

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)

Interim Report

2016





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Corporate Information

Board of Directors

Executive Directors

Wang Mingxing (*Chairman*)
Wang Mingfeng
Wang Mingliang
Cheng Wenming
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 Mingfeng
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
Industrial and Commercial Bank of China,
Zouping Sub-branch
Wing Lung Bank Limited

Registered Office

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

Corporate Information (continued)

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/>



Management Discussion and Analysis

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

The Group recorded revenue of approximately RMB1,362.6 million for the six months ended 30 June 2016, representing an increase of approximately 3.1% over the revenue of RMB1,321.8 million for the six months ended 30 June 2015. For the six months ended 30 June 2016, the Group's profit attributable to owners of the Company increased by approximately 11.1% to approximately RMB119.2 million. Meanwhile, the overall sales of edible oil remained flat at approximately 119,924 tonnes. The overall gross profit margin of edible oil has been improved and increased in the first half of 2016 as compared with the second half of 2015, driven by the improvement in the edible oil market in China and increase in the average selling price of the edible oil.

The Group continued to prioritize own brand development and gradually introduce other different types of edible oil products under the brand of “長壽花” (Longevity Flower). In the future, the Group will focus more on developing its own brand, and gradually reduce its revenue portion from non-branded corn oil to meet in line with development policies of the Company for its long term benefits. The Group's long-term and enduring development depends on its mature and stable marketing and distribution network. As at 30 June 2016, the Group had a distribution network of 1,472 (31 December 2015: 1,460) wholesale distributors and 157 (31 December 2015: 157) retailers, covering all provincial-level administrative regions (except Tibet) of the PRC.

Financial Review

For the six months ended 30 June 2016, the Group recorded revenue of approximately RMB1,362.6 million (2015: RMB1,321.8 million), representing an increase of approximately 3.1%. For the six months ended 30 June 2016, the sales of (1) own-brand edible oil; (2) non-branded edible oil; and (3) corn meal amounted to approximately RMB992.2 million, RMB236.5 million and RMB133.9 million (2015: approximately RMB979.8 million, RMB205.9 million and RMB136.1 million) respectively, accounting for approximately 72.8%, 17.4% and 9.8% (2015: 74.1%, 15.6% and 10.3%) respectively of the Group's total revenue. The Group's profit attributable to owners of the Company increased by approximately 11.1% to approximately RMB119.2 million.

Sales of the Group's products took place in the PRC for the six months ended 30 June 2015 and 2016. Other than the edible corn oil produced by ourselves and the own-brand rice germ oil which was developed by our own technology and manufactured by third parties, other own-brand edible oil and/or its raw material crude oil were purchased externally.

Management Discussion and Analysis (continued)

Revenue

For the six months ended 30 June 2016, the Group's revenue increased by approximately 3.1% (i.e. RMB40.7 million) to approximately RMB1,362.6 million. The overall PRC edible oil market started to improve during the first half of 2016, while the sales of the Group's own-brand corn oil maintained its steady growth.

The following table sets forth the breakdown of revenue by product categories:

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	RMB'000	%	RMB'000	%
Own-brand edible oil	992,164	72.8%	979,839	74.1%
Non-branded edible oil	236,460	17.4%	205,909	15.6%
Corn meal	133,939	9.8%	136,098	10.3%
	1,362,563	100%	1,321,846	100%

Revenue of own-brand edible oil and non-branded edible oil increased by approximately 1.3% (i.e. approximately RMB12.3 million) and approximately 14.8% (i.e. approximately RMB30.6 million) respectively. Nevertheless, the revenue of corn meal decreased by 1.6% (i.e. approximately RMB2.2 million).

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Quantities (tonnes)	% of overall edible oil	Quantities (tonnes)	% of overall edible oil
Brand of 長壽花 (Longevity Flower)				
Corn oil	81,492	68.0%	79,662	66.0%
Other edible oil	8,544	7.1%	11,550	9.5%
	90,036	75.1%	91,212	75.5%
Non-branded				
Corn oil	26,242	21.9%	20,429	16.9%
Other edible oil	3,646	3.0%	9,128	7.6%
	29,888	24.9%	29,557	24.5%
Overall edible oil	119,924	100%	120,769	100%
Corn meal	151,504		102,782	

Management Discussion and Analysis (continued)

The following table sets forth the breakdown of gross profit (loss) by major product categories:

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	RMB'000	Proportion of Gross profit (loss) %	RMB'000	Proportion of Gross profit (loss) %
Brand of 長壽花 (Longevity Flower)				
Corn oil	242,407	80.9%	263,109	91.6%
Other edible oil	44,472	14.9%	41,777	14.5%
	286,879	95.8%	304,886	106.1%
Non-branded				
Corn oil	16,439	5.5%	5,658	2.0%
Other edible oil	1,397	0.5%	2,283	0.8%
	17,836	6.0%	7,941	2.8%
Corn meal	(5,249)	(1.8)%	(25,614)	(8.9)%
Overall gross profit	299,466	100%	287,213	100%

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

	Six months ended 30 June 2016 Gross profit (loss) margin	Six months ended 30 June 2015 Gross profit (loss) margin
Brand of 長壽花 (Longevity Flower)		
Corn oil	27.7%	31.4%
Other edible oil	38.2%	29.4%
	28.9%	31.1%
Non-branded		
Corn oil	7.9%	3.9%
Other edible oil	5.1%	3.7%
	7.5%	3.9%
Corn meal	(3.9)%	(18.8)%
Overall	22.0%	21.7%

Management Discussion and Analysis (continued)

The following table shows the fluctuation of average selling prices of the Group's edible oil products:

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Average selling price (RMB/ton)	Average unit cost of sales (RMB/ton)	Average selling price (RMB/ton)	Average unit cost of sales (RMB/ton)
Brand of 長壽花 (Longevity Flower)				
Corn oil	10,745	7,770	10,515	7,212
Other edible oil	13,642	8,437	12,310	8,692
Non-branded				
Corn oil	7,974	7,347	7,082	6,805
Other edible oil	7,463	7,080	6,708	6,458

Own-brand edible oil

For the six months ended 30 June 2016, the overall gross profit margin of own-brand edible oil was approximately 28.9%. The gross profit margin of own-brand edible oil (including corn oil) has improved and increased as compared with the second half of 2015.

Non-branded edible oil

For the six months ended 30 June 2016, the gross profit and gross profit margin of non-branded edible oil increased significantly, mainly driven by the increase in the sales volume and average selling price of non-branded corn oil.

By-product — corn meal

The demand for corn meal increased, owing to the great improvement in the operation of the PRC poultry farming industry. For the six months ended 30 June 2016, gross loss of corn meal declined markedly to 3.9%.

Cost of Sales

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, electricity and steam power, indirect labour and oil bags expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 88.4% of total cost of sales for the six months ended 30 June 2016 (2015: 90.0%).

Other Income

Other income for the six months ended 30 June 2016 was approximately RMB35.7 million (2015: RMB37.1 million), which mainly comprised: (i) sale of scrap materials of approximately RMB11.2 million (2015: RMB12.5 million), (ii) bank and other interest income of approximately RMB12.1 million (2015: RMB17.4 million), and (iii) government grants and subsidies of approximately RMB6.3 million (2015: RMB5.5 million).

Management Discussion and Analysis (continued)

Selling and Distribution Costs

Selling and distribution costs increased from approximately RMB136.5 million for the six months ended 30 June 2015 to approximately RMB153.0 million for the six months ended 30 June 2016. Selling and distribution costs mainly comprised: (i) carriage and transportation charges of approximately RMB7.3 million (2015: RMB14.6 million), (ii) advertising and marketing expenses of approximately RMB44.3 million (2015: RMB23.7 million), (iii) expenses of representative offices of approximately RMB41.6 million (2015: RMB40.7 million), and (iv) sales staff costs of approximately RMB38.4 million (2015: RMB32.1 million). Advertising and marketing expenses increased significantly in the first half of 2016, mainly in line with the new spokesperson and revamp of the brand.

Administrative Expenses

Administrative expenses of approximately RMB38.2 million (2015: RMB36.1 million) mainly comprised: (i) administrative staff costs of approximately RMB10.1 million (2015: RMB8.4 million), (ii) depreciation expenses of approximately RMB6.8 million (2015: RMB8.7 million), (iii) other taxes of approximately RMB5.1 million (2015: RMB7.3 million), and (iv) legal and professional fees of approximately RMB1.4 million (2015: RMB2.6 million).

Income Tax Expense

For the six months ended 30 June 2016, the income tax expense of the Group decreased significantly to approximately RMB21.7 million (for the six months ended 30 June 2015: RMB35.8 million). The decrease of dividends in 2015 served as the main reason for the decline in withholding income tax, as compared with the corresponding period in 2015. Furthermore, the Group benefited from the amendment of tax provisions published by the State Administration of Taxation of the People's Republic of China in relation to income tax expense deductible from research and development expenses.

Profit Before Income Tax and Profit Attributable to Owners of the Company

The Group recorded profit before income tax of approximately RMB140.9 million for the six months ended 30 June 2016 (2015: RMB143.1 million), representing a slight decrease of approximately 1.6%, mainly due to the significant increase of advertising and marketing expenses in line with the new spokesperson and brand upgrading. Benefited from the decrease of income tax expense, the Group's profit attributable to owners of the Company increased by approximately 11.1% to approximately RMB119.2 million.

The net profit margin of the Group for the six months ended 30 June 2016 was approximately 8.8% (2015: 8.1%). The basic earnings per share attributable to owners of the Company increased to approximately RMB20.79 cents for the six months ended 30 June 2016 (2015: RMB18.71 cents).

Management Discussion and Analysis (continued)

Acquisition of Property, Plant and Equipment

As at 30 June 2016, the Group's deposits paid for the acquisition of property, plant and equipment increased to approximately RMB41.3 million (31 December 2015: RMB13.5 million), mainly due to the improvement of plant and equipment and the acquisition of office premises.

Trade and Notes Receivables

As at 30 June 2016, trade and notes receivables totalled approximately RMB458.3 million (31 December 2015: RMB469.7 million).

Prepayments, Deposits and Other Receivables

As at 30 June 2016, prepayments, deposits and other receivables amounted to approximately RMB143.1 million (31 December 2015: RMB134.7 million) which mainly comprised: (i) deposits paid for purchase of raw materials of approximately RMB64.9 million (31 December 2015: RMB76.7 million); (ii) other receivables of approximately RMB47.5 million (31 December 2015: RMB32.0 million).

Progress in the Five-Year Business Development Plan (2016–2020)

In response to the PRC's ever changing edible oils industry, the Group announced that it had formulated a five-year business development plan for its brand of “長壽花” (Longevity Flower) in its interim results announcement last year, in order for our business model to better cope with future challenges.

1. Brand upgrading

The brand image of “長壽花” (Longevity Flower) as a healthy product in medium and high-end markets is further enhanced through the concept of Changshouhua corn oil as healthy edible oil:

Revamp of the brand image of “長壽花” (Longevity Flower)

Ms. Fan Bingbing, an international superstar, became the new spokesperson of the brand of “長壽花” (Longevity Flower). Since then, her trustworthy and healthy image have helped shaping “長壽花” (Longevity Flower) as a young, high-end and healthy brand targeting medium and high-end consumer groups, including young families and individuals who pursue a high-quality lifestyle.

Reviewing and changing packaging on a regular basis

To embrace the peak season of sales in the second half of 2016 and unify packaging, packages of other oil products of Changshouhua have been replaced gradually by the new packages of Ms. Fan Bingbing version. Meanwhile, the Group continues to review and change packaging on a regular basis, in an effort to refresh shopping experience for consumers and maintain its young and vibrant brand image.

Management Discussion and Analysis (continued)

The Fifth National wholesale distributors Conference of Changshouhua

The Group invited Ms. Fan Bingbing to participate in the Fifth National Dealers Conference of Changshouhua and to communicate with 1,100 wholesale distributors from more than 30 provinces and municipalities. The event served as the preparation for the orders and work for the coming peak season of sales during the Mid-Autumn Festival.

Advertising campaigns

In line with Ms. Fan Bingbing becoming the new spokesperson of the brand, new advertising campaigns have been launched extensively in different areas through different media channels. There was significant increase in marketing and advertising for brand building.

2. Product diversification

The Group aims to attract more potential consumers by further diversifying its product categories:

Changshouhua rice germ oil

“天然營養比·原生谷維素”, the Group's rice germ oil is rich in vitamin E, phytocholesterols and contains 13,800 ppm of oryzanol, the highest in the industry, featuring “a natural balance of nutrients and original oryzanol”. Apart from retail channels, the rice germ oil is currently promoted through the wholesale distributor network gradually.

Changshouhua rapeseed oil

Two distinctive rapeseed oil products, special flavoured rapeseed oil and pure flavoured rapeseed oil, have started their sales through the distributors in Yangtze River Basin region.

Changshouhua peanut oil/olive oil/sunflower seed oil

The Group continued to enrich consumer choice by introducing healthy oil products, such as peanut oil, sunflower seed oil and olive oil, to complement the edible oil products under the brand of “長壽花” (Longevity Flower).

Food products under the Changshouhua Kitchen series

The Group has introduced grains such as small size packing millet, Northeast Rice and mung beans for trial sale at Changshouhua Kitchen experience stores in the first quarter of 2016. The Group plans to develop a series of food products under the brand of “Changshouhua Kitchen” in long term to offer more choices to our customers.

3. Expanding and optimising sales network

For the six months ended 30 June 2016, the Group had 1,472 wholesale distributors and 157 retailers for its distribution network, covering all provincial-level administrative regions in mainland China (except Tibet) with approximately 170,000 domestic sales locations. The Group's future objective is to gradually expand its distribution network into all counties, townships and communities in the PRC.

Expansion in sales channel cooperation

In addition to the continuous close cooperation with retailers and the promotion of a cooperative alliance model, the Group also reviews and optimises the layout of traditional sales channels on a regular basis, such as developing cooperation with small and medium-sized supermarkets, reviewing the list of partner dealers regularly, introducing new cooperative dealers and improving the market coverage of sales terminals.

Management Discussion and Analysis (continued)

To keep up with the major future trend of combining e-commerce with the Internet, the Group has established an e-commerce department in the third quarter of 2015, to develop its online sales channel. The department will be an important sales channel in the future.

In addition, the Group has successively opened Changshouhua Kitchen experience stores in order to complement the future series of “Changshouhua Kitchen” products and offer consumers the one-stop shopping experience of healthy kitchen supplies.

Sales network layout and expansion in specific regions

The Group aims to unleash the potential of third and fourth-tier Chinese cities and build on an extensive wholesale distribution network which almost covers all county-level cities across the country to further its network expansion and improve market coverage. In the future, the Group will solidify its leading position by allocating its resources to brand development and cooperation with direct retail stores such as supermarkets and hypermarkets across seven major regions, including Zhejiang Province, Shandong Province, Beijing and Tianjin, Guangdong Province, Hubei Province, Chongqing and the three provinces in northeast China. In five provinces, namely Henan, Hebei, Jiangsu, Shanxi and Sichuan, the Group will let wholesale distributors take the lead, to ensure that its extensive sales network operates more effectively and that its products reach target consumers.

Capital Structure

The Company's issued share capital as at 30 June 2016 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 2016 was 8.8% (31 December 2015: 9.1%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2016 was 3.1 times (31 December 2015: 3.4 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 2016, the Group's borrowings amounted to approximately RMB206.3 million (31 December 2015: RMB207.6 million). The Group's cash and bank balances amounted to RMB861.4 million (31 December 2015: RMB948.7 million).

Material Acquisition and Disposal

The Group did not have any material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2016.

Management Discussion and Analysis (continued)

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 under 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.

Currently, RMB is not freely convertible. Part of the Group's income and profit in RMB can be converted to other currencies in order to fulfill the Group's foreign exchange liabilities such as distribution of dividends (if any).

Pledge on Group Assets

As at 30 June 2016, none of the assets of the Group was pledged (31 December 2015: Nil).

Capital Commitments and Operating Lease Commitments

The Group had capital commitment of approximately RMB6.6 million as at 30 June 2016 (31 December 2015: RMB10.4 million), which mainly represented commitments made for purchase of fixed assets. The Group had operating lease commitments of approximately RMB2.1 million in respect of leased properties as at 30 June 2016 (31 December 2015: RMB2.3 million).

Employee Benefits and Remuneration Policies

As at 30 June 2016, the Group had a total of 4,840 employees (31 December 2015: 4,365). The employees of the Group were remunerated based on their experience, qualifications, the Group's results and the market condition. For the six months ended 30 June 2016, staff costs (including Directors' remunerations) amounted to approximately RMB59.9 million (30 June 2015: RMB51.5 million). For the six months ended 30 June 2016, staff costs accounted for approximately 4.4% of the Group's turnover (30 June 2015: 3.9%).

Directors' Rights to Acquire Shares or Debentures

Save for the derivative interests from the two sets of zero coupon secured exchangeable bond due 2018, which are to be disclosed under the section headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES", at no time during the six months ended 30 June 2016 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.

Management Discussion and Analysis (continued)

Significant Investments Held

There were no significant investments held by the Company as at 30 June 2016.

Contingent Liabilities

As at 30 June 2016, the Group has no material contingent liabilities.

Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).



Other Information

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

As at 30 June 2016, 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 (Chapter 571, Laws of Hong Kong) (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	299,037,249 (Note)	52.14%
	Beneficial owner	Long position	5,996,000	1.05%
Mr. Wang Mingfeng	Interest of controlled corporations	Long position	299,037,249 (Note)	52.14%
Mr. Wang Mingliang	Interest of controlled corporations	Long position	299,037,249 (Note)	52.14%

Note: Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to be interested in 279,142,249 shares and 19,895,000 derivative shares held by SanXing Trade Co., Ltd. ("SanXing Trade"), whereby SanXing Trade 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, and 24.4% by Mr. Wang Mingliang. The 19,895,000 derivative shares were derived from the zero coupon secured exchangeable bond due 2018 ("Exchangeable Bond") pursuant to the subscription agreement entered into between SanXing Trade and Munsun Financial Investment Fund LP dated 30 April 2015. The relevant details are set out in the announcement made by the Company dated 30 April 2015.

Other Information (continued)

2. Interests in Associated Corporations

Name of Director	Name of associated corporations	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%
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%
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%

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 2016.

Other Information (continued)

Substantial Shareholders

As at 30 June 2016, the interests or short positions 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	Beneficial owner	Long position	299,037,249 <i>(Note)</i>	52.14%
Sanxing Grease	Interest of controlled corporations	Long position	299,037,249 <i>(Note)</i>	52.14%
Shandong Sanxing	Interest of controlled corporations	Long position	299,037,249 <i>(Note)</i>	52.14%
Koo Yuen Kim	Beneficial Owner	Long position	64,168,881	11.19%

Note: Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to be interested in 279,142,249 shares and 19,895,000 derivative shares held by SanXing Trade, whereby SanXing Trade is wholly-owned by Sanxing Grease, which is wholly-owned by Shandong Sanxing, which in turn is owned as to 24.4% by Mr. Wang Mingxing, 24.8% by Mr. Wang Mingfeng and 24.4% by Mr. Wang Mingliang. The 19,895,000 derivative shares were derived from the Exchangeable Bond.

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 2016.

Share Option Scheme

The Company adopted the 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) 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.

Other Information (continued)

None of the share options granted remained outstanding at 1 January 2016 and no other share option has been granted during the six months ended 30 June 2016.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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 during the six months ended 30 June 2016.

Corporate Governance Practices

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2016, the Company has been in compliance with the relevant code provisions set out in the CG Code except for the deviation from code provision A.2.1 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, is also 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 the current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Save as the aforesaid and in the opinion of the Directors, the Company has been in compliance with the relevant code provisions set out in the CG code during the six months ended 30 June 2016.

Other Information (continued)

Changes of Information in Respect of Directors

Below are the changes in Directors' information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

1. Mr. Sun Guohui retired from office as executive Director upon conclusion of the annual general meeting of the Company held on 26 May 2016 and ceased to be a member of the corporate governance committee of the Company.
2. Mr. Wang Mingfeng has been appointed as a member of the corporate governance committee of the Company in place of Mr. Sun Guohui with effect from 26 May 2016.

Audit Committee

The Company established the Audit Committee on 23 November 2009 with written terms of reference, which was revised on 21 December 2011 and further revised on 16 December 2015 to comply with the code provisions under the CG Code. The 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, reappointment 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 to review the risk management and the internal control systems.

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 2016.

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

Hong Kong, 24 August 2016

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 21 to 36 which comprises the consolidated statement of financial position of Changshouhua Food Company Limited as of 30 June 2016 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.

Report on Review of Interim Financial Information (continued)

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

Wong Kwok Wai

Practising Certificate Number P06047

Hong Kong, 24 August 2016

Consolidated Income Statement

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Revenue	5	1,362,563	1,321,846
Cost of sales		(1,063,097)	(1,034,633)
Gross profit		299,466	287,213
Other income	5	35,703	37,104
Selling and distribution costs		(153,006)	(136,474)
Administrative expenses		(38,166)	(36,096)
Other operating expenses		(84)	(189)
Profit from operations	6	143,913	151,558
Finance costs	7	(3,012)	(8,437)
Profit before income tax		140,901	143,121
Income tax expense	8	(21,653)	(35,817)
Profit for the period attributable to owners of the Company		119,248	107,304
		RMB cents	RMB cents
Earnings per share attributable to owners of the Company	9		
— Basic		20.791	18.708
— Diluted		N/A	N/A

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Profit for the period	119,248	107,304
Other comprehensive income that may be reclassified subsequently to profit or loss		
Exchange loss on translation of financial statements of foreign operations	(680)	(120)
Other comprehensive income for the period, net of tax	(680)	(120)
Total comprehensive income for the period attributable to owners of the Company	118,568	107,184

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	770,511	795,875
Land use rights		168,129	169,720
Goodwill		62,762	62,762
Deposits paid for acquisition of capital assets		41,320	13,530
		1,042,722	1,041,887
Current assets			
Inventories		468,029	198,492
Trade and notes receivables	12	458,272	469,705
Prepayments, deposits and other receivables		143,061	134,683
Amounts due from related companies		2,887	2,985
Cash and bank balances	13	861,428	948,727
		1,933,677	1,754,592
Current liabilities			
Trade payables	14	61,501	87,864
Accrued liabilities, other payables and deposits received		141,173	174,586
Dividend payable		20,935	18,768
Amounts due to related companies		178,655	6,776
Borrowings	15	206,301	207,569
Tax payable		12,405	16,031
		620,970	511,594
Net current assets		1,312,707	1,242,998
Net assets		2,355,429	2,284,885
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	50,109	50,109
Reserves		2,305,320	2,234,776
Total equity		2,355,429	2,284,885

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	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 2015	50,109	530,817	6,064	158,979	53,941	69,131	1,809	90,766	1,204,874	2,166,490
2014 final dividend declared	—	—	—	—	—	—	—	(90,766)	—	(90,766)
Transactions with owners	—	—	—	—	—	—	—	(90,766)	—	(90,766)
Profit for the period	—	—	—	—	—	—	—	—	107,304	107,304
Other comprehensive income	—	—	—	—	—	—	(120)	—	—	(120)
Total comprehensive income for the period	—	—	—	—	—	—	(120)	—	107,304	107,184
Lapse of share options	—	—	(6,064)	—	—	—	—	—	6,064	—
At 30 June 2015 (unaudited)	50,109	530,817	—	158,979	53,941	69,131	1,689	—	1,318,242	2,182,908
At 1 January 2016	50,109	530,817	—	187,824	53,941	69,131	199	48,024	1,344,840	2,284,885
2015 final dividend declared	—	—	—	—	—	—	—	(48,024)	—	(48,024)
Transactions with owners	—	—	—	—	—	—	—	(48,024)	—	(48,024)
Profit for the period	—	—	—	—	—	—	—	—	119,248	119,248
Other comprehensive income	—	—	—	—	—	—	(680)	—	—	(680)
Total comprehensive income for the period	—	—	—	—	—	—	(680)	—	119,248	118,568
At 30 June 2016 (unaudited)	50,109	530,817	—	187,824	53,941	69,131	(481)	—	1,464,088	2,355,429

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Net cash (used in)/generated from operating activities	(168,579)	41,811
Net cash used in investing activities	(33,000)	(423,328)
Net cash generated from/(used in) financing activities	114,960	(53,306)
Net decrease in cash and cash equivalents	(86,619)	(434,823)
Cash and cash equivalents at beginning of the period	748,727	1,197,903
Effect of foreign exchange rate changes on cash and cash equivalents	(680)	(120)
Cash and cash equivalents at end of the period	661,428	762,960

Notes to the Interim Financial Information

For the six months ended 30 June 2016

1. 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 2016 was approved and authorised for issue by the board of directors on 24 August 2016.

2. Basis of Preparation

The interim financial information for the six months ended 30 June 2016 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 2015.

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 2015, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning on or after 1 January 2016. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

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. 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, olive oil, peanut oil and rice germ 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 the Group's financial statements under International Financial Reporting Standards. 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 2016				
	Corn oil				Total RMB'000 (unaudited)
	Non- branded RMB'000 (unaudited)	Own brand RMB'000 (unaudited)	Other oils RMB'000 (unaudited)	Corn meal RMB'000 (unaudited)	
Revenue from external customers	209,252	875,608	143,764	133,939	1,362,563
Reportable segment revenue	209,252	875,608	143,764	133,939	1,362,563
Reportable segment profit/ (loss)	16,439	242,408	45,867	(5,248)	299,466
Depreciation	5,572	23,367	3,777	3,567	36,283

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

4. Segment Information (Continued)

	Six months ended 30 June 2015				
	Corn oil				Total RMB'000 (unaudited)
	Non- branded RMB'000 (unaudited)	Own brand RMB'000 (unaudited)	Other oils RMB'000 (unaudited)	Corn meal RMB'000 (unaudited)	
Revenue from external customers	144,676	837,669	203,403	136,098	1,321,846
Reportable segment revenue	144,676	837,669	203,403	136,098	1,321,846
Reportable segment profit/ (loss)	5,658	263,109	44,060	(25,614)	287,213
Depreciation	3,918	16,192	4,490	4,557	29,157

Reportable segment revenue represented revenue 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	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Reportable segment profit	299,466	287,213
Other income	35,703	37,104
Selling and distribution costs	(153,006)	(136,474)
Administrative expenses	(38,166)	(36,096)
Other operating expenses	(84)	(189)
Finance costs	(3,012)	(8,437)
Profit before income tax	140,901	143,121

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

5. Revenue and Other Income

Revenue from the Group's principal activities 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	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Revenue		
Sale of goods	1,362,563	1,321,846
Other income		
Interest income:		
— bank balances	10,957	17,291
— others	1,106	72
Sale of scrap materials	11,236	12,516
Compensation income from insurance company	367	—
Compensation income from sundry creditors	255	74
Net foreign exchange gain	—	1,100
Government grants and subsidies*	6,266	5,479
Others	5,516	572
	35,703	37,104

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

6. Profit from Operations

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Profit from operations is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	939,615	931,022
Depreciation on property, plant and equipment	43,070	38,039
Amortisation of land use rights	1,801	1,491
Loss on disposal of property, plant and equipment	78	—
Net foreign exchange loss/(gain)	4,387	(1,100)
Operating lease charges on rented premises	1,319	1,628
Research and development costs	344	620
Employee costs (including directors' remuneration)		
— Wages, salaries and bonus	56,830	49,105
— Contribution to defined contribution pension plan	3,098	2,352
Total employee costs	59,928	51,457

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

7. Finance Costs

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Interest on bank and other borrowings	3,012	8,437

8. Income Tax Expense

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Current tax — Provision for PRC corporate income tax	21,653	35,817

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 the Cayman Islands and the 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. In 2015, Corn Industry has been re-qualified as a High-tech Enterprise and is accordingly entitled to the tax rate of 15% for the year ended 31 December 2015 and the six months ended 30 June 2016.

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

9. Earnings Per Share

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

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	119,248	107,304
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	573,560,000	573,560,000
Effect of dilutive potential ordinary shares — share options	N/A	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	N/A

The Group had no potential dilutive ordinary shares in issue during the six months ended 30 June 2016.

No diluted earnings per share has been presented for the six months ended 30 June 2015 because the exercise price of the Company's share options was higher than the average market price for shares during the period when those options are outstanding.

10. Interim Dividend

The board of the Company resolved not to declare an interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

11. Property, Plant and Equipment

During the six months ended 30 June 2016, the Group incurred capital expenditure of approximately RMB6,418,000 (six months ended 30 June 2015: RMB27,971,000) in construction in progress, approximately RMB815,000 (six months ended 30 June 2015: RMB160,000) in office equipment, approximately RMB7,993,000 (six months ended 30 June 2015: RMB954,000) in plant and machinery and approximately RMB4,831,000 (six months ended 30 June 2015: RMB6,028,000) in buildings.

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

12. Trade and Notes Receivables

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Trade receivables	456,772	465,615
Notes receivable	1,500	4,090
	458,272	469,705

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally 45 to 180 days. Trade and notes receivables are non-interest bearing. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

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

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Within 60 days	297,815	270,501
61–90 days	78,271	65,829
91–180 days	35,758	89,003
181–365 days	29,632	28,701
Over 365 days	16,796	15,671
	458,272	469,705

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

13. Cash and Bank Balances

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Cash at banks and in hand	531,428	298,727
Short-term bank deposits	330,000	650,000
Cash and bank balances as stated in the consolidated statement of financial position	861,428	948,727
Short-term bank deposits that are not classified as cash and cash equivalents	(200,000)	(200,000)
Cash and cash equivalents for the presentation of the condensed consolidated statement of cash flows	661,428	748,727

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 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Within 30 days	37,158	64,480
31–60 days	6,896	8,190
61–90 days	6,124	5,001
91–180 days	5,777	5,062
181–365 days	1,866	3,002
Over 365 days	3,680	2,129
	61,501	87,864

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

15. Borrowings

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Unsecured bank borrowing	171,240	167,460
Unsecured other borrowings	35,061	40,109
	206,301	207,569
Interests borne at rates per annum in the range of:		
— floating-rate bank borrowing	HIBOR + 2.50%	HIBOR + 2.20%
— fixed-rate other borrowings	3.60%	3.60%

During the year ended 31 December 2014, the Company as borrower has entered into a facility agreement with a bank in respect of a revolving loan of HK\$200,000,000 (the "Revolving Loan") pursuant to which, among others, the Group is required not to mortgage, assign, charge or otherwise encumber any of its assets without prior written consent from the bank.

As at 31 December 2015 and 30 June 2016, all bank and other borrowings were repayable within one year.

The Revolving Loan was renewed during the six months ended 30 June 2016. As at 31 December 2015 and 30 June 2016, the Revolving Loan was guaranteed by certain subsidiaries of the Company.

16. Share Capital

	Number of shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 January 2015, 31 December 2015 and 30 June 2016	9,000,000,000	900,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 January 2015, 31 December 2015 and 30 June 2016	573,560,000	57,356,000

The issued and fully paid share capital is equivalent to approximately RMB50,109,000 as at 1 January 2015, 31 December 2015 and 30 June 2016.

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

17. Commitments

Operating lease commitments

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

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Within one year	1,177	1,223
In the second to fifth years	880	1,033
	2,057	2,256

The Group leases a number of properties under operating lease and leasehold land. The leases run for initial period of 3 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.

Capital commitments

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

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Contracted but not provided for property, plant and equipment	6,586	10,403

Notes to the Interim Financial Information (continued)

For the six months ended 30 June 2016

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.

	Notes	Six months ended 30 June	
		2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Sale of goods to related companies	(i)	730	687
Purchase of goods from a shareholder	(i)	237,990	222,238
Steam and electric power expense to a related company	(i)	25,485	22,492

Notes:

- (i) The directors of the Company, namely Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Cheng Wenming, each have beneficial interests in these related companies.
- (ii) The above related party transactions were conducted in the ordinary course of business with reference to the terms mutually agreed between the parties.

19. Transfer of Financial Assets

At 30 June 2016, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to these suppliers with an aggregate carrying amount of approximately RMB73,352,000 (31 December 2015: RMB63,783,000). The Endorsed Notes had a maturity from three to six months at the end of the reporting period. In accordance with the relevant laws and regulations in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the accepting banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Endorsed Notes. Accordingly, it has derecognised the full carrying amounts of the Endorsed Notes and the associated trade and other payables. The maximum exposure to loss from the Group's Continuing Involvement in the Endorsed Notes and the undiscounted cash flows to repurchase these Endorsed Notes is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Endorsed Notes are not significant.

During the period, the Group has not recognised any gain or loss on the date of transfer of the Endorsed Notes. No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The endorsement has been made evenly throughout the period.