CHANGSHOUHUA FOOD COMPANY LIMITED
長壽花食品股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1006)

Annual Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Wang Mingxing *(Chairman)*
Wang Mingfeng
Wang Mingliang
Wang Fuchang
Sun Guohui
Huang Da

Independent Non-Executive Directors

Wang Aiguo
Liu Shusong
Wang Ruiyuan

COMPANY SECRETARY

Chan Yuen Ying, Stella

AUDIT COMMITTEE

Wang Aiguo *(Committee Chairman)*
Wang Ruiyuan
Liu Shusong

REMUNERATION COMMITTEE

Wang Aiguo *(Committee Chairman)*
Wang Mingxing
Wang Ruiyuan
Liu Shusong

NOMINATION COMMITTEE

Wang Mingxing *(Committee Chairman)*
Wang Aiguo
Wang Ruiyuan
Liu Shusong

CORPORATE GOVERNANCE COMMITTEE

Wang Mingliang *(Committee Chairman)*
Wang Fuchang
Sun Guohui

AUDITOR

BDO Limited

SOLICITORS

As to Hong Kong Law:

Baker & McKenzie

As to PRC Law:

Grandall Legal Group (Shanghai)

As to Cayman Islands Law:

Conyers Dill & Pearman

PRINCIPAL REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

BRANCH REGISTRAR

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPLIANCE ADVISER

Haitong International Capital Limited

PRINCIPAL BANKERS

Agricultural Bank of China, Zouping Sub-branch
Bank of China, Zouping Sub-branch
ICBC, Zouping Sub-branch
Wing Lung Bank Limited

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

STOCK CODE

Hong Kong Stock Exchange: 1006

WEBSITE

http://www.chinacornoil.com/

Chairman's Statement

On behalf of the board of directors (the "Directors") (the "Board") of Changshouhua Food Company Limited (the "Company"), I would like to present to the shareholders of the Company the annual results and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

FINANCIAL PERFORMANCE

For the year ended 31 December 2012, the Group's revenue was approximately RMB2,704.2 million and the Group's profit for the year attributable to owners of the Company was approximately RMB204.3 million.

FINAL DIVIDEND

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting ("2013 AGM") of the Company to be held on Wednesday, 15 May 2013 a final dividend of HK cents 10 (2011: HK cents 7) per share for the year ended 31 December 2012 to be paid on Friday, 7 June 2013 to those shareholders whose names appear on the register of members of the Company on Thursday, 23 May 2013.

BUSINESS REVIEW

After years of development, 長壽花 (Longevity Flower) has developed into the first brand in corn oil industry in the PRC. In view of the increasing contribution of the own-brand sales of the Group to its total sales, the Board resolved to change the English name of the Company from "China Corn Oil Company Limited" to "Changshouhua Food Company Limited" and adopt the Chinese name "長壽花食品股份有限公司" as its official Chinese name to replace "中國玉米油股份有限公司" ("Change of Company Name") on 24 April 2012, which was approved by the shareholders of the Company by way of passing a special resolution at the extraordinary general meeting held on 25 May 2012, to build up a new corporate image of the Company and reflect the shift of the focus of the Group's corporate strategy from production and processing to its own-brand operation, as well as to cope with the Group's diversification business strategy in the development of high-end health food. The Change of Company Name has taken effect from 25 May 2012. The Board believes that the new company name can provide the Company with a fresh identity and image, which will benefit the Company's future business development and is in the interest of the Company and its shareholders as a whole.

The Group is principally engaged in the production of edible corn oil products for (1) domestic sales under the brand of 長壽花 (Longevity Flower) in the PRC consumer market; and (2) domestic or export bulk sales mainly to other companies engaging in the sale of edible corn oil under their own brands.

During the year of 2012, total revenue of the Group has increased by approximately RMB646.6 million, or approximately 31.4% as compared to the year of 2011, while profit attributable to owners of the Company has increased by approximately RMB27.4 million, representing a growth of approximately 15.6% as compared to the year of 2011. The significant increase in revenue and profit was mainly due to the overall increase in the sales of the Group's edible oil products as well as their by-products.

During the year ended 31 December 2012, the Group has continued increasing the investment of resources in (i) promoting its brand image and recognition; (ii) enhancing and expanding its marketing and distribution network; and (iii) improving expertise and technical know-how.

During the year, a total of 7 new representative offices and 14 new liaison offices were set up in the PRC. As at 31 December 2012, the Group had a distribution network of 662 wholesale distributors (2011: 468) and 77 retailers (2011: 77) covering all provincial-level administrative divisions (except Tibet) in the Mainland China.

As disclosed in the announcement issued by the Company dated 11 November 2012, the Group's part of packaging production facilities in the existing packaging production plant ("Existing Plant") were damaged in a fire accident ("Fire Accident") occurred on 9 November 2012. In view of the damages caused by the Fire Accident, the Group has demolished the Existing Plant, and a new packaging production plant (the "Packaging Plant") has being constructed at the site of the Existing Plant. During the transitional period before the completion of the construction of the Packaging Plant, the Group's existing packaging production facilities have been moved to the refinery plant to continue the production.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to the contributions by all of our Directors, the management team and all staff to the Group. Also thanks for the continuous support from our business partners, investors and shareholders throughout all these years.

Wang Mingxing
Chairman

Hong Kong, 27 March 2013

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded revenue of approximately RMB2,704.2 million (2011: approximately RMB2,057.6 million), representing an increase of approximately 31.4%. For the year ended 31 December 2012, the sales of (1) corn oil under our brand; (2) non-branded corn oil in bulk; (3) corn meal; and (4) other oil amounted to approximately RMB1,579.3 million, RMB731.5 million, RMB297.6 million and RMB95.7 million (2011: approximately RMB1,059.8 million, RMB684.7 million, RMB242.7 million and RMB70.3 million) respectively and accounted for approximately 58.4%, 27.1%, 11.0% and 3.5% (2011: approximately 51.5%, 33.3%, 11.8% and 3.4%) respectively of the Group's total revenue. Sales of corn oil under our brand were all made in the PRC whilst sales of non-branded corn oil were made both in the PRC and overseas. Revenue from the PRC and overseas countries accounted for approximately 99.4% and 0.6% (2011: 90.2% and 9.8%) respectively of the Group's total sales for the year ended 31 December 2012.

Revenue and Gross Profit/(Loss)

The following table sets forth the breakdown of revenue and gross profit/(loss) margin by product categories:

	Year ended 31 December 2012		Year ended 31 December 2011	
	RMB'000	**%**	RMB'000	%
Revenue				
Corn oil				
— Corn oil under our brand	**1,579,329**	**58.4%**	1,059,784	51.5%
— Non-branded corn oil	**731,549**	**27.1%**	684,748	33.3%
Corn meal	**297,589**	**11.0%**	242,737	11.8%
Other oil	**95,708**	**3.5%**	70,318	3.4%
	2,704,175	**100.0%**	2,057,587	100.0%
Gross profit/(loss)				
Corn oil				
— Corn oil under our brand	**463,400**	**86.3%**	296,336	77.7%
— Non-branded corn oil	**52,756**	**9.8%**	63,835	16.7%
Corn meal	**(13,342)**	**(2.5)%**	(12)	0.0%
Other oil	**34,313**	**6.4%**	21,250	5.6%
	537,127	**100.0%**	381,409	100.0%
Gross profit/(loss) ratio				
Corn oil				
— Corn oil under our brand		**29.3%**		28.0%
— Non-branded corn oil		**7.2%**		9.3%
Corn meal		**(4.5)%**		0.0%
Other oil		**35.9%**		30.2%
Overall		**19.9%**		18.5%

Fluctuations in Quantities Sold and Average Selling Prices of Corn Oil Products

The following table sets forth the fluctuations in the quantities sold and the average selling prices of the Group's corn oil products:

	Year ended 31 December 2012	Year ended 31 December 2011
Quantities sold (tonnes)		
Corn oil under our brand	**118,734**	80,724
Non-branded corn oil	**82,048**	72,156
Average selling price (RMB/tonne)		
Corn oil under our brand	**13,301**	13,129
Non-branded corn oil	**8,916**	9,490
Percentage of increase/(decrease) of average selling price		
Corn oil under our brand	**1.3%**	17.0%
Non-branded corn oil	**(6.1)%**	27.5%
Average unit cost of sales (RMB/tonne)		
Corn oil under our brand	**9,399**	9,458
Non-branded corn oil	**8,273**	8,605
Percentage of (decrease)/increase of average unit cost of sales		
Corn oil under our brand	**(0.6)%**	23.6%
Non-branded corn oil	**(3.9)%**	30.1%

Increase in revenue

The increase in revenue of the Group from approximately RMB2,057.6 million for the year ended 31 December 2011 to approximately RMB2,704.2 million for the year ended 31 December 2012 by approximately RMB646.6 million or 31.4% was mainly the combined result of: (i) the increase in the sales of corn oil under our brand by approximately RMB519.5 million or 49.0%; (ii) the increase in the sales of non-branded corn oil by approximately RMB46.8 million or 6.8%; (iii) the increase in the sales of corn meal by approximately RMB54.9 million or 22.6%; and (iv) the increase in the sales of other oil by approximately RMB25.4 million or 36.1%.

The sales volume and the average selling price of corn oil under our brand increased from 80,724 tonnes and RMB13,129 per tonne for the year ended 31 December 2011 to 118,734 tonnes and RMB13,301 per tonne for the year ended 31 December 2012, representing an increase of approximately 47.1% and 1.3% respectively. The increase in sales volume of corn oil under our brand was mainly because of the increase in market demand as a result of effective advertising campaign and brand marketing extended to the county, township and community level.

The sales volume of non-branded corn oil in bulk for the year ended 31 December 2012 increased by approximately 9,892 tonnes or 13.7% as compared with the year 2011, which mainly resulted from an increase in market needs brought upon by the rapid expansion of corn oil market. The average selling price of non-branded corn oil decreased by approximately 6.1% as compared with the year 2011, which was in line with the decrease in price of soybean oil for 2012 as compared with 2011. The increase in sales volume offset by the decline in the average selling price resulted in the overall revenue of non-branded corn oil increased 6.8%.

Due to the increase in market demand for its branded and non-branded corn oil, the Group has increased the production of its corn oil products. In the fourth quarter of 2011, the construction of the Group's squeezing production plants in Inner Mongolia and Liaoning was completed, which added additional squeezing capacity of crude corn oil to the Group. Together with its sufficient refinement capacity, the Group increased the sales volume of both of its branded and non-branded corn oil for the year ended 31 December 2012 as described above.

The sales of corn meal for the year ended 31 December 2012 increased by approximately RMB54.9 million or 22.6%, which was mainly due to (i) the increase in the sales volume of corn meal by approximately 7.6%, as a result of the Group's increased squeezing production capacity (given that corn meal is a by-product of the squeezing process); and (ii) the increase in the average selling price of corn meal by approximately 14.0%, which resulted from inflation as well as the increased demand for animal feeds.

The sales of other oil for the year ended 31 December 2012 mainly comprised sunflower seed oil and olive oil. The increase in sales of other oil of approximately RMB25.4 million or 36.1% was mainly due to the efforts on expanding the sales channels of other oil and the increase in proportion of high-end oil products among other oil, leading to a higher average selling price as compared with 2011.

Increase/(decrease) in gross profit and gross profit margin

The gross profit for the year ended 31 December 2012 was approximately RMB537.1 million (2011: RMB381.4 million) with gross profit margin of approximately 19.9% (2011: 18.5%), of which gross profit/(loss) margins for the sales of (1) corn oil under our brand; (2) non-branded corn oil in bulk; (3) corn meal; and (4) other oil were approximately 29.3%, 7.2%, (4.5)% and 35.9% (2011: 28.0%, 9.3%, 0.0% and 30.2%) respectively.

The Group's gross profit margin of corn oil under its brand increased slightly from approximately 28.0% for the year ended 31 December 2011 to approximately 29.3% for the year ended 31 December 2012 as a result of the slight increase in the average selling price of its branded corn oil products.

Gross profit margin for non-branded corn oil decreased from approximately 9.3% for the year ended 31 December 2011 to approximately 7.2% for the year ended 31 December 2012, which was mainly because the average selling price of non-branded corn oil in bulk decreased by approximately 6.1%.

Gross profit margin of other oil increased from approximately 30.2% for the year ended 31 December 2011 to approximately 35.9% for the year ended 31 December 2012, which was mainly due to the increase in the average selling price driven by expansion in sales channels and the increase in proportion of high-end healthy oil products among other oil.

Cost of Sales

The cost of sales mainly includes costs of raw materials, director labour and manufacturing overhead. Direct labour costs include wages and other compensation paid to production workers. Manufacturing overhead includes depreciation, freight costs, electricity, steam power, indirect labour and packaging expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 92.3% of the total cost of sales for the year ended 31 December 2012 (2011: 91.4%).

Other Income

Other income of approximately RMB54.2 million (2011: RMB46.4 million) mainly comprised sales of scrap materials of approximately RMB36.7 million (2011: RMB32.6 million) and bank interest income of approximately RMB10.0 million (2011: RMB7.6 million). The increase in sales of scrap materials was mainly due to an increase in the Group's production volume in 2012. The increase in bank interest income was mainly due to an increase in bank deposits.

Selling and Distribution Expenses

Selling and distribution expenses increased significantly from approximately RMB155.6 million for the year ended 31 December 2011 to approximately RMB216.3 million for the year ended 31 December 2012. Selling and distribution expenses mainly comprised carriage and transportation charges of approximately RMB29.2 million (2011: RMB22.8 million), advertising and marketing expenses of approximately RMB80.0 million (2011: RMB48.5 million), expenses of representative offices of approximately RMB42.0 million (2011: RMB30.5 million) and sales staff costs of approximately RMB48.5 million (2011: RMB35.6 million).

The significant increase in advertising and marketing expenses of approximately RMB31.5 million was mainly due to the need and effort to expand sales channel, marketing and promotion of the Group's branded oil, especially in the newly developed regions.

The significant increase in expenses of representative offices of approximately RMB11.5 million was mainly because the Group has (i) set up 7 new representative offices and 14 liaison offices during the year ended 31 December 2012; and (ii) expanded its marketing and distribution network to more cities in the PRC by increasing the number of wholesale distributors to 662 (2011: 468) for the year ended 31 December 2012.

The increase in sales staff costs of approximately RMB12.9 million was mainly due to the increase in sales staff as well as the increase in their average wage level.

The management of the Group is confident that the investments made by the Group on the brand advertising campaigns and the expansion of distribution network for the year ended 31 December 2012 would result in better sales performance in the future.

Administrative Expenses

Administrative expenses of approximately RMB55.6 million (2011: RMB58.1 million) mainly consisted of: (i) share-based payment expenses for share options granted to staff by the Company in May 2010 of approximately RMB3.6 million (2011: RMB16.1 million); (ii) administrative staff costs of approximately RMB13.1 million (2011: RMB10 million); (iii) depreciation and amortization expenses of approximately RMB11.9 million (2011: RMB6.0 million); (iv) other taxes of approximately RMB11.2 million (2011: RMB5.3 million); and (v) legal and professional fees of approximately RMB3.4 million (2011: RMB4.5 million).

The total share based payment expense of the share options granted by the Company in May 2010 was estimated to be approximately RMB39.1 million, of which the last portion of approximately RMB3.6 million was recognised during the year ended 31 December 2012.

The increase in administrative staff costs was mainly due to the increase in wages which went up with inflation.

The increase in other taxes (including stamp duty, urban maintenance and construction tax and education supplementary tax etc.) expense mainly resulted from the increase in sales volume of the Group's products and the increase in the Group's value-added tax.

Profit before Taxation and Profit Attributable to Shareholders

The Group recorded profit before income tax of approximately RMB291.8 million for the year ended 31 December 2012 (2011: RMB212.3 million), representing an increase of approximately 37.4% as compared with the year ended 31 December 2011. The Group's profit attributable to owners of the Company increased by approximately 15.6% from approximately RMB176.8 million for the year ended 31 December 2011 to approximately RMB204.3 million for the year ended 31 December 2012.

The net profit margin of the Group for the year ended 31 December 2012 was approximately 7.6% (31 December 2011: 8.6%). The basic earnings per share attributable to owners of the Company amounted to approximately RMB38.81 cents for the year ended 31 December 2012, as compared with approximately RMB33.60 cents for the year ended 31 December 2011.

The drop in net profit margin was mainly because (i) the Company did not enjoy any preferential tax policy in 2012, and 2011 was its last year to enjoy the "full exemption for three years followed by 50% reduction for two years" preferential tax policy when it was subject to a reduced income tax rate of 12.5%. At the end of 2012, 山東三星玉米產業科技有限公司 (Shandong Sanxing Corn Industry Technology Company Limited), an indirectly wholly-owned subsidiary of the Company, was qualified as a "new and high-tech enterprise", and will enjoy a preferential tax rate of 15% for three years. Such policy may be reviewed and renewed upon expiry; and (ii) the Group experienced a fire accident (the "Fire Accident") in November 2012 (as disclosed in the Company's announcement dated 11 November 2012), and incurred losses from the Fire Accident ("Loss") of approximately RMB26.2 million. The Group is currently in negotiations with its insurance company to conclude the compensation amount. The Directors expect the substantial amount of the Loss will be covered by the insurance and will be settled within 2013. Notwithstanding the Loss incurred in 2012, the Directors consider there is no material adverse impact on the Group's overall financial position.

Acquisition of Property, Plant and Equipment and Land Use Rights

During the year ended 31 December 2012, deposits paid for the Group's acquisition of production machinery and equipment amounted to approximately RMB73.9 million (2011: RMB3.3 million), among which deposits paid for acquisition of equipment for the refinery plant in Shandong amounted to approximately RMB54.0 million for the purpose of upgrading and improving the efficiency of the Group's refining process.

Trade and Notes Receivables

As at 31 December 2012, trade and notes receivables was approximately RMB150.1 million (2011: RMB185.4 million) comprising trade receivables of approximately RMB150.1 million (2011: RMB177.6 million) and notes receivables of nil (2011: RMB7.8 million). The decrease in trade receivables was mainly because the Group increased the recovery of trade receivables during the year. There were no notes receivables as at 31 December 2012.

Prepayments, Deposits and Other Receivables

As at 31 December 2012, prepayments, deposits and other receivables amounted to approximately RMB82.0 million (2011: RMB98.0 million), which mainly comprised (i) deposits paid for purchase of raw materials of approximately RMB52.1 million (2011: RMB39.6 million); (ii) prepayment paid for advertising expenses of approximately RMB8.7 million (2011: RMB35.1 million); and (iii) other receivables of approximately RMB20.2 million (2011: RMB19.6 million). The increase in the deposits paid for purchase of raw materials was mainly due to an increase in purchase of raw materials in order to satisfy the boost in production need before the 2013 Chinese New Year, which was a peak season for sales of the Group's corn oil products.

FUTURE PLANS

As a leading edible corn oil manufacturer in the PRC, following the Change of Company Name becoming effective, the Group has shifted its corporate strategic focus from production and processing to its own-brand operation, and will progressively carry out its diversification business strategy in the development of high-end health products in the near future so as to maximize shareholders' benefits. The Group is optimistic over the future performance of the segment of corn oil under its own brand and will continue to strive to improve the proportion of its own-brand sales.

In addition, after completion of the construction of a new packaging production plant (the "Packaging Plant") (as disclosed in the announcement issued by the Company dated 27 March 2013), the Packaging Plant will house the existing packaging production lines with a total annual packaging capacity of 150,000 tonnes of edible oil as well as an additional packaging production line with an annual packaging capacity of 100,000 tonnes of edible oil in anticipation of the growing demand for the Group's edible oil products. Meanwhile, the Group also proposed to construct a new squeezing production line with an annual squeezing production capacity of 150,000 tonnes of crude corn oil in Shandong to meet the Group's future squeezing production needs.

All in all, the Group will continue to enhance brand image and recognition of 長壽花 (Longevity Flower), expand the marketing and distribution network, and strengthen its capability of independent innovation in product development to improve its sustainable development and to expand its market share. The Group aims to achieve full product coverage of the county network and the township and community network in the PRC by 2014. Overall, the Directors look forward to a more prosperous future of the Group's business.

CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2012 is HK$52,625,000 divided into 526,250,000 shares of HK$0.1 each.

The Group adopts a prudent financial policy. It had no borrowings during the year and its gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) as at 31 December 2012 was zero (31 December 2011: 0%). The current ratio (calculated as current assets divided by current liabilities) as at 31 December 2012 was 5.2 times (31 December 2011: 4.4 times). The Group continues to adopt stringent debt collection policy so as to minimise the risks of sales on credit and to ensure that funds are timely collected.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds (after deduction of the underwriting commission and the relevant expenses) received by the Company from the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 December 2009 amounted to approximately HK$684.5 million (or approximately RMB593.6 million). As at 31 December 2012, all the net proceeds so raised were used.

Details of the used proceeds of approximately RMB593.6 million are as follows:

1. approximately RMB92.0 million was used to market and promote our brands and products through media, roadshows and other marketing and promotional activities;

2. approximately RMB165.4 million was used to expand and enhance the marketing and distribution networks to more cities in the PRC;

3. approximately RMB275.5 million was used for capital expenditures to establish new production facilities and purchase new production equipment;

4. approximately RMB18.3 million was used for new product technology development; and

5. approximately RMB42.5 million was used to replenish the working capital of the Company.

As at 31 December 2012, the Group has fully utilised all the net proceeds in the same manner and proportion as set out in the prospectus of the Company dated 8 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2012, the Group had no unsecured interest-bearing bank borrowings (31 December 2011: Nil). The Group's cash and bank balances amounted to approximately RMB501.2 million (31 December 2011: RMB400.4 million).

MATERIAL ACQUISITION AND DISPOSALS

The Group did not have any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2012.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Most transactions of the Group are settled in Renminbi ("RMB") since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating in an RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is RMB. The Group has exported edible oil and refined oil products to the Middle East, Southeast Asia and Africa and the transactions were settled in either United States Dollars or Euro. The Group's cash and bank deposits are predominantly in RMB. The Company will pay dividends in Hong Kong Dollars if dividends are declared. The Directors are of the view that RMB is relatively stable against the other currencies and the Group will closely monitor the fluctuations in exchange rates, and that hedging by means of derivative instruments is therefore not necessary.

RMB is currently not a freely convertible currency. A portion of the Group's RMB revenue or profit may be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

PLEDGE OF GROUP ASSETS

As at 31 December 2012, the Group had not pledged any of its assets.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

The Group has capital commitment of approximately RMB47.5 million (31 December 2011: RMB1.8 million) as at 31 December 2012, which mainly represented commitments made for the construction of the Packaging Plant and the purchase of the parts used for the upgrade of the Group's refinery and squeezing production lines. The Group had operating lease commitments of approximately RMB3.4 million in respect of leasing of properties as at 31 December 2012 (31 December 2011: RMB4.2 million).

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 31 December 2012, the Group had a total of 3,078 employees (31 December 2011: 2,208). The employees of the Group were remunerated based on their experience, qualifications, the Group's performance and the prevailing market conditions. During the year, staff costs (including Directors' remunerations) amounted to approximately RMB81.6 million (31 December 2011: RMB75.5 million).

Moreover, the share option scheme (the "Scheme") was adopted on 23 November 2009 to retain staff members who have made contributions to the success of the Group. On 14 May 2010, options in an aggregate of 25,000,000 shares were granted to 6 executive Directors and 26 employees of the Group. During the year, no share options were granted to any Directors or employees of the Group under the Scheme.

As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save for the share options granted to the Directors under the Scheme, at no time during the year ended 31 December 2012 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Company as at 31 December 2012.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

FINAL DIVIDEND

The Board resolved to recommend to the shareholders of the Company at the 2013 AGM to be held on Wednesday, 15 May 2013 a final dividend of HK cents 10 (2011: HK cents 7) per share for the year ended 31 December 2012 to be paid on Friday, 7 June 2013 to those shareholders whose names appear on the register of members of the Company on Thursday, 23 May 2013.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 ("CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which came into effect on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") on 1 April 2012.

During the year ended 31 December 2012, the Company was in compliance with the code provisions set out in the Former CG Code and the New CG Code except for the deviations as explained below:

Code provision A.2.1 of the Former CG Code and the New CG Code requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang Mingxing, the Chairman of the Company, was also acting as the chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Code provision A.6.7 of the New CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Wang Aiguo, Mr. Liu Shusong and Mr. Wang Ruiyuan, being independent non-executive Directors, did not attend the 2012 annual general meeting of the Company ("2012 AGM") held on 16 May 2012 and the extraordinary general meeting ("EGM") held on 25 May 2012 due to their engagement in their own official business.

Code provision E.1.2 of the New CG Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee to attend. None of the members of each of the audit committee ("Audit Committee") and corporate governance committee of the Company ("CG Committee") attended the 2012 AGM due to their engagement in their own official business.

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all code provisions set out in the CG Code during the year ended 31 December 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard set out in the Model Code throughout the year.

Corporate Governance Report

Board of Directors

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The management was delegated the authority and responsibility by the Board for the daily management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

The Board currently consists of nine Directors including six executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Wang Mingxing *(Chairman and Chief Executive Officer)*
Mr. Wang Mingfeng
Mr. Wang Mingliang
Mr. Wang Fuchang
Mr. Sun Guohui
Mr. Huang Da

Independent non-executive Directors

Mr. Wang Aiguo
Mr. Liu Shusong
Mr. Wang Ruiyuan

Mr. Wang Mingxing is the younger brother of Mr. Wang Mingfeng and the elder brother of Mr. Wang Mingliang, and three of them together with Mr. Sun Guohui are shareholders of Shandong Sanxing Group Company Limited ("Shandong Sanxing") which holds 33.6% interest in Zouping Sanxing Grease Industry Company Limited, the controlling shareholder of the Company.

Save as aforesaid, the Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 35 to 41 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal control procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Board Meetings

The Board has four scheduled meetings a year at approximately quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board for the year, the Board reviewed the operation and financial performance of the Group, and also reviewed and approved the annual and interim results of the Company.

During the year ended 31 December 2012, the Board held 4 meetings. All Directors were given an opportunity to include any matters in the agenda for regular Board meetings, and were also given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
Mr. Wang Mingxing	4/4
Mr. Wang Mingfeng	4/4
Mr. Wang Mingliang	4/4
Mr. Wang Fuchang	4/4
Mr. Sun Guohui	4/4
Mr. Huang Da	4/4
Mr. Wang Aiguo	4/4
Mr. Liu Shusong	4/4
Mr. Wang Ruiyuan	4/4

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials, and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

General Meetings

During the year ended 31 December 2012, the 2012 AGM and the EGM were held on 16 May 2012 and 25 May 2012 respectively.

Name of Director	Number of attendance
Mr. Wang Mingxing	1/2
Mr. Wang Mingfeng	0/2
Mr. Wang Mingliang	0/2
Mr. Wang Fuchang	0/2
Mr. Sun Guohui	0/2
Mr. Huang Da	2/2
Mr. Wang Aiguo	0/2
Mr. Liu Shusong	0/2
Mr. Wang Ruiyuan	0/2

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. Mr. Wang Mingxing, being the Chairman of the Board, the chairman of the nomination committee of the Company ("Nomination Committee") and a member of the remuneration committee of the Company ("Remuneration Committee") attended the 2012 AGM to answer questions and collect views of shareholders.

Directors' Training

According to the code provision A.6.5 of the New CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have participated in continuous professional development by way of receiving in-house briefing, taking part in business-related training/activities and attending seminars relating to their role as a director of the Company. Each of the Directors has provided a record of training they received for the year ended 31 December 2012 to the Company.

The following table sets forth the summary of particular training that each Director received for the year ended 31 December 2012:

Name of Director	Amendments to the Listing Rules relating to corporate governance matters	Training relevant to the Group's business	Disclosure of price sensitive information and connected transactions
Mr. Wang Mingxing	✓	✓	✓
Mr. Wang Mingfeng	✓	✓	✓
Mr. Wang Mingliang	✓	✓	✓
Mr. Wang Fuchang	✓	✓	✓
Mr. Sun Guohui	✓	✓	✓
Mr. Huang Da	✓	✓	✓
Mr. Wang Aiguo	✓	✓	✓
Mr. Liu Shusong	✓	✓	✓
Mr. Wang Ruiyuan	✓	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wang Mingxing, the Chairman of the Company, was also appointed as the chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three independent non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, laws or oil industry. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them is independent under Rule 3.13 of the Listing Rules.

All independent non-executive Directors have been reappointed for a term of three years commencing from 18 December 2012 and are subject to retirement by rotation in accordance with the Articles of Association of the Company (the "Articles").

NOMINATION COMMITTEE

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the oil industry and/or other professional area.

The Company established the Nomination Committee on 23 November 2009 with written terms of reference, which was revised on 21 December 2011 to comply with the code provisions under the New CG Code. The revised terms of reference of the Nomination Committee is currently made available on the Stock Exchange's website and the Company's website.

The Nomination Committee consists of one executive Director, namely Mr. Wang Mingxing (as chairman) and three independent non-executive Directors, namely Mr. Wang Aiguo, Mr. Liu Shusong and Mr. Wang Ruiyuan.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Group's strategy; to identifying qualified individuals to become members of the Board; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive officer.

During the year ended 31 December 2012, the Nomination Committee held 1 meeting to assess the independence of the independent non-executive Directors and to consider the re-election of Directors.

Name of Director	Number of attendance
Mr. Wang Mingxing *(chairman)*	1/1
Mr. Wang Aiguo	1/1
Mr. Liu Shusong	1/1
Mr. Wang Ruiyuan	1/1

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 23 November 2009 with written terms of reference, which was revised on 21 December 2011 to comply with the code provisions under the New CG Code. The revised terms of reference of the Nomination Committee is currently made available on the Stock Exchange's website and the Company's website.

The Remuneration Committee consists of one executive Director, namely Mr. Wang Mingxing, and three independent non-executive Directors, namely Mr. Wang Aiguo (as chairman), Mr. Liu Shusong and Mr. Wang Ruiyuan.

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The model of remuneration committee described in code provision B.1.2(c)(ii) of the CG Code has been adopted by the Remuneration Committee.

During the year ended 31 December 2012, the Remuneration Committee held two respective meetings for reviewing the remuneration policy and structure for the Directors and senior management, and for assessing the performance of executive Directors and approving the terms of executive Directors' service contracts.

Name of Director	Number of attendance
Mr. Wang Aiguo *(chairman)*	2/2
Mr. Wang Mingxing	2/2
Mr. Liu Shusong	2/2
Mr. Wang Ruiyuan	2/2

The Company has adopted a share option scheme on 23 November 2009. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants to motivate them and to optimise their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in the Report of the Directors.

The emolument payable to the Directors and senior management will depend on their respective contractual terms under employment contracts or service contracts, if any, and will be fixed by the Board with recommendation of the Remuneration Committee, the performance of the Group and the prevailing marketing conditions. Details of the remuneration of the Directors and senior management for the year ended 31 December 2012 are set out in notes 15(a) and 31(b), respectively, to the financial statements.

Senior Management's Remuneration

Senior management's remuneration payment of the Group for the year ended 31 December 2012 falls within the following bands:

	Number of individuals
Nil to RMB100,000	—
RMB100,001 to RMB200,000	1
RMB200,001 to RMB300,000	—
RMB300,001 to RMB400,000	1

AUDIT COMMITTEE

The Company established the Audit Committee on 23 November 2009 with written terms of reference, which was revised on 21 December 2011 to comply with the code provisions under the New CG Code. The revised terms of reference of the Audit Committee is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Aiguo (as chairman), Mr. Liu Shusong and Mr. Wang Ruiyuan.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system (including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget) and the internal control procedures.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2012, the Audit Committee held 2 meetings.

Name of Director	Number of attendance
Mr. Wang Aiguo *(chairman)*	2/2
Mr. Liu Shusong	2/2
Mr. Wang Ruiyuan	2/2

During the year ended 31 December 2012, the Audit Committee reviewed the annual and interim results of the Group, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules.

The Audit Committee noted the existing internal control system of the Group and also noted that review of the same shall be carried out annually.

CORPORATE GOVERNANCE COMMITTEE

The Company established the CG Committee on 27 March 2012 with written terms of reference, which is aligned with the code provisions set out in the New CG Code. The CG Committee comprises three executive Directors, namely Mr. Wang Mingliang (as chairman), Mr. Wang Fuchang and Mr. Sun Guohui.

The functions of the CG Committee are to develop and review the Company's policies and practices on corporate governance to comply with the New CG Code and other legal or regulatory requirements and make recommendations to the Board; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

During the year ended 31 December 2012, the CG Committee held 1 meeting to review the Company's policies and practices on corporate governance; to review the training and continuous professional development of Directors and senior management; and to review the Company's compliance with the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the remuneration paid/payable to the Company's auditor, BDO Limited ("BDO"), is as follows:

	Fee paid/payable *HK$'000*
Services rendered	
Audit services *(Note 1)*	1,400
Non-audit services *(Note 2)*	350
	1,750

Notes: 1. Services were rendered by BDO in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2012.

2. Services were rendered by BDO in respect of the review of the interim financial information of the Group for the six months ended 30 June 2012 and the report on the continuing connected transactions of the Group for the year ended 31 December 2012.

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("Uni-1"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment and to suit different commercial needs.

Ms. Chan Yuen Ying, Stella ("Ms. Chan"), the representative of Uni-1, was appointed as the named Company Secretary of the Company.

Mr. Wang Baogang, the Director of Investor Relations of the Company, is the primary corporate contact person at the Company for the Company Secretary.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Chan had taken no less than 15 hours of relevant professional training for the year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders to convene an extraordinary general meeting

Shareholders may convene an extraordinary general meeting of the Company according to the provisions as set out in the Articles and the Companies Law (2011 Revision) of the Cayman Islands. The procedures shareholders can use to convene an extraordinary general meeting are set out in the document entitled "Procedures for a Shareholder to Propose a Person for Election as a Director", which is currently available on the Company's website.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meetings

Shareholders should follow the procedures set out in the sub-section headed "Shareholders to convene an extraordinary general meeting" above for putting forward proposals for discussion at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of 2013 AGM will be voted by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders.

Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;

- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Mr. Wang Mingxing, being the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee attended the 2012 AGM to answer questions and collect views of shareholders.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2012, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

INTERNAL CONTROL

Management had implemented a system of internal control to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the year ended 31 December 2012, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

Report of the Directors

The Directors of the Company are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 44 to 95.

The Board resolved to recommend to the shareholders of the Company at the 2013 AGM to be held on Wednesday, 15 May 2013 a final dividend of HK cents 10 (2011: HK cents 7) per share for the year ended 31 December 2012 to be paid on Friday, 7 June 2013 to those shareholders whose names appear on the register of members of the Company on Thursday, 23 May 2013.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Monday, 13 May 2013 to Wednesday, 15 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 May 2013.

For determining the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed on Thursday, 23 May 2013, and no transfer of shares will be registered on that day. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Wednesday, 22 May 2013.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2012 are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB546,659,000 (2011: RMB560,257,000).

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Wang Mingxing
Mr. Wang Mingfeng
Mr. Wang Mingliang
Mr. Wang Fuchang
Mr. Sun Guohui
Mr. Huang Da

Independent Non-executive Directors

Mr. Wang Aiguo
Mr. Liu Shusong
Mr. Wang Ruiyuan

In accordance with Article 84(1) of the Articles, Mr. Wang Mingliang, Mr. Sun Guohui, Mr. Huang Da and Mr. Wang Ruiyuan shall retire by rotation at the 2013 AGM and, being eligible, offer themselves for re-election.

Mr. Wang Fuchang shall retire from office as an executive Director upon conclusion of the 2013 AGM, and he will not offer himself for re-election.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") which was approved by a resolution of the then sole shareholder of the Company passed on 23 November 2009 and adopted by a resolution of the Board on 23 November 2009. The purpose of the Scheme is to provide incentives to Participants (as defined in the prospectus of the Company dated 8 December 2009 (the "Prospectus")) to contribute to the Group by providing the Participants the opportunity to acquire the proprietary interest in the Company and to encourage the Participants to work towards enhancing the value of the Company as well as to enable the Group to recruit high-calibre employees and/or attract human resources that are valuable to the Group.

The principal terms of the Scheme are summarised as follows:

(1) The limit on the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme(s) of any member of the Group must not exceed 10% of the nominal amount of all the issued share capital of the Company as at the date of commencement of the listing of the shares on the Stock Exchange, i.e. 18 December 2009 (the "Listing Date") (which is 50,000,000 shares) unless Shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares in issue from time to time.

(2) The total number of shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted to any Participant in any 12-month period shall not exceed 1% of the issued shares as of the proposed grant date.

(3) The subscription price for the shares under the options to be granted under the Scheme will be a price determined by the Board at the time of grant of the options, and will be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant (subject to acceptance) of the options, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

(4) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each Participant who accepts the grant of any options, which must not be more than 10 years from the date of the grant (subject to acceptance) of the option.

(5) HK$1.00 is payable by the participant who accepts the grant of an option in accordance with the terms of the Scheme on acceptance of the grant of an option.

(6) The Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, i.e. 18 December 2009.

Other details of the Scheme are set out in the Prospectus.

Details of movements in the Company's share options during the year ended 31 December 2012 are set out below:

Grantee	Date of grant of share options	Vesting period	Exercise period	Exercise price of share options (HK$)	Balance at 1 January 2012	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2012
Directors								
Mr. Wang Mingxing	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	400,000	–	–	400,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	400,000	–	–	400,000
Mr. Wang Mingfeng	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	400,000	–	–	400,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	400,000	–	–	400,000
Mr. Wang Mingliang	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	400,000	–	–	400,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	400,000	–	–	400,000
Mr. Wang Fuchang	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	400,000	–	–	400,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	400,000	–	–	400,000
Mr. Sun Guohui	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	400,000	–	–	400,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	400,000	–	–	400,000
Mr. Huang Da	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	400,000	–	–	400,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	400,000	–	–	400,000
Employees								
In aggregate	14 May 2010	14 May 2010 to 13 May 2011	14 May 2011 to 13 May 2015	5.4	10,100,000	–	–	10,100,000
		14 May 2011 to 13 May 2012	14 May 2012 to 13 May 2015	5.4	10,100,000	–	–	10,100,000
Total					25,000,000	–	–	25,000,000

Notes:

(1) The options will lapse in 1 month after the resignation of the grantee.

(2) The closing price of the shares of the Company on 13 May 2010, i.e. the date immediately preceding the date of grant of the share options on 14 May 2010, was HK$5.41.

(3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issue, or other similar changes in the Company's share capital.

As at 31 December 2012, the number of shares in respect of which options had been granted and remaining outstanding under the Scheme was 25,000,000 shares, representing 4.75% of the shares of the Company in issue at that date. No options were granted during the year ended 31 December 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service agreement ("2009 Service Agreement") with the Company on 23 November 2009 for an initial fixed term of three years commencing from Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the recommendations of the Remuneration Committee. Upon the expiration of the said initial fixed term on 17 December 2012, each of them entered into a renewed service agreement with the Company on 18 December 2012 for a further term of three years commencing from 18 December 2012 with similar terms to the 2009 Service Agreement.

Each of the independent non-executive Directors has signed a letter of appointment ("2009 Letter of Appointment") issued by the Company on 23 November 2009 for an initial fixed term of three years commencing from the Listing Date unless terminated by not less than three months' prior notice in writing served by either party on the other. Upon the expiration of the said initial fixed term on 17 December 2012, each of them signed a letter of appointment issued by the Company on 18 December 2012 for a further term of three years commencing from 18 December 2012 with similar terms to the 2009 Letter of Appointment.

None of the Directors proposed for re-election at the 2013 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as those disclosed in the section headed "Connected Transactions", none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2012, the interest or short positions of the directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

1. Interests in shares, underlying shares of the Company

Name of Director	Nature of Interest	Long Position/ Short Position	Number of ordinary shares/ underlying share	Approximate percentage of shareholding in the Company
Mr. Wang Mingxing	Interest of controlled corporations	Long position	269,037,249 *(Note 1)*	51.12%
	Beneficial owner	Long position	10,702,000 *(Note 3)*	2.03%
Mr. Wang Mingfeng	Interest of controlled corporations	Long position	269,037,249 *(Note 1)*	51.12%
	Beneficial owner	Long position	800,000 *(Note 2)*	0.15%
Mr. Wang Mingliang	Interest of controlled corporations	Long position	269,037,249 *(Note 1)*	51.12%
	Beneficial owner	Long position	800,000 *(Note 2)*	0.15%
Mr. Wang Fuchang	Beneficial owner	Long position	800,000 *(Note 2)*	0.15%
Mr. Sun Guohui	Beneficial owner	Long position	800,000 *(Note 2)*	0.15%
Mr. Huang Da	Beneficial owner	Long position	1,800,000 *(Note 3)*	0.34%

Notes:

1. Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to be interested in 268,883,630 and 153,619 shares held by SanXing Trade Co., Ltd. ("Sanxing Trade") and China Corn Oil S.A. ("Corn Oil Luxembourg"), whereby Corn Oil Luxembourg is owned as to approximately 82.7% by Sanxing Trade, which in turn is wholly-owned by Zouping Sanxing Grease Industry Company Limited ("Sanxing Grease"), which in turn is owned as to 33.4% by Mr. Wang Mingxing, 16.5% by Mr. Wang Mingfeng, 16.5% by Ms. Huo Chunling ("Ms. Huo") (the spouse of Mr. Wang Mingliang) and 33.6% by Shandong Sanxing, which in turn is owned as to 20.0% by Mr. Wang Mingxing, 20.4% by Mr. Wang Mingfeng, 20.0% by Mr. Wang Mingliang.

2. These interests are derived from the interest in the share options granted by the Company. The relevant details are set out in the section headed "Share Option Scheme".

3. The interest in 800,000 share options granted by the Company is included. The relevant details are set out in the section headed "Share Option Scheme".

2. Interests in associated corporations

Name of Director	Name of associated corporation	Nature of interest	Long position/ Short position	Approximate percentage of shareholding in the associated corporation
Mr. Wang Mingxing	Sanxing Grease	Beneficial owner	Long position	33.4%
	Sanxing Trade	Interest of controlled corporations	Long position	33.4%
	Corn Oil Luxembourg *(Note 1)*	Interest of controlled corporations	Long position	33.4%
Mr. Wang Mingfeng	Sanxing Grease	Beneficial owner	Long position	16.5%
	Sanxing Trade	Interest of controlled corporations	Long position	16.5%
	Corn Oil Luxembourg *(Note 1)*	Interest of controlled corporations	Long position	16.5%
Mr. Wang Mingliang	Sanxing Grease *(Note 2)*	Interest of spouse	Long position	16.5%
	Sanxing Trade	Interest of controlled corporations	Long position	16.5%
	Corn Oil Luxembourg *(Note 1)*	Interest of controlled corporations	Long position	16.5%

Notes:

1. Pursuant to the resolution passed by the shareholders of Corn Oil Luxembourg at an extraordinary general meeting held on 22 December 2009, Corn Oil Luxembourg was put into liquidation on 22 December 2009 and the liquidation is still under process.

2. Ms. Huo owns 16.5% equity interest in Sanxing Grease, which holds 100% equity interest in Sanxing Trade, which in turn holds approximately 82.7% interest in Corn Oil Luxembourg. Ms. Huo is the spouse of Mr. Wang Mingliang, an executive Director of the Company. Mr. Wang Mingliang is therefore deemed to be interested in 16.5% equity interest in Sanxing Grease.

Save as disclosed above, none of the Directors or chief executive of the Company or their respective associates, had any interest in short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the interests or short positions of every person, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out as follows:

Name of Shareholder	Nature of Interest	Long Position/ Short Position	Number of ordinary shares/ underlying shares	Approximate percentage of shareholding in the Company
Sanxing Trade *(Note 1)*	Beneficial owner	Long position	268,883,630	51.09%
	Interest of controlled corporations	Long position	153,619	0.03%
Sanxing Grease *(Note 1)*	Interest of controlled corporations	Long position	269,037,249	51.12%
Shangdong Sanxing *(Note 1)*	Interest of controlled corporations	Long position	269,037,249	51.12%
Ms. Huo Chunling *(Note 2)*	Interest of spouse	Long position	269,837,249	51.28%
BNP Paribas Asset Management SAS *(Note 3)*	Investment manager	Long position	31,520,000	5.99%

Notes:

1. 153,619 shares were held by Corn Oil Luxembourg (where it is in the process of voluntary winding up, these 153,619 shares will be distributed by way of transfer to its then existing shareholders on a pro-rata basis), which is owned as to approximately 82.7% by Sanxing Trade; and 268,883,630 shares were held by Sanxing Trade, which is wholly owned by Sanxing Grease, which in turn is owned as to 33.6% by Shandong Sanxing, and therefore, Sanxing Grease and Shandong Sanxing are deemed to be interested in these 269,037,249 shares pursuant to the SFO.

2. Ms. Huo owns 16.5% equity interest in Sanxing Grease, which holds 100% equity interest in Sanxing Trade. Ms. Huo is the spouse of Mr. Wang Mingliang, an executive Director of the Company and is therefore deemed to be interested in these 269,837,249 shares pursuant to the SFO.

3. These 31,520,000 shares were held by Shinhan BNP Paribas Investment Trust Management Co., Ltd, which in turn is wholly-owned by BNP Paribas Asset Management SAS as investment manager.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard set out in the Model Code throughout the year.

CONNECTED TRANSACTIONS

The Group has entered into a number of transactions with entities which are connected persons (as defined in Chapter 14A of the Listing Rules) of the Company, and such transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. These relevant entities include:

(1) 山東三星集團有限公司 (Shandong Sanxing Group Company Limited) ("Shandong Sanxing"), a company owned as to 60.4% by Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Wang Mingfeng, 4.4% by Mr. Sun Guohui, all being executive Directors of the Company, which is therefore a connected person of the Company;

(2) 鄒平三星油脂工業有限公司 (Zouping Sanxing Grease Industry Company Limited) ("Sanxing Grease"), the sole shareholder of SanXing Trade Co., Ltd., the controlling shareholder of the Company holding approximately 51.12% of the issued share capital of the Company, which is therefore a connected person of the Company;

(3) 內蒙古三星糧油工業有限公司 (Inner Mongolia Sanxing Food & Oil Industry Company Limited) ("Sanxing Mongolia"), a company wholly-owned by Shandong Sanxing, which is therefore an associate of Shandong Sanxing and a connected person of the Company;

(4) 山東明達熱電有限公司 (Shandong Mingda Heat and Electricity Company Limited) ("Shandong Mingda"), a company wholly-owned by Shandong Sanxing, which is therefore an associate of Shandong Sanxing and a connected person of the Company; and

(5) 山東三星集團油品有限公司 (Shandong Sanxing Group Oil Products Company Limited) ("Sanxing Group Oil Products"), a company owned as to 40% by Shandong Sanxing. As Shandong Sanxing is entitled to control the exercise of more than 30% voting power in Sanxing Group Oil Products' general meeting, Sanxing Group Oil Products is an associate of Shandong Sanxing and a connected person of the Company.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transaction (as defined in the Listing Rules) constitutes an exempt continuing connected transaction for the Company under Rule 14A.33(3) of the Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Trademark Licence Agreements

Sanxing Grease and 山東三星玉米產業科技有限公司 (Shandong Sanxing Corn Industry Technology Company Limited) ("Corn Industry"), an indirectly wholly-owned subsidiary of the Company, entered into two trademark licence agreements ("Trademark Licence Agreements") dated 16 November 2009, pursuant to which Sanxing Grease agreed to grant a licence to Corn Industry to use the registered trademarks 長壽花 (Longevity Flower) and 金銀花 (Gold & Silver Flower) on an exclusive, sole and royalty-free basis for a term of 10 years commencing from 16 November 2009, which is automatically renewable on a 10-year term upon expiry of the then current term, unless Corn Industry terminates the agreements by written notice prior to the expiry of the term of the agreements. According to the Trademark Licence Agreements, Corn Industry has options to acquire the registered trademarks 長壽花 (Longevity Flower) and 金銀花 (Gold & Silver Flower) at any time during the term of the agreements for a nominal consideration of RMB10 for each registered trademark.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules:

1. Corn Industry and Shandong Mingda entered into a framework agreement ("Renewed Steam and Electricity Supply Agreement") dated 10 February 2012, pursuant to which Shandong Mingda agreed to supply steam and/or electricity to Corn Industry for a term up to 31 December 2014.

   The cap for the annual transaction amount for the procurement of steam and/or electricity under the Renewed Steam and Electricity Supply Agreement for the year ended 31 December 2012 is RMB39 million.

   The actual transaction amount for the procurement of steam and/or electricity pursuant to the Renewed Steam and Electricity Supply Agreement for the year ended 31 December 2012 amounted to approximately RMB32 million.

2. Corn Industry and Sanxing Mongolia entered into a framework agreement ("Renewed Master Processing Agreement") dated 10 February 2012, pursuant to which Sanxing Mongolia agreed to provide Corn Industry with processing services ("Squeezing Processing Services") through its squeezing production process by processing the corn embryo supplied by Corn Industry into crude oil and corn meal for a term up to 31 December 2014.

   The cap for the annual transaction amount for the procurement of Squeezing Processing Services under the Renewed Master Processing Agreement for the year ended 31 December 2012 is RMB6 million.

   The actual transaction amount for the procurement of Squeezing Processing Services pursuant to the Renewed Master Processing Agreement for the year ended 31 December 2012 amounted to approximately RMB4 million.

The independent non-executive Directors have reviewed the above non-exempt continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of the Group's business;

2. on normal commercial terms which are no less favourable to the Company than terms available to independent third parties; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions as set out above which took place during the year.

As far as the transactions set out in note 31(a) to the financial statements under heading of "Related Party Transactions" are concerned, the transactions as set out in note (i) Sales to shareholders and related companies were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The transaction set out in note (ii) Purchases from related companies (to the extent of approximately RMB90,000) was a continuing connected transaction which was exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules. The transactions set out in note (iii) Supply of steam and electric power from a related company; and (v) Subcontracting services rendered by a related company were continuing connected transactions which had been previously disclosed by way of announcement of the Company and approved by the independent shareholders of the Company, where applicable, under the Listing Rules.

As far as transactions set out in note 31(b) are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, approximately 12.5% of the Group's turnover and approximately 38.2% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively. Approximately 22.1% of the Group's purchases were attributable to the Group's largest supplier. To the best knowledge of the Directors, none of the Directors or chief executive of the Company or any shareholder owning more than 5% of the Company's share capital or their respective associates, had any interest in the Group's five largest suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2012 and up to the date of this report.

AUDIT COMMITTEE

The Company established the Audit Committee on 23 November 2009 with written terms of reference in compliance with the CG Code.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Aiguo (as chairman), Mr. Wang Ruiyuan and Mr. Liu Shusong. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2012.

During the year ended 31 December 2012, the Audit Committee reviewed the annual and interim results of the Group, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 13 to 22 of the 2012 Annual Report.

AUDITOR

Due to a merger of the businesses of Grant Thornton ("GTHK"), now known as JBPB & Co. and BDO Limited ("BDO HK") to practice in the name of BDO HK as announced by the Company on 23 November 2010, GTHK resigned and BDO HK was appointed as auditor of the Company effective from 22 November 2010. Save as aforesaid, there was no change in auditor during the past three years.

A resolution will be submitted to the 2013 AGM to re-appoint BDO HK as auditor of the Company.

On behalf of the Board
Changshouhua Food Company Limited

Wang Mingxing
Chairman

Hong Kong, 27 March 2013

EXECUTIVE DIRECTORS

Mr. Wang Mingxing ("Mr. Wang MX")

Mr. Wang MX, aged 49, is one of the co-founders of the Group. He was appointed as an executive Director of the Company on 9 September 2009. He is the Chairman of the Board and the chief executive officer of the Company. He is also the chairman of the nomination committee of the Company ("Nomination Committee") and a member of the remuneration committee of the Company ("Remuneration Committee"). Mr. Wang MX is the sole director of SanXing Trade Co., Ltd. ("Sanxing Trade") and an executive director of Zouping Sanxing Grease Industry Company Limited ("Sanxing Grease"), both of which are the controlling shareholders of the Company. He is also a director of each of Shandong Sanxing Corn Industry Technology Company Limited ("Corn Industry") and Corn Industry Investment Co., Ltd., both of which are the wholly-owned subsidiaries of the Company. He is responsible for the overall strategic planning and management of the Group. Mr. Wang MX has extensive experience in the corn products industry, and has been engaged in the edible corn oil products business for over ten years. Mr. Wang MX obtained a bachelor degree in Mechanical Engineering from Shandong University of Technology（山東工業大學）in 1985 and was qualified as a Chinese Career Manager in 2005 by Chinese Career Manager Coalition. He received a number of awards during the recent years. Among others, he was awarded as The Fifth National Rural Entrepreneur（第五屆全國鄉鎮企業家）by the Ministry of Agriculture of the PRC in 2004. In 2006, He was also awarded as The Fourth Entrepreneur of Edible Oil in Shandong（第四屆"山東省糧油企業家"）by The Grain and Food Association of Shandong Province（山東省糧食行業協會）. He was further elected by The China Food Safety Annual Conference（中國食品安全年會組委會）as the Outstanding Managing Entrepreneur of the China Food Safety Annual Conference in 2007（2007年度中國食品安全年會優秀管理企業家）and admitted as a member of China Association for Quality Inspection in 2007. Mr. Wang MX did not hold any directorship in other listed companies in the past three years.

Mr. Wang MX entered into a renewed service agreement with the Company on 18 December 2012 for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' notice in writing served by either party on the other. He is entitled to a director's remuneration of RMB500,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Wang MX and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Wang MX is interested or deemed to be interested in i) 9,902,000 shares of the Company held by himself; ii) 268,883,630 shares of the Company held by Sanxing Trade, which is wholly-owned by Sanxing Grease, which, in return, is owned as to 33.4% by Mr. Wang MX, 16.5% by Mr. Wang Mingfeng, 16.5% by Ms. Huo Chunling, the spouse of Mr. Wang Mingliang, and 33.6% by Shandong Sanxing Group Company Limited; iii) 153,619 shares of the Company held by China Corn Oil S.A. ("Corn Oil Luxembourg"), which is owned as to approximately 82.7% by Sanxing Trade; and iv) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO").

Mr. Wang MX is the younger brother of Mr. Wang Mingfeng and the elder brother of Mr. Wang Mingliang, both of whom are executive Directors of the Company. Save as disclosed above, he does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company as at the date of this report.

Mr. Wang Mingfeng ("Mr. Wang MF")

Mr. Wang MF, aged 54, is one of the co-founders of the Group. He was appointed as an executive Director of the Company on 23 November 2009. He is also a director of Corn Industry. He is responsible for monitoring the internal control system of the Group and leads an internal audit team of the Group. He has been engaged in the edible corn oil product business for over nine years. Mr. Wang MF obtained a bachelor degree in Business Administration from Hebei Radio & TV University（河北廣播電視大學）in 1983. He was awarded as Vice President of The Eighth Industrial and Commercial Joint Association in Zouping（鄒平縣第八屆工商業聯合會副會長）by Chinese Communist Zouping County Committee（中共鄒平縣委員會）in 2006. He was also awarded as The Outstanding Business Management Expert of Binzhou City（濱州市"優秀企業經營管理人才"）by Chinese Communist Binzhou City Committee（中共濱州市委）and the People's Government of Binzhou City（濱州市人民政府）in 2007. He became The First Vice President of Binzhou Municipal Association of Grain Sector（濱州市糧食行業協會第一屆理事會副會長）in June 2007. Mr. Wang MF did not hold any directorship in other listed companies in the past three years.

Mr. Wang MF entered into a renewed service agreement with the Company on 18 December 2012 for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' notice in writing served by either party on the other. He is entitled to a director's remuneration of RMB500,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Wang MF and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Wang MF is interested or deemed to be interested in i) 268,883,630 shares of the Company held by Sanxing Trade; ii) 153,619 shares of the Company held by Corn Oil Luxembourg; and iii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang MF, is the elder brother of Mr. Wang Mingxing and Mr. Wang Mingliang, both of whom are executive Directors of the Company. Save as disclosed above, he does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Wang Mingliang ("Mr. Wang ML")

Mr. Wang ML, aged 41, is one of the co-founders of the Group. He was appointed as an executive Director of the Company on 23 November 2009. He is also the chairman of the corporate governance committee of the Company ("CG Committee"). He is a director of Corn Industry. He is responsible for handling customer relationships. He has been engaged in the edible corn oil product business for over nine years. Mr. Wang ML obtained a bachelor degree in Mechanical Engineering from Harbin University of Science and Technology (哈爾濱科學技術大學) in 1994 and was qualified as an Internal Inspector of Quality System in 2001 by Beijing Oxford and Cambridge Senior Training Center (北京牛津 — 劍橋高級培訓中心). He further completed the Tsinghua University Chief Executives' Leadership and Commercial Strategy Class (清華大學領導商略總裁高級研修班) in 2006. He was awarded as The Top 10 Factory Manager of Zouping (鄒平縣"十佳廠長") by Chinese Communist Zouping County Committee (中共鄒平縣委員會) and the People's Government of Zouping County (鄒平縣人民政府) in 2004. Mr. Wang ML did not hold any directorship in other listed companies in the past three years.

Mr. Wang ML entered into a renewed service agreement with the Company on 18 December 2012 for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' notice in writing served by either party to the other. He is entitled to a director's remuneration of RMB500,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Wang ML and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Wang ML is interested or deemed to be interested in i) 268,883,630 shares of the Company held by Sanxing Trade; ii) 153,619 shares of the Company held by Corn Oil Luxembourg; and iii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang ML is the younger brother of Mr. Wang Mingfeng and Mr. Wang Mingxing, both of whom are executive Directors of the Company. Ms. Huo Chunling, one of the controlling shareholders of the Company, is the spouse of Mr. Wang ML. Save as disclosed above, he does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Wang Fuchang ("Mr. Wang FC")

Mr. Wang FC, aged 53, is the chief financial officer of the Group. He was appointed as an executive Director of the Company on 9 September 2009. He is also a member of the CG Committee. He is a director of Corn Industry. Mr. Wang FC joined the Group in 2005 as deputy general manager and is responsible for the finance management of the Group. He is experienced in banking system and finance management, and has 12 years' management experience in the food industry before joining Bank of China in 1993. Mr. Wang FC obtained a bachelor degree in Management Science from Shandong University（山東大學）in 1988. He completed an accounting course at Shandong Economic University（山東經濟學院）in 1997, a law course at Shandong University in 2003 and a course in relation to financial management at Peking University in 2006. Mr. Wang FC did not hold any directorship in other listed companies in the past three years.

Mr. Wang FC entered into a renewed service agreement with the Company on 18 December 2012 for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' notice in writing served by either party to the other. He is entitled to a director's remuneration of RMB300,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Wang FC and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Wang FC is interested in the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang FC does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Sun Guohui

Mr. Sun, aged 35, is the executive sales manager of the Company. He was appointed as an executive Director of the Company on 23 November 2009. He is also a member of the CG Committee. Mr. Sun worked at Zouping Vehicle Standard Parts Factory（鄒平汽車標準件廠）from 1996 to 2000 and joined the Hainan office of such factory in 1999. Mr. Sun joined the Group in 2000. He is responsible for the sales and marketing of the Group's products. Mr. Sun is familiar with the edible oil industry and is experienced in the sales and marketing affairs. Mr. Sun graduated from Shandong Province Binzhou Agriculture Secondary School（山東省濱州農業學校）in 1994. He further completed the Tsinghua University Chief Executives' Leadership and Commercial Strategy Class（清華大學領導商略總裁高級研修班）in 2006. In 2005 and 2006, Mr. Sun was awarded as an Outstanding Manager by Sanxing Group. He was awarded as Safe Manufacturing Advanced Individual（安全生產先進個人）by Chinese Communist Zouping County Committee（中共鄒平縣委員會）and the People's Government of Zouping County（鄒平縣人民政府）in 2006. He was also awarded as The Top 10 Outstanding Youth（十佳青年）by Chinese Communist Handian Town Committee of the People's Government of Handian Town（韓店鎮人民政府中共韓店鎮委員會）in 2008. Mr. Sun did not hold any directorship in other listed companies in the past three years.

Mr. Sun entered into a renewed service agreement with the Company on 18 December 2012 for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' notice in writing served by either party to the other. He is entitled to a director's remuneration of RMB500,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Sun and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Sun is interested in the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

Mr. Sun does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Huang Da

Mr. Huang, aged 30, was appointed as an executive Director of the Company on 23 November 2009. Mr. Huang joined the Group in 2008. He is responsible for corporate affairs and investor relations. He obtained a master degree in Western Economics from Fudan University（復旦大學）in 2008. Mr. Huang did not hold any directorship in other listed companies in the past three years.

Mr. Huang entered into a renewed service agreement with the Company on 18 December 2012 for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' notice in writing served by either party to the other. He is entitled to a director's remuneration of RMB300,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Huang and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Huang is interested in i) 1,000,000 shares of the Company; and ii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Huang does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Aiguo

Mr. Wang, aged 47, was appointed as an independent non-executive Director of the Company on 23 November 2009. He is also the chairman of each of the audit committee of the Company ("Audit Committee") and the Remuneration Committee, and a member of the Nomination Committee. Mr. Wang is currently the Dean of the School of Accounting of Shandong University of Finance and Economics（山東財經大學）and a member of the council of the Accounting Society of China（中國會計學會）. He obtained a doctorial degree in Management Science and Engineering from Tianjin University（天津大學）in 2006. Mr. Wang engages in researches in the area of accounting and auditing. His publications include Accounting Theory Research — building up an accounting theory model with Chinese feature（會計理論研究 — 構建中國特色的會計理論體系）published by Nanhai Publishing Company（南海出版公司）in 1995, Cost Accounting Theory（成本會計理論）published by Inner Mongolia University Press（內蒙古大學出版社）in 1999, and Innovative Research on the Strategic Management Mode of High-Technique Enterprise（高技術企業戰略管理模式的創新研究）published by Shandong People's Publishing House（山東人民出版社）in 2009. His research papers were also published in various finance and accounting journals. He is currently an independent director of Laiwu Steel Corporation, an A-share company listed on the Shanghai Stock Exchange, engaging in the manufacture and sale of cast iron, steel, steel materials, and steel bands. Save as aforesaid, Mr. Wang did not hold any directorship in other listed companies in the past three years.

Mr. Wang has signed a letter of appointment issued by the Company for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' prior notice in writing served by either party on the other. He is entitled to a director's remuneration of RMB50,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Wang and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Wang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Liu Shusong

Mr. Liu, aged 47, was appointed as an independent non-executive Director of the Company on 23 November 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Liu obtained a master degree in Laws from China University of Political Science and Law（中國政法大學）in 2001. He was jointly accredited as The Top 10 Lawyer in the City（全市十佳律師）by Binzhou Judiciary（濱州市司法局）and Binzhou Law Society（濱州市律師協會）in 2004. In the same year, Mr. Liu was recognised as Shandong Province Outstanding Member of China Democratic League（中國民主同盟山東省優秀盟員）. Mr. Liu was also awarded as The Seventh "Top 10 Outstanding Youngsters in Binzhou"（第七屆"濱州十大傑出青年"）in August 2005. Mr. Liu was a committee member of The Ninth Binzhou City Chinese People's Political Consultative Conference Committee（中國人民政治協商會議第九屆濱州市委員會）in 2008. Mr. Liu did not hold any directorship in other listed companies in the past three years.

Mr. Liu has signed a letter of appointment issued by the Company for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' prior notice in writing served by either party on the other. He is entitled to a director's remuneration of RMB50,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Liu and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Liu does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Liu does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Wang Ruiyuan

Mr. Wang, aged 74, was appointed as an independent non-executive Director of the Company on 23 November 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Wang is currently the vice president of Chinese Cereals and Oils Association. He obtained a bachelor degree in Food Engineering from Jiangnan University（江南大學）(formerly know as "Wuxi Light Industry Institute（無錫輕工業

學院）") in 1964. He is the chief editor of various publications in the area of oil and grease including Vegetable Oil Processing Industry（植物油料加工產業學）and The History of Development in the Oil and Grease Industry in China（中國油脂工業發展史）, both of which were published by Chemical Industry Press（化學工業出版社）, and Food and Medicine Confidence Project Science Popularisation Series — Food and Oil（食品藥品放心工程科普叢書 — 糧油食品）published by State Food and Drug Administration（國家食品藥品監督管理局）and China National Association of Grain Sector（中國糧食行業協會）. Mr. Wang was awarded the Government special subsidy（政府特殊津貼）by the State Council of the PRC（中國國務院）in 1996 in respect of his contribution in the engineering technology for the PRC. Mr. Wang did not hold any directorship in other listed companies in the past three years.

Mr. Wang has signed a letter of appointment issued by the Company for a term of three years commencing from 18 December 2012 unless terminated by not less than three months' prior notice in writing served by either party on the other. He is entitled to a director's remuneration of RMB50,000 per annum, which is determined by the Board with reference to the recommendation from the Remuneration Committee, the duties and responsibilities of Mr. Wang and the prevailing market conditions. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

As at the date of this report, Mr. Wang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

SENIOR MANAGEMENT

Ms. An Xiuping

Ms. An, aged 38, is a director of Corn Industry and Corn Oil Luxembourg. Ms. An joined the Group in 1999 as the finance manager of Sanxing Grease. She is now a senior finance manager of the Group. Ms. An graduated from 山東濱州職業專修學院 (Shandong Binzhou Vocational Technical School) majoring in Computer Information Management in 2006.

Mr. Yang Chunfa

Mr. Yang, aged 35, joined the Group in 2006 as the marketing manager. Mr. Yang was appointed the sales director of the Group since 2009. Mr. Yang obtained a bachelor degree in International Trade from 山東大學 (Shandong University) in 1999.

COMPANY SECRETARY

Ms. Chan Yuen Ying, Stella

Ms. Chan, aged 41, was appointed as the company secretary of the Company on 23 November 2009. Ms. Chan is an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Chartered Secretaries. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 15 years' experience in handling listed company secretarial matters.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF CHANGSHOUHUA FOOD COMPANY LIMITED
(FORMERLY KNOWN AS CHINA CORN OIL COMPANY LIMITED)
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Changshouhua Food Company Limited (formerly known as China Corn Oil Company Limited) (the "Company") and its subsidiaries (together the "Group") set out on pages 44 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lo Ngai Hang
Practising Certificate Number P04743

Hong Kong, 27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	**2,704,175**	2,057,587
Cost of sales		**(2,167,048)**	(1,676,178)
Gross profit		**537,127**	381,409
Other income	7	**54,204**	46,426
Selling and distribution costs		**(216,254)**	(155,591)
Administrative expenses		**(55,597)**	(58,108)
Losses from fire	8	**(26,248)**	—
Other operating expenses		**(1,477)**	(954)
Profit from operations	9	**291,755**	213,182
Finance costs	10	**—**	(876)
Profit before taxation		**291,755**	212,306
Income tax expense	11	**(87,496)**	(35,475)
Profit for the year attributable to owners of the Company		**204,259**	176,831
Earnings per share attributable to owners of the Company	14		
Basic (RMB cents)		**38.81**	33.60
Diluted (RMB cents)		**N/A**	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Profit for the year	**204,259**	176,831
Other comprehensive (loss)/income		
Exchange differences arising on translation of foreign operations	**(378)**	1,394
Other comprehensive (loss)/income for the year, net of tax	**(378)**	1,394
Total comprehensive income attributable to owners of the Company	**203,881**	178,225

Statements of Financial Position

As at 31 December 2012

	Notes	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	**547,472**	605,421	**—**	—
Land use rights	17	**80,324**	81,686	**—**	—
Deposits paid for acquisition of capital assets	21	**73,883**	3,256	**—**	—
Interest in subsidiaries	18	**—**	—	**635,365**	642,259
		701,679	690,363	**635,365**	642,259
Current assets					
Inventories	19	**288,876**	171,178	**—**	—
Trade and notes receivables	20	**150,139**	185,404	**—**	—
Prepayments, deposits and other receivables	21	**81,993**	97,970	**4,605**	5,261
Amounts due from related companies	22	**530**	363	**—**	—
Cash and bank balances	23	**501,166**	400,358	**165**	2,527
		1,022,704	855,273	**4,770**	7,788
Current liabilities					
Trade payables	24	**31,535**	38,308	**—**	—
Accrued liabilities, other payables and deposits received	25	**139,743**	133,133	**1,138**	1,054
Amounts due to related companies	26	**13,281**	13,204	**—**	—
Amount due to a subsidiary	18	**—**	—	**8,095**	8,070
Tax payables		**11,824**	10,497	**—**	—
		196,383	195,142	**9,233**	9,124
Net current assets/(liabilities)		**826,321**	660,131	**(4,463)**	(1,336)
Net assets		**1,528,000**	1,350,494	**630,902**	640,923
EQUITY					
Equity attributable to owners of the Company					
Share capital	27	**46,340**	46,340	**46,340**	46,340
Reserves	28	**1,481,660**	1,304,154	**584,562**	594,583
Total equity		**1,528,000**	1,350,494	**630,902**	640,923

Wang Mingxing
Director

Wang Fuchang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital RMB'000	Share premium* RMB'000	Share option reserve* RMB'000	Other reserves* RMB'000 (note 28(i))	Capital reserve* RMB'000 (note 28(ii))	Merger reserve* RMB'000 (note 28(iii))	Translation reserve* RMB'000	Proposed final dividend* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2011	46,340	553,977	18,204	44,536	53,941	69,131	216	31,119	369,802	1,187,266
2010 final dividend paid	–	–	–	–	–	–	–	(31,119)	–	(31,119)
2011 final dividend proposed	–	(29,952)	–	–	–	–	–	29,952	–	–
Recognition of share-based payments	–	–	16,122	–	–	–	–	–	–	16,122
Transactions with owners	–	(29,952)	16,122	–	–	–	–	(1,167)	–	(14,997)
Profit for the year	–	–	–	–	–	–	–	–	176,831	176,831
Other comprehensive income	–	–	–	–	–	–	1,394	–	–	1,394
Total comprehensive income for the year	–	–	–	–	–	–	1,394	–	176,831	178,225
Transfer to statutory reserves	–	–	–	22,013	–	–	–	–	(22,013)	–
At 31 December 2011 and 1 January 2012	**46,340**	**524,025**	**34,326**	**66,549**	**53,941**	**69,131**	**1,610**	**29,952**	**524,620**	**1,350,494**
2011 final dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(29,952)**	**–**	**(29,952)**
2012 final dividend proposed	**–**	**(42,776)**	**–**	**–**	**–**	**–**	**–**	**42,776**	**–**	**–**
Recognition of share-based payments	**–**	**–**	**3,577**	**–**	**–**	**–**	**–**	**–**	**–**	**3,577**
Transactions with owners	**–**	**(42,776)**	**3,577**	**–**	**–**	**–**	**–**	**12,824**	**–**	**(26,375)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**204,259**	**204,259**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**–**	**(378)**	**–**	**–**	**(378)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(378)**	**–**	**204,259**	**203,881**
Transfer to statutory reserves	**–**	**–**	**–**	**25,242**	**–**	**–**	**–**	**–**	**(25,242)**	**–**
At 31 December 2012	**46,340**	**481,249**	**37,903**	**91,791**	**53,941**	**69,131**	**1,232**	**42,776**	**703,637**	**1,528,000**

* The consolidated reserves of the Group of approximately RMB1,481,660,000 (2011: approximately RMB1,304,154,000) as at 31 December 2012 as presented in the statement of financial position comprised these reserve accounts.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before taxation		**291,755**	212,306
Adjustments for:			
Interest income	7	**(10,134)**	(7,797)
Interest expenses	10	**—**	876
Depreciation of property, plant and equipment	9	**55,027**	36,602
Losses from fire	8	**26,248**	—
Amortisation of land use rights	9	**1,667**	712
Loss on disposal of property, plant and equipment	9	**25**	466
Share-based compensation expense	9	**3,577**	16,122
Operating profit before working capital changes		**368,165**	259,287
(Increase)/Decrease in inventories		**(117,698)**	716
Decrease/(Increase) in trade and notes receivables		**35,265**	(95,013)
Decrease/(Increase) in prepayments, deposits and other receivables		**15,977**	(21,104)
(Decrease)/Increase in trade payables		**(6,773)**	21,766
Increase in accrued liabilities, other payables and deposits received		**6,610**	40,024
Cash generated from operations		**301,546**	205,676
Income taxes paid		**(86,169)**	(39,531)
Loss on inventory	8	**(9,216)**	—
Sales of scrap materials damaged	8	**1,238**	—
Net cash generated from operating activities		**207,399**	166,145
Cash flows from investing activities			
Interest received		**10,134**	7,797
Purchases of property, plant and equipment		**(12,152)**	(186,881)
Additions to land use rights		**(305)**	(25,846)
Deposits paid for acquisition of capital assets		**(73,883)**	—
Proceeds from disposal of property, plant and equipment		**35**	—
Net cash used in investing activities		**(76,171)**	(204,930)
Cash flows from financing activities			
Interest paid		**—**	(876)
Increase in amounts due from related parties		**(167)**	(282)
Increase in amounts due to related companies		**77**	1,041
Repayment of bank borrowings		**—**	(50,000)
Dividend paid		**(29,952)**	(31,119)
Net cash used in financing activities		**(30,042)**	(81,236)
Net increase/(decrease) in cash and cash equivalents		**101,186**	(120,021)
Cash and cash equivalents at 1 January		**400,358**	518,985
Effect of foreign exchange rates, net		**(378)**	1,394
Cash and cash equivalents at 31 December		**501,166**	400,358
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**501,166**	400,358

1. CORPORATE INFORMATION

Changshouhua Food Company Limited (formerly known as China Corn Oil Company Limited) (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands on 9 September 2009.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (the "Group") is located at Handian Industrial Park, Zouping County, Shandong Province, the People's Republic of China (the "PRC"). The Company's shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "HKEX") since 18 December 2009.

Pursuant to the special resolution passed at the extraordinary general meeting of the Company held on 25 May 2012, the name of the Company was changed from "China Corn Oil Company Limited (中國玉米油股份有限公司)" to "Changshouhua Food Company Limited (長壽花食品股份有限公司)" with effect from the same date.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. The directors of the Company consider the ultimate holding company is Zouping Sanxing Grease Industry Company Limited ("Sanxing Grease"), a wholly-foreign-owned enterprise established in the PRC.

The financial statements for the year ended 31 December 2012 were approved by the board of directors on 27 March 2013.

2. ADOPTION OF NEW AND AMENDED STANDARDS

2.1 New and amended standards adopted by the Group

In the current year, the Group has applied for the first time the following amendment to International Financial Reporting Standard ("IFRS") and International Accounting Standard ("IAS") issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's financial statements for the annual period on 1 January 2012.

Amendment to IFRS 7	Disclosures — Transfer of Financial Assets
Amendments to IAS 12	Deferred tax — Recovery of Underlying Assets

The adoption of these amendments has no material impact on the Group's financial statements.

2. ADOPTION OF NEW AND AMENDED STANDARDS (Continued)

2.2 New or revised IFRSs that have been issued but are not yet effective

The following new/revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

IFRS 1 Amendment	Exemption from the requirement to restate comparative information for IFRS 9[4]
	Government Loans[2]
IFRS 7 Amendment	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments: classification and measurement[4]
	Additions to IFRS 9 for financial liability accounting[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 10, IFRS 11 and IFRS 12 Amendment	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
IFRS 10, IFRS 11 and IAS 27 (2011) Amendment	Investment Entities[3]
IFRS 13	Fair Value Measurement[2]
IAS 1 Amendment	Presentation of Items of Other Comprehensive Income[1]
IAS 19 (2011)	Employee Benefits[2]
IAS 27 (2011)	Separate Financial Statements[2]
IAS 28 (2011)	Investments in Associates and Joint Ventures[2]
IAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities[3]
Annual Improvement Project	Annual Improvements 2009-2011 Cycle[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended IFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

Amendments to IAS 1 (Revised) — Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

2. ADOPTION OF NEW AND AMENDED STANDARDS (Continued)

2.2 New or revised IFRSs that have been issued but are not yet effective (Continued)

Amendments to IAS 32 — Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to IAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to IFRS 7 — Offsetting Financial Assets and Financial Liabilities

IFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under IAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under IAS 32.

IFRS 9 — Financial Instruments

Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

IFRS 10 — Consolidated Financial Statements

IFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. IFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of IFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing IAS 27 on other consolidation related matters are carried forward unchanged. IFRS 10 is applied retrospectively subject to certain transitional provisions.

2. ADOPTION OF NEW AND AMENDED STANDARDS (Continued)

2.2 New or revised IFRSs that have been issued but are not yet effective (Continued)

IFRS 12 — Disclosures of Interests in Other Entities

IFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

IFRS 13 — Fair Value Measurement

IFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with IFRS 7 "Financial Instruments: Disclosures". IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. IFRS 13 can be adopted early and is applied prospectively.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3.2 Basis of measurement

The financial statements have been prepared under the historical cost basis.

3.3 Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year.

Inter-company transactions and balances between group companies together with unrealised gains and losses are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognized in profit and loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

4.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, interest in subsidiaries is stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4.3 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Property, plant and equipment (Continued)

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	The shorter of the lease terms and 20 years
Plant and machinery	10 years
Office equipment	5 years

CIP represents buildings under construction, and plant and machinery pending installation, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The gain or loss arising on retirement or disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on retirement or disposal.

4.4 Leasing

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Financial Instruments

(a) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group's financial assets are classified as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market principally through the provision of goods and services to customers (trade debtors) and also other types of contractual monetary assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(b) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty; and

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Financial Instruments (Continued)

(b) Impairment loss on financial assets (Continued)

In relation to trade and notes receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Except for trade and notes receivables, the carrying amount of loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognised when they are assessed as uncollectible. Impairment losses in respect of trade and notes receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(c) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities at amortised cost including trade payables, accrued liabilities, other payables, interest-bearing bank borrowing and amounts due to related companies/subsidiary are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(d) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(e) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Financial Instruments (Continued)

(f) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where 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 amount is recognised in profit or loss.

4.6 Land use rights

The operating or finance lease determination is stated in note 4.4 and also applied to leases of land. Land use rights in the PRC are accordingly determined to be operating leases.

Land use rights represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of the leases.

4.7 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

4.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and form an integral part of the Group's cash management.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Revenue recognition

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Normally, risk is transferred upon dispatch of goods.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Dividend is recognised when the right to receive payment is established.

4.10 Cost of sales

Direct cost of production, which includes primarily raw materials costs, labour costs, electricity costs, depreciation expenses, tax and repair and maintenance expenses are recognised in inventories and then as cost of sales when the revenue from sale of goods is recognised.

4.11 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised for to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Income tax (Continued)

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.12 Foreign currency translation

Transactions entered into by the consolidated entities in currencies other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Employee benefits

(a) *Defined contribution retirement plan*

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

(b) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.14 Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

4.15 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the property, plant and equipment, land use rights, deposits paid and other non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

An impairment loss is recognised as an expense immediately for the amount by which the asset's recoverable amount is estimated to be less than its carrying amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Impairment of non-financial assets (Continued)

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4.16 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.17 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present obligation (legal or constructive) as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4.19 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(b) An entity is related to the Group if:

- (i) The entity and the Group are members of the same group meaning that each parent, subsidiary and fellow subsidiary is related to the others;
- (ii) One entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which other entity is a member;
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third party and other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity or of a parent of the entity.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, which are described in note 4, management has made various estimates and judgments which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgments that results in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the financial statements are discussed below:

(i) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the evaluation of collectability and ageing analysis of receivables and on management's judgment. A considerable amount of judgment is required in assessing the expected timing of collection and ultimate realisation of these receivables, including credit worthiness and collection history of each customer and other debtors. Management will reassess the provision at the reporting date. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payment, additional allowances may be required.

(ii) Useful lives and residual values of items of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the reporting date.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) Provision for tax

The Group is mainly subject to various taxes in the PRC including enterprise income tax. Significant judgment is required in determining the amount of the provision for taxes and the timing of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

6. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The business components in the internal reporting to the executive directors are determined following the Group's major products and service lines which are production and sale of (i) Corn oil, including non-branded corn oil and own brand corn oil; (ii) Other oil, mainly refined edible sunflower seed oil, refined edible olive oil, refined edible cotton seed oil; and (iii) Corn meal.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in IFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of the Company's subsidiaries operate.

Information regarding the Group's reportable segments as provided to the Group's executive directors is set out below:

	Year ended 31 December 2012				
	Corn oil				
	Non-branded RMB'000	Own brand RMB'000	Other oil RMB'000	Corn meal RMB'000	Total RMB'000
Revenue from external customers	**731,549**	**1,579,329**	**95,708**	**297,589**	**2,704,175**
Reportable segment revenue	**731,549**	**1,579,329**	**95,708**	**297,589**	**2,704,175**
Reportable segment profits/(loss)	**52,756**	**463,400**	**34,313**	**(13,342)**	**537,127**
Depreciation	**14,047**	**23,092**	**1,271**	**6,434**	**44,844**

6. SEGMENT INFORMATION (Continued)

	Year ended 31 December 2011				
	Corn oil				
	Non-branded RMB'000	Own brand RMB'000	Other oil RMB'000	Corn meal RMB'000	Total RMB'000
Revenue from external customers	684,748	1,059,784	70,318	242,737	2,057,587
Reportable segment revenue	684,748	1,059,784	70,318	242,737	2,057,587
Reportable segment profits/(loss)	63,835	296,336	21,250	(12)	381,409
Depreciation	11,615	14,282	918	4,541	31,356

Reportable segment revenue represented turnover of the Group in the consolidated income statement. A reconciliation between the reportable segment profit and the Group's profit before taxation is set out below:

	2012 RMB'000	2011 RMB'000
Profit		
Reportable segment profit	**537,127**	381,409
Other income	**54,204**	46,426
Selling and distribution costs	**(216,254)**	(155,591)
Administrative expenses	**(55,597)**	(58,108)
Losses from fire	**(26,248)**	—
Other operating expenses	**(1,477)**	(954)
Finance costs	**—**	(876)
Profit before taxation	**291,755**	212,306

6. SEGMENT INFORMATION (Continued)

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is determined based on the location at which the goods were delivered.

	2012 RMB'000	2011 RMB'000
Local (country of domicile):		
— PRC	**2,687,942**	1,856,326
Export (foreign countries):		
— Africa	**6,699**	20,334
— Middle East	**3,758**	177,437
— Singapore, Malaysia and Philippines	**5,776**	3,490
	16,233	201,261
	2,704,175	2,057,587

The Group's non-current assets are solely located in the PRC (the country of domicile of the Company).

7. REVENUE AND OTHER INCOME

Revenue from the Group's principal activities, which is also the Group's turnover, represented the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income is as follows:

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	**2,704,175**	2,057,587
Other income		
Interest income:		
— bank balances	**9,963**	7,621
— others	**171**	176
Sales of scrap materials	**36,696**	32,544
Compensation income from sundry creditors	**567**	511
Government grants and subsidies	**660**	—
Exchange gain	**96**	—
Others	**6,051**	5,574
	54,204	46,426

8. LOSSES FROM FIRE

On 9 November 2012, there was a fire at the Group's production plant in Shandong, the PRC, causing damage to the Group's packaging plant, part of the equipment of the production facilities for the packaging process and certain inventories. The losses incurred as a result of the fire are summarised as follows:

	2012 RMB'000
Loss on inventories	
Raw materials	**4,701**
Finished goods	**4,515**
	9,216
Loss on property, plant and equipment	**18,270**
	27,486
Less: Sales of scrap materials damaged	**(1,238)**
Net losses	**26,248**

9. PROFIT FROM OPERATIONS

	2012 RMB'000	2011 RMB'000
Profit from operations is arrived at after charging/(crediting):		
Auditor's remuneration	**1,136**	1,076
Cost of inventories recognised as an expense	**2,014,984**	1,531,402
Depreciation on property, plant and equipment *	**55,027**	36,602
Amortisation of land use rights **	**1,667**	712
Loss on disposal of property, plant and equipment	**25**	466
Net foreign exchange (gain)/loss	**(96)**	3,434
Operating lease charges on rented premises	**2,330**	1,889
Staff costs (including directors' remuneration)		
— Wages, salaries and bonus	**75,622**	57,811
— Contribution to defined contribution pension plan ^	**2,421**	1,555
— Share-based compensation expense	**3,577**	16,122
Total staff costs	**81,620**	75,488

* Depreciation expenses have been included in:
- cost of sales of approximately RMB44,844,000 (2011: RMB31,356,000); and
- administrative expenses of approximately RMB10,183,000 (2011: RMB5,246,000).

** Amortisation of land use rights have been included in administrative expenses.

^ At the reporting date, the Group had no forfeited contributions available to reduce its contributions to the pension scheme.

10. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest charges on financial liabilities stated at amortised cost:		
Bank and other borrowings		
— wholly repayable within one year	**–**	876

11. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax		
— Provision for PRC income tax	**87,496**	35,475

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the years.

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Shandong Sanxing Corn Industry Technology Company Limited ("Corn Industry") was approved as a foreign invested enterprise in 2007. Pursuant to an approval document on certain tax preferential policies titled "Guo Shui Han (2007) No. 41" issued by the Bureau of State Tax of Zouping County, Shandong Province（山東省鄒平縣國家稅務局鄒國稅函(2007) 41號文）, Corn Industry is entitled for exemption of PRC enterprise income tax ("EIT") for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax deduction. The year ended 31 December 2007 was Corn Industry's first profit-making year and was the first year of its tax holiday. For the years ended 31 December 2011 and 2012, Corn Industry is subject to EIT tax rate of 12.5% and 25% respectively.

No deferred tax asset has been recognised in respect of the unused tax losses of RMB10,392,000 (2011: RMB5,908,000) due to the unpredictability of future profit dreams. The unused tax losses will expire between 2016 to 2017.

Deferred tax liabilities have not been established for the withholding tax and other taxation that would be payable on the unremitted earnings of a subsidiary of RMB705,609,000 (2011: RMB544,779,000) as the Group is in a position to control the dividend policies of the subsidiary and it is probable that such amount will be reinvested in the foreseeable future.

The Group did not have any other significant temporary differences which gave rise to a deferred tax asset or liability as at 31 December 2011 and 2012.

11. INCOME TAX EXPENSE (Continued)

A reconciliation of income tax expense and accounting profit at applicable tax rate is as follows:

	2012 RMB'000	2011 RMB'000
Profit before income tax	**291,755**	212,306
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	**86,375**	65,990
Tax effect of tax losses not recognised	**1,121**	1,478
Effect of tax holiday of PRC subsidiary	**–**	(31,993)
Income tax expense	**87,496**	35,475

12. DIVIDENDS

The Directors recommend the payment of a final dividend to the shareholders of Hong Kong cents 10 per share for the year ended 31 December 2012 (2011: Hong Kong cents 7 per share), subject to shareholders' approval at the forthcoming annual general meeting. The proposed final dividend declared after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium account for the year.

13. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a loss of RMB5,077,000 (2011: RMB19,566,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB204,259,000 (2011: RMB176,831,000) divided by the weighted average number of 526,250,000 (2011: 526,250,000) ordinary shares in issue during the year.

For the years ended 31 December 2012 and 2011, no diluted earnings per share has been presented as the impact of exercise of the Group's outstanding share options was anti-dilutive.

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contribution to pension plans RMB'000	Share-based compensation expense RMB'000	Total RMB'000
Year ended 31 December 2012						
Executive directors						
Mr. Wang Mingxing	–	500	–	–	114	614
Mr. Wang Mingfeng	–	500	–	–	114	614
Mr. Wang Mingliang	–	500	–	–	114	614
Mr. Wang Fuchang	–	300	–	–	114	414
Mr. Sun Guohui	–	500	–	3	114	617
Mr. Huang Da	–	300	–	3	114	417
	–	2,600	–	6	684	3,290
Independent non-executive directors						
Mr. Liu Shusong	50	–	–	–	–	50
Mr. Wang Ruiyuan	150	–	–	–	–	150
Mr. Wang Aiguo	50	–	–	–	–	50
	250	–	–	–	–	250
	250	2,600	–	6	684	3,540

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' emoluments (Continued)

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contribution to pension plans RMB'000	Share-based compensation expense RMB'000	Total RMB'000
Year ended 31 December 2011						
Executive directors						
Mr. Wang Mingxing	–	500	–	–	516	1,016
Mr. Wang Mingfeng	–	500	–	–	516	1,016
Mr. Wang Mingliang	–	500	–	–	516	1,016
Mr. Wang Fuchang	–	300	–	–	516	816
Mr. Sun Guohui	–	500	–	2	516	1,018
Mr. Huang Da	–	300	–	2	516	818
	–	2,600	–	4	3,096	5,700
Non-executive director						
Mr. Ke Shifeng *	–	–	–	–	–	–
Independent non-executive directors						
Mr. Liu Shusong	52	–	–	–	–	52
Mr. Wang Ruiyuan	170	–	–	–	–	170
Mr. Wang Aiguo	52	–	–	–	–	52
	274	–	–	–	–	274
	274	2,600	–	4	3,096	5,974

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: nil).

* Mr. Ke Shifeng retired on 4 May 2011.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2011 and 2012 were also directors and their emoluments are reflected in the analysis presented above.

During the years ended 31 December 2011 and 2012, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2011						
Cost	106,635	275,202	13,709	–	61,867	457,413
Accumulated depreciation	(19,632)	(48,279)	(1,443)	–	–	(69,354)
Net book amount	87,003	226,923	12,266	–	61,867	388,059
Year ended 31 December 2011						
Opening net book amount	87,003	226,923	12,266	–	61,867	388,059
Additions	–	94,726	251	258	159,195	254,430
Transfer	175,787	44,339	18	–	(220,144)	–
Disposal	(460)	–	(6)	–	–	(466)
Depreciation	(6,255)	(27,864)	(2,446)	(37)	–	(36,602)
Closing net book amount	256,075	338,124	10,083	221	918	605,421

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2011 and 1 January 2012						
Cost	281,569	414,267	13,972	258	918	710,984
Accumulated depreciation	(25,494)	(76,143)	(3,889)	(37)	–	(105,563)
Net book amount	256,075	338,124	10,083	221	918	605,421
Year ended 31 December 2012						
Opening net book amount	256,075	338,124	10,083	221	918	605,421
Additions	2,159	5,163	1,514	952	5,620	15,408
Transfer	890	511	–	–	(1,401)	–
Disposal	(32)	(28)	–	–	–	(60)
Losses from fire *	(16,915)	(1,298)	(57)	–	–	(18,270)
Depreciation	(12,640)	(39,449)	(2,835)	(103)	–	(55,027)
Closing net book amount	229,537	303,023	8,705	1,070	5,137	547,472
At 31 December 2012						
Cost	266,700	418,009	15,399	1,210	5,137	706,455
Accumulated depreciation	(37,163)	(114,986)	(6,694)	(140)	–	(158,983)
Net book amount	229,537	303,023	8,705	1,070	5,137	547,472

The lease term of the land on which the buildings locate is held under medium terms.

* As disclosed in note 8, the Group recognised losses on property, plant and equipment of RMB18,270,000 as a result of a fire incident on 9 November 2012. The recoverable amounts of these property, plant and equipment are determined as their fair value, reflecting market conditions, less costs to sell in accordance with the accounting policy as set out in note 4.15.

17. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net carrying amounts are analysed as follows:

	Group RMB'000
At 1 January 2011	
Cost	57,468
Accumulated amortisation	(916)
Net carrying amount	56,552
Year ended 31 December 2011	
Opening net carrying amount	56,552
Additions	25,846
Amortisation	(712)
Closing net carrying amount	81,686
At 31 December 2011 and 1 January 2012	
Cost	**83,314**
Accumulated amortisation	**(1,628)**
Net carrying amount	**81,686**
Year ended 31 December 2012	
Opening net carrying amount	**81,686**
Additions	**305**
Amortisation	**(1,667)**
Closing net carrying amount	**80,324**
At 31 December 2012	
Cost	**83,619**
Accumulated amortisation	**(3,295)**
Net carrying amount	**80,324**

Land use rights represented leasehold interests in land located in the PRC, and held under medium term leases.

18. INTEREST IN SUBSIDIARIES

	Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**123,895**	123,895
Amount due from a subsidiary	**511,470**	518,364
	635,365	642,259

Particulars of the subsidiaries as at 31 December 2012 are as follows:

Name	Country/ Place and date of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid share capital/registered capital	Effective interest held by the Company	Principal activities
Interests held directly				
Corn Industry Investment Co., Ltd.	Incorporated on 28 December 2006 in the BVI, limited liability company	59,701 shares at U.S. dollars ("US$") 1 per share	100%	Investment holding
Interests held indirectly				
Shandong Sanxing Corn Industry Technology Company Limited 山東三星玉米產業科技有限公司	Established on 14 November 2006 in the PRC, wholly-foreign-owned enterprise	US$30,000,000	100%	Production and sale of edible oil and corn meal
內蒙古三星玉米產業科技有限公司	Established on 21 May 2010 in the PRC, wholly-foreign-owned enterprise	RMB10,000,000	100%	Production and sale of crude oil and corn meal
遼寧三星玉米產業科技有限公司	Established on 24 May 2010 in the PRC, wholly-foreign-owned enterprise	RMB10,000,000	100%	Production and sale of crude oil and corn meal

18. INTEREST IN SUBSIDIARIES (Continued)

The financial statements of the subsidiaries for the year ended 31 December 2012 are audited by BDO Limited for the purpose of incorporation into the Group's consolidated financial statements.

The balances with subsidiaries are unsecured and interest free. In the opinion of the directors, the settlement of the amount due from a subsidiary is neither planned nor likely to occur in the foreseeable future and in substance, the amount is an extension of the Company's investment in the subsidiary. The amount due to a subsidiary is repayable on demand.

19. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**142,250**	85,750
Work-in-progress	**7,574**	24,369
Finished goods	**139,052**	61,059
	288,876	171,178

20. TRADE AND NOTES RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**150,139**	177,564
Notes receivables	**–**	7,840
Total trade and notes receivables	**150,139**	185,404

Trade receivables are non-interest bearing. For domestic sales, 0 to 60 days and 0 to 180 days credit terms are granted to non-branded corn oil and own brand corn oil customers respectively. All overseas customers are usually given 60 days credit terms. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

20. TRADE AND NOTES RECEIVABLES (Continued)

The ageing analysis of trade and notes receivables at the reporting date, based on invoice date, net of impairment provision, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within 60 days	**94,682**	131,285
61-90 days	**17,052**	23,698
91-180 days	**29,239**	22,932
181-365 days	**9,114**	5,320
Over 365 days	**52**	2,169
Total trade and notes receivables	**150,139**	185,404

At each of the reporting dates, the Group reviews receivables for evidence of impairment on both an individual and collective basis.

The ageing analysis of trade and notes receivables that are past due but are not considered impaired is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**126,169**	135,129
Not more than 3 months past due	**19,582**	35,816
3 to not more than 6 months past due	**3,478**	9,196
6 to 12 months past due	**793**	5,017
Over 1 year past due	**117**	246
	150,139	185,404

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

20. TRADE AND NOTES RECEIVABLES (Continued)

The below table reconciled the impairment loss of trade receivables for the year:

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**–**	79
Bad debt written-off	**–**	(79)
At 31 December	**–**	–

Receivables that were past due but not impaired related to a number of customers that have a good track record of repayment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**63,290**	78,386	**–**	–
Other receivables	**18,703**	19,584	**4,605**	5,261
Deposits paid for acquisition of capital assets	**73,883**	3,256	**–**	–
	155,876	101,226	**4,605**	5,261
Less: Portion due within one year included under current assets	**(81,993)**	(97,970)	**(4,605)**	(5,261)
Non-current portion included under non-current assets	**73,883**	3,256	**–**	–

22. AMOUNTS DUE FROM RELATED COMPANIES

	Group 2012 RMB'000	2011 RMB'000
Shandong Sanxing Property Investment Co., Ltd. 山東三星物業投資有限公司 ("Sanxing Property Investment")	—	11
Shandong Sanxing Group Oil Products Company Limited ("Sanxing Group Oil Products")	17	—
Shandong Sanxing Group Co., Ltd. ("Shandong Sanxing")	27	—
Zouping Sanxing Steel Structure Co., Ltd. ("Sanxing Steel")	351	352
Zouping Anxing Automobiles Co Ltd. 鄒平安星駕校有限公司 ("Anxing Automobiles")	6	—
Inner Mongolia Sanxing Cereal & Oil Industrial Co., Ltd. 內蒙古三星糧油工業有限公司 ("Sanxing Mongolia")	129	—
	530	363

Particulars of amount due from related companies are as follows:

	As at 31 December 2012 RMB'000	Maximum amount outstanding during the year RMB'000	As at 1 January 2012 RMB'000
Sanxing Property Investment	—	11	11
Sanxing Group Oil Products	17	17	—
Shandong Sanxing	27	361	—
Sanxing Steel	351	353	352
Anxing Automobiles	6	34	—
Sanxing Mongolia	129	129	—

22. AMOUNTS DUE FROM RELATED COMPANIES (Continued)

	As at 31 December 2011 RMB'000	Maximum amount outstanding during the year RMB'000	As at 1 January 2011 RMB'000
Sanxing Property Investment	11	26	—
Zouping Xingyu Logistic Co., Ltd. 鄒平星宇物流有限公司	—	66	66
Sanxing Group Oil Products	—	9	9
Shandong Sanxing	—	14	4
Sanxing Steel	352	352	2

An entity which has significant influence over the Company, has controlling interests in the above related companies. Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui, directors of the Company, also have beneficial interest in the above related companies.

The balances due from related companies are unsecured, interest-free and repayable on demand.

23. CASH AND BANK BALANCES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at banks and in hand	**301,166**	210,358	**165**	2,527
Short-term bank deposits	**200,000**	190,000	**—**	—
	501,166	400,358	**165**	2,527

The short-term bank deposits earn 3.07 % (2011: 3.31%) interest per annum. They have a maturity of 30 days and are eligible for immediate cancellation without receiving any interest for the last deposit period. The other bank deposits earn interest at floating rates based on daily bank deposit rates.

The Group's cash and bank balances denominated in RMB were amounted to RMB500,202,000 (2011: RMB395,628,000) and were deposited with banks in the PRC. The RMB is not freely convertible into other currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

24. TRADE PAYABLES

Trade payables are non-interest bearing and are normally settled on 30 days terms.

The ageing analysis of trade payables at the reporting date is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within 30 days	**17,061**	24,295
31-60 days	**3,248**	7,289
61-90 days	**5,163**	2,231
91-180 days	**4,457**	2,813
181-365 days	**1,170**	624
Over 365 days	**436**	1,056
	31,535	38,308

25. ACCRUED LIABILITIES, OTHER PAYABLES AND DEPOSITS RECEIVED

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued liabilities	**33,390**	22,076	**1,138**	1,054
Other payables	**35,142**	61,045	**—**	—
Deposits received	**71,211**	50,012	**—**	—
	139,743	133,133	**1,138**	1,054

26. AMOUNTS DUE TO RELATED COMPANIES

Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui, directors of the Company, have beneficial interest in the related companies. An entity which has significant influence over the Company, also has controlling interests in these related companies.

The balances due to related companies are unsecured, interest-free and repayable on demand.

27. SHARE CAPITAL

	Number of shares	Amount HK$
Authorised:		
At 31 December 2011 and 2012, ordinary shares of HK$0.10 each	9,000,000,000	900,000,000
Issued and fully paid:		
At 31 December 2011 and 2012, ordinary shares of HK$0.10 each	526,250,000	52,625,000

The issued and fully paid share capital is equivalent to approximately RMB46,340,000 as at 31 December 2011 and 2012.

28. RESERVES

Group

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity on page 47.

Notes:

(i) Other reserves

The subsidiary of the Group established in the PRC is required to transfer 10% of its profits after taxation as determined in accordance with the accounting regulations in the PRC to the surplus reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiary. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital of the PRC subsidiary.

(ii) Capital reserves

Capital reserves of the Group represent the difference between the registered capital of Corn Industry and the net assets value transferred from Sanxing Grease to Corn Industry pursuant to a group restructuring ("Restructuring Exercise") carried out by the Group to rationalise the structure of the Group in preparation of the initial public offering of the Company's shares on the HKEX.

(iii) Merger reserve

The merger reserve of the Group represented the difference between (a) the sum of nominal value of the combined capital and share premium of the subsidiaries acquired in pursuant to the Restructuring Exercise; and (b) the nominal value of the share capital of the Company issued in exchange thereof pursuant to the Restructuring Exercise.

28. RESERVES (Continued)

Company

	Share premium RMB'000	Share option reserve RMB'000	Contributed surplus RMB'000 (note)	Proposed final dividend RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	553,977	18,204	95,267	31,119	(42,899)	655,668
2010 final dividend paid	–	–	–	(31,119)	–	(31,119)
2011 final dividend proposed	(29,952)	–	–	29,952	–	–
Recognition of share-based payments	–	16,122	–	–	–	16,122
Transactions with owners	(29,952)	16,122	–	(1,167)	–	(14,997)
Loss for the year	–	–	–	–	(46,088)	(46,088)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(46,088)	(46,088)
At 31 December 2011 and 1 January 2012	524,025	34,326	95,267	29,952	(88,987)	594,583
2011 final dividend paid	**–**	**–**	**–**	**(29,952)**	**–**	**(29,952)**
2012 final dividend proposed	**(42,776)**	**–**	**–**	**42,776**	**–**	**–**
Recognition of share-based payments	**–**	**3,577**	**–**	**–**	**–**	**3,577**
Transactions with owners	**(42,776)**	**3,577**	**–**	**12,824**	**–**	**(26,375)**
Profit for the year	**–**	**–**	**–**	**–**	**16,354**	**16,354**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**16,354**	**16,354**
At 31 December 2012	**481,249**	**37,903**	**95,267**	**42,776**	**(72,633)**	**584,562**

Note: The contributed surplus of the Company represented the difference between the net asset value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the Restructuring Exercise.

29. SHARE OPTION SCHEME

On 14 May 2010, the Company granted to certain eligible participants a total of 25,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company under the share option scheme adopted by the Company on 23 November 2009. The share options granted are exercisable as follows:

(i) the first 50% of the share options between the first and fifth anniversary of the date of grant; and

(ii) the remaining share options between the second and fifth anniversary of the date of grant.

The following table discloses the movements of the share options during the year.

	Number of share options					
Grantees	**Outstanding at 1 January 2012**	**Granted during the year**	**Lapsed during the year**	**Exercised during the year**	**Outstanding at 31 December 2012**	**Exercise price**
Mr. Wang Mingxing	**800,000**	**–**	**–**	**–**	**800,000**	**HK$5.40**
Mr. Wang Mingfeng	**800,000**	**–**	**–**	**–**	**800,000**	**HK$5.40**
Mr. Wang Mingliang	**800,000**	**–**	**–**	**–**	**800,000**	**HK$5.40**
Mr. Wang Fuchang	**800,000**	**–**	**–**	**–**	**800,000**	**HK$5.40**
Mr. Sun Guohui	**800,000**	**–**	**–**	**–**	**800,000**	**HK$5.40**
Mr. Huang Da	**800,000**	**–**	**–**	**–**	**800,000**	**HK$5.40**
Other employees	**20,200,000**	**–**	**–**	**–**	**20,200,000**	**HK$5.40**
	25,000,000	**–**	**–**	**–**	**25,000,000**	

	Number of share options					
Grantees	Outstanding at 1 January 2011	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2011	Exercise price
Mr. Wang Mingxing	800,000	–	–	–	800,000	HK$5.40
Mr. Wang Mingfeng	800,000	–	–	–	800,000	HK$5.40
Mr. Wang Mingliang	800,000	–	–	–	800,000	HK$5.40
Mr. Wang Fuchang	800,000	–	–	–	800,000	HK$5.40
Mr. Sun Guohui	800,000	–	–	–	800,000	HK$5.40
Mr. Huang Da	800,000	–	–	–	800,000	HK$5.40
Other employees	20,200,000	–	–	–	20,200,000	HK$5.40
	25,000,000	–	–	–	25,000,000	

29. SHARE OPTION SCHEME (Continued)

The weighted average exercise price of share options outstanding at the end of the year is HK$5.40 (2011: HK$5.40) and their remaining contractual life was 3 years (2011: 4 years). All share options outstanding at the end of the year had vested and were exercisable. The fair value of the share options granted during the year ended 31 December 2010, valued as at the grant date, was RMB39,091,000. The share-based compensation expense of RMB3,577,000 (2011: RMB16,122,000) is included in the consolidated income statement for the year ended 31 December 2012.

The following significant assumptions were used to derive the fair value, under Binomial Option Pricing Model, of the share options granted during the year ended 31 December 2010:

The first 50% of the share options

(i) an annualised volatility of 52.5% throughout the option life;
(ii) nil dividend yield;
(iii) the estimated expected life of the options granted is 2.5 years; and
(iv) the risk free rate of 0.77% which is based on the yields on the Hong Kong Monetary Authority exchange fund notes.

The remaining share options

(i) an annualised volatility of 53.5% throughout the option life;
(ii) nil dividend yield;
(iii) the estimated expected life of the options granted is 3 years; and
(iv) the risk free rate of 1% which is based on the yields on the Hong Kong Monetary Authority exchange fund notes.

30. COMMITMENT

Operating lease commitment

The total future minimum lease payments under non-cancellable operating leases are falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**1,445**	1,655
In the second to fifth years	**1,357**	1,563
After five years	**623**	958
	3,425	4,176

The Group leases a number of properties under operating lease and leasehold land. The leases run for initial period of 6 months to 9 years, with an option to renew the lease at the expiry date or at dates as mutually agreed between the Group and respective lessor. None of the leases include contingent rental.

30. COMMITMENT (Continued)

Capital commitment

	Group	
	2012	2011
	RMB'000	RMB'000
Contracted but not provided for	**47,485**	1,778
Authorised but not contracted for	**–**	–
	47,485	1,778

31. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties at agreed terms.

		Group	
		2012	2011
	Notes	**RMB'000**	RMB'000
Sales to shareholders	(i)	**1**	43
Sales to related companies	(i)	**908**	660
Purchases from related companies	(ii)	**90**	142
Supply of steam and electric power from a related company	(iii)	**31,592**	29,396
Repair and maintenance services rendered by related companies	(iv)	**–**	1
Subcontracting services rendered by a related company	(v)	**4,054**	4,594

31. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

(i) Sales to shareholders and related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest, were made in the ordinary course of business with reference to the terms negotiated between the Group and these shareholders/related companies.

(ii) Purchases from related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest, were made in the ordinary course of business with reference to the terms negotiated between the Group and the related companies.

(iii) Supply of steam and electric power from a related company, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest in the related company. Steam and electric expenses were paid according to the terms of the service agreements.

(iv) Services rendered by a related company, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest in the related company, were made according to the terms of the agreements.

(v) Services rendered by a related company, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest in the related company, were made according to the terms of the agreements.

During the year ended 31 December 2011, the Group also acquired property, plant and equipment of RMB52,000 from a related company, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest. In addition, as at 31 December 2011, the amounts due to related companies included an unsettled consideration of RMB8,288,000 payable to a construction company in respect of certain construction contracts in the aggregate amount of RMB57,491,000 entered into between the Group and that construction company during the year ended 31 December 2010. Such construction company was not a related party to the Group as at the date of entering into the construction contracts. In August 2011, that construction company became a related party of the Group in which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui have beneficial interest of that construction company. The purchase and/or construction of properly, plant and equipment were conducted under mutually agreed terms negotiated between the Group and these companies.

An entity which has significant influence over the Company, also has controlling interests in these related parties.

(b) Key management personnel compensation

	Group	
	2012	2011
	RMB'000	RMB'000
Short term employee benefits of directors and other members of key management	**4,040**	5,974

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks included market risk (including currency risk and interest risk), credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the board of directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to the financial risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loans and receivables				
— Trade and notes receivables	**150,139**	185,404	**—**	—
— Other receivables	**18,703**	19,584	**4,605**	5,261
— Amounts due from related companies	**530**	363	**—**	—
Cash and bank balances	**501,166**	400,358	**165**	2,527
	670,538	605,709	**4,770**	7,788
Financial liabilities				
At amortised cost				
— Trade payables	**31,535**	38,308	**—**	—
— Other payables	**35,142**	61,045	**—**	—
— Amounts due to related companies	**13,281**	13,204	**—**	—
— Amount due to a subsidiary	**—**	—	**8,095**	8,070
	79,958	112,557	**8,095**	8,070

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(b) Interest rate risk

The Group's bank deposits were bearing floating interest rate. Exposure to floating interest rate exists when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary.

(i) Interest rate profile

The following tables detail the interest rate profile of the Group's financial instruments at the reporting date:

	Group			
	Weighted average effective interest rate		Carrying amount	
	2012	2011	**2012**	2011
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Cash at bank	**0.35%**	0.49%	**299,823**	208,850
Fixed rate instruments				
Financial assets				
Short-term bank deposits	**3.07%**	3.31%	**200,000**	190,000
Other receivable	**3.60%**	3.60%	**4,105**	5,075

	Company			
	Weighted average effective interest rate		Carrying amount	
	2012	2011	**2012**	2011
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Cash at bank	**0.02%**	0.02%	**165**	2,527

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(b) Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

The following tables illustrate the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of +25 basis points and -25 basis points (2011: +/-25 basis points), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

	Group			
	2012		2011	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	+25 basis points	**-25 basis points**	+25 basis points	-25 basis points
Effect on profit for the year and retained earnings	**562**	**(562)**	602	(602)

	Company			
	2012		2011	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	+25 basis points	**-25 basis points**	+25 basis points	-25 basis points
Effect on profit/loss for the year and accumulated losses	**–**	**–**	7	(7)

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its business.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(c) Credit risk (Continued)

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(d) Foreign currency risk

Currency risk refers to risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the entity within the Group to which they related. The currencies give rise to this risk are mainly HK$, EURO and US$.

(i) Foreign currency risk exposure

	Group					
	2012			2011		
	HK$	**EURO**	**US$**	HK$	EURO	US$
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Assets:						
Other receivables	**4,105**	**–**	**–**	5,075	–	–
Cash and bank balances	**165**	**8**	**791**	2,527	10	696
	4,270	**8**	**791**	7,602	10	696
Liabilities:						
Other payables	**1,138**	**–**	**4,672**	1,054	–	4,671

	Company	
	2012	2011
	HK$	HK$
	RMB'000	RMB'000
Assets:		
Other receivables	**4,105**	5,075
Cash and bank balances	**165**	2,527
	4,270	7,602
Liabilities:		
Other payables	**1,138**	1,054

Apart from the above, all the Group's financial assets and liabilities are denominated in RMB.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(d) Foreign currency risk (Continued)

(ii) Foreign currency sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity in regards to a 1% (2011: 1%) appreciation in the Group entities' functional currencies against HK$, EURO and US$. All other variables are held constant. The rate is used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates. There is no impact on other components of combined equity in response to the general fluctuation in the following foreign currency rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	Group					
	2012			2011		
	HK$	**EURO**	**US$**	HK$	EURO	US$
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Effect on profit for the year and retained earnings	**(31)**	**–**	**39**	(65)	–	(40)

	Company	
	2012	2011
	HK$	HK$
	RMB'000	RMB'000
Effect on profit/loss for the year and accumulated losses	**(31)**	(65)

A weakening of RMB against the respective foreign currencies at the respective reporting date would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 December 2011.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(e) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

The cash flow management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities based on the remaining contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
On demand				
— Trade payables	**31,535**	38,308	**—**	—
— Other payables	**35,142**	61,045	**—**	—
— Amounts due to related companies	**13,281**	13,204	**—**	—
— Amount due to a subsidiary	**—**	—	**8,095**	8,070
	79,958	112,557	**8,095**	8,070

(f) Fair value

The fair values of the Group's financial assets and liabilities as at 31 December 2011 and 2012 were not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

33. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholder returns.

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of trade and other payables, amounts due to related companies and amount due to a subsidiary as shown in the statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total debts				
Trade payables	**31,535**	38,308	**—**	—
Accrued liabilities, other payables and deposits received	**139,743**	133,133	**1,138**	1,054
Amounts due to related companies	**13,281**	13,204	**—**	—
Amount due to a subsidiary	**—**	—	**8,095**	8,070
	184,559	184,645	**9,233**	9,124
Less: Cash and bank balances	**(501,166)**	(400,358)	**(165)**	(2,527)
Net debts	**n/a**	n/a	**9,068**	6,597
Equity	**1,528,000**	1,350,494	**630,902**	640,923
Total debts to equity ratio	**n/a**	n/a	**1.44%**	1.03%

34. EVENTS AFTER THE REPORTING DATE

(a) During the year, the Group has reported the fire incident (see note 8) to its insurers. Up to the date of approval of the consolidated financial statements, the Group has not yet been able to conclude the amount of compensation receivable from the insurers as investigation is still in progress. The losses in respect of inventories, property, plant and equipment amounting to RMB26,248,000 in aggregate as set out in note 8 do not take into account of any possible compensation from insurers. Any amounts eventually recoverable from the insurers will be recognised in the future periods only when it is certain to be received.

(b) After the reporting date, the Group has entered into agreements with related companies, which are wholly-owned by Shandong Sanxing, for the construction of production facilities with total consideration of approximately RMB25,881,000. Further details were disclosed in the announcement issued by the Company dated 27 March 2013.

Financial Highlights

For the year ended 31 December 2012

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**2,704,175**	2,057,587	1,537,376	1,163,981	934,004
Cost of sales	**(2,167,048)**	(1,676,178)	(1,283,164)	(1,014,441)	(834,167)
Gross profit	**537,127**	381,409	254,212	149,540	99,837
Other income	**54,204**	46,426	26,577	23,933	15,642
Selling and distribution costs	**(216,254)**	(155,591)	(65,903)	(21,622)	(12,448)
Administrative expenses	**(55,597)**	(58,108)	(43,453)	(12,163)	(9,918)
Losses from fire	**(26,248)**	—	—	—	—
Other operating expenses	**(1,477)**	(954)	(480)	(347)	(193)
Finance costs	**—**	(876)	(2,851)	(3,139)	(1,550)
Profit before taxation	**291,755**	212,306	168,102	136,202	91,370
Income tax expense	**(87,496)**	(35,475)	(24,734)	(16,175)	—
Profit for the year attributable to owners of the Company	**204,259**	176,831	143,368	120,027	91,370
ASSETS AND LIABILITIES					
Total assets	**1,724,383**	1,545,636	1,330,211	1,142,430	343,204
Total liabilities	**(196,383)**	(195,142)	(142,945)	(116,963)	(40,572)
	1,528,000	1,350,494	1,187,266	1,025,467	302,632