitment and Directorship in Other Public Listed Companies**

The directorships in other public listed companies in Malaysia held by any Board member at any one time shall not exceed any number as may be prescribed by the relevant authorities. In addition, at the time of appointment, the Board shall obtain the Director's commitment to devote sufficient time to carry out his responsibilities. Directors are required to notify the Chairman before accepting any new directorship(s). The notification would include an indication of time that will be spent on the new appointment(s). Any Director is, while holding office, at liberty to accept other Board appointment in other companies so long as the appointment is not in conflict with the Company's business and does not affect the discharge of his/her duty as a Director of the Company. To ensure the Directors have the time to focus and fulfill their roles and responsibilities effectively, one (1) criterion as agreed by the Board is that they must not hold directorships at more than five (5) public listed companies as prescribed in Paragraph 15.06 of the Listing Requirements.

Each Board member is expected to achieve at least 50% attendance of total Board Meetings in any applicable financial year with appropriate leave of absence be notified to the Chairman and/or Company Secretary, where applicable.

The Directors have demonstrated their ability to devote sufficient time and commitment to their roles and responsibilities as Directors of the Company. The Board is satisfied with the level of time and commitment given by the Directors of the Company towards fulfilling their duties and responsibilities. This is evidenced by the attendance record of the Directors as set out in the section below.

**Board Meetings and Attendance**

There were four (4) Board of Directors' meetings held during the financial year ended 31 December 2018. Details of the attendance of the Directors at the Board of Directors' meetings are as follow:

| Name of Director | Total Meetings Attended | Percentage of Attendance |
|---|---|---|
| Shen Hengbao | 3/4 | 75% |
| Meng Xiangzhen | 3/4 | 75% |
| Sun Shimin | 3/4 | 75% |
| Yang Chin Shen | 4/4 | 100% |
| Ho Pui Hold | 4/4 | 100% |

All the Directors complied with the minimum 50% attendance requirement in respect of Board meetings held during the financial year ended 31 December 2018.

The Board is satisfied with the level of time commitment given by the Directors of the Company towards fulfilling their duties and responsibilities.

The Board meets on a quarterly basis, with amongst others, review the operations, financial performance, reports from the various Board Committees and other significant matters of the Group. Where any direction or decisions are required expeditiously or urgently from the Board between the regular meetings, special Board meetings maybe convened by the Company Secretary, after consultation with the Chairman. Additionally, in between Board meetings, the Directors also approved various matters requiring the sanction of the Board by way of circular resolutions.

The proceedings and resolutions concluded at each Board meeting are recorded in the minutes of the meetings, which are kept in the Minutes Book at the Company's registered office in Singapore.

The tentative dates for Board and Board Committee meetings will be notified by the Company Secretary well in advance to ensure that each of the Directors is able to attend the planned Board and/or Board Committee meetings including that of the Annual General Meeting.

**Continuing Education Programs**

All Directors appointed to the Board have undergone the Mandatory Accreditation Program ("MAP") prescribed by Bursa Securities. Although the Board does not have a policy requiring each Director to attend a specific number and types of training sessions each year, the Directors are encouraged to attend continuous education programmes/seminars/conferences and shall as such receive further training from time to time to keep themselves abreast of the latest development in statutory laws, regulations and best practices, where appropriate, in line with the changing business environment and enhance their business acumen and professionalism in discharging their duties to the Group.

Details of seminars/conferences/training programmes attended by the Board members during the financial year as listed below:

| Name of Director | Seminars/Conferences/Training Programmes Attended |
|---|---|
| Shen Hengbao | • Compliance for Bursa Listing Rules & Corporate Governance |
| Meng Xiangzhen | • Compliance for Bursa Listing Rules & Corporate Governance |
| Sun Shimin | • Compliance for Bursa Listing Rules & Corporate Governance |
| Yang Chin Shen | • Compliance for Bursa Listing Rules & Corporate Governance<br>• Auditing<br>• FRS 116 Leases<br>• Forming Audit Opinion on Financial Statements SSA 700, 705 and 706<br>• FRS 115 Revenue from Contracts with Customers<br>• Anti-Money Laundering and Countering the Financing of Terrorism |
| Ho Pui Hold | • MIA Technical Updates 2018<br>• Briefing on Overview of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad<br>• MIA International Accountants Conference 2018<br>• Compliance for Bursa Listing Rules & Corporate Governance |

The Board will on continuing basis evaluate and determine the training needs of each Director, particularly on relevant new law and regulations and essential practices for effective corporate governance and risk management to enable the Directors to effectively discharge their duties.

In addition to the above, the Directors would be updated on recent developments in the areas of statutory and regulatory requirements from the briefing by the External Auditors, the Internal Auditors and the Company Secretary during the Committee and/or Board meetings.

**Nomination Committee**

As recommended by MCCG, the Company has established the Nomination Committee comprising exclusively of Independent Non-Executive Directors. The role of the Nomination Committee is to recommend the candidates who have an optimal mix of qualifications, skills and experiences, including core competencies to the Board. The Nomination Committee is required to evaluate the effectiveness of the Board, each Committee of the Company and also to assess the contribution of each Director in relation to the effectiveness of the Board's decision-making process on an annually basis.

The present members of the Nomination Committee are:

**Chairman**
Ho Pui Hold - Independent Non-Executive Director

**Members**
Yang Chin Shen - Independent Non-Executive Director
Sun Shimin - Independent Non-Executive Director

The Nomination Committee will meet at least once per year unless otherwise determined by the Nomination Committee. The quorum of the Nomination Committee meeting shall be at least two (2) members and comprised a majority of independent directors.

The Board has stipulated specific Terms of Reference for the Nomination Committee, which covers following salient functions:

i) assessing and recommending to the Board the candidature of directors, appointment of directors to Board Committees;
ii) reviewing of Board's succession plans and training programmes for the Board;
iii) undertaking the assessment of the Board, Board Committees and individual directors on an on-going basis; and
iv) undertaking annual assessment of the independence of independent directors in the Board beyond the independent director's background, economic and family relationships but considering they can continue to bring independent and objective judgment to Board deliberations.

The Nomination Committee may, as it deems fit, call for any appropriate person(s) to be in attendance to make presentations or furnish or provide independent advice to the Nomination Committee on any matters within the scope of responsibilities.

The terms of reference of the Nomination Committee can be viewed at the Company's website at www.hbglobal.asia.

The summary of activities undertaken by the Nomination Committee during the financial year included the following :

i) Reviewed the effectiveness of the Board, as a whole, Board Committees and individual Directors and make appropriate recommendation to the Board; and

ii) Reviewed and recommended the retirement and re-election of Directors at the forthcoming Annual General Meeting in accordance with the Company's Articles of Association.

**Evaluation for Board, Board Committees and Individual Directors**

The Nomination Committee would conduct an assessment of the performance of the Board, as a whole, Board Committees and individual Directors, based on a self-assessment approach on an annually basis. From the results of the assessment, including the mix of skills and experience possessed by Directors, the Board will consider and approve the recommendations on the re-election and re-appointment of Directors at the Company's forthcoming Annual General Meeting, with a view to meeting current and future requirements of the Group.

The criteria used by the Nomination Committee in evaluating the performance of individual, including contribution to interaction, integrity, competency and time commitment of the members of the Board and Board Committees in discharging their duties, are in a set of questionnaires. Each of the Directors will perform a self-assessment on an annually basis. The Board did not engage any external party to undertake an independent assessment of the Directors.

Based on the assessment conducted for the financial year 2018, the Board and the Nomination Committee is satisfied with the current size, composition as well as the mix of qualifications, skills and experience among the Board members and the independence of its Independent Non-Executive Directors.

**Re-election of Directors**

In accordance with the Company's Articles of Association, one-third (1/3) of the Directors shall retire by rotation from office at every Annual General Meeting ("AGM") and they shall be eligible for re-election at such AGM. The Directors to retire shall be the Directors who have been serving in office for the longest duration since their appointment or last re-election. All Directors are subject to retire from office at least once in every three years. Any Director appointed during the year is required to retire and seek re-election by shareholders at the next Annual General Meeting following his appointment.

Upon the recommendation of the Nomination Committee and the Board, the Directors who are standing for re-election and re-appointment at the forthcoming AGM of the Company to be held in 2019 are as stated in the Notice of AGM.

**Annual Assessment of Independence**

Annual assessments will be conducted by Nomination Committee on annually basis and the criteria for assessment covers areas such as contributions to interaction, roles and responsibilities and quality of input to enhance the Board's effectiveness. The independence of Independent Directors was assessed based on their relationship with the Group and their involvement in any significant transactions with the Group including their ability to exercise independent judgment at all times and based on the criteria set out in the Listing Requirements of Bursa Securities.

Based on the assessment carried out during the financial year ended 31 December 2018, the Board is satisfied with the level of independence demonstrated by all the Independent Directors and their ability to act in the best interests of the Company during the financial year under review, and that each of them continues to fulfill the definition of independence as set out in the Listing Requirements of Bursa Securities.

**Remuneration Committee**

In line with the Best Practices of the MCCG, the Board has set up a Remuneration Committee which comprise majority of Independent Non-Executive Directors in order to assist the Board for determining the Director's remuneration.

The Remuneration Committee is authorised by the Board to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. The remuneration of Directors shall be the ultimate responsibility of the full Board after considering the recommendations of the Remuneration Committee.

The Remuneration Committee meet at least once a year and when required and is entrusted, among others, with examining the remuneration packages and other benefits of the Executive Directors. The contribution, responsibilities and performance of each Executive Director is taken into account when determining their respective remuneration packages. The quorum of the Remuneration Committee meeting shall be two (2) members and comprised a majority of independent directors. However, the ultimate responsibility to approve the remuneration of these Directors remains with the Board as a whole. The Executive Directors are not involved in any decisions with regard to their own remuneration.

The present members of the Remuneration Committee are as follow:

**Chairman**
Sun Shimin - Independent Non-Executive Director

**Members**
Shen Hengbao - Chief Executive Officer
Yang Chin Shen - Independent Non-Executive Director

The summary of activities undertaken by the Remuneration Committee during the financial year included the following:

i) Reviewed and recommended the payment of Directors' fees to Non-Executive Directors; and

ii) Reviewed and recommended the Executive Directors remuneration package.

**Remuneration Policy**

The Remuneration Committee is authorised by the Board to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors.

The Board believes in a remuneration policy that fairly supports the Directors' responsibilities and fiduciary duties in steering the Group to achieve its long-term goals and enhance shareholders' value. The Board offers a competitive remuneration package in order to attract, develop and retain talented individuals to serve as directors.

The Remuneration Committee's principal objective is to evaluate, deliberate and recommend to the Board a remuneration policy for Executive Directors that is fairly guided by market norms and industry practice. The Remuneration Committee also recommends the Executive Directors' remuneration and benefits based on their individual performances and that of the Group.

The determination of the remuneration for Non-Executive Directors is a matter of the Board as a whole. The level of remuneration for Non-Executive Directors reflects the amount paid by other comparable organisations, adjusted for the experience and levels of responsibilities undertaken by the particular Non-Executive Directors concerned. The remuneration package of Non-Executive Directors will be a matter to be deliberated by the Board, with the Director concerned abstaining from deliberations and voting on deliberations in respect of his individual remuneration. In addition, the Company also reimburses reasonable out-of-pocket expenses incurred by all the Non-Executive Directors in the course of their duties as Directors of the Company. The aggregate annual Directors' fees are to be approved by shareholders at the Annual General Meeting based on recommendations of the Board.

**Directors' Remuneration**

Details of the Directors' remuneration paid or payable to all Directors of the Company (both by the Company and the Group) for the financial year ended 31 December 2018 are as follows:

| | Company | | Group | |
|---|---|---|---|---|
| Director | Fees (RMB'000) | Salaries and other emoluments (RMB'000) | Fees (RMB'000) | Salaries and other emoluments (RMB'000) |
| Shen Hengbao | - | - | - | 78.00 |
| Meng Xiangzhen | - | - | - | 76.47 |
| Sun Shimin | - | - | - | - |
| Yang Chin Shen | 153.63 | - | 153.63 | - |
| Ho Pui Hold | 125.72 | - | 125.72 | - |
| **Total** | **279.35** | **-** | **279.35** | **154.47** |

**Remuneration of Top Five (5) Employees**

The total remuneration received by top five (5) employees of the Group including salary, bonus, benefits in-kind and other emoluments in bands width of RMB50,000 for the financial year ended 31 December 2018 are as follows:

| | Range of Remuneration | | | | |
|---|---|---|---|---|---|
| Name | RMB50,001 to RMB100,000 | RMB100,001 to RMB150,000 | RMB150,001 to RMB200,000 | RMB200,001 to RMB250,000 | RMB250,001 to RMB500,000 |
| Ang Kong Siang | | | | | X |
| Liu Fuliang | X | | | | |
| Tian Zongwang | X | | | | |
| Chen Caixia | X | | | | |
| Yao Zhifang | X | | | | |

Details of total remuneration received by the above employees are not disclosed in this report as the Board is of the view that the above remuneration disclosure by band satisfies the accountability and transparency aspects of the MCCG.

**PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT**

**Audit Committee**

In line with the best practices of MCCG, the Board has set up the Audit Committee which comprising exclusively of Independent Non-Executive Directors. The present members of the Audit Committee are as follows:

**Chairman**
Yang Chin Shen - Independent Non-Executive Director

**Members**
Ho Pui Hold - Independent Non-Executive Director
Sun Shimin - Independent Non-Executive Director

**Terms of Reference**

The terms of reference of the Audit Committee are as follows:

**1. Membership**

(i) The Audit Committee shall be appointed by the Board.

(ii) It shall comprise at least three (3) members who must be Non-Executive Directors, with a majority of them being Independent Directors.

(iii) The Chairman of the Audit Committee shall be appointed by the Audit Committee amongst the members of the Audit Committee themselves and shall be an Independent Director.

(iv) If the number of members is reduced to below three (3) as a result of resignation or death of a member, or for any other reason(s), the Audit Committee shall, within three (3) months of that event, appoint amongst such other directors, a new member to make up the minimum number required herein.

(v) At least one (1) member of the Audit Committee:

(a) must be a member of the Malaysian Institute of Accountants ("MIA"); or

(b) if he/she is not a member of the MIA, he/she must have at least three (3) years working experience and :-

- he/she must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or

- he/she must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

(c) must possess such qualifications as may from time to time be prescribed by the Bursa Securities.

(vi) An alternate director is not eligible for membership in the Audit Committee.

**2. Authority**

The Audit Committee is authorised by the Board to investigate any activity within its Terms of Reference. The Audit Committee shall have unlimited access to both the internal auditors and external auditors as well as all employees of the Group. The Audit Committee shall also have the authority to obtain independent legal or other professional advice and to secure attendance of outsiders with relevant experience and expertise if it considers this necessary.

**3. Duties and Responsibilities**

(i) To review with the internal auditor their audit plans, the reports and the system of internal control.

(ii) To review the adequacy of scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work.

(iii) To review the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.

(iv) To review the assistance and cooperation given by the Company's management to the external auditor and internal auditor.

(v) To review the plans of the external auditor of the Company, and their reports arising from the audit.

(vi) To review the cost effectiveness, independence and objectivity of the external auditor.

(vii) To review the nature and extent of non-audit services provided by the external auditor.

(viii) To review the quarterly unaudited condensed financial statements and the year end financial statements of the Group before submission to the Board, focusing particularly on:

- any changes in accounting policies and practices;
- any significant and unusual results or events; and
- compliance with accounting standards and other legal requirements.

(ix) To review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

(x) To review with the external auditor their audit report, management letter and Management's response.

(xi) To recommend to the Board the appointment or reappointment of the external auditor and internal auditor, audit fee, and where applicable, their resignation and dismissal.

(xii) To undertake such other responsibilities as may be agreed to by the Committee and the Board of Directors.

**4. Meetings**

(i) The Audit Committee shall hold at least four (4) meetings a year and such additional meeting(s) as the Chairman of the Audit Committee shall decide in order to fulfill its duties.

(ii) Apart from the members of the Audit Committee who will be present at the meetings, the Audit Committee may invite any member of the Board of Directors, the Management, staff and representatives of the external auditor and internal auditor to be present at the meeting of the Audit Committee.

(iii) A quorum shall consist of two (2) members. The majority of members present must be Independent Non-Executive Directors.

(iv) Notices of not less than two (2) working days shall be given for the calling of any meeting to members.

(v) Matters raised and tabled at all meetings shall be decided by a majority of votes of the members.

(vi) A resolution in writing, signed by all the members shall be as valid and effective as if it had been deliberated and decided upon at a meeting of the Audit Committee.

(vii) Proceedings of all meetings held and resolutions passed as referred to in clause (vi) above shall be recorded by the Company Secretary and kept at the Group's registered office.

(viii) Every member of the Board shall have the right at any time to inspect the minutes of all meetings held and resolutions passed by the Audit Committee and the reports submitted thereat.

(ix) The external auditors shall have the right to attend and be heard at any meeting and shall attend before the Audit Committee when so required by the Audit Committee.

(x) Upon the request of the external auditors, the Chairman shall convene a meeting to consider any matters that the external auditors recommend should be brought to the attention of the Directors or shareholders of the Company.

(xi) Where necessary, the Audit Committee shall meet with the external auditors without the presence of the executive board members of the Group.

A copy of the terms of reference of the Audit Committee can be viewed at the Company's website at www.hbglobal.asia.

**Attendance of Meetings**

During the financial year ended 31 December 2018, the Audit Committee held 4 meetings. Details of the attendance of committee members are as follow:

| Name of Director | Attendance | Percentage of Attendance |
|---|---|---|
| Yang Chin Shen | 4/4 | 100% |
| Ho Pui Hold | 4/4 | 100% |
| Sun Shimin | 3/4 | 75% |

All members of the Audit Committee have a working familiarity with finance and accounting practices. Mr Yang Chin Shen and Mr Ho Pui Hold are member of the Malaysia Institute of Accountants.

**Summary of Activities**

The main activities that were undertaken by the Audit Committee during the financial year ended 31 December 2018 include the following:

i) Reviewed the quarterly unaudited financial of the Group and the Company including the announcements pertaining thereto, before recommending to the Board for their approval and release of the Group's results to Bursa Securities;

ii) Reviewed with external auditors on their audit planning memorandum on the statutory audit of the Group for the financial year ended 31 December 2018;

iii) Reviewed the annual audited financial statements of the Group before recommending to the Board for their approval and release of the Group's results to Bursa Securities;

iv) Reviewed and discussed with the external auditors of their audit findings inclusive of system evaluation, audit fees, issues raised, audit recommendations and management's response to these recommendations;

v) Evaluated the performance of the external auditors for the financial year ended 31 December 2018 covering areas such as calibre, quality processes, audit team, audit scope, audit communication, audit governance and independence and considered and recommended the re-appointment of the external auditors;

vi) Reviewed and assessed the adequacy of the scope and functions of the internal audit plan;

vii) Reviewed the internal audit reports presented and considered the findings of internal audit through the review of the internal audit reports tabled and management responses thereof;

viii) Reviewed the effectiveness of the Group's system of internal control;

ix) Reviewed the proposed fees for the external auditors and internal auditors in respect of their audit of the Company and the Group;

x) Reviewed related party transactions and conflict of interest situation that may arise within the Company or the Group;

xi) Reviewed the Company's compliance with the Listing Requirements, applicable Approved Accounting Standards and other relevant legal and regulatory requirements;

xii) Reviewed the Audit Committee Report and Statement on Risk Management and Internal Control before recommending to the Board for approval and inclusion in the Annual Report; and

xiii) Report to the Board on its activities and significant findings and results.

**Independence of the Audit Committee**

HB Global recognised the need to uphold independence of its external auditors and that no possible conflict of interest whatsoever should arise. Currently, none of the members of the Board nor the Audit Committee of the Company were former key audit partners of the external auditors appointed by the Group. The Company will observe a cooling-off period of at least two (2) years in the event any potential candidate to be appointed as a member of the Audit Committee was a key audit partner of the external auditors of the Group.

**Training and Financial Literacy of the Audit Committee Members**

Collectively, the members of the Audit Committee have the relevant experience and expertise in finance and accounting, and have carried out their duties in accordance with the Terms of Reference of the Audit Committee. The qualification and experience of the individual Audit Committee members are disclosed in the Board of Directors' Profiles in this Annual Report. During the financial year ended 31 December 2018, all members of the Audit Committee had undertaken the relevant training programmes to keep themselves abreast of the latest development in accounting and auditing standards, statutory laws, regulations and best practices to enable them to effectively discharge their duties. The list of trainings attended is disclosed in the Annual Report.

**Compliance with Applicable Financial Reporting Standards**

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group, and for ensuring that the financial statements comply with the Companies Act, 2016 ("the Act") and applicable approved accounting standards in Malaysia.

The Board is assisted by the Audit Committee in fulfilling the statutory and fiduciary responsibilities in the assessment and evaluation of the Group's management and financial reports of the performance of business, accounting policies, risk and internal controls.

The Audit Committee serves as an independent party in the review of the financial information presented by Management before distribution to all shareholders and stakeholders. It ensures that the financial statements comply with applicable accounting standards and also provide direction over the internal audit function and relationship with the external auditors to ensure independence from Management.

The interim financial reports, annual audited financial statements and annual report of the Group for the financial year ended 31 December 2018 are prepared in accordance with all applicable accounting policies.

**Assessment of Suitability and Independence of External Auditors**

The Company has established a transparent arrangement with the External Auditors to meet their professional requirements. From time to time, the External Auditors highlight to the Audit Committee and Board of Directors on matters that require the Board's attention.

The Audit Committee is responsible for reviewing the audit, recurring audit-related and non-audit services provided by the External Auditors. The Audit Committee has been explicitly accorded the power to communicate directly with both the External Auditors and Internal Auditors. The terms of engagement for services provided by the External Auditors are reviewed by the Audit Committee prior to submission to the Board for approval. The effectiveness and performance of the External Auditors are reviewed annually by the Audit Committee.

In assess or determine the suitability and independence of the External Auditors, the Audit Committee has taken into consideration of the following:

i) the adequacy of the experience and resources of the External Auditors;

ii) the External Auditor's ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan;

iii) the nature of the non-audit services provided by the External Auditors and fees paid for such services relative to the audit fee; and

iv) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the External Auditors.

Annual appointment or re-appointment of the External Auditors is approved via shareholders' resolution at the Annual General Meeting on the recommendation of the Board. The External Auditors are being invited to attend the Annual General Meeting of the Company to response and reply to the Shareholders' enquiries on the conduct of the statutory audit and the preparation and contents of the audited financial statement.

Where necessary, the Audit Committee will meet with the External Auditors without the presence of Executive Director and members of management to ensure that the independence and objectivity of the External Auditors are not compromised and matters of concerns expressed by the Audit Committee are duly recorded by the Company Secretary.

In presenting the Audit Planning Memorandum to the Audit Committee, the External Auditors have highlighted their internal policies and procedures with respect to their audit independence and objectivity which include safeguards and procedures and independent policy adopted by the External Auditors. The External Auditors have also provided the required independence declaration to the Audit Committee and the Board for the financial year ended 31 December 2018.

The Audit Committee is satisfied with the competence and independence of the External Auditors for the financial year under review. Having regard to the outcome of the annual assessment of the External Auditors, the Board approved the Audit Committee's recommendation for the shareholders' approval to be sought at the forthcoming Annual General Meeting on the re-appointment of Messrs UHY Lee Seng Chan & Co. as the External Auditors of the Company for the financial year ending 31 December 2019.

**Risk Management and Internal Control Framework**

The Board is entrusted with the overall responsibility of continually maintaining a sound system of internal control, which covers not only financial controls but also operational and compliance controls as well as risk management, and the need to review its effectiveness regularly in order to safeguard shareholders' investments and the Company's assets. The internal control system is designed to access current and emerging risks, respond appropriate to risks of the Group.

As an effort to enhance the system of internal control, the Board together with the assistance of external professional Internal Audit firm adopted on-going monitoring and review to the existing risk management process in place within the various business operations, with the aim of formalising the risk management functions across the Group. This function also acts as a source to assist the Audit Committee and the Board to strengthen and improve current management and operating style in pursuit of best practices.

As an ongoing process, significant business risks faced by the Group are identified and evaluated and consideration is given on the potential impact of achieving the business objectives. This includes examining principal business risks in critical areas, assessing the likelihood of material exposures and identifying the measures taken to mitigate, avoid or eliminate these risks.

The information on the Group's internal control is further elaborated in page 29 on the Statement on Risk Management and Internal Control of this Annual Report.

**Internal Audit Functions**

The Group has appointed an established external professional Internal Audit firm, GovernanceAdvisory.Com Sdn. Bhd., which reports to the Audit Committee and assists the Audit Committee in reviewing the effectiveness of the internal control systems whilst ensuring that there is an appropriate balance of controls and risks throughout the Group in achieving its business objectives.

The Internal Audit firm appointed by the Company is staffed by a total of eleven (11) professionals and it is led by Mr. Jason Tee as the Head of Internal Audit. He holds a Bachelor of Commerce (Hons) in Accounting and also an Associate Member of Institute of Internal Auditors Malaysia ("IIAM"). The Internal Audit firm appointed by the Company is independent of activities related to business operations and performs its duties in accordance with standards set by relevant professional bodies, namely Institute of Internal Auditors.

Internal audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the corporate governance framework and an efficient and effective risk management framework to provide assurance to the Audit Committee.

The Audit Committee approves the internal audit plan during the first Audit Committee meeting of each financial year. Any subsequent changes to the internal audit plan are approved by the Audit Committee. The scope of internal audit covers the audits of all units and operations, including subsidiaries as stated in the letter of engagement.

The cost incurred for the Internal Audit function during the financial year is approximately RM20,000.00.

During the financial year, the following activities were carried out by the internal auditors in discharge of its responsibilities:

i) Payroll Processing
ii) Statutory Contribution
iii) Employee's Confidential Information

The Audit Committee and the Board agree that the internal audit review was done in accordance with the audit plan and the coverage is adequate.

The AC and the Board are satisfied with the performance of the outsourced internal auditors and have in the interest of greater independence and continuity in the internal audit function, taken the decision to continue with the outsource of the internal audit function.

**PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS**

**Communication with Stakeholders**

The Board recognises the need for transparency and accountability to the Company's shareholders as well as regular communication with its shareholders, stakeholders and investors on the performance and major developments in the Company. The Company ensures that timely releases of the quarterly financial results, press releases and corporate announcements are made to its shareholders and investors, which are clear, unambiguous, succinct, accurate and contains sufficient and relevant information.

In order to maintain its commitment of effective communication with shareholders, the Group embrace the practice of comprehensive, timely and continuing disclosures of information to its shareholders as well as the general investing public.

The practice of disclosure of information is to adopt the best practices recommended in the MCCG with regard to strengthening engagement and communication with shareholders, it is not only established just to comply with the Listing requirements of Bursa Securities.

The Group also endeavour to provide additional disclosures of information on a voluntary basis, where necessary. The management believes that consistently maintaining a high level of disclosure and extensive communication is vital to shareholders and investors in making informed investment decisions.

**Leverage on Information Technology for Effective Dissemination of Information**

In its efforts to promote effective communication, the Board recognises that timely and equal dissemination of consistent and accurate information are provided to them through public announcements made throughout the year to Bursa Securities. The shareholders and members of the public are also invited to access the Group's website at www.hbglobal.asia for the latest information on the Group.

The quarterly financial results are announced via Bursa LINK after the Board's approval. This is important in ensuring equal and fair access to information by the investing public.

Shareholders and investors may also forward their queries to the Company via email to ph.hbglobal@gmail.com.

**Dialogue with Shareholders**

In addition to the dissemination of information to shareholders and other interested parties via announcements to Bursa Securities, its website, circulars and press releases, the Board is of the view that the annual and any extraordinary general meetings as ideal opportunities to communicate with shareholders.

The Chief Executive Officer or the Executive Directors of the Company will brief shareholders on the Company's projects and elaborate further on proposals for which the approval of shareholders is being sought at the general meeting.

Whilst the Company aims to provide as much information as possible to its shareholders, it is also mindful of the legal and regulatory framework governing the release of material and price-sensitive information.

**Encourage Shareholders' Participation at General Meeting**

The Annual General Meeting ("AGM") is the principal forum for dialogue with the shareholders. As recommended by the MCCG, the notice of AGM will be despatched to shareholders at least twenty eight (28) days before the AGM, to allow shareholders to have additional time to go through the Annual Report and make the necessary attendance and voting arrangements. The notice of AGM, which sets out the business to be transacted at the AGM, is also published in a major local newspaper. The Board will ensure that each item of special business included in the notices of the AGM or extraordinary general meeting is accompanied by a full explanation of the effects of any proposed resolution.

At the AGM, the Board will brief the shareholders on the progress and performance of the Group and the shareholders are encouraged to participate in the questions and answers session there at, where they will be given the opportunity to raise questions or seek more information during the AGM. Informal discussions between the Directors, senior management staff, the shareholders and investors are always active before and after the general meetings.

**Attendance of Directors at General Meetings**

The tentative dates of the AGM will be discussed and fixed by the Board in advance to ensure that each of the Directors is able to make necessary arrangement to attend the planned AGM.

At the Eleventh (11th) AGM of the Company held on 1 June 2018, majority of Directors were present in person to engage directly with shareholders, and be accountable for their stewardship of the Company.

**Poll Voting**

In line with Paragraph 8.29A of the Listing Requirements, the Company will ensure that any resolution set out in the notice of any general meeting, or in any notice of resolution which may properly be moved and is intended to be moved at any general meeting, is voted by poll. At the same time, the Company will appoint at least one (1) scrutineer to validate the votes cast at the general meeting.

**Effective Communication and Proactive Engagement**

The Group maintains its effective communication with shareholders by adopting timely, comprehensive, and continuing disclosures of information to its shareholders as well as the general investing public and adopts the best practices recommended by the MCCG with regards to strengthening engagement and communication with shareholders.

To this end, the Group relies on the following channels for effective communication with the shareholders and stakeholders:

i) Interim financial reports to provide updates on the Group's operations and business developments on a quarterly basis;
ii) Annual audited financial statements and annual report to provide an overview of the Group's state of governance, state of affairs, financial performance and cash flows for the relevant financial year;
iii) Corporate announcements to Bursa Securities on material developments of the Group, as and when necessary and mandated by the Listing Requirements; and
iv) Annual General Meetings.

Shareholders and stakeholders may raise their concerns and queries by contacting the Registered Office of the Group, the details of which as provided under the "Corporate Information" section of this Annual Report. The Share Registrar is also available to attend to administrative matters relating to shareholder interests.

**COMPLIANCE STATEMENT**

Saved as disclosed above, the Board is of the view that the Group has complied with and shall remain committed to attaining the highest possible standards through the continuous adoption of the principles and best practices set out in MCCG and all other applicable laws, where applicable and appropriate.

# STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial year to give a true and accurate view of the financial state of the Group and the Company and of the results and cash flows of the Group and the Company for the financial year then ended.

In ensuring the preparation of these financial statements, the Directors have observed the following criteria:

- Overseen the overall conduct of the Company's business and that of the Group;
- Identified principal risks and ensured that an appropriate system of internal control exists to manage these risks;
- Reviewed the adequacy and integrity of Internal Controls System and Management Information System in the Company and within the Group;
- Adopted suitable accounting policies and applied them consistently;
- Made judgments and estimates that are reasonable and prudent; and
- Ensured compliance with the applicable approved accounting standards.

The Directors are responsible for ensuring that proper accounting and other records are closed with reasonable accuracy at any time reflecting the financial position of the Group and ensuring that the financial statements comply with the Listing Requirements, applicable approved accounting standards and other legal requirements.

The Directors are satisfied that in preparing the financial statements of the Group for the financial year ended 31 December 2018, the Group has used the appropriate accounting policies and applied them consistently and supported by reasonable and prudent judgments and estimates. The Directors also consider that all applicable approved accounting standards have been complied with and further confirm that the financial statements have been prepared on a going concern basis.

**Introduction**

Pursuant to Paragraph 15.26(b) of the Listing Requirements, the Board of Directors of HB Global Limited is pleased to report on its Statement on Risk Management and Internal Control, which provides an overview of the nature and state of risk management and internal controls of Group during the financial year under review and up to the date of approval of this statement by the Board. This statement is guided by the latest Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

**Board Responsibility**

The Board acknowledges its overall responsibility for the Group's internal control and risk management systems to safeguard shareholders' investments and the Group's assets and for reviewing the adequacy and integrity of such systems. The Board ensures the effectiveness of such systems through regular quarterly reviews. These responsibilities are delegated to the Audit Committee which is empowered by their terms of reference which had been approved by the Board.

Due to inherent limitations in the systems of internal control and risk management, such systems can only manage rather than eliminate all risks of failure to achieve business objectives, and as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board through its Audit Committee has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes enhancing the risk management and internal control system as and when there are changes to the business environment and regulatory requirements. The process is reviewed by the Board and the Audit Committee on a periodic basis.

Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Group, and in the design and operation of suitable internal controls to mitigate these risks identified.

The key features of the internal control systems which are operated with the assistance of the management are described under the following headings:

**a) Risk Management Framework**

The Board recognises the need for effective risk management and to maintain a sound system of internal control. Risk management is an integral part of the Group's business operations and this process goes through a review process by the Board. Discussions have been conducted during the year involving different levels of managements to identify and address risks faced by the Group. These risks were summarised and included in the Group's risk management report. The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group throughout the financial year under review by the management. This is to ensure that all high risks are adequately addressed at various levels within the Group.

**b) System of Internal Control**

The Board is committed to maintaining a sound internal control structure to govern the manner in which the Group and its employees conduct themselves. The key elements of controls are:

(i) the responsibilities of the Board and the management are clearly defined in the organisational structure to ensure the effective discharge of the roles and responsibilities of the parties in overseeing the conduct of the Group's business;

(ii) the formation of operational policies and procedures by the management with a view to establishing group wide operational standards in order for all operating units to work cohesively towards achieving the business objectives of the Group. For accounting systems and financial processes, efforts are being taken to ensure consistency in the Group as a whole;

(iii) frequent on-site visits to the operating units by senior management so as to acquire a first-hand view on various operational matters and to address the issues accordingly;

(iv) the Board gathers and reviews key financial and operating statistics from time to time and constantly keeps track and monitor the achievement of the Group's performance; and

(v) the Audit Committee reviews on a quarterly basis of the quarterly unaudited financial results to monitor the Group's progress towards achieving the Group's business objectives. Authority is given to the Audit Committee members to investigate and report on any areas of improvement for the betterment of the Group.

**Review of the Statement by External Auditors**

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report for the financial year ended 31 December 2018. Based on their review, the external auditors have reported to the Board that nothing had come to their attention that causes them to believe that this Statement on Risk Management and Internal Control is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls and risk management, except for some improvement points highlighted to the Board in regards to certain internal control deficiencies. The Board has responded that the Company and the Group will improve on those internal controls.

**Management's Assurance**

The Chief Financial Officer and the Executive Directors, representing the management, have given reasonable assurance to the Board that the Group's risk management and internal control systems are adequate and effective, in all material aspects, based on the risk management and internal controls adopted by the Group and similar assurance given by the respective heads of operations.

**Board Conclusion**

For the financial year under review, there were no significant internal control deficiencies or material weaknesses resulting in material losses or contingencies requiring disclosure in the Annual Report. The Board is of the view that the existing Group's system of risk management and internal control is adequate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognisant of the fact that the Group's system of risk management and internal control practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the Group's system of internal control and risk management framework.

## 1. UTILISATION OF PROCEEDS FROM CORPORATE EXERCISE

During the financial year, there were no proceeds raised by the Company from any corporate proposals.

## 2. AUDIT AND NON-AUDIT FEES PAID TO EXTERNAL AUDITORS

During the financial year, the amount of audit and non-audit fees paid/payable to the external auditors by the Company and the Group respectively for the financial year ended 31 December 2018 were as follows:

| | Company (RMB'000) | Group (RMB'000) |
|---|---|---|
| Audit Services Rendered | - | 380 |
| Non-Audit Services Rendered | - | 51 |
| Total | - | 431 |

## 3. MATERIAL CONTRACTS

During the financial year, there were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests.

## 4. CONTRACTS RELATING TO LOAN

During the financial year, there were no material contracts relating to loans entered into by the Company involving Directors and major shareholders.

## 5. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE AND TRADING NATURE

Save for such disclosure made in note 30 to the audited consolidated financial statements on page 83 of this Annual Report, there were no material recurrent related party transactions of revenue nature during the financial year ended 31 December 2018.

# FINANCIAL STATEMENTS

The directors present their statement to the members together with the audited consolidated financial statements of HB Global Limited (the "Company" and collectively with its subsidiaries, the "Group") for the financial year ended 31 December 2018 and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2018.

**OPINION OF THE DIRECTORS**

In the opinion of the directors,

(a) the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due. This is based on the following premises:

    (i) the ready-to-serve food and frozen vegetables business of the Group is expected to generate sufficient cash flows to cover operating costs and service interest payments on the bank loans;

    (ii) the lender banks will be supportive of the Group continuing in operational existence;

    (iii) the Company's substantial shareholder, who is also a director of the Company will provide such financial support as is necessary to enable the Group and the Company to fulfil its financial obligations as and when they fall due.

This is notwithstanding as of 31 December 2018, the Group's current liabilities include bank loans of RMB83,180,000 which are contractually due for repayment within 12 months from the end of the reporting period. Should the Group not be able to rollover its existing bank loans or alternative refinancing of the bank loans be unsuccessful, the Group and the Company may not have sufficient cash to fulfil obligations of the relevant repayment dates. This may impede continuation of the Group's current business operation comprising ready-to-serve food and frozen vegetables.

**DIRECTORS OF THE COMPANY**

The directors of the Company in office at the date of this statement are:

Shen Hengbao (Chief Executive Officer)
Meng Xiangzhen
Sun Shimin
Yang Chin Shen
Ho Pui Hold

**ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES**

Neither at the end of nor at any time during the financial year did there subsist any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**DIRECTORS' INTERESTS IN SHARES AND DEBENTURES**

According to the register of directors' shareholdings kept by the Company under section 164 of the Singapore Companies Act, Chapter 50, none of the directors holding office at the end of the financial year had any interests in the shares or debentures of the Company or its related corporations, except as follows:

| Name of directors and companies in which interests are held | Held in the name of directors At beginning of financial year | At end of financial year | Deemed interest At beginning of financial year | At end of financial year |
|---|---|---|---|---|
| **The Company** | | | | |
| HB Global Limited | | | | |
| (No. of ordinary shares) | | | | |
| Shen Hengbao | - | - | 267,202,000 | 267,202,000 |
| **Ultimate Holding Company** | | | | |
| Hengbao Foodstuffs Holding Limited | | | | |
| (No. of ordinary shares) | | | | |
| Shen Hengbao | 686 | 686 | - | - |
| Meng Xiangzhen | 149 | 149 | - | - |

By virtue of the provisions of Section 7 of the Singapore Companies Act, Cap. 50, Shen Hengbao is deemed to have an interest in the shares held by the Company in all its subsidiaries.

**SHARE OPTIONS**

Options to subscribe for unissued shares
During the financial year, no options to subscribe for unissued shares of the Company or its subsidiaries were granted.

Options exercised
During the financial year, there were no shares of the Company or its subsidiaries issued by virtue of the exercise of an option to take up unissued shares.

Unissued shares under option
At the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

**AUDIT COMMITTEE**

The members of the Audit Committee ("AC") at the date of this statement are as follows:

Yang Chin Shen - Chairman
Sun Shimin - Member
Ho Pui Hold - Member

The Audit Committee has carried out its function in accordance with Section 201B(5) of the Singapore Companies Act, Bursa Malaysia Securities Berhad Main Market Listing Requirements ("MMLR") and the Code of Corporate Governance.

**AUDIT COMMITTEE (cont'd)**

The primary duties and responsibilities of the AC are as follows:

(i) To review audit plans of the internal and external auditors of the Company, and review the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;
(ii) To review quarterly and annual financial statements and the auditor's report on the annual financial statements of the Company before their submission to the Board;
(iii) To review the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;
(iv) To meet with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
(v) To review legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
(vi) To review the cost effectiveness and the independence and objectivity of the external auditors;
(vii) To recommend to the Board the nomination of external auditors, approve the compensation of the external auditors and review the scope and results of the audit;
(viii) To report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
(ix) To review interested person transactions.

The AC is authorised by the Board to investigate any activities within its Terms of Reference. The AC has unlimited access to both internal auditors and external auditors as well as all employees of the Group. The AC also has the authority to obtain independent legal or other professional advice and to secure attendance of outsiders with relevant experience and expertise if it considers this necessary.

The AC has conducted a review of interested person transactions. The AC has held 4 meetings during the financial year. The AC has also met with external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Corporate Governance Statement in the Annual Report of the Company.

**INDEPENDENT AUDITOR**

The independent auditor, UHY Lee Seng Chan & Co, has expressed its willingness to accept re-appointment.

On behalf of the directors,

____________________________

Shen Hengbao
Director

____________________________

Meng Xiangzhen
Director

26 April 2019

# STATUTORY DECLARATION

**Pursuant to Paragraph 9.27 of the Main Market Listing Manual Requirements of Bursa Malaysia Securities Berhad:**

I, Mr Ang Kong Siang, being the officer primarily responsible for the financial management of HB Global Limited, do solemnly and sincerely declare that the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company, are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

Subscribed and solemnly declared by the above mentioned
At Malaysia on

This day of 26 April 2019

Ang Kong Siang

Before me

Commissioner for Oath

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of HB Global Limited (the Company) and its subsidiaries (collectively the Group), which comprise the statements of financial position of the Group and of the Company as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and consolidated statement of cash flows of the Group and statement of changes in equity of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act), Singapore Financial Reporting Standards (International) [(SFRS(I)s)] which are simultaneously compliant with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

<u>Status of Regularisation Plan</u>

We draw attention to Note 36 to the financial statements which describes that the Company being a Practice Note 17 ("PN 17") issuer, is required to submit a regularisation plan to Bursa Malaysia Securities Berhad ("Bursa Securities"). Among the latest updates, the Company had on 29 October 2018 obtained approval from Bursa Securities for a further extension of time to submit its regularisation plan by 31 March 2019.

On 29 March 2019, the Company announced that it had made an application to Bursa Securities for a wavier from the requirements to submit and implement its regularisation plan (the "Waiver") and to uplift its PN17 status. The Company also seek approval for a further extension of time of three months until 30 June 2019 to submit its regularisation plan.

From the latest announcement dated 1 April 2019, the Company announced that its application for the Wavier and further extension of time for the submission of the regularisation plan is still pending approval from Bursa Securities.

Should Bursa Securities not approve the Company's application for the extension of time to submit its regularisation plan, the Company will face likely suspension on the trading of its securities and the eventual delisting of the Company from the Official List of Bursa Securities. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | Our audit procedures to address the matter |
|---|---|
| **Impairment of property, plant and equipment and land use rights**<br><br>As at 31 December 2018, property, plant and equipment and land use rights with carrying amounts of RMB273,582,000 and RMB64,008,000 constituted approximately 56.2% and 13.1% of the total assets of the Group respectively.<br><br>During the current financial year, the Group carried out a review of the recoverable amounts of its property, plant and equipment and land use rights due to possible indicators for impairment as the property, plant and equipment and land use rights had been deployed in the Company's PRC subsidiaries that had previously experienced declining revenue and had incurred losses.<br><br>The valuation process involves significant judgement in determining the appropriate valuation methods to be used, and in estimating the key underlying assumptions to be applied.<br><br>These critical judgement and significant estimation are disclosed in Note 3.2 to the financial statements. | Our audit procedures focused on evaluating the appropriateness and adequacy of the impairment loss recognised for property, plant and equipment and land use rights. These procedures included:<br><br>• Assessing the qualifications, competency, and objectivity of the professional external valuer;<br><br>• Obtaining an understanding of the work of the professional external valuer;<br><br>• Reviewing the terms in the engagement letter to determine whether there were any matters that might have affected their objectivity, independence, or limiting their scope of work; and<br><br>• Challenging the key assumptions used by the professional external valuer in the valuation report. |

| **Advance payments for land use rights** | Our audit procedures included: |
|---|---|
| As at 31 December 2018, included in prepayments are advance payments for land use rights with cost and carrying amount of RMB159,429,000 and RMB66,240,000 respectively, net of impairment loss of RMB93,189,000, which constituted approximately 13.6% of the Group's total assets.<br><br>These land use rights which were acquired in 2012 and 2013 are still pending their certificates to be issued by the relevant authorities in the Province.<br><br>Accordingly, these land use rights are being classified as prepayments. The impairment loss of these land use rights arising from the valuation carried out for property, plant and equipment and land use rights are detailed in Note 3.2 to the financial statements. | • Sighting the original agreements signed between the Group and the Juxian Province Bureau of Land and Resources (the "Authorities") for the acquisition of these land use rights in 2012 and 2013;<br><br>• Performed physical sighting of the sites relating to these land use rights; and<br><br>• Inquiry with management on the delay by the Authorities in issuing the certificates for these land use rights and conveyed management's explanations to the Audit Committee which considered them to be satisfactory. |

**Other Matters**

Bank confirmations

As part of our audit procedures, we had requested the banks in the People's Republic of China (the "PRC") to confirm bank transactions and balances of the PRC subsidiaries of the Company. Some of the bank confirmations received were not automatically generated from the bank's computer systems but were manually extracted by the bank officers. Our understanding is that it is the practice of those banks in the PRC to confirm confirmation requests manually. Consequently, the accuracy and completeness of the bank confirmations cannot be ascertained in view of human errors and omission, among other possible scenarios. This is an inherent limitation within the banking confirmation practices of those banks in the PRC. Accordingly, we had to perform alternative audit procedures to satisfy ourselves as to the bank transactions and balances. Our opinion is not modified in respect of this matter.

**Other information**

Management is responsible for the other information. The other information comprises all the sections of the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

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

**Responsibilities of Management and Directors for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, and SFRS(I)s which are simultaneously compliant with IFRSs issued by IASB, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

**Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)**

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

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

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

**Other Reporting Responsibilities**

The supplementary information set out in Note 34 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

**Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Tang Boon Sun.

**UHY Lee Seng Chan & Co**
Public Accountants and
Chartered Accountants

**Singapore**
26 April 2019

## STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

| | Note | Group 2018 RMB'000 | Group 2017 RMB'000 | Company 2018 RMB'000 | Company 2017 RMB'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 4 | 108 | 401 | 8 | 8 |
| Trade and other receivables | 5 | 67,170 | 59,565 | 8 | 8 |
| Prepayments | 6 | 66,792 | 60,858 | - | - |
| Inventories | 7 | 15,309 | 7,752 | - | - |
| | | 149,379 | 128,576 | 16 | 16 |
| **Non-current assets** | | | | | |
| Investments in subsidiaries | 8 | - | - | 172,800 | 172,800 |
| Property, plant and equipment | 9 | 273,582 | 284,687 | - | - |
| Land use rights | 10 | 64,008 | 59,232 | - | - |
| | | 337,590 | 343,919 | 172,800 | 172,800 |
| **Total assets** | | 486,969 | 472,495 | 172,816 | 172,816 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | 30,845 | 39,488 | 9,521 | 9,059 |
| Amounts due to ex-shareholders of the Company | 12 | 2,839 | 2,839 | 2,839 | 2,839 |
| Amounts due to ex-shareholders of a subsidiary | 13 | 3,478 | - | - | - |
| Amounts due to directors | 14 | 21,569 | 26,877 | 6,853 | 26,101 |
| Bank loans | 15 | 83,180 | 80,600 | - | - |
| | | 141,911 | 149,804 | 19,213 | 37,999 |
| **Non-current liabilities** | | | | | |
| Amounts due to ex-shareholders of a subsidiary | 13 | - | 3,317 | - | - |
| Amounts due to directors | 14 | 20,407 | 13,048 | 20,407 | - |
| | | 20,407 | 16,365 | 20,407 | - |
| **Total liabilities** | | 162,318 | 166,169 | 39,620 | 37,999 |
| **NET ASSETS** | | 324,651 | 306,326 | 133,196 | 134,817 |
| **EQUITY** | | | | | |
| Share capital | 16 | 146,161 | 146,161 | 146,161 | 146,161 |
| Capital reserve | 17 | (16,844) | (16,844) | - | - |
| Equity contribution reserve | 18 | 8,237 | 8,237 | - | - |
| Statutory reserve | 19 | 76,090 | 76,090 | - | - |
| Retained earnings/ (Accumulated losses) | | 110,603 | 92,278 | (12,965) | (11,344) |
| | | 324,247 | 305,922 | 133,196 | 134,817 |
| Non-controlling interests | | 404 | 404 | - | - |
| **Total equity** | | 324,651 | 306,326 | 133,196 | 134,817 |

The accompanying notes form an integral part of these financial statements.

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Revenue** | 20 | 163,826 | 167,706 |
| Cost of sales | | (119,142) | (114,948) |
| Gross profit | | 44,684 | 52,758 |
| Other income | 21 | 24,692 | 11,865 |
| Selling and distribution expenses | | (2,399) | (1,758) |
| Administrative expenses | | (26,873) | (28,882) |
| Other expenses | 22 | (4,415) | (4,945) |
| Finance costs | 23 | (7,090) | (6,929) |
| Impairment loss on financial assets | 24 | (10,274) | - |
| **Profit before income tax** | 24 | 18,325 | 22,109 |
| Income tax expense | 25 | - | - |
| **Profit for the year, representing total comprehensive income for the financial year** | | 18,325 | 22,109 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 18,325 | 22,109 |
| Non-controlling interests | | - | - |
| | | 18,325 | 22,109 |
| **Earnings per share (RMB cents)** | | | |
| Basic | 26 | 3.92 | 4.72 |
| Diluted | 26 | 3.92 | 4.72 |

The accompanying notes form an integral part of these financial statements.

**Group**

| | Share capital RMB'000 | Capital reserve RMB'000 | Equity contribution reserve RMB'000 | Statutory reserve RMB'000 | Retained earnings RMB'000 | Attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | 146,161 | (16,844) | 8,237 | 76,090 | 70,169 | 283,813 | 404 | 284,217 |
| Profit for the year, representing total comprehensive income for the financial year | - | - | - | - | 22,109 | 22,109 | - | 22,109 |
| Balance at 31 December 2017 | 146,161 | (16,844) | 8,237 | 76,090 | 92,278 | 305,922 | 404 | 306,326 |
| Profit for the year, representing total comprehensive income for the financial year | - | - | - | - | 18,325 | 18,325 | - | 18,325 |
| Balance at 31 December 2018 | 146,161 | (16,844) | 8,237 | 76,090 | 110,603 | 324,247 | 404 | 324,651 |

**Company**

| | Share capital RMB'000 | Accumulated losses RMB'000 | Total equity RMB'000 |
|---|---|---|---|
| Balance at 1 January 2017 | 146,161 | (10,107) | 136,054 |
| Loss for the year, representing total comprehensive loss for the financial year | - | (1,237) | (1,237) |
| Balance at 31 December 2017 | 146,161 | (11,344) | 134,817 |
| Loss for the year, representing total comprehensive loss for the financial year | - | (1,621) | (1,621) |
| Balance at 31 December 2018 | 146,161 | (12,965) | 133,196 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
FINANCIAL YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 18,325 | 22,109 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 24 | 17,597 | 17,154 |
| Amortisation of land use rights | 24 | 1,354 | 1,443 |
| Property, plant and equipment written off | 22 | - | 372 |
| Impairment loss on advance payments of land use rights | 22 | - | 261 |
| Impairment loss on land use rights | 22 | - | 280 |
| Impairment loss on property, plant and equipment | 22 | 4,415 | 4,032 |
| Impairment loss on advance payments of land use rights written back | 21 | (6,913) | (166) |
| Reversal of inventory written down | 21 | (319) | (808) |
| Impairment loss on land use rights written back | 21 | (6,130) | (564) |
| Impairment loss on property, plant and equipment written back | 21 | (8,899) | (6,743) |
| Gain on disposal of land use rights | 21 | - | (1,241) |
| Gain on disposal of property, plant and equipment | 21 | - | (326) |
| Impairment loss on trade receivables | 24 | 10,274 | - |
| Interest income | 21 | - | (68) |
| Interest expense | 23 | 7,090 | 6,929 |
| Unrealised foreign exchange loss | | 753 | 307 |
| Operating profit before working capital changes | | 37,547 | 42,971 |
| **Changes in working capital** | | | |
| Trade and other receivables | | (16,900) | (39,200) |
| Inventories | | (7,238) | (2,529) |
| Trade and other payables | | (8,713) | 23,496 |
| Cash generated from operations | | 4,696 | 24,738 |
| Interest received | | - | 68 |
| Net cash from operating activities | | 4,696 | 24,806 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 27 | (2,008) | (2,903) |
| Proceeds from disposal of property, plant and equipment | | - | 4,643 |
| Proceeds from disposal of land use rights | | - | 5,708 |
| Net cash (used in)/from investing activities | | (2,008) | 7,448 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings from directors | | 734 | 1,116 |
| Proceeds from/(Repayment of) bank loans | | 2,580 | (26,900) |
| Interest paid | | (6,295) | (6,190) |
| Repayment of bills payables | | - | (10,000) |
| Movement in restricted cash and bank balances | | - | 10,000 |
| Net cash used in financing activities | | (2,981) | (31,974) |
| Net change in cash and cash equivalents | | (293) | 280 |
| Cash and cash equivalents at beginning of financial year | | 401 | 121 |
| **Cash and cash equivalents at end of financial year** | 4 | 108 | 401 |

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

## 1. GENERAL

### 1.1 CORPORATE INFORMATION

The Company is incorporated and domiciled in the Republic of Singapore with its registered office located at 80 Robinson Road, #17-02, Singapore 068898. The address of the principal place of business of the Group is Weifang Road, Juxian Industry Garden, Ju County, Rizhao City, Shandong Province, People's Republic of China ("PRC").

The Company has another registered office at Suite 10.02, level 10 The Garden South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia. The Company is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

The holding company of the Company is Hengbao Foodstuffs Holding Limited, a company incorporated in the British Virgin Islands.

The principal activities of the Company are those relating to investment holding. The principal activities of the subsidiaries are described in Note 8 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The financial statements for the financial year ended 31 December 2018 were authorised for issue by the Board of Directors on 26 April 2019.

### 1.2 FUNDAMENTAL ACCOUNTING CONCEPT

As at 31 December 2018, the Group's current liabilities include bank loans of RMB83,180,000 (2017: RMB80,600,000) which are contractually due for repayment within 12 months from the end of the reporting period. Should the Group not be able to rollover its existing bank loans or alternative refinancing of the bank loans be unsuccessful, the Group and the Company may not have sufficient cash to fulfil obligations at the relevant repayment dates. This may impede continuation of the Group's current business operation comprising ready-to-serve food and frozen vegetables.

Notwithstanding these conditions, the financial statements have been prepared on a going concern basis based on the following premises:

- The ready-to-serve food and frozen vegetables business of the Group is expected to generate sufficient cash flows to cover operating costs and service interest payments on the bank loans;
- The lender banks will be supportive of the Group continuing in operational existence;
- The Company's substantial shareholder, who is also a director of the Company will provide such financial support as is necessary to enable the Group and the Company to fulfil its financial obligations as and when they fall due.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act (the "Act"), Singapore Financial Reporting Standards (International) ["SFRS(I)s"] which are simultaneously compliant with International Financial Reporting Standard (IFRSs) issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Group's principal operations are conducted in the People's Republic of China ("PRC") and hence the financial statements are presented in renminbi ("RMB"), which is the functional currency of the Company. All financial information presented in RMB is rounded to the nearest thousand (RMB'000), unless otherwise stated.

**ADOPTION OF SFRS(I)**

The Group has adopted a new financial reporting framework, SFRS(I) on 1 January 2018. SFRS(I)s comprise standards and interpretations that are equivalent to IFRSs as issued by the International Accounting Standards Board. An entity that compiles with SFRS(I)s can also elect to simultaneously include an explicit and unreserved statement of compliance with IFRS. The Group has elected to assert dual compliance with both SFRS(I)s and IFRSs with effect from annual periods beginning on or after 1 January 2018. All references to SFRS(I)s and IFRSs are referred collectively as SFRS(I)s in these financial statements, unless specified otherwise. The financial statements for the financial year ended 31 December 2018 are the first set of annual financial statements the Group prepared in accordance with SFRS(I)s. The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with IFRS. Accordingly, the Group does not have any adjustments to the opening balances as at 1 January 2017 and the financial statements are presented only for two years, 2018 and 2017.

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas where estimates and assumptions are significant or critical to the financial statements are disclosed in Note 3 to the financial statements.

**INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS EFFECTIVE IN 2018**

On 1 January 2018, the Company adopted the new or amended SFRS(I) and Interpretations of SFRS(I) ("INT SFRS(I)") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and INT SFRS(I).

The adoption of these new or amended SFRS(I) and INT SFRS(I) did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.2 FINANCIAL INSTRUMENTS**

These accounting policies are applied on and after the initial application date of SFRS(I) 109, 1 January 2018:

**(a) Financial assets**

**Initial recognition and measurement**

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

**Subsequent measurement**

*Investment in debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are amortised cost, FVOCI and FVPL. The Company only has debt instruments at amortised cost.

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

**Derecognition**

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

**(b) Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are recognised when and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at FVPL, directly attributable transaction costs.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.2 FINANCIAL INSTRUMENTS (cont'd)**

**(b) Financial liabilities (cont'd)**

**Subsequent measurement**

After initial recognition, financial liabilities that are not carried at FVPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

These accounting policies are applied before the initial application date of SFRS(I) 109, 1 January 2018:

**(a) Financial assets**

**Initial recognition and measurement**

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at FVPL, directly attributable transaction costs.

**Subsequent measurement**

*Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash at banks and on hand.

**Derecognition**

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (and, where applicable, any cumulative gain or loss that has been recognised in other comprehensive income) is recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 FINANCIAL INSTRUMENTS (cont'd)

#### (b) Financial liabilities

**Initial recognition and measurement**

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at FVPL, directly attributable transaction costs.

**Subsequent measurement**

After initial recognition, financial liabilities that are not carried at FVPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Such financial liabilities comprise trade and other payables, amounts due to ex-shareholders of the Company, amounts due to ex-shareholders of a subsidiary, amounts due to directors and bank loans.

**Derecognition**

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

### 2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances. Detailed information on the subsidiaries is disclosed in Note 8 to the financial statements.

The Group was formed as a result of a restructuring exercise undertaken on 25 September 2009 for the purpose of the Group's listing on the main market of Bursa Securities. The acquisition of 100% equity in the subsidiary, namely Shandong Hengbao Foodstuffs Co., Ltd. pursuant to the restructuring exercise under common control has been accounted for using the pooling-of-interest method. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group structure had existed immediately after the restructuring has been in existence since the earliest financial year presented. The assets and liabilities were brought into the consolidated statement of financial position at their existing carrying amounts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 BASIS OF CONSOLIDATION (cont'd)

All intragroup balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Group. They are shown separately in the statements of financial position, consolidated statement of comprehensive income and statements of changes in equity. Total comprehensive income is attributed to the non-controlling interest based on their respective interests in a subsidiary, even if the subsidiary incurred losses and the losses allocated exceed the non-controlling interest in the subsidiary's equity.

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' financial statements prepared in accordance with SFRS(I). Profits reflected in the financial statements prepared in accordance with SFRS(I) may differ from those reflected in the PRC statutory financial statements of the subsidiaries, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements respectively.

### 2.4 PROPERTY, PLANT AND EQUIPMENT

All items of property, plant and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of property, plant and equipment is computed on a straight-line basis to allocate their depreciable amounts over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold buildings and infrastructure | 25 years |
| Plant and machinery | 10 years |
| Furniture, fittings and equipment | 5 years |
| Motor vehicles | 5 years |
| Other facilities | 10 – 15 years |
| Renovation | 3 years |

Construction-in-progress, which represents factory premises and buildings under construction, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. Capitalisation of these costs ceases and construction-in-progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed and the assets are available for use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.4 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the financial year the asset is derecognised.

### 2.5 BORROWING COSTS

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss 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.

### 2.6 LAND USE RIGHTS

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and impairment losses, if any. The land use rights are amortised on straight-line basis, over the land lease term of 38 to 50 years.

### 2.7 SUBSIDIARIES

A subsidiary is an investee controlled by the Company and its subsidiaries. The Company controls an investee when it 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.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.8 IMPAIRMENT OF FINANCIAL ASSETS

These accounting policies are applied on and after the initial application date of SFRS(I) 109, 1 January 2018:

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group 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 which could affect debtors' ability to pay.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

These accounting policies are applied before the initial application date of SFRS(I) 109, 1 January 2018:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.8 IMPAIRMENT OF FINANCIAL ASSETS (cont'd)

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying amount of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### 2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group's non-financial assets are reviewed for impairment at the end of the reporting period and whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the amount of the impairment loss (if any).

Recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. For the purpose of impairment testing, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and the impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset or CGU in prior years. A reversal of impairment loss is recognised in profit or loss.

### 2.10 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on the weighted average cost method.
- Finished goods and work-in-progress: costs of raw materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost basis and exclude borrowing costs.

Where necessary, allowance is provided for damaged, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.11 OPERATING LEASES

**Operating leases - where the Group is a lessee**

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Operating leases - where the Group is a lessor**

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. The accounting policy for rental income from operating leases is disclosed in Note 2.14 below.

### 2.12 TAXES

**(a) Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**(b) Deferred tax**

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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 income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**(c) Value added tax (VAT)**

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statements of financial position.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.13 CURRENCY TRANSLATION

**Functional and presentation currency**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements of the Group are presented in renminbi.

**Translations and balances**

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Currency translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates at the end of the reporting period are recognised in profit or loss, except for currency translation differences on the net investment in foreign operations, borrowings in foreign currencies and other currency instruments designed and qualifying as net investment hedges for foreign operations, which are included in other comprehensive income and accumulated in the foreign currency translation reserve within equity.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are acquired, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items whereby gains or losses are recognised in other comprehensive income, such as equity investments classified at fair value through other comprehensive income financial assets are included in the fair value reserve.

**Translation of Group entities' financial statements**

The results and financial position of Group entities that are in functional currencies different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing exchange rates at the reporting date;

(ii) Income and expenses are translated at average exchange rates;

(iii) All resulting currency exchange differences are recognised in other comprehensive income and accumulated in currency translation reserve within equity. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.14 REVENUE RECOGNITION

(a) These accounting policies are applied on and after the initial application date of SFRS(I) 115, 1 January 2018:

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation ("PO") by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A PO may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

Sale of goods - Ready-to-serve food and frozen vegetables

The Group sold its ready-to-serve food and frozen vegetables to its distributors. Contract is identified with customers with reference to the sales contract signed by both parties. Upon receipt of acknowledged delivery orders from customers, the person in charge of invoicing customers will generate sales invoice with reference to the per price list stipulated in the sales contract and delivery order documents for items sold.

Revenue from goods sold in the ordinary course of business is recognised when the Group satisfies a PO by transferring control of a promised good to the customer. Revenue recognised is the amount of the transaction price allocated to the satisfied PO.

The transaction price is allocated to each PO on the basis of the relative stand-alone selling prices of the promised good excludes sales taxes. Trade discounts or variable considerations are allocated to one or more, but not all, of the POs if they relate specifically to those POs.

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled to in exchange for transferring the promised goods. The transaction price may be fixed or variable and is adjusted for time value of money if the contract includes a significant financing component. When consideration is variable, the estimate amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Interest income

Interest income is recognised in profit or loss as it accrues using the effective interest method.

Rental income

Rental income arising from operating lease is accounted for on a straight-line basis over the lease term. Lease incentives granted are recognised a an integral part of the total rental income over the term of the lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.14 REVENUE RECOGNITION (cont'd)

(b) These accounting policies are applied before the initial application date of SFRS(I) 115, 1 January 2018:

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Sale of goods - Ready-to-serve food and frozen vegetables

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income

Interest income is recognised as interest accrues using the effective interest method.

Rental income

Rental income arising from operating lease is accounted for on a straight-line basis over the lease term. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

### 2.15 EMPLOYEE BENEFITS

**Employee leave entitlements**

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for annual leave is recognised for services rendered by employees up to the end of the reporting period.

**Pension Obligations**

The Group participate in the defined contribution national pension and other welfare schemes as provided by the laws of the countries in which it has operations.

Contributions to defined contribution plans are recognised in the same financial year as the employment that gives rise to the contributions.

Pursuant to the relevant regulations of the PRC government, a subsidiary of the Group in the PRC participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiary is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary.

The only obligation of the subsidiary with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.16 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation where, as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 2.17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and bank balances that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

### 2.18 SHARE CAPITAL

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

### 2.19 FINANCIAL GUARANTEES

The Group has issued corporate guarantees to banks for bank borrowings granted to third parties. These guarantees are financial guarantees as they require the Group to reimburse the banks if the entities fail to make principal or interest payments when due in accordance with the terms of their respective borrowings.

Financial guarantee contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

(a) premium received on initial recognition less amortisation over the period of the third parties' borrowings; and

(b) at the expected amount payable to the banks in the event it is probable that the Group will reimburse the banks for an amount higher than the unamortised amount in (a).

### 2.20 SEGMENT REPORTING

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2 to the financial statements, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### 3.1 Judgements made in applying the Group's accounting policies

In the process of applying the Group's accounting policies which are described in Note 2 above, management had made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

**Environmental remediation**

The Group has not incurred any expenditure for environmental remediation and is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. However, the PRC government may move further towards more rigorous enforcement of applicable laws, and the adoption of more stringent environmental standards. The outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present and hence not provided for in the financial statements.

### 3.2 Key sources of 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 discussed below:

#### (a) Provision for expected credit losses ("ECLs") of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 32.2.

The carrying amount of the Group's trade receivables as at 31 December 2018 is RMB66,882,000 (1 January 2018: RMB50,907,000; 2017: RMB50,907,000).

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

### 3.2 Key sources of estimation uncertainty (Cont'd)

#### (b) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for property, plant and equipment, land use rights and advance payments of land use rights in accordance with the accounting policy in Note 2.

As disclosed in Note 9 to the financial statements, the Group conducted a review of the recoverable amount of its property, plant and equipment. In addition, certain property, plant and equipment had temporarily been left idle due to the suspension of the duck farming business as a result of the bird flu epidemic in PRC.

An independent valuer (the "Valuer") was engaged by the Group to perform a valuation of property, plant and equipment, land use rights and advance payments of land use rights to determine their fair values. The Valuer adopted the replacement cost method to value these property, plant and equipment. The valuation which involves significant estimation is based on the estimates of the gross replacement costs of the property, plant and equipment, from which appropriate deductions may then be made to allow for the age, condition, economic and functional obsolescence and environmental factors. The review led to the recognition of a reversal of impairment loss of RMB8,899,000 (2017: RMB6,743,000) and an impairment loss of RMB4,415,000 (2017: RMB4,032,000) being made in profit or loss.

For advance payments of land use rights and land use rights, the Valuer had adopted the market approach technique to value these non-financial assets as disclosed in Notes 6 and 10 to the financial statements. The values of land use rights are derived by analysing prices of similar land use rights transacted recently and making adjustments based on differences in land sizes and useful lives of these land use rights. The review led to a reversal of impairment loss of RMB6,913,000 (2017: RMB166,000) and no impairment loss (2017: RMB261,000) for advance payments of land use rights and a reversal of impairment loss of RMB6,130,000 (2017: RMB564,000) and no impairment loss (2017: RMB280,000) for land use rights required to be made.

The carrying amounts of advance payments of land use rights, property, plant and equipment and land use rights are disclosed in Notes 6, 9 and 10 to the financial statements.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

### 3.2 Key sources of estimation uncertainty (Cont'd)

#### (c) Income tax expense

The Group has exposure to income tax in the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made. The Group's income tax expense is disclosed in Note 25 to the financial statements.

The PRC subsidiaries make tax submissions to the local tax authorities in accordance with interpretations and local practices. Management has assessed and concluded that all tax submissions to local tax authorities had since been finalised and hence are appropriate. Accordingly, management is of the view that there are no further tax and related liabilities as at the end of the reporting period.

As at 31 December 2018, the Group did not recognise deferred tax assets in relation to unutilised tax losses due to uncertainty over the availability of future taxable profit against which the Group can utilise such benefit.

#### (d) Depreciation of property, plant and equipment

Management estimates the useful lives of property, plant and equipment to be within 3 to 25 years. These are common life expectancies applied in the relevant industry. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets. Hence, future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment is disclosed in Note 9 to the financial statements.

## 4. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Cash and bank balances | 108 | 401 | 8 | 8 |

The renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business. These regulations place restriction on the amount of currency being exported other than through dividends.

## 5. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Trade receivables | | | | |
| - third parties | 77,156 | 50,907 | - | - |
| - impairment allowance (Note 32.2) | (10,274) | - | - | - |
| | 66,882 | 50,907 | - | - |
| Other receivables | | | | |
| - sundry receivables | 280 | 8,650 | - | - |
| - refundable deposits | 8 | 8 | 8 | 8 |
| | 288 | 8,658 | 8 | 8 |
| | 67,170 | 59,565 | 8 | 8 |

The average credit period given to trade receivables is 60 (2017: ranges from 30 to 90) days.

Allowance for impairment on trade receivables is determined based on management's assessment of collectability and by reference to past default experience.

There is no other class of financial asset that is past due and/or impaired except for trade receivables.

## 5. TRADE AND OTHER RECEIVABLES (cont'd)

Expected credit losses

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL is as follows:

| | Group 2018 RMB'000 |
|---|---|
| Allowance made / At 31 December 2018 | 10,274 |

## 6. PREPAYMENTS

| | Group | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Advance payments | 159,429 | 159,429 |
| Prepaid rental | 552 | 1,531 |
| Less: Impairment loss on advance payments of land use rights | (93,189) | (100,102) |
| | 66,792 | 60,858 |

Movements in impairment loss on advance payments of land use rights:

| | Group | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Balance at beginning | 100,102 | 100,007 |
| Impairment loss charged to profit or loss (Note 22) | - | 261 |
| Reversal of impairment loss (Note 21) | (6,913) | (166) |
| | 93,189 | 100,102 |

**6. PREPAYMENTS (cont'd)**

Advance payments relate to up-front payments for the acquisition of land use rights in 2012 and 2013. As at the end of the reporting period, the subsidiaries are still in the process of obtaining the certificates of these land use rights for the following plots of land:

| | Location | Tenure | Total land area (Square Meters) |
|---|---|---|---|
| i) | Ju County Anzhuang Dong Cun, Bei Cun (莒县安庄东村，北村) | 50 years from 2 July 2012 | 42,182 |
| ii) | Ju County Anzhuang Town, Xiao Ma Jia Yu Cun, Huang Jia He Cun, Da Xian Fu Cun (莒县安庄镇小马家峪村，黄家河村，大咸服村) | 50 years from 2 July 2012 | 58,038 |
| iii) | Ju County Xia Zhuang Liu Jia Miao Jiang Cun (莒县夏庄刘家苗蒋村) | 50 years from 2 July 2012 | 43,172 |
| iv) | Ju County Xia Zhuang Sun Jia Po Cun (莒县夏庄孙家坡村) | 50 years from 2 July 2012 | 69,600 |
| v) | Ju Country Qishan Shi Quan Guan Zhuang Cun (莒县綦山石泉官庄村) | 50 years from 2 March 2013 | 80,000 |
| vi) | Ju Country Qishan Shi Quan Guan Zhuang Cun (莒县綦山石泉官庄村) | 50 years from 3 April 2013 | 56,666.67 |
| vii) | Ju Country Qishan Shi Quan Guan Zhuang Cun (莒县綦山石泉官庄村) | 50 years from 4 April 2013 | 13,333.33 |

Impairment testing of advance payments

During the current financial year, the Group carried out a review of the recoverable amounts. The Group engaged an independent valuer to perform valuation on its advance payments of land use rights. A reversal of impairment loss of RMB6,913,000 (2017: RMB166,000) representing an impairment loss written back was recognised in "Other income" (Note 21) in profit or loss. In 2017, an impairment loss of RMB261,000 representing write-down of the advance payments of land use rights to the recoverable amount was recognised in "Other expenses" (Note 22) in profit or loss. The recoverable amount of the advance payments of land use rights was determined based on fair value less costs of disposal. The valuation method used is that of the market approach which is categorised under Level 3 of the fair values hierarchy.

The key assumption to the fair value measurement is as follows:

| | |
|---|---|
| Land use rights comparable price | RMB 2,400,000 to RMB 14,700,000 |

The key assumption includes consideration of the market value in Shandong Province within the region, economic or external obsolescence and physical deterioration of assets.

## 7. INVENTORIES

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| **Statement of financial position:** | | |
| Raw materials | 8,154 | 2,985 |
| Finished goods | 7,155 | 4,767 |
| | 15,309 | 7,752 |
| **Statement of comprehensive income:** | | |
| Inventories recognised as an expense in cost of sales | 119,142 | 114,948 |
| Inclusive of the following charge | | |
| - Reversal of inventory written down (Note 21) | 319 | 808 |

## 8. INVESTMENTS IN SUBSIDIARIES

| | Company 2018 RMB'000 | Company 2017 RMB'000 |
|---|---|---|
| Unquoted equity shares, at cost | 172,800 | 172,800 |

Details of the subsidiaries are as follows:

| Name of subsidiaries | Country of incorporation/ place of operation | Percentage of equity held 2018 % | Percentage of equity held 2017 % | Principal activities |
|---|---|---|---|---|
| **Held by the Group** | | | | |
| Shandong Hengbao Foodstuff Co., Ltd. * | People's Republic of China | 100 | 100 | Processing, packaging and producing various types of foods |
| **Held by Shandong Hengbao Foodstuffs Co., Ltd.** | | | | |
| Juxian Hengbao Farming Co., Ltd. * | People's Republic of China | 100 | 100 | Rearing and trading of livestocks, temporarily ceased operation |
| Juxian Wan Hui Food Co., Ltd. * | People's Republic of China | 90 | 90 | Dormant |
| Juxian Houz Best Food Co., Ltd. * | People's Republic of China | 90 | 90 | Dormant |

* Audited by UHY Lee Seng Chan & Co. for the purpose of expressing an opinion on the consolidated financial statements.

## 9. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Leasehold buildings and infrastructure RMB'000 | Plant and machinery RMB'000 | Furniture, fittings and equipment RMB'000 | Motor vehicles RMB'000 | Other facilities RMB'000 | Renovation RMB'000 | Construction work-in-Progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2017 | 342,502 | 105,024 | 2,807 | 1,793 | 8,025 | 8,777 | 72,911 | 541,839 |
| Additions | 200 | 472 | - | - | - | - | 2,012 | 2,684 |
| Disposals | (11,295) | (138) | - | - | - | (3,589) | - | (15,022) |
| Written off | - | (2,823) | (575) | - | - | (188) | - | (3,586) |
| Reclassifications | 30,631 | - | - | - | - | - | (30,631) | - |
| At 31 December 2017 | 362,038 | 102,535 | 2,232 | 1,793 | 8,025 | 5,000 | 44,292 | 525,915 |
| Additions | 30 | 1,043 | 4 | 53 | - | - | 878 | 2,008 |
| Written off | - | - | - | (74) | - | - | - | (74) |
| Reclassifications | 2,890 | - | - | - | - | - | (2,890) | - |
| At 31 December 2018 | 364,958 | 103,578 | 2,236 | 1,772 | 8,025 | 5,000 | 42,280 | 527,849 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2017 | 47,570 | 40,498 | 2,331 | 1,772 | 3,203 | 7,524 | - | 102,898 |
| Depreciation charge for the financial year | 9,150 | 5,761 | 315 | 21 | 773 | 1,134 | - | 17,154 |
| Disposals | (4,582) | (103) | - | - | - | (3,590) | - | (8,275) |
| Written off | - | (2,523) | (565) | - | - | (68) | - | (3,156) |
| At 31 December 2017 | 52,138 | 43,633 | 2,081 | 1,793 | 3,976 | 5,000 | - | 108,621 |
| Depreciation charge for the financial year | 10,729 | 5,894 | 150 | 9 | 815 | - | - | 17,597 |
| Written off | - | - | - | (74) | - | - | - | (74) |
| At 31 December 2018 | 62,867 | 49,527 | 2,231 | 1,728 | 4,791 | 5,000 | - | 126,144 |

**9. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

**Group**

| | Leasehold buildings and infrastructure RMB'000 | Plant and machinery RMB'000 | Furniture, fittings and equipment RMB'000 | Motor vehicles RMB'000 | Other facilities RMB'000 | Renovation RMB'000 | Construction work-in-Progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated impairment losses** | | | | | | | | |
| At 1 January 2017 | 106,570 | 30,750 | 152 | - | 334 | - | - | 137,806 |
| Charge for the financial year | 4,017 | 15 | - | - | - | - | - | 4,032 |
| Written back | (3,843) | (2,514) | (143) | - | (243) | - | - | (6,743) |
| Disposals | (2,419) | (11) | - | - | - | - | - | (2,430) |
| Written off | - | (49) | (9) | - | - | - | - | (58) |
| At 31 December 2017 | 104,325 | 28,191 | - | - | 91 | - | - | 132,607 |
| Charge for the financial year | 224 | 4,191 | - | - | - | - | - | 4,415 |
| Written back | (7,999) | (809) | - | - | (91) | - | - | (8,899) |
| At 31 December 2018 | 96,550 | 31,573 | - | - | - | - | - | 128,123 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2018 | 205,541 | 22,478 | 5 | 44 | 3,234 | - | 42,280 | 273,582 |
| At 31 December 2017 | 205,575 | 30,711 | 151 | - | 3,958 | - | 44,292 | 284,687 |

**9. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

Property, plant and equipment of the Group with carrying amount of approximately RMB101,219,000 (2017: RMB102,175,000) has been pledged to secure the bank loans (Note 15).

Property, plant and equipment of the Group with a carrying amount of RMB82,791,000 (2017: RMB92,714,000) was previously used in the duck farming business that had temporarily ceased operation. This carrying amount is after deducting accumulated impairment loss of RMB55,858,000 (2017: RMB52,942,000).

Construction work-in-progress which are stated at cost, comprises factory premises and building under construction as well as production plants, machinery and other equipment under installation.

Impairment testing of property, plant and equipment

During the current financial year, the Group carried out a review of the recoverable amount. The Group engaged an independent valuer to perform valuation on its property, plant and equipment.

Arising from this valuation, a reversal of impairment loss of RMB8,899,000 (2017: RMB6,743,000) representing an impairment loss written back was recognised in "Other income" (Note 21) in profit or loss. In addition, an impairment loss of RMB4,415,000 (2017: RMB4,032,000) was recognised in "Other expenses" (Note 22) in profit or loss.

The recoverable amount of property, plant and equipment was based on fair value less costs of disposal. The valuation method used is that of the replacement cost approach. These are regarded as Level 3 of the fair value hierarchy.

The key assumption to the fair value measurement is as follows:

| | |
|---|---|
| Residual rate | 80 - 85% |

The key assumption includes consideration of technical obsolescence and physical deterioration of the property, plant and equipment.

**10. LAND USE RIGHTS**

**Group**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 January | 128,861 | 134,892 |
| Disposal | - | (6,031) |
| Balance at 31 December | 128,861 | 128,861 |
| **Accumulated depreciation** | | |
| Balance at 1 January | 17,013 | 17,134 |
| Amortisation for the financial year (Note 24) | 1,354 | 1,443 |
| Disposal | - | (1,564) |
| Balance at 31 December | 18,367 | 17,013 |

## 10. LAND USE RIGHTS (cont'd)

**Group**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Accumulated impairment losses** | | |
| Balance at 1 January | 52,616 | 52,900 |
| Charged to profit or loss (Note 22) | - | 280 |
| Reversal of impairment loss (Note 21) | (6,130) | (564) |
| Balance at 31 December | 46,486 | 52,616 |
| **Carrying amount** | | |
| Balance at 31 December | 64,008 | 59,232 |

The above land use rights relate to:

| Location | Tenure | Total land area (Square Meters) |
|---|---|---|
| • Ju County Yanzhuang Town Jianhua Cun Zhu Di, Weifang Lu Bei Ce (莒县闫庄镇建华村驻地，潍坊路北侧) | 50 years from 22 December 2006 to 10 December 2056 | 64,427 |
| • Ju County Wei Fang Middle Road No.39 (莒县潍坊中路39号) | 55 years from 10 June 2011 to 7 January 2066 | 24,034 |
| • Ju County South of Qingzhou Lu, East of Cheng Yang Lu (莒县青州路以南、城阳路以东) | 50 years from 10 May 2011 to 28 July 2061 | 65,046 |
| • Ju County AnZhuang Town, ZhuDi North Avenue, Dao Huang Road, West (莒县安庄镇驻地以北道黄路以西) | 50 years from 16 May 2011 to 19 January 2061 | 58,196 |
| • Ju County AnZhuang Town, ZhuDi North Avenue, Dao Huang Road, West (莒县安庄镇驻地以北道黄路以西) | 50 years from 12 May 2011 to 19 October 2061 | 35,257 |
| • Ju County QiShan Town, ShiQuanGuanZhuang Village (莒县碁山镇石泉官庄村) | 50 years from 18 May 2011 to 19 January 2061 | 68,814 |
| • Ju County QiShan Town, ShiQuanGuanZhuang Village (莒县碁山镇石泉官庄村) | 50 years from 23 June 2011 to 19 January 2061 | 57,967 |

Land use rights of the Group with carrying amount of approximately RMB30,856,000 (2017: RMB29,509,000) has been charged to secure the bank loans (Note 15).

## 10. LAND USE RIGHTS (cont'd)

Impairment testing of land use rights

During the current financial year, the Group carried out a review of the recoverable amount. The Group engaged an independent valuer to perform valuation on its land use rights.

Arising from this valuation, a reversal of impairment loss of RMB6,130,000 (2017: RMB564,000) representing an impairment loss written back was recognised in "Other income" (Note 21) in profit or loss. In addition, there is no (2017: RMB280,000) impairment loss recognised in "Other expenses" (Note 22) in profit or loss.

The recoverable amount of the land use rights was based on fair value less costs of disposal. The valuation method used is that of the market approach which is regarded as Level 3 of the fair value hierarchy.

The key assumption is as follows:

| | |
|---|---|
| Land use rights comparable price | RMB 2,400,000 to RMB 14,700,000 |

The key assumption includes consideration of the market value in Shandong Province within the region, economic or external obsolescence and physical deterioration of assets.

## 11. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 |
| Trade payables | | | | |
| - third parties | 7,176 | 2,954 | - | - |
| Other payables | | | | |
| - subsidiary (non-trade) | - | - | 6,405 | 6,328 |
| - sundry payables | 5,463 | 18,731 | 2,582 | 2,192 |
| - tenant deposits | 250 | 350 | - | - |
| - rental received in advance | - | 574 | - | - |
| - accrued operating expenses | 17,956 | 16,879 | 534 | 539 |
| | 23,669 | 36,534 | 9,521 | 9,059 |
| | 30,845 | 39,488 | 9,521 | 9,059 |

Trade payables are normally settled within 30 to 90 (2017: 30 to 90) days from date of invoice while other payables have an average term of 6 (2017: 6) months.

Non-trade amount due to a subsidiary is unsecured, interest-free and repayable in cash on demand.

## 12. AMOUNTS DUE TO EX-SHAREHOLDERS OF THE COMPANY

Amounts due to ex-shareholders consist of a sum of RMB1,197,000 (2017: RMB1,197,000) which represents payment on behalf and a sum of RMB1,642,000 (2017: RMB1,642,000) which represents outstanding accrued interest when the principal amount due was fully repaid in year 2012. These amounts are unsecured, repayable in cash on demand and are denominated in Singapore dollar.

## 13. AMOUNTS DUE TO EX-SHAREHOLDERS OF A SUBSIDIARY

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| **Current** | | |
| Borrowings | 17,160 | - |
| Amounts due to directors (Note 14) | (13,682) | - |
| Amounts due to ex-shareholders of a subsidiary | 3,478 | - |
| **Non-current** | | |
| Borrowings | - | 16,365 |
| Amounts due to directors (Note 14) | - | (13,048) |
| Amounts due to ex-shareholders of a subsidiary | - | 3,317 |
| | 3,478 | 3,317 |

On 25 September 2009, Shandong Hengbao Foodstuffs Co., Ltd. entered into a loan agreement with Shen Hengbao and Meng Xiangzhen, (collectively the "Directors") and Wu Fang, Yao Zhifang and Shi Geli (collectively the "ex-shareholders of a subsidiary") to obtain a total loan of RMB21,800,000 from the Directors and the ex-shareholders. The loan is interest-free and is for a period of 10 years with an option to extend for a further period of 10 years if requested by the Group. Management is of the view that they would not request for extension and the amount will be repayable in 2019.

In 2015, RMB4,035,000 was repaid to one of the Directors, leaving a remaining balance of RMB17,765,000.

The remaining loan amount of RMB17,765,000 (2017: RMB17,765,000) is stated at amortised cost of RMB17,160,000 (2017: RMB16,365,000) which is determined from cashflow analysis and discounted at market borrowing rate of 4.86% (2017: 4.86%) per annum.

**Fair values of non-current amounts due to ex-shareholders of a subsidiary**

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| Amounts due to ex-shareholders of a subsidiary | - | 3,345 |

In the previous financial year, the fair values above were determined from the cash flow analyses, discounted at market borrowing rate of an equivalent instrument at the end of the reporting period of 4.35% per annum. The fair values were within Level 2 of the fair values hierarchy.

## 14. AMOUNTS DUE TO DIRECTORS

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| **Current** | | | | |
| Advances (i) | 7,887 | 26,877 | 6,853 | 26,101 |
| Advances (ii) (Note 13) | 13,682 | - | - | - |
| | 21,569 | 26,877 | 6,853 | 26,101 |
| **Non-current** | | | | |
| Advances (ii) (Note 13) | - | 13,048 | - | - |
| Advances (iii) | 20,407 | - | 20,407 | - |
| | 20,407 | 13,048 | 20,407 | - |
| | 41,976 | 39,925 | 27,260 | 26,101 |

(i) The amounts due to directors are non-trade in nature, unsecured, interest-free and repayable in cash on demand.

(ii) The amounts due to directors are non-trade in nature, unsecured, interest-fee and repayable on 24 September 2019. The details are disclosed in Note 13.

(iii) On 31 December 2018, a loan agreement with the director, Mr. Shen Hengbao was signed for an amount of RMB20,407,000 for a 3-year period at an interest rate of 5.50% per annum.

**Fair value of non-current amounts due to directors**

| | Group | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Amounts due to directors | 20,407 | 13,159 |

The fair values above are determined from the cash flow analyses, discounted at market borrowing rates of an equivalent instrument at the end of the reporting period of 5.50% (2017: 4.35%) per annum. The fair values are within Level 2 of the fair values hierarchy.

## 15. BANK LOANS

| | | Group | |
|---|---|---|---|
| | | 2018 RMB'000 | 2017 RMB'000 |
| **Secured bank loans** | | | |
| Industrial Bank Co., Ltd<br>兴业银行股份有限公司日照分行 | #1 | 14,400 | 16,000 |
| Rural Commercial Bank of Juxian<br>山东莒县农村商业银行 | #2 | 24,480 | 24,600 |
| Bank of Rizhao<br>日照银行股份有限公司莒县支行 | #3 | 20,000 | 20,000 |
| China Construction Bank<br>中国建设银行股份有限公司莒县支行 | #4 | 24,300 | 20,000 |
| | | 83,180 | 80,600 |

The bank loans are secured by:

(i) legal charges over the leasehold land and buildings of certain subsidiaries as disclosed in Note 9;

(ii) legal charges over the land use rights of certain subsidiaries as disclosed in Note 10;

(iii) a corporate guarantee provided by a third party;

(iv) a jointly and severally guarantee provided by certain directors and key management personnel of certain subsidiaries.

Details of bank loans denominated in renminbi are as follows:

(a) The bank loan #1 of RMB14,400,000 (2017: RMB16,000,000) bears interest of 5.43% (2017: ranging from 4.99% to 5.43%) over the benchmark lending rate of People's Bank of China ("PBOC") per annum. The loan's effective interest rate is 6.53% (2017: ranging from 6.09% to 6.53%) per annum and is repayable within one year.

(b) The bank loans #2 of RMB24,480,000 (2017: RMB24,600,000) bear fixed interest rate of 7% (2017: 8.96%) per annum and are repayable within one year.

(c) The bank loan #3 of RMB20,000,000 (2017: RMB20,000,000) bears fixed interest rate of 6.96% (2017: 6.74%) per annum and is repayable within one year.

(d) The bank loan #4 of RMB5,000,000 (2017: RMB20,000,000) bears fixed interest rate of 5.87% (2017: 5.87%) per annum and bank loans of RMB19,300,000 (2017: Nil) bear interest of 0.91% over the prevailing prime rate of People's Bank of China per annum. The effective interest rate is 5.22% per annum. The bank loans are repayable within one year.

## 15. BANK LOANS (cont'd)

A reconciliation of liabilities arising from financing activities is as follows:

| | Note | At 1.1.2018 RMB'000 | Financing cash flows RMB'000 | Non-cash changes Interest expense RMB'000 | Foreign exchange movement RMB'000 | At 31.12.2018 RMB'000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Amounts due to ex-shareholders of the Company | 12 | 2,839 | - | - | - | 2,839 |
| Amounts due to ex-shareholders of a subsidiary | 13 | 3,317 | - | 161 | - | 3,478 |
| Amounts due to directors | 14 | 39,925 | 734 | 634 | 683 | 41,976 |
| Bank loans | 15 | 80,600 | 2,580 | - | - | 83,180 |

| | Note | At 1.1.2017 RMB'000 | Financing cash flows RMB'000 | Non-cash changes Interest expense RMB'000 | Foreign exchange movement RMB'000 | At 31.12.2017 RMB'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Amounts due to ex-shareholders of the Company | 12 | 2,839 | - | - | - | 2,839 |
| Amounts due to ex-shareholders of a subsidiary | 13 | 3,167 | - | 150 | - | 3,317 |
| Amounts due to directors | 14 | 37,941 | 1,116 | 589 | 279 | 39,925 |
| Bank loans | 15 | 107,500 | (26,900) | - | - | 80,600 |
| Bills payables | | 10,000 | (10,000) | - | - | - |
| Restructured cash and bank balances | | (10,000) | 10,000 | - | - | - |

## 16. SHARE CAPITAL

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Issued and fully paid up with no par value 468,000,000 ordinary shares | 146,161 | 146,161 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

## 17. CAPITAL RESERVE

The capital reserve comprises the difference between purchase consideration and attributable net assets relating to the acquisition of additional interest in a subsidiary from non-controlling interests with no change in control in 2015.

## 18. EQUITY CONTRIBUTION RESERVE

The equity contribution reserve represents the difference between the gross proceeds and its fair value at initial measurement and recognition on 25 September 2009 with respect to the aggregate interest free loan of RMB21,800,000 from the directors and ex-shareholders of a subsidiary (Note 13).

This equity contribution reserve is not distributable.

## 19. STATUTORY RESERVE

The Group follows the accounting principles and relevant financial regulations of the People's Republic of China ("PRC") in the preparation of the accounting records and statutory financial statements of the PRC subsidiaries.

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, one of the subsidiaries of the Group is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

## 20. REVENUE

| | Group | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Sale of goods | 163,826 | 167,706 |

Revenue is recognised at a point in time.

## 21. OTHER INCOME

| | Group | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Gain on disposal of land use rights | - | 1,241 |
| Gain on disposal of property, plant and equipment | - | 326 |
| Impairment loss written back on: | | |
| - advance payments of land use rights (Note 6) | 6,913 | 166 |
| - land use rights (Note 10) | 6,130 | 564 |
| - property, plant and equipment (Note 9) | 8,899 | 6,743 |
| Interest income (Note 31) | - | 68 |
| Rental income | 1,120 | 1,571 |
| Reversal of inventory write-down (Note 7) | 319 | 808 |
| Sundry income | 1,311 | 378 |
| | 24,692 | 11,865 |

## 22. OTHER EXPENSES

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Impairment loss on: | | |
| - advance payments of land use rights (Notes 6 and 31) | - | 261 |
| - land use rights (Notes 10 and 31) | - | 280 |
| - property, plant and equipment (Notes 9 and 31) | 4,415 | 4,032 |
| Property, plant and equipment written off | - | 372 |
| | 4,415 | 4,945 |

## 23. FINANCE COSTS

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Interest expense on | | |
| - bank loans | 6,295 | 6,190 |
| - borrowings from ex-shareholders [1] | 161 | 150 |
| - borrowings from directors [2] | 634 | 589 |
| | 7,090 | 6,929 |

[1] This relates to accretion of discount relating to amounts due to ex-shareholders (Note 13).
[2] This relates to accretion of discount relating to amounts due to directors (Note 14).

## 24. PROFIT BEFORE INCOME TAX

This is stated after charging:

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Amortisation of land use rights (Note 10) | 1,354 | 1,443 |
| Depreciation of property, plant and equipment (Note 9) | 17,597 | 17,154 |
| Employee benefits expense (Note 28) | 26,695 | 26,825 |
| Fees paid/payable to external auditors for: | | |
| - audit services | 380 | 380 |
| - non-audit services | 51 | - |
| Foreign exchange loss | 640 | 613 |
| Impairment loss on financial asset | | |
| - trade receivables (Note 5) | 10,274 | - |
| Operating lease expense - land | 345 | 345 |

## 25. INCOME TAX EXPENSE

There is no income tax expense as the Group has no taxable income for the current and previous financial years.

**Reconciliation of effective tax rate**

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| Profit before income tax | 18,325 | 22,109 |
| Tax at statutory rate of 25% (2017: 25%) | 4,987 | 5,837 |
| Tax at statutory rate of 17% (2017: 17%) | (276) | (210) |
| Adjustments: | | |
| - non-deductible expenses | 276 | 211 |
| - utilisation of deferred tax assets | (7,188) | (6,551) |
| - tax losses disregarded | 2,201 | 713 |
| | - | - |

**Unutilised tax losses**

As at 31 December 2018, the subsidiary, Shendong Hengbao Foodstuff Co., Ltd. has unutilised tax losses of approximately RMB287,109,000 (2017: RMB315,861,000) which are subject to agreement with the relevant tax authorities. These unutilised tax losses can be carried forward for offsetting against future taxable income provided that the provisions of the relevant tax legislations are complied with. The tax losses have the following expiry dates:

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| Expiring in: | | |
| 2019 | - | 450 |
| 2020 | 274,055 | 302,357 |
| 2021 | 13,054 | 13,054 |
| | 287,109 | 315,861 |

**Tax losses disregarded**

Pursuant to the corporate income tax law of the PRC under Chapter 4 No 27(1), all PRC companies engaged in livestock and poultry breeding business are tax exempted. Accordingly, the losses of Juxian Hengbao Farming Co., Ltd which is engaged in duck farming business are disregarded given that the profits arising from livestock and poultry breeding are exempted from tax.

**Unappropriated profits**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends to foreign investors from foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. As at 31 December 2018, the PRC subsidiaries have unappropriated profits amounting to RMB294,850,000 (2017: RMB266,100,000) which have not yet been utilised.

## 25. INCOME TAX EXPENSE (cont'd)

**Unrecognised deferred tax liabilities**

As at 31 December 2018, the aggregate amount of temporary differences relating to undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised is RMB29,485,000 (2017: RMB26,610,000). No deferred tax liability has been recognised because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 26. EARNINGS PER SHARE

The basic and diluted earnings per share attributable to the owners of the Group is computed as follows:

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Net profit attributable to owners of the Company (RMB'000) | 18,325 | 22,109 |
| Weighted average number of ordinary shares in issue ('000) | 468,000 | 468,000 |
| Earnings per share (RMB cents) | | |
| - Basic | 3.92 | 4.72 |
| - Diluted | 3.92 | 4.72 |

Diluted earnings per share are the same as basic earnings per share as the Group does not have potential dilutive shares.

## 27. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Property, plant and equipment (Note 9) | 2,008 | 2,684 |
| Paid balance previously included under other payables | - | 219 |
| Cash paid during the financial year | 2,008 | 2,903 |

## 28. EMPLOYEE BENEFITS EXPENSE

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Salaries, bonuses and related costs (including directors' remuneration) | 26,055 | 26,145 |
| Employer's contributions to Central Provident Fund | 640 | 680 |
| | 26,695 | 26,825 |

## 29. COMMITMENTS

### 29.1 Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Construction of duck and poultry slaughter factory | 52,720 | 52,720 |
| Construction of feed mill plant | 30,000 | 30,000 |
| Construction of production factory | - | 1,700 |
| Installation of cold room and production facilities | - | 9,531 |
| | 82,720 | 93,951 |

### 29.2 Lease commitments - as lessee

In addition to the land use rights disclosed in Note 10, the Group has entered into commercial leases on certain land. These leases comprise non-cancellable operating leases and have an average tenure of between ten to fifteen years, with option to renew the leases after the expiry dates. The operating leases do not contain any escalation clauses or provide for contingent rents.

Future minimum rental payable under non-cancellable operating leases (excluding land use rights) at the end of the reporting period are as follows:

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Within one year | 345 | 345 |
| Between one and five years | 1,622 | 1,553 |
| More than five years | 621 | 1,035 |
| | 2,588 | 2,933 |

## 29. COMMITMENTS (cont'd)

### 29.3 Lease commitments - as lessor

The Group leases out its property and equipment under non-cancellable operating leases. These leases have remaining lease terms of between two and three years with option to renew the leases after the expiry dates.

Future minimum rental receivable under non-cancellable operating leases at the end of the reporting period are as follows:

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| Within one year | 618 | 523 |
| Between one and five years | 8 | 287 |
| | 626 | 810 |

### 29.4 Financial guarantees

The Group has issued corporate guarantees to banks for bank borrowings granted to third parties which have provided corporate guarantees to the banks for bank borrowings (Note 15) granted to the Group. These guarantees are financial guarantee contracts as they require the Group to reimburse the banks if the third parties fail to make principal or interest payments when due in accordance with the terms of their respective borrowings.

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| Corporate guarantees to banks on loans granted to third parties | 40,360 | 54,940 |

## 30. RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the following are the significant transactions between the Group and related parties that took place at terms agreed between the parties during the financial year:

| | Group | |
|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 |
| **Compensation of key management personnel** | | |
| Short-term benefits paid to: | | |
| Directors | | |
| - salaries and related costs | 222 | 1,511 |
| - directors' fees | 279 | 312 |
| | 501 | 1,823 |
| Other key management personnel | | |
| - salaries and related costs | 666 | 638 |
| - employer's contribution to central provident fund | 31 | 28 |
| | 697 | 666 |
| | 1,198 | 2,489 |

## 31. SEGMENT INFORMATION

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

(i) Ready-to-serve food

(ii) Frozen vegetables

(iii) Duck farming

(iv) Others

## 31. SEGMENT INFORMATION (cont'd)

Except as indicated above, no operating segments have been aggregated to/from the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Unallocated costs represent corporate expenses.

Capital expenditure comprised additions to property, plant and equipment, construction in progress and intangible assets.

**Financial year ended 31 December 2018**

| | Ready-to-serve food RMB'000 | Frozen vegetables RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Revenue (external customers) | 52,257 | 85,298 | 26,271 | 163,826 |
| **Segment results** | 13,312 | 28,951 | 2,421 | 44,684 |
| Other income | | | | 24,692 |
| Unallocated costs | | | | (43,961) |
| Finance costs | | | | (7,090) |
| Profit before income tax | | | | 18,325 |
| Income tax expense | | | | - |
| **Net profit for the financial year** | | | | 18,325 |
| **Other segment information** | | | | |
| Depreciation and amortisation (Notes 9 and 10) | | | | 18,951 |
| Interest expense (Note 23) | | | | 7,090 |
| Impairment loss on: | | | | |
| - property, plant and equipment (Note 22) | | | | 4,415 |
| Capital expenditure | | | | 2,008 |

## 31. SEGMENT INFORMATION (cont'd)

**Financial year ended 31 December 2017**

| | Ready-to-serve food RMB'000 | Frozen vegetables RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Revenue (external customers) | 48,638 | 91,048 | 28,020 | 167,706 |
| **Segment results** | 12,403 | 33,852 | 6,503 | 52,758 |
| Other income | | | | 11,865 |
| Unallocated costs | | | | (35,585) |
| Finance costs | | | | (6,929) |
| Profit before income tax | | | | 22,109 |
| Income tax expense | | | | - |
| **Net profit for the financial year** | | | | 22,109 |
| **Other segment information** | | | | |
| Depreciation and amortisation (Notes 9 and 10) | | | | 18,597 |
| Interest income (Note 21) | | | | 68 |
| Interest expense (Note 23) | | | | 6,929 |
| Impairment loss on: | | | | |
| - advance payments of land use rights (Note 22) | | | | 261 |
| - land use rights (Note 22) | | | | 280 |
| - property, plant and equipment (Note 22) | | | | 4,032 |
| Capital expenditure | | | | 2,684 |

The Group's revenue is categorised based on countries where the customers are located.

| | Revenue 2018 RMB'000 | Revenue 2017 RMB'000 |
|---|---|---|
| China | 135,282 | 121,719 |
| Japan | 27,668 | 44,469 |
| Europe | 419 | 1,518 |
| Others | 457 | - |
| | 163,826 | 167,706 |

All non-current assets are located in the PRC.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

### 32.1 Categories of financial assets and liabilities

The carrying amounts of various categories of financial assets and liabilities as at the end of the reporting period are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 |
| **Financial assets** | | | | |
| Financial assets at amortised cost | 67,278 | - | 16 | - |
| Loans and receivables | - | 59,966 | - | 16 |
| | 67,278 | 59,966 | 16 | 16 |
| **Financial liabilities** | | | | |
| Financial liabilities at amortised cost | 162,318 | 166,169 | 39,620 | 37,999 |

### 32.2 Financial risk management policies and objectives

The Group has documented financial risk management policies. These policies set out the Group's overall business strategies and its risk management philosophy. The Group's overall risk management strategy seeks to minimise potential adverse effects on the financial performance of the Group.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and the Group's activities.

The following sections provide details regarding the Group's exposure to various financial risks and the objectives, policies and processes for the management of the risks.

**Credit risk**

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss to the Group. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group performs ongoing credit evaluation of its counterparties' financial condition and generally do not require a collateral.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when internal and/or external information indicates that the financial asset is unlikely to be received, which could include default of contractual payments due for more than 60 days, default of interest due for more than 30 days or there is significant difficulty of the counterparty.

To minimise credit risk, the Group has developed and maintained the Group's credit risk ratings to categorise exposures according to their degree of risk of default.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (cont'd)

**Credit risk (cont'd)**

The credit rating information is supplied by publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group considers available reasonable and supportive forward-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant increases in credit risk on other financial instruments of the same debtor
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the group and changes in the operating results of the debtor.

Regardless of the above analysis, a significant increase in credit risk is presumed if a debtor is more than 60 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the debtor
- A breach of contract, such as a default or past due event
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

As at 31 December 2017, the age analysis of trade receivables past due but not impaired is as follows:

| | Group 2017 RMB'000 |
|---|---|
| Neither past due nor impaired | 46,421 |
| Past due but not impaired | |
| 1 - 30 days | 3,055 |
| 31 - 60 days | 1,431 |
| | 50,907 |

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (cont'd)

**Credit risk (cont'd)**

In 2018, the Group uses the following categories of internal credit risk rating for financial assets which are subject to expected credit losses (ECL) under the 3-stage general approach. These four categories reflect the respective credit risk and how the loss provision is determined for each of those categories.

| Category of internal credit rating | Definition of category | Basis for recognition of expected credit losses |
|---|---|---|
| Performing | Borrower or issuer have a low risk of default and a strong capacity to meet contractual cash flows | 12-month expected credit losses |
| Under-performing | Significant increase in credit risk is presumed if interest and/or principal repayment are 60 days past due | Lifetime expected credit losses |
| Non-performing | Interest and/or principal payment are 365 days past due | Lifetime expected credit losses |
| Write-off | Interest and/or principal repayments are 365 days past due and there is no reasonable expectation of recovery | Asset is written off |

The table below details the credit quality of the Group's financial assets, as well as maximum exposure to credit risk by credit risk rating categories:

| | Note | Category | 12-month or lifetime ECL | Gross carrying amount RMB'000 | Loss allowance RMB'000 | Net carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| 31 December 2018 | | | | | | |
| Trade receivables | 5 | Note 1 | Lifetime ECL (simplified) | 77,156 | (10,274) | 66,882 |
| 1 January 2018 | | | | | | |
| Trade receivables | 5 | Note 1 | Lifetime ECL (simplified) | 50,907 | - | 50,907 |

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (Cont'd)

**Credit risk (Cont'd)**

**Trade receivables (Note 1)**

For trade receivables, the Group has applied the simplified approach in SFRS(I) 109 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of trade receivables is presented based on their past due status in terms of the provision matrix.

| | | Days past due | | | | |
|---|---|---|---|---|---|---|
| | Current RMB'000 | <30 days RMB'000 | 31-60 days RMB'000 | 61-90 days RMB'000 | >90 days RMB'000 | Total RMB'000 |
| **31 December 2018** | | | | | | |
| ECL rate | 3.6% | 8.6% | 17.2% | 29.2% | 37.3% | |
| Trade receivables | 39,702 | 7,040 | 11,936 | 8,392 | 10,086 | 77,156 |
| Loss allowances | (1,410) | (602) | (2,052) | (2,448) | (3,762) | (10,274) |
| **1 January 2018** | | | | | | |
| ECL rate | 0% | 0% | 0% | 0% | 0% | |
| Trade receivables | 46,421 | 3,055 | 1,431 | - | - | 50,907 |
| Loss allowances | - | - | - | - | - | - |

Information regarding loss allowance movement of trade receivables is disclosed in Note 5.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

Exposure to credit risk

At the end of the reporting period, approximately 100% (2017: 96%) of the Group's trade receivables were due from 3 (2017: 3) major external customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset presented on the statements of financial position. Cash is placed with banks which are regulated.

**Other receivables**

The Group assessed the latest performance and financial position of the counterparties, adjusted for the future outlook of the industry in which the counterparties operate in, and concluded that there has been no significant increase in the credit risk since the initial recognition of the financial assets. Accordingly, the Group measured the impairment loss allowance using 12-month ECL and determined that the ECL is insignificant.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (Cont'd)

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from bank loans with variable rates. The Group's policy is to obtain the most favourable interest rates available and maintain a balanced portfolio mix of fixed and floating rate borrowings.

A sensitivity analysis has been performed based on the outstanding floating rates of the Group's bank loans as at the end of the reporting period. If interest rate increases or decreases by 50 basis points with all other variables held constant, the Group's profit before tax would decrease or increase by RMB169,000 (2017: RMB80,000), as a result of lower or higher interest expense on these loans.

**Liquidity risk**

Liquidity risk refers to the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance its activities. Where necessary, it can also obtain financing from its directors and management is satisfied that such funding is available when required.

As detailed in Note 1.2, management is of the view that the liquidity risk is mitigated as the Group is confident that it will be able to obtain continuing support from its creditor banks and hence be able to rollover the bank loans as and when they fall due. In addition, management believes that its business operation will be able to generate sufficient cash flows to finance its obligations.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (Cont'd)

**Liquidity risk (Cont'd)**

The table below analyses the maturity profile of the Group's financial assets and liabilities at the end of the reporting period based on contractual undiscounted payments:

**Group**

| | 1 year or less RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|
| **2018** | | | |
| Cash and cash equivalents | 108 | - | 108 |
| Trade and other receivables | 67,170 | - | 67,170 |
| Total undiscounted financial assets | 67,278 | - | 67,278 |
| Trade and other payables | 30,845 | - | 30,845 |
| Amounts due to ex-shareholders of the Company | 2,839 | - | 2,839 |
| Amounts due to ex-shareholders of a subsidiary | 3,600 | - | 3,600 |
| Amounts due to directors | 22,052 | 23,774 | 45,826 |
| Bank loans | 87,488 | - | 87,488 |
| Total undiscounted financial liabilities | 146,824 | 23,774 | 170,598 |
| Total net undiscounted financial liabilities | (79,546) | (23,774) | (103,320) |
| **2017** | | | |
| Cash and cash equivalents | 401 | - | 401 |
| Trade and other receivables | 59,565 | - | 59,565 |
| Total undiscounted financial assets | 59,966 | - | 59,966 |
| Trade and other payables | 39,488 | - | 39,488 |
| Amounts due to ex-shareholders of the Company | 2,839 | - | 2,839 |
| Amounts due to ex-shareholders of a subsidiary | - | 3,600 | 3,600 |
| Amounts due to directors | 26,877 | 14,165 | 41,042 |
| Bank loans | 84,394 | - | 84,394 |
| Total undiscounted financial liabilities | 153,598 | 17,765 | 171,363 |
| Total net undiscounted financial liabilities | (93,632) | (17,765) | (111,397) |

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (Cont'd)

**Liquidity risk (Cont'd)**

**Company**

| | 1 year or less RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|
| **2018** | | | |
| Cash and cash equivalent | 8 | - | 8 |
| Trade and other receivables | 8 | - | 8 |
| Total undiscounted financial assets | 16 | - | 16 |
| Trade and other payables | 9,521 | - | 9,521 |
| Amount due to ex-shareholders of the Company | 2,839 | - | 2,839 |
| Amount due to directors | 6,853 | 23,774 | 30,627 |
| Total undiscounted financial liabilities | 19,213 | 23,774 | 42,987 |
| Total net undiscounted financial liabilities | (19,197) | (23,774) | (42,971) |
| **2017** | | | |
| Cash and cash equivalent | 8 | - | 8 |
| Trade and other receivables | 8 | - | 8 |
| Total undiscounted financial assets | 16 | - | 16 |
| Trade and other payables | 9,059 | - | 9,059 |
| Amount due to ex-shareholders of the Company | 2,839 | - | 2,839 |
| Amount due to directors | 26,101 | - | 26,101 |
| Total undiscounted financial liabilities | 37,999 | - | 37,999 |
| Total net undiscounted financial liabilities | (37,983) | - | (37,983) |

**Foreign currency risk**
Foreign currency risk arises when transactions or balances are denominated in foreign currencies.

The Group is exposed to foreign currency risk mainly on its sales and purchases and other transactions that are denominated primarily in United States dollar ("USD"), Singapore dollar ("SGD") and Malaysia ringgit ("RM").

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (Cont'd)

**Foreign currency risk (Cont'd)**

The Group does not enter into currency options and does not use forward exchange contracts for speculative trading purposes. The Group's and Company's main exposures to foreign currencies are as follows:

**Group**

| | USD RMB'000 | SGD RMB'000 | RM RMB'000 |
|---|---|---|---|
| **2018** | | | |
| Cash and cash equivalents | - | 8 | - |
| Trade and other receivables | - | - | 8 |
| Trade and other payables | - | (3,110) | (186) |
| Amounts due to ex-shareholders of the Company | - | (2,839) | - |
| Amounts due to directors | - | (21,623) | (184) |
| | - | (27,564) | (362) |
| **2017** | | | |
| Cash and cash equivalents | - | 8 | - |
| Trade and other receivables | 2,219 | - | 8 |
| Trade and other payables | - | (2,939) | (172) |
| Amounts due to ex-shareholders of the Company | - | (2,839) | - |
| Amounts due to directors | - | (20,654) | (803) |
| | 2,219 | (26,424) | (967) |

**Company**

| | SGD RMB'000 | RM RMB'000 |
|---|---|---|
| **2018** | | |
| Cash and cash equivalents | 8 | - |
| Trade and other receivables | - | 8 |
| Trade and other payables | (2,930) | (186) |
| Amounts due to ex-shareholders of the Company | (2,839) | - |
| Amounts due to directors | (21,623) | (184) |
| | (27,384) | (362) |
| **2017** | | |
| Cash and cash equivalents | 8 | - |
| Trade and other receivables | - | 8 |
| Trade and other payables | (2,559) | (172) |
| Amounts due to ex-shareholders of the Company | (2,839) | - |
| Amounts due to directors | (20,654) | (803) |
| | (26,044) | (967) |

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### 32.2 Financial risk management policies and objectives (Cont'd)

**Foreign currency risk (Cont'd)**

**Sensitivity analysis**

A 3% strengthening of the Chinese renminbi against the following currencies at the reporting date would affect profit or loss before tax as shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

**Group**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| | Increase/ (Decrease) profit before income tax | |
| United States dollar | - | (67) |
| Singapore dollar | 827 | 793 |
| Malaysian ringgit | 11 | 29 |
| | 838 | 755 |

**Company**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| | Decrease loss before income tax | |
| Singapore dollar | 822 | 781 |
| Malaysian ringgit | 11 | 29 |
| | 833 | 810 |

A 3% weakening of the Chinese renminbi against the above currencies would have equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### 32.3 Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain an adequate and efficient capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or obtain additional borrowings.

No changes were made to the policies or processes of capital management for the financial years ended 31 December 2018 and 2017.

The Group is not subject to any externally imposed capital requirements, except for a subsidiary of the Group as disclosed in Note 19 which is required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the subsidiary for the financial years ended 31 December 2018 and 2017.

The Group's overall strategy remains unchanged from 2017.

## 33. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 33.1 Fair value of financial instruments that are carried at fair value

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quote prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has been no transfer between Level 1 and Level 2 fair value measurements during the financial years ended 31 December 2018 and 2017.

### 33.2 Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Management has determined that the carrying amounts of current financial assets and liabilities approximate their fair values because these instruments are short-term in nature or repriced frequently.

## 34. SUPPLEMENTARY INFORMATION – BREAKDOWN OF ACCUMULATED PROFITS/(LOSSES) INTO REALISED AND UNREALISED

The breakdown of the accumulated profits/(losses) of the Group and of the Group as at 31 December 2018 into realised profit/(loss) and unrealised profit is presented in accordance with the directive issued by Bursa Securities dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to MMLR, as issued by the Malaysian Institute of Accountants.

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Total accumulated profit/(loss) of the Company and its subsidiaries | | | | |
| - Realised profit/(loss) | 111,356 | 92,585 | (12,212) | (11,037) |
| - Unrealised loss | (753) | (307) | (753) | (307) |
| | 110,603 | 92,278 | (12,965) | (11,344) |

## 35. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

| Description | Effective for annual periods beginning on or after |
|---|---|
| SFRS(I) 116 *Leases* | 1 January 2019 |

The nature and impact of the impending changes in accounting policy on adoption of SFRS(I) 116 are described below.

**SFRS(I) 116**

SFRS(I) 116 requires lessees to recognise most leases on the statement of financial position. The standard includes two recognition exemptions for lessees - leases of 'low value' assets and short-term leases. SFRS(I) 116 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt SFRS(I) 116 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of SFRS(I) 116, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 116 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 116 to all contracts that were previously identified as leases;
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019; and
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 116 in 2019.

## 36. STATUS OF REGULARISATION PLAN

Effective from 7 May 2013, the Company is a Practice Note 17 ("PN 17") issuer as it had triggered the following Prescribed Criteria under PN 17 pursuant to paragraph 8.04 and paragraph 2.1 (d) of PN 17 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") whereby "the auditors have expressed an adverse or disclaimer of opinion in the listed issuer's latest audited financial statements". This criterion was triggered because of the Group's audited financial statements for the financial year ended 31 December 2012 in which the then auditors, Paul Wan & Co had expressed a disclaimer of opinion on those financial statements. The special audits carried out by an advisory firm, BDO Governance Advisory Sdn Bhd, had proven the basis for such disclaimer of opinion to be unfounded. The management believes that the current business remains viable. Being a PN 17 issuer, Bursa Securities requires the Company to submit a regularisation plan by 7 May 2014.

On 6 May 2014, the Company announced that it had appointed SJ Securities Sdn. Bhd. ("SJ Securities") as principal adviser to the Company in respect of the Company's regularisation plan as required under PN 17 of the MMLR. In addition, the Company announced that SJ Securities had submitted an application to Bursa Securities for an extension of time of up to 4 months from 7 May 2014 to submit its regularisation plan (the "First Application").

On 8 May 2014, Bursa Securities acknowledged that the Company had submitted the First Application. Consequently, the suspension on the trading of the Company's securities and the delisting of the Company in accordance with Paragraph 8.04(5) of the MMLR shall be deferred, pending the outcome of the First Application.

In a letter dated 11 July 2014 in response to the First Application, Bursa Securities had granted an extension of time of 4 months up to 7 September 2014 for the Company to submit its regularisation plan to the regulatory authorities.

On 5 September 2014, the Company announced that SJ Securities had submitted a second application to Bursa Securities for an extension of time of up to 6 months to 7 March 2015 to submit its regularisation plan (the "Second Application").

In a letter dated 14 December 2015 in response to the Second Application, Bursa Securities had granted an extension of time up to 30 April 2016 for the Company to submit its regularisation plan to the regulatory authorities. Further to the above, the Company informed that since becoming an Affected Listed Issuer on 7 May 2013, the Company has continued to invest in improving its facilities, introducing new products into the market and managing its costs structures, in its efforts to turnaround its business. However, these efforts are being hampered by poor market conditions and negative perceptions on duck meat due to the bird flu crisis. Concurrently with its turnaround plans, the Group is trying to procure suitable investors to inject new capital and/or new businesses into the Group, so that the regularisation plan can be implemented more expediently. As yet, no investors have been secured.

On 1 June 2016, the Company announced that it had, together with its advisers, made an application to Bursa Securities for a further extension of time to submit the Company's regularisation plan. On 17 August 2016, the Company obtained approval from Bursa Securities for a further extension of time to submit the Company's regularisation plan by 31 January 2017.

On 31 January 2017, the Company announced that it had together with its advisers, made an application to Bursa Securities for a further extension of time to submit the its regularisation plan. In a letter dated 24 May 2017, Bursa Securities had granted an extension of time of up to 30 September 2017 to submit its regularisation plan to the regulatory authorities.

**36. STATUS OF REGULARISATION PLAN (cont'd)**

On 29 September 2017, the Company announced that it had, together with its advisers, made an application to Bursa Securities for a further extension of time to submit the Company's regularisation plan. In a letter dated 9 November 2017, Bursa Securities had granted an extension of time of up to 31 March 2018 to submit its regularisation plan to the regulatory authorities.

On 30 March 2018, the Company announced that it had together with its advisers, made an application to Bursa Securities for a further extension of time to submit the Company's regularisation plan. In a letter dated 16 May 2018, Bursa Securities had granted an extension of time of up to 30 September 2018 to submit its regularisation plan to the regulatory authorities.

On 28 September 2018, the Company announced that it had together with its advisers, made an application to Bursa Securities for a further extension of time to submit the Company's regularisation plan. In a letter dated 29 October 2018, Bursa Securities had granted an extension of time of up to 31 March 2019 to submit its regularisation plan to the regulatory authorities.

On 29 March 2019, the Company announced that it had made an application to Bursa Securities for a wavier from the requirements to submit and implement its regularisation plan (the "Waiver") and to uplift its PN17 status. The Company also seek approval for a further extension of time of three months until 30 June 2019 to submit its regularisation plan.

From the latest announcement dated 1 April 2019, the Company announced that the Company's application for the Waiver and further extension of time for submission of the regularisation plan is still pending approval from Bursa Securities.

Should Bursa Securities not approve the Company's application for the extension of time to submit its regularisation plan, the Company will face likely suspension of the trading of its securities and the eventual delisting of the Company from the Official List of Bursa Securities.

The landed property of the Group as at the date of this Annual Report is as follows:

**(i) Land**

Our subsidiary, Shandong Hengbao has obtained the State-owned Land Use Right Certificates for the following seven (7) parcels of land and seven (7) parcels of land without certificate, the details of which are set out below:

| No. | Land No. / Location | State-owned Land Use Right Certificate No. / Certificate Issuance Date | Tenure / Expire of Tenure | Revaluation / Acquisition | Land Area (Square Metres) | Audited NBV as at 31.12.2018 RMB'000 |
|---|---|---|---|---|---|---|
| **1.** | 2011-18/ ShiQuanGuanZhuan Village, QiShan Town, Ju County, Shandong Province, PRC ("Land X"). | Juguoyong (2011) No. 377/ 23.05.2011 | 46 years / 19.01.2061 | 2018 | 57,967.00 | 10,389 |
| **2.** | 2011-10/ DaoHuang Road, ZhuDi North Avenue, West, Anzhuan Town, Ju County, Shandong Province, PRC ("Land VIII"). | Juguoyong (2011) No. 178/ 18.05.2011 | 46 years / 19.01.2061 | 2018 | 68,814.00 | 12,333 |
| **3.** | 2011-12/DaoHuang Road, ZhuDi North Avenue, West, Anzhuan Town, Ju County, Shandong Province, PRC ("Land VII"). | Juguoyong (2011) No. 118/ 16.05.2011 | 46 years / 19.01.2061 | 2018 | 58,196.00 | 10,430 |
| **4.** | Anzhuang Town Baowa, Village East, Daohuang Road West, Ju Country, Shandong. | Lu (2017) Ju property rights No.0006656 01.11.2017 | 46 years / 13.10.2061 | 2018 | 35,257.00 | 6,355 |
| **5.** | South of Qingzhou Road, East of Chengyang Road, Ju Country, Shandong. | Juguoyong (2015) No. 116/ 07.12.2015 | 46 years / 28.07.2061 | 2018 | 65,046.00 | 12,853 |
| **6.** | Weifang Road No. 39, Ju Country, Shandong. | Lu (2016) Ju property rights No. 0000826/ 10.06.2011 | 51 years / 07.01.2066 | 2018 | 24,034.00 | 4,778 |
| **7.** | Yanzhuang Town Dachang, Anpo Village, Jianhua Village, Ju Country, Shandong. | Lu (2017) Ju property rights No.0006660 01.11.2017 | 48 years / 08.11.2058 | 2018 | 64,426.96 | 6,869 |
| **8.** | An Zhuang Zhen East Village, North Village, Ju Country, Shandong. | Juguoyong No. 2012-18/ 02.07.2012 | 46 years / 01.07.2062 | 2018 | 42,182.00 | 7,603 |

**(i) Land (cont'd)**

Our subsidiary, Shandong Hengbao has obtained the State-owned Land Use Right Certificates for the following seven (7) parcels of land and seven (7) parcels of land without certificate, the details of which are set out below: (cont'd)

| No. | Land No. / Location | State-owned Land Use Right Certificate No. / Certificate Issuance Date | Tenure / Expire of Tenure | Revaluation / Acquisition | Land Area (Square Metres) | Audited NBV as at 31.12.2018 RMB'000 |
|---|---|---|---|---|---|---|
| **9.** | An Zhuang Xiao Ma Jiayu Village, Huangjiahe Village, Daxianfu Village, Ju Country, Shandong. | Juguoyong No. 2012-30/ 02.07.2012 | 46 years / 01.07.2062 | 2018 | 58,038.00 | 10,462 |
| **10.** | Xia Zhuang Town Liu Jiamiao Jiang Village, Ju Country, Shandong. | Juguoyong No. 2012-38/ 02.07.2012 | 46 years / 01.07.2062 | 2018 | 43,172.00 | 7,960 |
| **11.** | Xiazhuang Town Sun Jiapo Village, Ju Country, Shandong. | Juguoyong No. 2012-40/ 02.07.2012 | 46 years / 01.07.2062 | 2018 | 69,600.00 | 12,832 |
| **12.** | Qishanshi Quanguan Zhuang Village, Ju Country, Shandong. | Juxian No. 01-2013-0022/ 02.03.2013 | 46 years / 01.03.2063 | 2018 | 80,000.00 | 14,750 |
| **13.** | Qishanshi Quanguan Zhuang Village, Ju Country, Shandong. | Juxian No. 01-2013-0036/ 03.04.2013 | 46 years / 02.04.2063 | 2018 | 56,666.67 | 10,272 |
| **14.** | Qishanshi Quanguan Zhuang Village, Ju Country, Shandong. | Juxian No. 01-2013-0038/ 04.04.2013 | 46 years / 03.04.2063 | 2018 | 13,333.33 | 2,362 |
| | **Grand Total** | | | | **736,732.96** | **130,248** |

**(ii) Leasehold Building and Infrastructure**

Details of the Leasehold Building and Infrastructure held by our subsidiary, Shandong Hengbao are set out below :-

| No. | Location | Description / Existing Use | Certificate of Real Estate Ownership No. / Certificate of Issuance Date | Built-up Area (Square Metres) | Approximate Age (Years) | Revaluation/ Acquisition | Audited NBV as at 31.12.2018 RMB'000 |
|---|---|---|---|---|---|---|---|
| 1. | **First Production Plant** North of Weifang Middle Road No. 1, Ju County, Shandong, Province PRC. | A single-storey factory building and a five-storey workers' hostel, warehouse and workers' hotel | Lu (2017) Ju property rights No.0006660 01.11.2017 | 28,221.12 | 7 | 2018 | 32,747 |
| 2. | **Third Production Plant** North of Weifang Road No. 1, Ju County, Shandong, Province PRC. | A single-storey factory building / Production plant | Lu (2016) Ju property rights No.0000826 10.06.2011 | 23,938.00 | 2 – 9 | 2018 | 76,223 |
| 3. | **Head Quarter and R&D Centre** North of Weifang Road No. 1, Ju County Shandong, Province PRC. | A seven storey office building equipped with R&D facilities | Ju Fang Quan Zheng Cheng Qu Zi No. 20134138 24.10.2013 | 14,851.35 | 6 – 9 | 2018 | 25,080 |
| 4. | **Incubation Facilities** ZhuDi North Avenue, West AnZhuang Town, Ju County, Shandong, Province PRC . | A single storey factory building / hatching plant | Lu (2017) Ju property rights No. 0006656 01.11.2017 | 16,297.00 | 6 – 7 | 2018 | 26,836 |
| 5. | **Duck Farm 1** ZhuDi North Avenue, West AnZhuang Town, Ju County, Shandong, Province PRC. | A duck farm completed 15 duck sheds | * | 23,250.00 | 6 – 7 | 2018 | 13,765 |
| 6. | **Duck Farm 2** ZhuDi North Avenue, West AnZhuang Town, Ju County, Shandong, Province PRC. | A duck farm completed 15 duck sheds | * | 22,472.72 | 6 – 7 | 2018 | 12,430 |
| 7. | **Duck Farm 3** 2011-18 / ShiQuanGuanZhuan Village, QiShan Town, Ju County, Shandong, Province, PRC. | A duck farm completed 15 duck sheds | * | 16,008.00 | 6 | 2018 | 18,460 |
| | **Grand Total** | | | | | | **205,541** |

** The company has yet to receive certificate of real estate ownership as at todate*

## DISTRIBUTION OF SHAREHOLDINGS
AS AT 15 APRIL 2019

| Size of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Issued Share |
|---|---|---|---|---|
| Less than 100 | 14 | 0.90 | 373 | 0.00 |
| 100 - 1,000 | 104 | 6.65 | 58,700 | 0.01 |
| 1,001 - 10,000 | 551 | 35.25 | 3,594,829 | 0.77 |
| 10,001 - 100,000 | 675 | 43.19 | 26,584,800 | 5.68 |
| 100,001 to less than 5% of issued shares | 217 | 13.88 | 121,753,758 | 26.02 |
| 5% and above of issued shares | 2 | 0.13 | 316,007,540 | 67.52 |
| **Total** | **1,563** | **100.00** | **468,000,000** | **100.00** |

## SUBSTANTIAL SHAREHOLDERS
(ACCORDING TO THE COMPANY'S REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 15 APRIL 2019)

| No. | Name of Substantial Shareholder | No. of Shares held Direct | % | No. of Shares held Indirect | % |
|---|---|---|---|---|---|
| 1 | Cartaban Nominees (Asing) Sdn Bhd Exempt An for LGT Bank Ag (Foreign) for Hengbao Foodstuffs Holding Limited | 267,202,000 | 57.09 | - | - |
| 2 | Shen Hengbao | - | - | 267,202,000 [a] | 57.09 |
| 3 | Agro Treasures Sdn Bhd | 48,805,540 | 10.43 | - | - |
| 4 | Khazanah National Berhad | - | - | 48,805,540 [b] | 10.43 |
| 5 | Vida Incorporated Sdn Bhd | - | - | 48,805,540 [b] | 10.43 |

[a] *Deemed interested by virtue of his interest in Hengbao Foodstuffs Holding Limited pursuant to Section 8 of the Malaysian Companies Act, 2016*

[b] *Deemed interested by virtue of its interest in Agro Treasures Sdn Bhd pursuant to Section 8 of the Malaysian Companies Act, 2016*

## DIRECTORS' INTERESTS IN SHARES
AS AT 15 APRIL 2019

| No. | Name of Director | No. of Shares held Direct | % | No. of Shares held Indirect | % |
|---|---|---|---|---|---|
| 1 | Shen Hengbao | - | - | 267,202,000 [a] | 57.09 |
| 2 | Meng Xiangzhen | - | - | - | - |
| 3 | Sun Shimin | - | - | - | - |
| 4 | Yang Chin Shen | - | - | - | - |
| 5 | Ho Pui Hold | - | - | - | - |

[a] *Deemed interested by virtue of his interest in Hengbao Foodstuffs Holding Limited pursuant to Section 8 of the Malaysian Companies Act, 2016*

**LIST OF TOP THIRTY (30) LARGEST SECURITIES ACCOUNTS HOLDERS**
(ACCORDING TO THE REGISTER OF DEPOSITORS AS AT 15 APRIL 2019)

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1 | CARTABAN NOMINEES (ASING) SDN. BHD.<br>EXEMPT AN FOR LGT BANK AG (FOREIGN) | 267,202,000 | 57.09 |
| 2 | AGRO TREASURES SDN. BHD. | 48,805,540 | 10.43 |
| 3 | YONG KIM SIONG | 9,217,300 | 1.97 |
| 4 | CHIN CHIN SEONG | 6,021,200 | 1.29 |
| 5 | WONG AH SOO @ WONG CHOONG KONG | 4,200,000 | 0.90 |
| 6 | LIEW KHEE CHONG | 4,000,000 | 0.85 |
| 7 | SHAHIDAN BIN KASSIM | 3,850,000 | 0.82 |
| 8 | CHONG LOI TAI | 3,434,200 | 0.73 |
| 9 | P.G.DORAISAMY A/L P.GOPAL | 3,183,500 | 0.68 |
| 10 | YONG HEE KAI | 2,648,300 | 0.57 |
| 11 | YONG SHIAU YUEN | 2,490,300 | 0.53 |
| 12 | LIEW KEK MIN | 1,900,000 | 0.41 |
| 13 | YONG LAI ING | 1,800,500 | 0.38 |
| 14 | JOEL OW YANG | 1,749,500 | 0.37 |
| 15 | MAYBANK NOMINEES (TEMPATAN) SDN. BHD.<br>FOR KOAY CHENG HOCK | 1,473,000 | 0.31 |
| 16 | YEAT SIAW PING | 1,459,500 | 0.31 |
| 17 | ONG SIEW HONG | 1,428,000 | 0.31 |
| 18 | TAN WEI CHUAN | 1,421,000 | 0.30 |
| 19 | LOW PEY YOKE | 1,406,000 | 0.30 |
| 20 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN. BHD.<br>PLEDGED SECURITIES ACCOUNT FOR KOH ENG KOW | 1,400,000 | 0.30 |
| 21 | SITI SALWA BINTI HASSAN | 1,350,000 | 0.29 |
| 22 | WONG PENG SIONG | 1,303,200 | 0.28 |
| 23 | SYARIKAT KEJURUTERAAN LETRIK SIM HOONG SDN. BHD. | 1,248,000 | 0.27 |
| 24 | LOW BENG HONG | 1,213,600 | 0.26 |
| 25 | LING KAU @ LIM HONG MEOW | 1,100,000 | 0.24 |
| 26 | TAN KOK MIN | 1,028,500 | 0.22 |
| 27 | CHIN KIAN WAH | 1,000,000 | 0.21 |
| 28 | CIMSEC NOMINEES (TEMPATAN) SDN. BHD.<br>CIMB BANK FOR ZAINUL AZMAN BIN ZAINUL AZIZ (MY2275) | 1,000,000 | 0.21 |
| 29 | SUZIE TAN MEI LIN | 1,000,000 | 0.21 |
| 30 | YONG KON KWEE | 990,000 | 0.21 |
| | | **380,323,140** | **81.25** |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Twelfth (12th) Annual General Meeting of the Company will be held at Sri Banang II, Mutiara Johor Bahru, Jalan Dato Sulaiman, Taman Century, K.B No. 779, 80990 Johor Darul Takzim, Malaysia on Friday, 31 May 2019 at 10.00 a.m. for the following purposes:

**AGENDA**

1. To receive the Audited Financial Statements of the Company and of the Group for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon. **(Ordinary Resolution 1)**

2. To re-elect Mr Yang Chin Shen, who retires pursuant to Article 104 of the Company's Articles of Association. **(Ordinary Resolution 2)**

3. To approve the payment of Directors' fees of RMB279,347 for the financial year ended 31 December 2018. **(Ordinary Resolution 3)**

4. To re-appoint Messrs UHY Lee Seng Chan & Co. as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 4)**

   **As Special Business**
   To consider and if thought fit, to pass the following Resolutions:

5. **Authority to Directors to Allot and Issue Shares**

   "THAT pursuant to the provisions of Section 161 of the Companies Act of Singapore, Cap. 50, and subject otherwise to the provisions of that Act and the Articles of Association of the Company, the Directors be and are hereby authorised to issue shares of the Company to such persons and on such terms and conditions and with such rights or restrictions as they may think fit to impose, provided that the aggregate number of shares to be issued does not exceed 10% of the issued share capital of the Company for the time being, and subject always to the approval of all the relevant regulatory bodies having been obtained for such allotment and issue, and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." **(Ordinary Resolution 5)**

6. To transact any other business of the Company for which due notice shall have been given.

By Order of the Board,

**SHEN HENGBAO**
CHIEF EXECUTIVE OFFICER

30 April 2019

**NOTES ON APPOINTMENT OF PROXY:**

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member and / or a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of Companies.

2. Where a member duly executes the form of proxy but does not name any proxy, such member shall be deemed to have appointed the Chairman of the meeting as his/their proxy, provided always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member.

3. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy.

4. Where a member of the Company is an exempt authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provision of subsection 25A(1) of the Central Depositories Act which holds ordinary shares in the Company for multiple beneficial owners in one Securities Account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

5. In the case of a corporate member, the instrument appointing a proxy shall be under its Common Seal or under the hand of an officer or attorney, duly authorised.

6. The instrument appointing a proxy must be deposited at the Company's Share Registrar's Office in Malaysia at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time for holding the Meeting or any adjournment thereof.

7. For the purpose of determining a member who shall be entitled to attend the Twelfth (12th) Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a General Meeting Record of Depositors as at 23 May 2019. Only members whose name appears on the Record of Depositors as at 23 May 2019 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

**EXPLANATORY NOTES ON SPECIAL BUSINESS**

1. Ordinary Resolution 5 : Authority to Directors to Allot and Issue Shares

   The Proposed Ordinary Resolution 5, if passed, is a renewal of the General Mandate to empower the Directors to issue and allot shares up to an amount not exceeding 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the Company at a General Meeting, will expire at the next Annual General Meeting.

   The General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding future investment project(s) workings capital and/or acquisitions.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the general mandate granted to the Directors at the Eleventh (11th) Annual General Meeting held on 1 June 2018 and which will lapse at the conclusion of the Eleventh (12th) Annual General Meeting.

**STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING**

The Director who standing for re-election at the Eleventh (12$^{th}$) Annual General Meeting of the Company is:

i) Mr Yang Chin Shen (Ordinary Resolution 2)

The profile of the Director standing for re-election is shown on page 4 of the Annual Report 2018.

The details of the Directors' attendance at Board Meetings are disclosed in the Corporate Governance Statement on page 15 of the Annual Report 2018.

The Twelfth (12$^{th}$) Annual General Meeting of the Company will be held at Sri Banang II, Mutiara Johor Bahru, Jalan Dato Sulaiman, Taman Century, K.B No. 779, 80990 Johor Darul Takzim, Malaysia on Friday, 31 May 2019 at 10.00 a.m.

# HB GLOBAL LIMITED

| NUMBER OF SHARES HELD | CDS ACCOUNT NO. |
|---|---|
| | |

## PROXY FORM

I / We *(Full Name in Block Letters)*________________________________________

NRIC No. / Passport No. / Company No. ____________________________________

of ____________________________________________________________

being a member / members of **HB GLOBAL LIMITED**, hereby appoint __________________________

NRIC No. / Passport No. ________________________________________________

of ____________________________________________________________

and or __________________________________________________________

NRIC No. / Passport No. ________________________________________________

of____________________________________________________________

or failing him/her, the Chairman of the Meeting as my / our proxy to vote and act on my / our behalf at the Twelfth (12th) Annual General Meeting of the Company to be held at Sri Banang II, Mutiara Johor Bahru, Jalan Dato Sulaiman, Taman Century, K.B No. 779, 80990 Johor Darul Takzim, Malaysia on Friday, 31 May 2019 at 10.00 a.m. and at any adjournment thereof.

The proportion of my/our* holding to be represented by my/our* proxies are as follows:

First Proxy (1) __________ Second Proxy (2) __________

My/our* proxy is to vote as indicated below :

| NO. | ORDINARY RESOLUTIONS | FOR | AGAINST |
|---|---|---|---|
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December 2018 and Reports of the Directors' and Auditors thereon. | | |
| 2. | To re-elect Yang Chin Shen as Director. | | |
| 3. | To approve the payment of Directors' fees. | | |
| 4. | To re-appoint Messrs UHY Lee Seng Chan & Co. as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. | | |
| 5. | To approve the ordinary resolution pursuant to Section 161 of the Companies Act of Singapore, Cap.50. | | |

Please indicate with "X" where appropriate against each resolution how you wish to cast your vote. In the absence of specific directions, the proxy may vote or abstain from voting in the resolutions as he / she may think fit.

________________________________________

Signature of Shareholder(s)

*(If shareholder is a corporation, this part should be executed under seal)*

Date : ____________________

**NOTES**:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member and / or a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of Companies.
2. Where a member duly executes the form of proxy but does not name any proxy, such member shall be deemed to have appointed the Chairman of the meeting as his/their proxy, provided always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member.
3. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy.
4. Where a member of the Company is an exempt authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provision of subsection 25A(1) of the Central Depositories Act which holds ordinary shares in the Company for multiple beneficial owners in one Securities Account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. In the case of a corporate member, the instrument appointing a proxy shall be under its Common Seal or under the hand of an officer or attorney, duly authorised.
6. The instrument appointing a proxy must be deposited at the Company's Share Registrar's Office in Malaysia at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301, Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time for holding the Meeting or any adjournment thereof.
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*Fold here*

Please affix
postage stamp
here

The Company Registrar's Office in Malaysia
**HB GLOBAL LIMITED**
Boardroom Share Registrars Sdn Bhd
(Formerly known as Symphony Share Registrars Sdn Bhd)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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HB GLOBAL LIMITED
(Company Registration No.:200608505W)
(Incorporated in Singapore under the Companies Act (Chapter 50) of Singapore)
(Malaysian Foreign Company Registration No.: 995221-H)
(Registered as a foreign company in Malaysia under the Companies Act, 1965 of Malaysia)