

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)



2014
Interim Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Wang Mingxing (*Chairman*)
Wang Mingfeng
Wang Mingliang
Cheng Wenming
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*)
Sun Guohui
Cheng Wenming

AUDITOR

BDO Limited

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

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

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Chinese Bank Building
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Hong Kong

STOCK CODE

Hong Kong Stock Exchange: 1006

WEBSITE

<http://www.chinacornoil.com/>

Management Discussion and Analysis

The board (the “Board”) of directors (the “Directors”) of Changshouhua Food Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 together with the relevant comparative figures.

BUSINESS REVIEW

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 bulk sales mainly to other companies engaging in the sale of edible corn oil under their own brands.

During the six months ended 30 June 2014, total revenue of the Group decreased by approximately RMB145.8 million, or approximately 10.0% as compared with the six months ended 30 June 2013, while profit attributable to owners of the Company decreased by approximately RMB20.9 million, representing a decrease of approximately 15.0% as compared with the six months ended 30 June 2013. The decrease in revenue was mainly due to the decrease in selling price of the Group’s corn oil products which was affected by the falling market price of edible oil in the first half of 2014, coupled with the Chinese New Year this year was earlier than last year, resulting in a shortened sales season in the first quarter of 2014. The decrease in profit was mainly due to the lack of insurance income (“Insurance Income”) arose from the reimbursement by insurance for the loss caused by the fire accident occurred in November 2012 in an amount of approximately RMB26.2 million as recorded in the last corresponding period. After excluding the one-time effect of the Insurance Income, the Group recorded a slight increase in profit for the six months ended 30 June 2014 as compared with the corresponding period last year.

During the period under review, despite the weak performance of China’s edible oil market, the Group continued promoting its brand image and recognition, expanding its marketing and distribution network, and continued to step up the direct sales efforts in the first and second tier cities, while expanding marketing channels in the third and fourth tier cities through its distributors. After the market observation in 2013, the Group has launched the rice bran oil during the period under review to further diversify the portfolio of the Group’s high-end oil products. In addition, the Group put more efforts into marketing campaigns to boost the brand awareness of 長壽花 (Longevity Flower), and in enhancing professional knowledge and technologies. During the period, the Group’s various scientific achievements had passed authentication and reached advanced international standards.

The Group’s long-term and enduring development depends on its mature and stable marketing and distribution network. During the six months ended 30 June 2014, a total of 107 new representative offices of the Group were set up in the PRC. As at 30 June 2014, the Group had a distribution network of 1,397 wholesale distributors (31 December 2013: 972) and 156 retailers (31 December 2013: 146) covering all provincial-level administrative regions (except Tibet) in the Mainland China.

With increasing marketing and advertising efforts, enhanced production capacity and excellent product quality, the Group has achieved relatively good financial returns. For the six months ended 30 June 2014, despite the Group’s sales of corn oil under its own brand decreased by approximately RMB66.0 million or 7.4%, its gross profit generated increased by approximately RMB8.8 million or 3.3%. Sales volume of branded corn oil increased by approximately 4,059 tonnes or 5.9%, and sales volume of non-branded corn oil decreased by approximately 1,524 tonnes or 4.1% for the six months ended 30 June 2014 to 73,277 tonnes and 35,609 tonnes as compared with 69,218 tonnes and 37,133 tonnes for the six months ended 30 June 2013.

Management Discussion and Analysis

FINANCIAL REVIEW

For the six months ended 30 June 2014, the Group recorded revenue of approximately RMB1,311.5 million (30 June 2013: RMB1,457.2 million), representing a decrease of approximately 10.0%. For the six months ended 30 June 2014, the sales of (1) own-brand corn oil; (2) non-branded corn oil in bulk; (3) corn meal; and (4) other oil amounted to approximately RMB829.6 million, RMB249.8 million, RMB179.5 million and RMB52.6 million (30 June 2013: approximately RMB895.6 million, RMB314.7 million, RMB203.8 million and RMB43.1 million) respectively, and accounted for approximately 63.3%, 19.0%, 13.7% and 4.0% (30 June 2013: 61.4%, 21.6%, 14.0% and 3.0%) respectively of the Group's total revenue. Sales of the Group's corn oil products were made in the PRC for the six months ended 30 June 2013 and 2014.

Revenue and Gross Profit/(Loss)

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

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	RMB'000	%	RMB'000	%
Revenue				
Corn oil				
– Own-brand corn oil	829,556	63.3	895,585	61.4
– Non-branded corn oil	249,755	19.0	314,699	21.6
Corn meal	179,498	13.7	203,834	14.0
Other oil	52,645	4.0	43,089	3.0
	1,311,454	100.0	1,457,207	100.0
Gross profit/(loss)				
Corn oil				
– Own-brand corn oil	273,654	94.3	264,889	95.3
– Non-branded corn oil	6,847	2.3	8,081	2.9
Corn meal	(7,820)	(2.7)	(9,587)	(3.4)
Other oil	17,626	6.1	14,500	5.2
	290,307	100.0	277,883	100.0
Gross profit/(loss) ratio				
Corn oil				
– Own-brand corn oil		33.0		29.6
– Non-branded corn oil		2.7		2.6
Corn meal		(4.4)		(4.7)
Other oil		33.5		33.7
Overall		22.1		19.1

Management Discussion and Analysis

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:

	For the six months ended 30 June	
	2014	2013
Quantities sold (tonnes)		
Own-brand corn oil	73,277	69,218
Non-branded corn oil	35,609	37,133
Average selling price (RMB/tonne)		
Own-brand corn oil	11,321	12,939
Non-branded corn oil	7,014	8,475
Average unit cost of sales (RMB/tonne)		
Own-brand corn oil	7,586	9,112
Non-branded corn oil	6,822	8,257

Decrease in revenue

The decrease in revenue of the Group from approximately RMB1,457.2 million for the six months ended 30 June 2013 to approximately RMB1,311.5 million for the six months ended 30 June 2014 by approximately RMB145.8 million or 10.0% was mainly due to: (i) the decrease in the sales of own-brand corn oil by approximately RMB66.0 million or 7.4%, (ii) the decrease in the sales of non-branded corn oil by approximately RMB64.9 million or 20.6% and (iii) the decrease in the sales of corn meal by approximately RMB24.3 million or 11.9%, notwithstanding the increase in the sales of other oil by approximately RMB9.6 million or 22.2%.

The sales volume of own-brand corn oil increased from 69,218 tonnes for the six months ended 30 June 2013 to 73,277 tonnes for the six months ended 30 June 2014, representing an increase of approximately 5.9%. The increase in sales volume of own-brand corn oil was mainly due to the increasing demand resulting from: (i) the Group's expanded distribution network to the county, township and community, (ii) well-recognised own brand of 長壽花 (Longevity Flower) by consumers and (iii) well-accepted concept of "corn oil is healthy edible oil". Due to the decrease of average selling price of own-brand corn oil, affected by the falling market prices of edible oil in the first half of 2014, from RMB12,939 per tonne for the six months ended 30 June 2013 to RMB11,321 per tonne for the six months ended 30 June 2014, representing a decrease of approximately 12.5%, the sales of own-brand corn oil decreased by approximately 7.4%.

The sales volume of non-branded corn oil in bulk decreased by approximately 1,524 tonnes or 4.1% from 37,133 tonnes for the six months ended 30 June 2013 to 35,609 tonnes for the six months ended 30 June 2014. The average selling price of non-branded corn oil decreased by approximately 17.2% from RMB8,475 per tonne for the six months ended 30 June 2013 to RMB7,014 per tonne for the six months ended 30 June 2014, which was affected by the falling market prices of edible oil in the first half of 2014. The decrease in average selling price and sales volume resulted in a decrease of approximately 20.6% in the overall sales of non-branded corn oil.

Management Discussion and Analysis

The sales of other oil for the six months ended 30 June 2014 mainly comprised the sales of sunflower seed oil and olive oil. The sales volume of other oil significantly increased by approximately 1,222 tonnes or 43.1% from 2,838 tonnes for the six months ended 30 June 2013 to 4,060 tonnes for the six months ended 30 June 2014, which was mainly due to the expansion of the sales network as well as the increasing influence of the Group's brand of 長壽花 (Longevity Flower). The average selling price of other oil decreased by approximately 14.6% from RMB15,183 per tonne for the six months ended 30 June 2013 to RMB12,967 per tonne for the six months ended 30 June 2014, which was mainly affected by the falling market price of edible oil in the first half of 2014. During the period under review, the overall sales of other oil increased by approximately 22.2%.

The sales of corn meal decreased by approximately RMB24.3 million or 11.9% from RMB203.8 million for the six months ended 30 June 2013 to RMB179.5 million for the six months ended 30 June 2014, which was mainly attributable to the decrease in sales volume of corn meal by approximately 21.4% from 127,681 tonnes for the six months ended 30 June 2013 to 100,344 tonnes for the six months ended 30 June 2014, which was offset by the increase in average selling price of corn meal by approximately 12.1% from RMB1,596 per tonne for the six months ended 30 June 2013 to RMB1,789 per tonne for the six months ended 30 June 2014.

Changes in gross profit/(loss) and gross profit/(loss) margin

The gross profit for the six months ended 30 June 2014 was approximately RMB290.3 million (30 June 2013: RMB277.9 million) with gross profit margin of approximately 22.1% (30 June 2013: 19.1%), of which gross profit/(loss) margin for the sales of (i) own-brand corn oil, (ii) non-branded corn oil in bulk, (iii) corn meals, and (iv) other oil were approximately 33.0%, 2.7%, (4.4)% and 33.5% (30 June 2013: 29.6%, 2.6%, (4.7)% and 33.7%) respectively.

The Group's gross profit margin of own-brand corn oil increased from approximately 29.6% for the six months ended 30 June 2013 to approximately 33.0% for the six months ended 30 June 2014, which was mainly due to the decrease of approximately 16.7% in the average unit cost of sales which offset the decrease of approximately 12.5% in the average selling price during the period.

The gross profit margin for non-branded corn oil slightly increased from approximately 2.6% for the six months ended 30 June 2013 to approximately 2.7% for the six months ended 30 June 2014, which was mainly due to the decrease of average unit cost of sales of non-branded corn oil resulting from the decrease in purchase price of raw materials and the improved production efficiency.

The gross loss margin of corn meal slightly improved from approximately (4.7)% for the six months ended 30 June 2013 to approximately (4.4)% for the six months ended 30 June 2014.

The gross profit margin of other oil slightly dropped from approximately 33.7% for the six months ended 30 June 2013 to approximately 33.5% for the six months ended 30 June 2014, which was mainly due to the decrease in the average selling price of other oil products.

Management Discussion and Analysis

Cost of Sales

The cost of sales mainly included costs of raw materials, direct labour and manufacturing overhead. Direct labour costs included wages and other compensation paid to production workers. Manufacturing overhead included depreciation, freight costs, packaging and utilities expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 90.5% of the total cost of sales for the six months ended 30 June 2014 (30 June 2013: 91.2%).

Other Income

Other income for the six months ended 30 June 2014 of approximately RMB29.1 million (30 June 2013: RMB53.5 million) mainly comprised: (i) sales of scrap materials of approximately RMB15.4 million (30 June 2013: RMB15.9 million), (ii) bank and other interest income of approximately RMB5.1 million (30 June 2013: RMB8.0 million), (iii) short term investment income of approximately RMB6.7 million (30 June 2013: Nil), and (iv) compensation income from the insurance company of nil (30 June 2013: RMB26.7 million). The significant decrease in other income during the six months ended 30 June 2014 was mainly because of the lack of Insurance Income.

Selling and Distribution Expenses

Selling and distribution expenses decreased from approximately RMB133.0 million for the six months ended 30 June 2013 to approximately RMB130.0 million for the six months ended 30 June 2014. Selling and distribution expenses mainly comprised: (i) carriage and transportation charges of approximately RMB17.5 million (30 June 2013: RMB21.3 million), (ii) advertising and marketing expenses of approximately RMB30.1 million (30 June 2013: RMB41.5 million), (iii) expenses of representative offices of approximately RMB29.8 million (30 June 2013: RMB29.8 million), and (iv) sales staff costs of approximately RMB35.9 million (30 June 2013: RMB25.1 million).

The advertising and marketing expenses decreased by approximately RMB11.4 million was mainly due to optimization in the advertisements by reducing number of advertisements which have limited effect.

The Group has set up 107 new representative offices for the six months ended 30 June 2014 and expanded its marketing and distribution network to more cities in the PRC by increasing the number of wholesale distributors to 1,397 (31 December 2013: 972) for the six months ended 30 June 2014. Due to the better expense control by the Group, expenses of representative offices remained stable during the six months ended 30 June 2014 as compared with the six months ended 30 June 2013.

The increase in sales staff costs of approximately RMB10.8 million was mainly due to the increase in number of sales staff.

The management of the Group is confident that the continuous investments by the Group in the brand advertising campaigns and the expansion of distribution network for the six months ended 30 June 2014 will result in better sales performance and contribute to the Group's long-term growth.

Management Discussion and Analysis

Administrative Expenses

Administrative expenses of approximately RMB34.4 million (30 June 2013: RMB26.7 million) mainly comprised: (i) administrative staff costs of approximately RMB6.4 million (30 June 2013: RMB5.7 million), (ii) depreciation expenses of approximately RMB6.5 million (30 June 2013: RMB4.8 million), (iii) other taxes of approximately RMB4.5 million (30 June 2013: RMB6.7 million), (iv) legal and professional fees of approximately RMB1.2 million (30 June 2013: RMB2.2 million), and (v) exchange loss of approximately RMB4.1 million (30 June 2013: Nil).

The decrease in other taxes by approximately RMB2.2 million was mainly due to a decrease in urban maintenance and construction tax and education supplementary tax due to lower value-added tax paid during the six months ended 30 June 2014.

The decrease in legal and professional fees of approximately RMB1.0 million was mainly due to the decrease in professional consultancy fee.

Exchange loss of approximately RMB4.1 million for the six months ended 30 June 2014 was mainly arisen from the translation of interest-bearing bank borrowings denominated in Hong Kong Dollars and US Dollars at period end.

Profit before Taxation and Profit Attributable to Owners of the Company

The Group recorded profit before income tax of approximately RMB147.2 million for the six months ended 30 June 2014 (30 June 2013: RMB169.7 million), representing a decrease of approximately 13.3%. The Group's profit attributable to owners of the Company decreased by approximately 15.0% from approximately RMB139.7 million for the six months ended 30 June 2013 to approximately RMB118.8 million for the six months ended 30 June 2014.

The net profit margin of the Group for the six months ended 30 June 2014 was approximately 9.1% (30 June 2013: 9.6%). The basic earnings per share attributable to owners of the Company amounted to approximately RMB20.72 cents for the six months ended 30 June 2014 (30 June 2013: RMB26.55 cents).

The decrease in net profit margin was mainly due to the lack of Insurance Income during the six months ended 30 June 2014. The decrease in basic earnings per share attributable to owners of the Company was mainly due to the decrease in profit and increase in the weighted average number of ordinary shares.

Acquisition of Property, Plant and Equipment and Land Use Rights

As at 30 June 2014, deposits paid for acquisition of property, plant and equipment and land use rights amounted to approximately RMB71.7 million (31 December 2013: RMB20.6 million).

Trade and Notes Receivables

As at 30 June 2014, the total of trade and notes receivables amounted to approximately RMB304.1 million (31 December 2013: RMB297.5 million) comprising trade receivables of approximately RMB272.5 million (31 December 2013: RMB297.5 million) and notes receivables of approximately RMB31.6 million (31 December 2013: Nil). The decrease in trade receivables was mainly due to the Group's strengthened effort in recovering the trade receivables. The increased notes receivables were mainly used to pay off the construction costs for Hangzhou production plant.

Management Discussion and Analysis

Prepayments, Deposits and Other Receivables

As at 30 June 2014, prepayments, deposits and other receivables amounted to approximately RMB92.2 million (31 December 2013: RMB102.2 million) which mainly comprised: (i) deposits paid for purchase of raw materials of approximately RMB47.4 million (31 December 2013: RMB61.6 million); (ii) prepayment paid for advertising expenses of approximately RMB7.3 million (31 December 2013: RMB6.2 million); (iii) other receivables of approximately RMB29.1 million (31 December 2013: RMB29.9 million). The significant decrease in the deposits paid for purchase of raw materials was mainly due to a significant decrease in purchase of raw materials since June is a traditional low season when compared to December.

FUTURE PLANS

Research and development of new products

In addition to sunflower seed oil and olive oil, the Group targets to expand the sales of its new product, rice bran oil, and achieve the direct sale network in the PRC in the second half of 2014.

Expansion of capacity

The construction of the new refinery plant in Hangzhou with an annual production capacity of 100,000 tonnes is expected to commence operation in the second half of 2014.

CAPITAL STRUCTURE

The Company's issued share capital as at 30 June 2014 is HK\$57,356,000 divided into 573,560,000 shares of HK\$0.1 each.

The Group adopts a prudent treasury policy. Its gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) as at 30 June 2014 was 24.23% (31 December 2013: 2.11%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2014 was 2.3 times (31 December 2013: 4.7 times). The Group continues to monitor stringent debt collection policy so as to minimise the risks of sales on credit and to ensure that funds are timely collected.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group's interest-bearing bank borrowings, which was repayable within five years, amounted to approximately RMB489.1 million (31 December 2013: RMB41.5 million) with a floating interest rate at 2.95% per annum over LIBOR or 2.20% per annum over HIBOR (31 December 2013: 2.10% per annum over HIBOR). The Group's cash and bank balances and pledged bank deposits amounted to approximately RMB1,033.6 million (31 December 2013: RMB607.7 million).

Management Discussion and Analysis

MATERIAL ACQUISITION AND DISPOSALS

On 24 March 2014, a share transfer agreement was entered into with the owner of China Edible Oil Co. Ltd (“Edible Oil”), whom is an independent party, for the sale and purchase of the entire equity interest in Edible Oil at an aggregate consideration of HK\$160 million. Edible Oil and its subsidiary are principally engaged in the business of edible oil. Completion of the transaction took place on 18 April 2014.

Save as aforesaid, the Group did not have any material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2014.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Most transactions of the Group are settled in 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’s cash and bank deposits are predominantly in RMB. The Group’s interest-bearing bank borrowings are denominated in Hong Kong Dollars and US Dollars. 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.

PLEDGE ON GROUP ASSETS

As at 30 June 2014, the Group had not pledged any of its assets.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

The Group has capital commitment of approximately RMB41.8 million (31 December 2013: RMB40.4 million) as at 30 June 2014 which mainly represented commitments made for the construction of the new production plant in Hangzhou, as well as the purchase of the new production machinery and equipment during the period under review. The Group had operating lease commitments of approximately RMB3.2 million in respect of leasing of properties as at 30 June 2014 (31 December 2013: RMB4.2 million).

Management Discussion and Analysis

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 30 June 2014, the Group had a total of 4,491 employees (31 December 2013: 4,482). The employees of the Group were remunerated based on their experience, qualifications, the Group's performance and the market conditions. During the period under review, staff costs (including Directors' remunerations) amounted to approximately RMB52.1 million (30 June 2013: RMB40.6 million). Staff costs accounted for approximately 4.0% of the Group's turnover (30 June 2013: 2.8%) during the period under review.

Moreover, the share option scheme (the "Scheme") was adopted at 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 the then 6 executive Directors and 26 employees of the Group. During the year ended 31 December 2013, 1 executive Director and 26 employees of the Group exercised the options in an aggregate of 21,000,000 shares under the Scheme. During the six months ended 30 June 2014, no share options were granted, lapsed or exercised under the Scheme. The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

As required by the PRC regulations on social insurance, the Company 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options granted to the Directors under the Scheme, at no time during the six months ended 30 June 2014 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 30 June 2014.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group had no material contingent liabilities.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

SEGMENTAL INFORMATION

Details of segmental information of the Group as at 30 June 2014 are set out in note 4 to the interim financial information.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests or short position 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 (the "SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were 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 Transaction by Directors of Listed Issuers (the "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 shares	Approximate percentage of shareholding in the Company
Mr. Wang Mingxing	Interest of controlled corporations	Long position	269,037,249 (Note 1)	46.91%
	Beneficial owner	Long position	800,000 (Note 2)	0.14%
Mr. Wang Mingfeng	Interest of controlled corporations	Long position	269,037,249 (Note 1)	46.91%
	Beneficial owner	Long position	800,000 (Note 2)	0.14%
Mr. Wang Mingliang	Interest of controlled corporations	Long position	269,037,249 (Note 1)	46.91%
	Beneficial owner	Long position	800,000 (Note 2)	0.14%
Mr. Sun Guohui	Beneficial owner	Long position	800,000 (Note 2)	0.14%
Mr. Huang Da	Beneficial owner	Long position	800,000 (Note 2)	0.14%

Notes:

- 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 is wholly-owned by Shandong Sanxing Group Company Limited ("Shandong Sanxing"), which in turn is owned as to 24.4% by Mr. Wang Mingxing, 24.8% by Mr. Wang Mingfeng, 24.4% by Mr. Wang Mingliang.
- These interests are derived from the interests in the share options granted by the Company. The relevant details are set out in the section headed "Share Option Scheme".

Other Information

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	Shandong Sanxing	Beneficial owner	Long position	24.4%
	Sanxing Grease	Interest of controlled corporations	Long position	24.4%
	Sanxing Trade	Interest of controlled corporations	Long position	24.4%
	Corn Oil Luxembourg (Note)	Interest of controlled corporations	Long position	24.4%
Mr. Wang Mingfeng	Shandong Sanxing	Beneficial owner	Long position	24.8%
	Sanxing Grease	Interest of controlled corporations	Long position	24.8%
	Sanxing Trade	Interest of controlled corporations	Long position	24.8%
	Corn Oil Luxembourg (Note)	Interest of controlled corporations	Long position	24.8%
Mr. Wang Mingliang	Shandong Sanxing	Beneficial owner	Long position	24.4%
	Sanxing Grease	Interest of controlled corporations	Long position	24.4%
	Sanxing Trade	Interest of controlled corporations	Long position	24.4%
	Corn Oil Luxembourg (Note)	Interest of controlled corporations	Long position	24.4%

Notes: 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.

Save as disclosed above, none of the Directors or chief executive of the Company or their respective associates, had any interests or 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 30 June 2014.

Other Information

INTERESTS AND SHORT POSITION OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

As at 30 June 2014, the interests or short position of every person, other than Directors or chief executives 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 (<i>Note 1</i>)	Beneficial owner	Long position	268,883,630	46.88%
	Interest of controlled corporations	Long position	153,619	0.03%
Sanxing Grease (<i>Note 1</i>)	Interest of controlled corporations	Long position	269,037,249	46.91%
Shandong Sanxing (<i>Note 1</i>)	Interest of controlled corporations	Long position	269,037,249	46.91%
Munsun Asset Management (Asia) Ltd (<i>Note 2</i>)	Investment manager	Long position	138,581,000	24.16%
HSBC Bank plc (<i>Note 3</i>)	Beneficial owner	Long position	32,888,942	5.73%
HSBC Holdings plc (<i>Note 3</i>)	Interest of controlled corporations	Long position	32,888,942	5.73%

Notes:

- 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 wholly-owned 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.
- 30,145,000 shares were held by Munsun Absolute Fund, 44,744,000 shares were held by Munsun Umbrella Trust-Munsun Stable Growth Fund, 56,990,000 shares were held by Munsun Umbrella Trust-Munsun Agriculture and Consumer Fund, 6,130,000 shares were held by Munsun China Opportunity Investment Fund and 572,000 shares were held by Munsun China Select Fund, all of the above mentioned fund companies are wholly owned by Munsun Asset Management (Asia) Ltd ("Munsun Asset Management"), and therefore Munsun Asset Management is deemed to be interested in these 138,581,000 shares pursuant to the SFO.
- 32,888,942 shares were held by HSBC Bank plc which is wholly owned by HSBC Holdings plc, and therefore HSBC Holdings plc is deemed to be interested in these 32,888,942 shares pursuant to the SFO.

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 position in the shares or underlying shares of the Company as at 30 June 2014.

Other Information

SHARE OPTION SCHEME

The Company adopted 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) 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.

Details of movements in the Company's share options during the six months ended 30 June 2014 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 2014	Granted/ (Lapsed) during the period	Exercised during the period	Outstanding at 30 June 2014
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. 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
Total					4,000,000	—	—	4,000,000

As at 30 June 2014, the number of shares in respect of which options had been granted and remaining outstanding under the Scheme was 4,000,000 shares, representing 0.70% of the shares of the Company in issue as at that date.

Other Information

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 during the six months ended 30 June 2014.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange as its own code of corporate governance. During the six months ended 30 June 2014, the Company was in compliance with the code provisions set out in the CG Code except the deviation from code provision A.2.1, A.6.7 and E.1.2, which is explained below.

Code provision A.2.1 of the 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.

Pursuant to code provision A.6.7 of the Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Wang Aiguo and Mr. Wang Ruiyuan, being independent non-executive Directors, did not attend the 2014 annual general meeting of the Company held on 19 May 2014 ("2014 AGM"), due to their engagement in their own official business. However, they had actively participated in the Board and committees' meetings to understand the affairs of the Company.

Pursuant to code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting. He should invite the chairman of the audit, remuneration, nomination committee and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed, delegate, to attend. Mr. Wang Aiguo, the chairman of the audit committee (the "Audit Committee") and remuneration committee of the Company did not attend the 2014 AGM due to his engagement in his own official business. However, Mr. Liu Shusong, being a member of the Audit Committee and remuneration committee of the Company and Mr. Wang Mingxing, being a member of the remuneration committee of the Company at that time attended the 2014 AGM.

Save as the aforesaid and in the opinion of the Directors, the Company has met all code provisions set out in the CG code during the six months ended 30 June 2014.

Other Information

AUDIT COMMITTEE

The Company established the Audit Committee on 23 November 2009 with written terms of reference (“Terms of Reference”), which was revised on 21 December 2011 to comply with the relevant code provisions set out in the CG Code. The revised Terms of Reference is currently made available on the Stock Exchange’s website and the Company’s website.

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 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 unaudited interim financial report of the Group for the six months ended 30 June 2014.

On behalf of the Board
Changshouhua Food Company Limited
Wang Mingxing
Chairman

Hong Kong, 22 August 2014

Report on Review of Interim Financial Information



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To the Board of Directors of Changshouhua Food Company Limited

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 19 to 36 which comprises the consolidated statement of financial position of Changshouhua Food Company Limited as of 30 June 2014 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of 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.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

BDO Limited

Certified Public Accountants

Lo Ngai Hang

Practising Certificate Number P04743

Hong Kong, 22 August 2014

Consolidated Income Statement

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Revenue	5	1,311,454	1,457,207
Cost of sales		(1,021,147)	(1,179,324)
Gross profit		290,307	277,883
Other income	5	29,108	53,510
Selling and distribution expenses		(130,037)	(132,951)
Administrative expenses		(34,399)	(26,747)
Other operating expenses		(83)	(1,885)
Profit from operations	6	154,896	169,810
Finance costs	7	(7,746)	(82)
Profit before taxation		147,150	169,728
Income tax expense	8	(28,336)	(29,983)
Profit for the period		118,814	139,745
		RMB cents	RMB cents
Earnings per share for profit attributable to the owners of the Company during the period	9		
— Basic		20.715	26.555
— Diluted		20.664	N/A

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Profit for the period	118,814	139,745
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Exchange gain/(loss) on translation of financial statements of foreign operations	91	(15)
Other comprehensive income for the period, net of tax	91	(15)
Total comprehensive income for the period attributable to owners of the Company	118,905	139,730

Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	765,323	742,667
Land use rights		124,763	126,575
Goodwill	19	62,762	—
Deposits paid for acquisition of capital assets and land use rights		71,728	20,584
Deposits paid for acquisition of subsidiaries		—	43,337
		1,024,576	933,163
Current assets			
Inventories		340,488	310,089
Trade and notes receivables	12	304,074	297,468
Prepayments, deposits and other receivables		92,170	102,230
Amounts due from related companies		3,198	355
Pledged bank deposits	13	—	42,200
Cash and bank balances	13	1,033,590	565,473
		1,773,520	1,317,815
Current liabilities			
Trade payables	14	32,080	31,667
Accrued liabilities, other payables and deposits received		214,247	188,417
Amounts due to related companies		6,253	9,854
Interest-bearing bank borrowings	15	489,145	41,466
Dividend payables		17,751	—
Tax payables		19,542	11,611
		779,018	283,015
Net current assets		994,502	1,034,800
Net assets/Total assets less current liabilities		2,019,078	1,967,963
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	50,109	50,109
Reserves		1,968,969	1,917,854
Total equity		2,019,078	1,967,963

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Other reserves RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Translation reserve RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013	46,340	481,249	37,903	91,791	53,941	69,131	1,232	42,776	703,637	1,528,000
2012 final dividend	–	–	–	–	–	–	–	(42,776)	–	(42,776)
Transactions with owners	–	–	–	–	–	–	–	(42,776)	–	(42,776)
Profit for the period	–	–	–	–	–	–	–	–	139,745	139,745
Other comprehensive income – Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	–	(15)	–	–	(15)
Total comprehensive income for the period	–	–	–	–	–	–	(15)	–	139,745	139,730
At 30 June 2013 (unaudited)	46,340	481,249	37,903	91,791	53,941	69,131	1,217	–	843,382	1,624,954
At 1 January 2014	50,109	621,583	6,064	126,779	53,941	69,131	1,771	67,790	970,795	1,967,963
2013 final dividend	–	–	–	–	–	–	–	(67,790)	–	(67,790)
Transactions with owners	–	–	–	–	–	–	–	(67,790)	–	(67,790)
Profit for the period	–	–	–	–	–	–	–	–	118,814	118,814
Other comprehensive income – Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	91	–	–	91
Total comprehensive income for the period	–	–	–	–	–	–	91	–	118,814	118,905
At 30 June 2014 (unaudited)	50,109	621,583	6,064	126,779	53,941	69,131	1,862	–	1,089,609	2,019,078

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Net cash generated from/(used in) operating activities	148,686	(128,607)
Net cash used in investing activities	(66,953)	(115,587)
Net cash generated from financing activities	386,293	26,660
Net increase/(decrease) in cash and cash equivalents	468,026	(217,534)
Cash and cash equivalents at beginning of the period	565,473	501,166
Effect of foreign exchange rate changes on cash and cash equivalents	91	(15)
Cash and cash equivalents at end of the period	1,033,590	283,617

Notes to the Interim Financial Information

For the six months ended 30 June 2014

1. GENERAL CORPORATE INFORMATION

Changshouhua Food 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 “Stock Exchange”) since 18 December 2009.

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are the production and sale of edible oil, crude oil and corn meal.

The interim financial information for the six months ended 30 June 2014 was approved and authorised for issue by the board of directors on 22 August 2014.

2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standard 34 “Interim financial reporting” issued by the International Accounting Standards Board (the “IASB”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial information is unaudited, but has been reviewed by BDO Limited in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013.

3. ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2013, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning on or after 1 January 2014. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

4. 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.

Notes to the Interim Financial Information

For the six months ended 30 June 2014

4. SEGMENT INFORMATION (Continued)

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 oils, 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 International Financial Reporting Standards financial statements. There have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

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

	Six months ended 30 June 2014				
	Corn oil				
	Non-branded RMB'000 (unaudited)	Own brand RMB'000 (unaudited)	Other oil RMB'000 (unaudited)	Corn meal RMB'000 (unaudited)	Total RMB'000 (unaudited)
Revenue from external customers	249,755	829,556	52,645	179,498	1,311,454
Reportable segment revenue	249,755	829,556	52,645	179,498	1,311,454
Reportable segment profit/(loss)	6,847	273,654	17,626	(7,820)	290,307
Depreciation	6,877	15,738	991	5,303	28,909
	Six months ended 30 June 2013				
	Corn oil				
	Non-branded RMB'000 (unaudited)	Own brand RMB'000 (unaudited)	Other oil RMB'000 (unaudited)	Corn meal RMB'000 (unaudited)	Total RMB'000 (unaudited)
Revenue from external customers	314,699	895,585	43,089	203,834	1,457,207
Reportable segment revenue	314,699	895,585	43,089	203,834	1,457,207
Reportable segment profit/(loss)	8,081	264,889	14,500	(9,587)	277,883
Depreciation	5,687	11,698	530	3,959	21,874

Notes to the Interim Financial Information

For the six months ended 30 June 2014

4. SEGMENT INFORMATION (Continued)

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 income tax is set out below:

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Reportable segment profit	290,307	277,883
Other income	29,108	53,510
Selling and distribution expenses	(130,037)	(132,951)
Administrative expenses	(34,399)	(26,747)
Other operating expenses	(83)	(1,885)
Finance costs	(7,746)	(82)
Profit before taxation	147,150	169,728

5. 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:

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Revenue		
Sales of goods	1,311,454	1,457,207
Other income		
Interest income:		
— bank balances	3,713	3,293
— others	1,342	4,729
Sales of scrap materials	15,409	15,906
Compensation income from insurance company	—	26,692
Compensation income from sundry creditors	24	157
Gain on disposal of property, plant and equipment	—	663
Net foreign exchange gain	—	854
Government grants*	1,478	—
Others	7,142	1,216
	29,108	53,510

* The Group received grants from the relevant PRC government authorities in support of the Group's corn oil business in the PRC. There were no unfulfilled conditions to receive the grants.

Notes to the Interim Financial Information

For the six months ended 30 June 2014

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Cost of inventories recognised as expenses	924,455	1,075,860
Depreciation on property, plant and equipment	35,319	26,680
Amortisation of land use rights	1,812	836
Gain on disposal of property, plant and equipment	—	(663)
Operating lease charges on rented premises	1,517	1,437
Staff costs (including directors' remuneration)		
— Wages, salaries and bonus	50,319	38,630
— Contribution to defined contribution pension plan	1,783	1,943
Total staff costs	52,102	40,573
Net foreign exchange loss/(gain)	4,076	(854)

7. FINANCE COSTS

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Interest charges on financial liabilities stated at amortised cost:		
Interest-bearing bank borrowings — wholly repayable within five years	7,746	82

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
Current tax		
— Provision for PRC income tax	28,336	29,983

Notes to the Interim Financial Information

For the six months ended 30 June 2014

8. INCOME TAX EXPENSE (Continued)

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

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”) has been accredited as a High-tech Enterprise by the Accrediting Bodies under the Administrative Measures for Determination of High and New Technology Enterprises on 30 November 2012 and is subject to preferential tax rate of 15% for two years commencing from 1 January 2013. For the year ended 31 December 2013 and the six months ended 30 June 2014, Corn Industry is subject to enterprise income tax rate of 15%.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2014 (unaudited)	2013 (unaudited)
Earnings	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share	118,814	139,745
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	573,560,000	526,250,000
Effect of dilutive potential ordinary shares — share options	1,422,000	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	574,982,000	N/A

No diluted earnings per share has been presented for the six months ended 30 June 2013 because the exercise price of the Company’s share options was higher than the average market price for shares for the period.

10. INTERIM DIVIDEND

The board of directors of the Company resolved not to declare an interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

Notes to the Interim Financial Information

For the six months ended 30 June 2014

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group incurred capital expenditure of approximately RMB36,906,000 (six months ended 30 June 2013: RMB119,806,000) in construction in progress, approximately RMB660,000 (six months ended 30 June 2013: RMB132,000) in office equipment, approximately RMB12,974,000 (six months ended 30 June 2013: RMB4,523,000) in plant and machinery, approximately RMB7,326,000 (six months ended 30 June 2013: RMB3,115,000) in buildings, and approximately RMB7,000 (six months ended 30 June 2013: RMB285,000) in motor vehicles, excluding property, plant and equipment acquired through a business combination (note 19).

12. TRADE AND NOTES RECEIVABLES

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Trade receivables	272,514	297,468
Notes receivables	31,560	—
	304,074	297,468

Trade receivables are non-interest bearing. 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. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

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

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Within 60 days	177,733	215,004
61 — 90 days	49,590	26,186
91 — 180 days	41,644	52,197
181 — 365 days	32,465	3,821
Over 365 days	2,642	260
	304,074	297,468

Notes to the Interim Financial Information

For the six months ended 30 June 2014

13. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Pledged bank deposits	—	42,200
Cash at bank and in hand	231,390	414,703
Short-term bank deposits	802,200	150,770
	1,033,590	565,473
	1,033,590	607,673

14. TRADE PAYABLES

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

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

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Within 30 days	8,151	15,504
31 — 60 days	6,466	5,069
61 — 90 days	4,381	2,548
91 — 180 days	7,560	4,542
181 — 365 days	4,346	2,970
Over 365 days	1,176	1,034
	32,080	31,667

Notes to the Interim Financial Information

For the six months ended 30 June 2014

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Secured bank borrowing repayable within one year	—	41,466
Unsecured bank borrowings		
— repayable within one year	174,603	—
— repayable after one year which contain a repayment on demand clause	314,542	—
	489,145	—
	489,145	41,466

The analysis of the Group's bank borrowings by scheduled repayment at the reporting date were as follows:

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
On demand or within one year	174,603	41,466
More than one year, but not exceeding two years	82,282	—
More than two years, but not exceeding five years	232,260	—
	489,145	41,466

As at 30 June 2014, the Group's interest-bearing bank borrowings are bearing floating interest rate at 2.95% per annum over LIBOR or 2.20% per annum over HIBOR (31 December 2013: 2.10% per annum over HIBOR).

As at 30 June 2014, the Group's bank borrowings of RMB158,810,000 were guaranteed by the Company's subsidiaries.

The Group's interest-bearing bank borrowing as at 31 December 2013 is secured by irrevocable standby letter of credit issued by a bank which is then secured by the pledge of the Group's bank deposits of approximately RMB42,200,000 as at 31 December 2013 (note 13).

Notes to the Interim Financial Information

For the six months ended 30 June 2014

16. SHARE CAPITAL

	Number of shares	Amount HK\$
Authorised:		
At 31 December 2013 and 30 June 2014, ordinary shares of HK\$0.10 each	9,000,000,000	900,000,000
Issued and fully paid:		
At 31 December 2013 and 30 June 2014, ordinary shares of HK\$0.10 each	573,560,000	57,356,000

The issued and fully paid share capital is equivalent to approximately RMB50,109,000 as at 31 December 2013 and 30 June 2014.

17. COMMITMENT

Operating lease commitment

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

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Within one year	1,652	2,023
In the second to fifth years	1,386	1,912
After five years	121	288
	3,159	4,223

The Group leases a number of properties under operating lease and leasehold land. The leases run for initial period of 6 months to 10 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.

Notes to the Interim Financial Information

For the six months ended 30 June 2014

17. COMMITMENT (Continued)

Capital commitment

At the end of the reporting date, the Group had the following capital commitments:

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Property, plant and equipment:		
Contracted but not provided for	41,817	40,443
Authorised but not contracted for	—	-
	41,817	40,443

18. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the interim financial information, the Group had the following transactions with related parties at agreed terms.

		Six months ended 30 June	
		2014 (unaudited) RMB'000	2013 (unaudited) RMB'000
	Notes		
Sales to related companies	(i)	513	855
Purchases from related companies	(ii)	—	205
Supply of steam and electric power from a related company	(iii)	20,092	17,534
Subcontracting services rendered by a related company	(iv)	2,068	2,574
Property, plant and equipment purchased from a related company	(v)	833	—
Construction services rendered by related companies	(vi)	—	23,936

Notes to the Interim Financial Information

For the six months ended 30 June 2014

18. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) Sales to related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang, Mr. Sun Guohui and Mr. Cheng Wenming have beneficial interest, were made in the ordinary course of business with reference to the terms negotiated between the Group and the related companies.
- (ii) Purchases from related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang, Mr. Sun Guohui and Mr. Cheng Wenming 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, Mr. Sun Guohui and Mr. Cheng Wenming 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, Mr. Sun Guohui and Mr. Cheng Wenming have beneficial interest in the related company, were made according to the terms of the agreements.
- (v) Property, plant and equipment purchased from a related company, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang, Mr. Sun Guohui and Mr. Cheng Wenming have beneficial interest, was conducted under mutually agreed terms negotiated between the Group and the related company.
- (vi) Construction services rendered by related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang, Mr. Sun Guohui and Mr. Cheng Wenming have beneficial interest, were conducted under mutually agreed terms negotiated between the Group and the related companies.

19. ACQUISITION OF SUBSIDIARIES

On 24 March 2014, the Company entered into an agreement to acquire the entire equity interest of China Edible Oil Company Limited (“Edible Oil”) and its subsidiary (collectively the “Edible Oil Group”) at a consideration of HK\$160,000,000 (equivalent to approximately RMB126,898,000) by cash. The acquisition was completed on 18 April 2014.

Edible Oil is an investment holding company incorporated in the BVI which holds 100% equity interest of 廣州久久福食品有限公司 (“Guangzhou Jiu Jiu Fu”), a company incorporated in the PRC which is principally engaged in the trading of edible oil.

The acquisition was made with the aims to expand the Group’s production capacity by constructing new production plants on the land to be acquired by Guangzhou Jiu Jiu Fu and to better manage the Group’s sales and distribution networks.

Notes to the Interim Financial Information

For the six months ended 30 June 2014

19. ACQUISITION OF SUBSIDIARIES (Continued)

Details of the net assets acquired and goodwill are as follows:

	(unaudited) RMB'000
Purchase consideration	
Cash	<u>126,898</u>
Fair value of net assets acquired	<u>(64,136)</u>
Goodwill	<u>62,762</u>

The fair value of identifiable assets and liabilities of Edible Oil Group as at the date of acquisition are as follows:

	(unaudited) RMB'000
Property, plant and equipment	102
Deposits paid for acquisition of land use rights	33,990
Inventories	7,431
Trade and other receivables	24,999
Cash and bank balances	877
Accrued liabilities, other payables and deposits received	<u>(3,263)</u>
Net assets acquired	<u>64,136</u>

An analysis of net cash outflow in respect of the acquisition is as follows:

	(unaudited) RMB'000
Cash consideration	(126,898)
Deposits paid in prior year	43,337
Cash consideration payable as at 30 June 2014	39,656
Cash and bank balances acquired	<u>877</u>
Net cash outflow for the six months ended 30 June 2014	<u>(43,028)</u>

Notes to the Interim Financial Information

For the six months ended 30 June 2014

19. ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

The fair value of trade and other receivables amounted to RMB24,999,000. The gross amount of these receivables is RMB24,999,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of RMB62,762,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the acquisition date, Edible Oil Group has contributed revenue and loss after tax of approximately RMB9,602,000 and RMB705,000 respectively to the Group. If the acquisition had occurred on 1 January 2014, the Group's revenue and profit after tax would have been approximately RMB1,353,656,000 and RMB115,785,000 respectively for the six months ended 30 June 2014. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future performance.

The acquisition-related costs were not material. They have been expensed and are included in administrative expenses.