

2017

INTERIM
REPORT

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)



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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

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
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

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 enhancement in the sales, the high-end wholesale distributors and direct retails channels resulted in significant increase in the gross profit of the own-brand edible oils. Given the dynamic edible oil's market in the PRC, the Group is committed to the brand upgrading, product diversification and expansion and enhancement in sales' network.

For the six months ended 30 June 2017, the Group's revenue increased by approximately 10.3% to approximately RMB1,503 million while the overall sales volume of the edible oils increased to 138,200 tonnes as compared with the corresponding period of 2016. Due to the improvement in the sale's quality, for the six months ended 30 June 2017, the gross profit of the own-brand products (i.e. edible oils and kitchen series' products) increased by approximately 13.5% to approximately RMB325.6 million (2016: approximately RMB286.9 million) and gross profit margin raised sharply to approximately 33.7% (2016: approximately 28.9%) for the six months ended 30 June 2017.

The brand's development is still the top priority of the Group and therefore there were different new types of “長壽花” (Longevity Flower) own-brand edible oil products and kitchen series' products launched in the market continuously. In the future, the Group will still focus on the development of the own-brand business and there would be gradual reduction in non-brand products' revenue in order to fulfill the Group's long term development and strategies. The Group's sustainable development relies on its mature and stable sales and distribution network. As at 30 June 2017, the Group had a distribution network of 1,481 (as at 31 December 2016: 1,489) wholesale distributors and 151 (31 December 2016: 153) retailers which covered all provincial-level administrative regions (except Tibet) of the PRC.

Financial Review

For the six months ended 30 June 2017, the Group's revenue increased by approximately 10.3% to approximately RMB1,503.0 million (2016: approximately RMB1,362.6 million) while the sales of (1) own-brand edible oil/kitchen series' food products; (2) non-brand edible oil; and (3) corn meal amounted to approximately RMB964.7 million, RMB350.1 million and RMB188.3 million (2016: approximately RMB992.2 million, RMB236.5 million and RMB133.9 million) respectively, accounting for approximately 64.2%, 23.3% and 12.5% (2016: approximately 72.8%, 17.4% and 9.8%) respectively of the Group's total revenue. The Group's profit attributable to owners of the Company increased by approximately 8.0% to approximately RMB128.8 million.

Sales of the Group's products were only carried out in the PRC for the six months ended 30 June 2016 and 2017. Other than the edible corn oil produced by the Group and the own-brand rice germ oil which was developed by our own technology and manufactured by third parties, rest of products and/or its raw material, crude oil, were procured from external channels.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue

For the six months ended 30 June 2017, the Group's revenue increased by approximately 10.3% to approximately RMB1,503.0 million.

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

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	RMB'000	%	RMB'000	%
Own-brand edible oil/food products under the Kitchen series	964,686	64.2%	992,164	72.8%
Non-brand edible oil	350,065	23.3%	236,460	17.4%
Corn meal	188,285	12.5%	133,939	9.8%
	1,503,036	100%	1,362,563	100%

The revenue generated by own-brand products (i.e. own-brand edible oils and kitchen series food products) decreased by approximately 2.8% (i.e. approximately RMB27.5 million) and the revenue of the non-brand edible oil increased by approximately 48.0% (i.e. approximately RMB113.6 million).

The following table sets forth the breakdown of quantities sold by major product categories:

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	Quantities (tonnes)	% of overall edible oil	Quantities (tonnes)	% of overall edible oil
Own-brand of "長壽花"				
Corn oil	72,986	52.8%	81,492	68.0%
Other edible oil	12,275	8.9%	8,544	7.1%
	85,261	61.7%	90,036	75.1%
Non-brand				
Corn oil	50,797	36.8%	26,242	21.9%
Other edible oil	2,142	1.5%	3,646	3.0%
	52,939	38.3%	29,888	24.9%
Overall edible oil	138,200	100%	119,924	100%
Corn meal	164,726		151,504	

Overall sales volume of the edible oil increased by approximately 15.3% to 138,200 tonnes.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	RMB'000	Proportion of gross profit/ (loss) %	RMB'000	Proportion of gross profit/ (loss) %
Own-brand of “長壽花”				
Corn oil	279,641	90.5%	242,408	80.9%
Other edible oil/kitchen series' food products	45,906	14.9%	44,470	14.9%
	325,547	105.4%	286,878	95.8%
Non-brand				
Corn oil	(2,724)	(0.9)%	16,439	5.5%
Other edible oil	(1,006)	(0.3)%	1,397	0.5%
	(3,730)	(1.2)%	17,836	6.0%
Corn meal	(12,858)	(4.2)%	(5,248)	(1.8)%
Overall	308,959	100%	299,466	100%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table shows the gross profit/(loss) margin of the Group's products:

	Six months ended 30 June 2017	Six months ended 30 June 2016
	Gross profit/ (loss) margin	Gross profit/ (loss) margin
Own-brand of “長壽花”		
Corn oil	34.9%	27.7%
Other edible oil	28.9%	38.2%
	33.9%	28.9%
Non-brand		
Corn oil	(0.8)%	7.9%
Other edible oil	(7.2)%	5.1%
	(1.1)%	7.5%
Corn meal	(6.8)%	(3.9)%
Overall	20.6%	22.0%

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

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	Average selling price (RMB/ton)	Average unit cost of sales (RMB/ton)	Average selling price (RMB/ton)	Average unit cost of sales (RMB/ton)
Own-brand of “長壽花”				
Corn oil	10,969	7,138	10,745	7,770
Other edible oil	12,954	9,211	13,642	8,437
Non-brand				
Corn oil	6,615	6,669	7,974	7,347
Other edible oil	6,547	7,017	7,463	7,080

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Own-brand edible oil/kitchen series' products

The enhancement in the sales, the high-end wholesale distributors and direct retails channels results in improvement in the sales' quality, especially for own-brand corn oil. For the six months ended 30 June 2017, the gross profit of the own-brand products (i.e. edible oils and kitchen series' products) increased by approximately 13.5% to approximately RMB325.6 million (2016: approximately RMB286.9 million) and gross profit margin raised sharply to approximately 33.7% (2016: approximately 28.9%). In addition, due to the increase in average selling price of corn oil and the decrease in the its unit cost, for the six months ended 30 June 2017, the gross profit of the own-brand corn oil increased by approximately 15.4% to approximately RMB279.6 million (2016: approximately RMB242.4 million) while its gross profit margin raised to approximately 34.9% (2016: approximately 27.7%).

Non-brand edible oil

The edible oil market became gloomy after the Chinese New Year and therefore the non-brand edible oil recorded a loss-making in the first half of the year.

By products – Corn meal

Due to the gloomy atmosphere in the PRC's poultry farming industry, for the six months ended 30 June 2017, the gross loss margin of corn meal further deteriorated to approximately 6.8%.

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 packaging expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 90.2% of total cost of sales for the six months ended 30 June 2017 (2016: 88.4%).

Other Income

Other income for the six months ended 30 June 2017 was approximately RMB38.9 million (2016: RMB35.7 million), which mainly comprised: (i) sale of scrap materials of approximately RMB24.3 million (2016: RMB11.2 million), (ii) bank and other interest income of approximately RMB5.9 million (2016: RMB12.1 million), and (iii) net foreign exchange gain of approximately RMB8.2 million (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and Distribution Costs

For the six months ended 30 June 2017, the selling and distribution costs decreased by approximately 1.3% to approximately RMB151.0 million which mainly comprised: (i) carriage and transportation charges of approximately RMB8.9 million (2016: RMB7.3 million), (ii) advertising and marketing expenses of approximately RMB44.3 million (2016: RMB44.3 million), (iii) expenses of representative offices of approximately RMB37.9 million (2016: RMB41.6 million), and (iv) sales staff costs of approximately RMB38.8 million (2016: RMB38.4 million).

Administrative Expenses

For the six months ended 30 June 2017, the administrative expenses of approximately RMB36.0 million (2016: RMB38.2 million) mainly comprised: (i) administrative staff costs of approximately RMB10.3 million (2016: RMB10.1 million), (ii) depreciation expenses of approximately RMB6.9 million (2016: RMB6.8 million), (iii) other taxes of approximately RMB9.0 million (2016: RMB5.1 million), and (iv) legal and professional fees of approximately RMB1.5 million (2016: RMB1.4 million).

Income Tax Expense

For the six months ended 30 June 2017, the income tax expense of the Group increased to approximately RMB28.4 million (2016: RMB21.7 million).

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

For the six months ended 30 June 2017, the Group's profit before income tax increased by approximately 11.6% to approximately RMB157.2 million (2016: RMB140.9 million) and the Group's profit attributable to owners of the Company increased by approximately 8.0% to approximately RMB128.8 million (2016: RMB119.2 million).

The net profit margin of the Group for the six months ended 30 June 2017 was approximately 8.6% (2016: 8.8%). The basic earnings per share attributable to owners of the Company increased to approximately RMB22.46 cents for the six months ended 30 June 2017 (2016: RMB20.79 cents).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Acquisition of Property, Plant and Equipment

As at 30 June 2017, the Group's deposits paid for the acquisition of property, plant and equipment decreased to approximately RMB13.5 million (31 December 2016: RMB19.5 million).

Trade and Notes Receivables

As at 30 June 2017, trade and notes receivables were approximately RMB538.0 million (31 December 2016: RMB530.4 million).

Prepayments, Deposits and Other Receivables

As at 30 June 2017, prepayments, deposits and other receivables amounted to approximately RMB112.7 million (31 December 2016: RMB101.9 million) which mainly comprised: (i) deposits paid for purchase of raw materials of approximately RMB52.6 million (31 December 2016: RMB52.8 million); (ii) other receivables of approximately RMB30.7 million (31 December 2016: RMB31.4 million); and (iii) prepaid advertising expenses of approximately RMB23.0 million (31 December 2016: RMB8.9 million).

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

Given the dynamic edible oil's industry in the PRC, the Group announced and formulated a five-year business development plan for the brand of “長壽花” (Longevity Flower) in 2015 interim results announcement, in order to enhance our business model to deal with future challenges.

1. Brand upgrade

Regular review of and change of packaging

The Group reviews and changes packaging regularly, in an effort to refresh shopping experience for consumers and maintain its young and energetic brand image.

Wholesale distribution's campaigns

The Group continues the expansions in the wholesale distribution network. In the first half of the year, the wholesale distribution conference was held in Chengdu for the promotion of the edible oils products.

Advertising campaigns

The Group sponsors different television programmes and promotes the products through different media channels.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Product diversification

Products diversification for attracting more potential consumers:

Changshouhua rice germ oil

“天然營養比·原生谷維素”, manufactured by physical refining technique, the Group’s rice germ oil is rich in vitamin E, phytocholesterols and contains 13,800 ppm of oryzanol which is the highest standard in the industry. Apart from direct retail channels, the rice germ oil has been launched in the wholesale distributors’ network and e-commerce channel.

Changshouhua rapeseed oil

Two rapeseed edible oil products, special flavoured rapeseed oil and pure flavoured rapeseed oil, have been introduced in the market of Yangtze River Basin region.

Changshouhua peanut oil/olive oil/sunflower seed oil

The healthy edible oil’s products of Changshouhua, peanut oil, olive oil and sunflower seed oil remain as supplementary choices to the consumers.

Food products under the Changshouhua Kitchen series

The Group has been introducing the grains such as millet, Northeast Rice and mung beans to the market through the wholesale distribution and e-commerce channels. In long run, it is planned to develop a series of food products under the brand of “Changshouhua Kitchen” to offer high-end green and healthy products to the customers.

3. Expansion and enhancement in the sales network

As at 30 June 2017, the Group had 1,481 wholesale distributors and 151 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 objective is to gradually expand its distribution network into all counties, townships and communities in the PRC.

More efforts into the cooperation with sale channels

In addition to the close cooperation with retailers and the promotion of a cooperative alliance model, the Group also performs regular reviews of and enhancement in the traditional sales channels, such as cooperating with small and medium-sized supermarkets, reviewing the list of wholesale distributors regularly and introducing new distributors for improving the market coverage of domestic sales locations. For the purpose of following the trend of e-commerce service and the internet integration, the establishment of e-commerce department offers another important sales platform.

In addition, the Group has been opening Changshouhua Kitchen experience stores in order to promote the Changshouhua Kitchen series’ products and offer consumers the one-stop shopping experience of healthy kitchen food products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Regional strategic expansion in and planning of the sale channels

The Group aims to unleash the potential of third and fourth-tier cities in the PRC. Based on the extensive wholesale distribution network (covering all county-level cities across the country), the Group further expands and improves market coverage. For the following regions Zhejiang Province, Shandong Province, Beijing and Tianjin, Guangdong Province, Hubei Province, Chongqing and the three provinces in Northeast China, the Group will secure its leading position by allocating its resources into brand development and by cooperation with direct retail channels such as supermarkets and hypermarkets. For the following five provinces, Henan Province, Hebei Province, Jiangsu Province, Shanxi Province and Sichuan Province, the Group will rely on wholesale distributors, to ensure that the products reach the target consumers effectively through their extensive sales network.

Capital Structure

As at 30 June 2017, the Company's issued share capital was HK\$57,356,000, divided into 573,560,000 shares of HK\$0.1 each. As the Group adopts a prudent treasury policy, the gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) as at 30 June 2017 was approximately 9.5% (as at 31 December 2016: 8.6%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2017 was approximately 4.1 times (as at 31 December 2016: 3.6 times). The Group keeps monitoring debt collection policy so as to minimise the risks of sales on credit and to ensure that funds are collected on time.

Liquidity and Financial Resources

As at 30 June 2017, the Group's borrowings amounted to approximately RMB244.3 million (as at 31 December 2016: approximately RMB215.7 million). The Group's cash and bank balances amounted to approximately RMB1,180.0 million (as at 31 December 2016: approximately RMB1,056.0 million).

Material Acquisition and Disposal

The Group did not have any material acquisition or disposal of subsidiaries or associates for the six months ended 30 June 2017.

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 pays dividends in Hong Kong Dollars if dividends are declared.

Currently, RMB is not freely exchangeable. 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 2017, none of the assets of the Group was pledged (31 December 2016: Nil).

Capital Commitments and Operating Lease Commitments

The Group had capital commitment of approximately RMB11.8 million as at 30 June 2017 (31 December 2016: RMB6.6 million), which mainly represented commitments made for purchase of fixed assets. The Group had operating lease commitments of approximately RMB2.2 million in respect of leased properties as at 30 June 2017 (31 December 2016: RMB1.7 million).

Employee Benefits and Remuneration Policies

As at 30 June 2017, the Group had a total of 4,615 employees (as at 31 December 2016: 5,379). The employees of the Group were remunerated based on their experience, qualifications, the Group's results and the market conditions. For the six months ended 30 June 2017, staff costs (including Directors' remunerations) amounted to approximately RMB65.7 million (2016: RMB59.9 million). For the six months ended 30 June 2017, staff costs accounted for approximately 4.4% of the Group's turnover (2016: 4.4%).

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the section headed "Share Option Scheme" below, at no time during the six months ended 30 June 2017 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

As at 30 June 2017, there were no significant investments held by the Company.

Contingent Liabilities

As at 30 June 2017, 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 2017 (30 June 2016: Nil).

OTHER INFORMATION

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

As at 30 June 2017, 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 <i>(Note)</i>	52.14%
	Beneficial owner	Long position	5,996,000	1.05%
Mr. Wang Mingfeng	Interest of controlled corporations	Long position	299,037,249 <i>(Note)</i>	52.14%
Mr. Wang Mingliang	Interest of controlled corporations	Long position	299,037,249 <i>(Note)</i>	52.14%

Note: Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to be interested in 290,612,249 shares of the Company (the "Share(s)") and 8,425,000 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 8,425,000 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 2017.

OTHER INFORMATION (CONTINUED)

Substantial Shareholders

As at 30 June 2017, 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	52.14%
Sanxing Grease	Interest of controlled corporations	Long position	299,037,249 (Note 1)	52.14%
Shandong Sanxing	Interest of controlled corporations	Long position	299,037,249 (Note 1)	52.14%
Koo Yuen Kim	Beneficial Owner	Long position	64,168,881	11.19%
FIL Limited	Interest of controlled corporations	Long position	45,970,000 (Note 2)	8.01%

Notes:

(1) These include 290,612,249 Shares and 8,425,000 derivative Shares held through SanXing Trade. 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 8,425,000 derivative Shares were derived from the Exchangeable Bond. Therefore, each of Sanxing Grease and Shandong Sanxing is deemed to be interested in these 290,612,249 Shares and 8,425,000 derivative Shares pursuant to the SFO.

(2) These include:

(i) 29,694,000 Shares held by FIL Investment Management (Hong Kong) Limited, and 13,990,000 Shares held by FIL Investment Management (Singapore) Limited, both of which are wholly-owned by FIL Asia Holding Pte Limited which in turn is wholly-owned by FIL Limited. Therefore, each of FIL Limited and FIL Asia Holding Pte Limited is deemed to be interested in these 29,694,000 Shares held by FIL Investment Management (Hong Kong) Limited and 13,990,000 Shares held by FIL Investment Management (Singapore) Limited pursuant to the SFO; and

(ii) 2,286,000 Shares held by Fidelity Investments Canada ULC. Fidelity Investments Canada ULC is wholly-owned by FIC Holdings ULC which in turn is wholly-owned by BlueJay Lux 1 S.a.r.l. BlueJay Lux 1 S.a.r.l. is wholly-owned by 483A Bay Street Holdings LP which in turn is owned as to 36% by FIL Limited. Therefore FIL Limited is deemed to be interested in these 2,286,000 Shares held by Fidelity Investments Canada ULC 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 2017.

OTHER INFORMATION (CONTINUED)

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.

None of the share options granted remained outstanding at 1 January 2017 and no other share option has been granted during the six months ended 30 June 2017.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017.

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 2017.

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 2017, 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.

OTHER INFORMATION (CONTINUED)

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 2017.

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 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 2017.

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

Hong Kong, 30 August 2017

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 20 to 36 which comprises the consolidated statement of financial position of Changshouhua Food Company Limited as of 30 June 2017 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

Wong Kwok Wai
Practising Certificate Number P06047

Hong Kong, 30 August 2017

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue	5	1,503,036	1,362,563
Cost of sales		(1,194,077)	(1,063,097)
Gross profit		308,959	299,466
Other income	5	38,872	35,703
Selling and distribution costs		(151,037)	(153,006)
Administrative expenses		(36,048)	(38,166)
Other operating expenses		(25)	(84)
Profit from operations	6	160,721	143,913
Finance costs	7	(3,507)	(3,012)
Profit before income tax		157,214	140,901
Income tax expense	8	(28,398)	(21,653)
Profit for the period attributable to owners of the Company		128,816	119,248
		RMB cents	RMB cents
Earnings per share attributable to owners of the Company	9		
– Basic		22.459	20.791
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period	128,816	119,248
Other comprehensive income that may be reclassified subsequently to profit or loss		
Exchange loss on translation of financial statements of foreign operations	(534)	(680)
Other comprehensive income for the period, net of tax	(534)	(680)
Total comprehensive income for the period attributable to owners of the Company	128,282	118,568

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Notes</i>	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	753,631	785,445
Land use rights		178,149	166,264
Goodwill		62,762	62,762
Deposits paid for acquisition of capital assets		13,464	19,490
		1,008,006	1,033,961
Current assets			
Inventories		289,929	300,742
Trade and notes receivables	12	538,037	530,350
Prepayments, deposits and other receivables		112,714	101,872
Amounts due from related companies		31,058	33,823
Cash and bank balances	13	1,180,011	1,056,003
		2,151,749	2,022,790
Current liabilities			
Trade payables	14	68,407	52,632
Accrued liabilities, other payables and deposits received		208,558	242,088
Dividend payable		37,440	21,883
Amounts due to related companies		5,595	5,043
Borrowings	15	191,102	215,699
Tax payable		16,881	17,721
		527,983	555,066
Net current assets		1,623,766	1,467,724
Total assets less current liabilities		2,631,772	2,501,685
Non-current liabilities			
Borrowings	15	53,152	–
Net assets		2,578,620	2,501,685
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	50,109	50,109
Reserves		2,528,511	2,451,576
Total equity		2,578,620	2,501,685

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital RMB'000	Share premium 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 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
At 1 January 2017	50,109	530,817	221,258	53,941	69,131	1,780	51,347	1,523,302	2,501,685
2016 final dividend declared	-	-	-	-	-	-	(51,347)	-	(51,347)
Transactions with owners	-	-	-	-	-	-	(51,347)	-	(51,347)
Profit for the period	-	-	-	-	-	-	-	128,816	128,816
Other comprehensive income	-	-	-	-	-	(534)	-	-	(534)
Total comprehensive income for the period	-	-	-	-	-	(534)	-	128,816	128,282
At 30 June 2017 (unaudited)	50,109	530,817	221,258	53,941	69,131	1,246	-	1,652,118	2,578,620

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash generated from/(used in) operating activities	137,417	(168,579)
Net cash used in investing activities	(113,417)	(33,000)
Net cash generated from financing activities	542	114,960
Net increase/(decrease) in cash and cash equivalents	24,542	(86,619)
Cash and cash equivalents at beginning of the period	856,003	748,727
Effect of foreign exchange rate changes on cash and cash equivalents	(534)	(680)
Cash and cash equivalents at end of the period	880,011	661,428

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

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 2017 was approved and authorised for issue by the board of directors on 30 August 2017.

2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2017 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 2016.

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 2016, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning on or after 1 January 2017. 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 2017

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 executive directors have identified the reportable and operating segments by major product and service lines. During the year ended 31 December 2016, the Group has reorganised its internal reporting structure. Accordingly, the comparative segment information has been re-presented to conform to current period's presentation. The Group's reportable and operating segments for financial reporting purposes have been reorganised as production and sale of (i) Own brand products, including own brand corn oil and other edible oil under the brand name of "長壽花" (Longevity Flower); (ii) Non-branded products, mainly non-branded corn oil and other edible oil; and (iii) Corn meal.

For the purposes of assessing segment performance and allocating resources between segments, the executive directors assess segment profit or loss by gross profit or loss as measured in the Group's financial statements under International Financial Reporting Standards.

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

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

	Six months ended 30 June 2017			
	Own brand Products RMB'000 (Unaudited)	Non-branded products RMB'000 (Unaudited)	Corn meal RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue from external customers	964,686	350,065	188,285	1,503,036
Reportable segment revenue	964,686	350,065	188,285	1,503,036
Reportable segment profit/(loss)	325,547	(3,730)	(12,858)	308,959
Depreciation	20,313	11,244	6,393	37,950

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

4. SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2016			
	Own brand Products RMB'000 (Unaudited) (Re-presented)	Non-branded products RMB'000 (Unaudited) (Re-presented)	Corn meal RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue from external customers	992,164	236,460	133,939	1,362,563
Reportable segment revenue	992,164	236,460	133,939	1,362,563
Reportable segment profit/(loss)	286,878	17,836	(5,248)	299,466
Depreciation	26,409	6,307	3,567	36,283

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	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Reportable segment profit	308,959	299,466
Other income	38,872	35,703
Selling and distribution costs	(151,037)	(153,006)
Administrative expenses	(36,048)	(38,166)
Other operating expenses	(25)	(84)
Finance costs	(3,507)	(3,012)
Profit before income tax	157,214	140,901

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

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	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Sale of goods	1,503,036	1,362,563
Other income		
Interest income:		
– bank balances	5,007	10,957
– others	873	1,106
Sale of scrap materials	24,325	11,236
Compensation income from insurance company	53	367
Compensation income from sundry creditors	86	255
Net foreign exchange gain	8,156	–
Government grants and subsidies*	–	6,266
Others	372	5,516
	38,872	35,703

* 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

6. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit from operations is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	1,076,925	939,615
Depreciation on property, plant and equipment	45,427	43,070
Amortisation of land use rights	1,923	1,801
Loss on disposal of property, plant and equipment	–	78
Net foreign exchange (gain)/loss	(8,156)	4,387
Operating lease charges on rented premises	1,501	1,319
Research and development costs	489	344
Employee costs (including directors' remuneration)		
– Wages, salaries and bonus	60,657	56,830
– Contribution to defined contribution pension plan	5,066	3,098
Total employee costs	65,723	59,928

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank and other borrowings	3,507	3,012

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
– Provision for PRC corporate income tax	28,398	21,653

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 for three years and is accordingly entitled to the tax rate of 15% for the year ended 31 December 2016 and the six months ended 30 June 2017.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	128,816	119,248
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	573,560,000	573,560,000

The Group had no potential dilutive ordinary shares in issue during the six months ended 30 June 2016 and 30 June 2017.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

10. INTERIM DIVIDEND

The board of directors of the Company resolved not to declare an interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group incurred capital expenditure of approximately RMB9,484,000 (six months ended 30 June 2016: RMB6,418,000) in construction in progress, approximately RMB981,000 (six months ended 30 June 2016: RMB815,000) in office equipment, approximately RMB2,517,000 (six months ended 30 June 2016: RMB7,993,000) in plant and machinery and approximately RMB1,091,000 (six months ended 30 June 2016: RMB4,831,000) in buildings.

12. TRADE AND NOTES RECEIVABLES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables	530,837	528,650
Notes receivable	7,200	1,700
	538,037	530,350

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

12. TRADE AND NOTES RECEIVABLES (Continued)

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 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within 60 days	367,866	318,587
61 – 90 days	70,256	100,528
91 – 180 days	72,045	67,633
181 – 365 days	16,224	26,197
Over 365 days	11,646	17,405
	538,037	530,350

13. CASH AND BANK BALANCES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Cash at banks and in hand	880,011	856,003
Short-term bank deposits	300,000	200,000
Cash and bank balances as stated in the consolidated statement of financial position	1,180,011	1,056,003
Short-term bank deposits that are not classified as cash and cash equivalents	(300,000)	(200,000)
Cash and cash equivalents for the presentation of the condensed consolidated statement of cash flows	880,011	856,003

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

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, based on invoice date, is as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within 30 days	26,716	33,773
31-60 days	14,307	9,854
61-90 days	10,027	4,124
91-180 days	12,112	3,132
181-365 days	4,656	1,074
Over 365 days	589	675
	68,407	52,632

15. BORROWINGS

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Non-current:		
Unsecured other borrowings	53,152	–
Current:		
Unsecured bank borrowing	173,730	179,046
Unsecured other borrowings	17,372	36,653
	191,102	215,699
	244,254	215,699
Interests borne at rates per annum in the range of:		
– floating-rate bank borrowing	HIBOR + 2.50%	HIBOR + 2.50%
– fixed-rate other borrowings	3.60%	3.60%

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

15. BORROWINGS (Continued)

The Group's bank and other borrowings are repayable as follow:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
On demand or within one year	191,102	215,699
More than two years, but not exceeding five years	53,152	–
	244,254	215,699

As at 31 December 2016 and 30 June 2017, the bank borrowing 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 2016, 31 December 2016 and 30 June 2017	9,000,000,000	900,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 January 2016, 31 December 2016 and 30 June 2017	573,560,000	57,356,000

The issued and fully paid share capital is equivalent to approximately RMB50,109,000 as at 1 January 2016, 31 December 2016 and 30 June 2017.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

17. COMMITMENTS**Operating lease commitments**

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

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within one year	1,573	1,022
In the second to fifth years	598	660
	2,171	1,682

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 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Contracted but not provided for property, plant and equipment	11,836	6,600

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2017

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.

	<i>Notes</i>	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Sale of goods to related companies	(i)	307	730
Purchase of goods from a shareholder	(i)	213,849	237,990
Steam and electric power expense to a related company	(i)	23,800	25,485

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 2017, 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 RMB36,698,000 (31 December 2016: RMB31,580,000). 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.