

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)

2018
INTERIM
REPORT



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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

Suites 1106-08, 11th 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

Although China economy faced the China-US trade war during the first half of the year, the Group continued to optimize its sales and the high-end wholesale of distributors and direct retails channels. As a result of the decline in the cost of edible oil and the brand premium of the Group through the promotion of the Five-Year Business Development Plan, the overall gross profit growth is more prominent. In response to the dynamic industrial changes in edible oils market in the PRC, the Group continued to carried out development plan for revamp of the brand, product diversification and expansion in and optimization of sales network. The Group will continue to integrate and optimise the sales network in line with the regional business development.

The Group has been continuing to prioritize own brand development and gradually introducing other different types of edible oil products and the series of Changshouhua Kitchen food products under the brand of “長壽花” (Longevity Flower). The Group has introduced several new condiments in series of soy sauce and soybean paste. According to the Five-Year Business Development Plan, the Company is committed to the product diversification and the transformation of single-product company to a retail brand corporation. In the future, the Company will still focus on the development of the own-brand business to fulfill the Company’s long term development and strategies.

The Group’s long-term and enduring development depends on its mature and stable marketing and distribution network. As at 30 June 2018, the Group had a distribution network of 1,585 (31 December 2017: 1,517) wholesale distributors and 152 (31 December 2017: 153) retailers, covering all provincial-level administrative regions (except Tibet) of the PRC.

Financial Review

For the six months ended 30 June 2018, the sales of the Group’s products were only carried out in the PRC. Due to the uncertainties of the China-US trade war, the revenue of the Group decreased by approximately 1.6% to approximately RMB1,479.1 million (for the six months ended 30 June 2017: approximately RMB1,503.0 million). The sales of (i) own-brand edible oil/food products under the kitchen series; (ii) non-branded edible oil; and (iii) corn meal contributed to approximately RMB817.9 million, RMB371.2 million and RMB289.9 million (for the six months ended 30 June 2017: approximately RMB964.7 million, RMB350.1 million and RMB188.3 million) respectively and accounted for approximately 55.3%, 25.1% and 19.6% (for the six months ended 30 June 2017: approximately 64.2%, 23.3% and 12.5%) respectively of the Group’s total revenue.

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

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	RMB'000	Proportion	RMB'000	Proportion
Own-brand edible oil/food products under the Kitchen series	817,903	55.3%	964,686	64.2%
Non-branded edible oil	371,233	25.1%	350,065	23.3%
Corn meal	289,936	19.6%	188,285	12.5%
	1,479,072	100%	1,503,036	100%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Sales of products under the brand of Changshouhua decreased by approximately 15.2% to approximately RMB817.9 million and sales of non-branded edible oil increased by approximately 6.0% to approximately RMB371.2 million.

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

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Quantities (tonnes)	Overall proportion	Quantities (tonnes)	Overall proportion
Changshouhua brand				
Corn oil	59,116	43.3%	72,986	52.8%
Other edible oil	12,074	8.9%	12,275	8.9%
	71,190	52.2%	85,261	61.7%
Non-branded				
Corn oil	64,899	47.6%	50,797	36.8%
Other edible oil	324	0.2%	2,142	1.5%
	65,223	47.8%	52,939	38.3%
Overall edible oil	136,413	100%	138,200	100%
Corn meal	217,885		164,726	

Overall sales of edible oil decreased by 1.3% to 136,413 tonnes.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	RMB'000	Proportion of gross profit (loss)	RMB'000	Porportion of gross profit (loss)
Changshouhua brand				
Corn oil	273,857	78.9%	279,641	90.5%
Other edible oil/kitchen series' food products	59,191	17.1%	45,906	14.9%
	333,048	96.0%	325,547	105.4%
Non-branded				
Corn oil	17,605	5.1%	(2,724)	(0.9)%
Other edible oil	(76)	(0.1)%	(1,006)	(0.3)%
	17,529	5.0%	(3,730)	(1.2)%
Corn meal	(3,494)	(1.0)%	(12,858)	(4.2)%
Overall gross profit	347,083	100%	308,959	100%
	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Gross profit (loss) margin		Gross profit (loss) margin	
Changshouhua brand				
Corn oil		42.4%		34.9%
Other edible oil		35.8%		28.9%
		41.1%		33.9%
Non-branded				
Corn oil		4.8%		(0.8)%
Other edible oil		(3.7)%		(7.2)%
		4.7%		(1.1)%
Corn meal		(1.2)%		(6.8)%
Overall		23.5%		20.6%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Average selling price (RMB/ton)	Average unit cost of sales (RMB/ton)	Average selling price (RMB/ton)	Average unit cost of sales (RMB/ton)
Changshouhua brand				
Corn oil	10,929	6,289	10,969	7,138
Other edible oil	13,120	8,420	12,954	9,211
Non-branded				
Corn oil	5,688	5,417	6,615	6,669
Other edible oil	6,344	6,578	6,547	7,017

Own-brand edible oil

For the six months ended 30 June 2018, the Group is committed to optimizing the sales methods, high-end wholesale distributors and direct retails channels to improve the sales quality of branded products. The overall gross profit margin of own-brand edible oil has increased significantly to approximately 41.1% (for the six months ended 30 June 2017: 33.9%).

Although the China – US trade war affected the purchasing power on the small-pack edible oil products in the PRC's edible oil market, the decrease in average unit cost of sales resulted in the increase of the gross profit of the own-brand edible oil by 1.5% to approximately RMB330.6 million (for the six months ended 30 June 2017: approximately RMB325.6 million) while its gross profit margin raised significantly to 41.1% (for the six months ended 30 June 2017: 33.9%).

Non-branded edible oil

As compared with the corresponding period of last year, the market price of non-branded corn oil was relatively stable while the cost of sales of non-branded corn oil decreased significantly during the period of first half of 2018, so the performance of overall non-branded edible oil turned into a profit.

By-product – corn meal

For the six months ended 30 June 2018, the improvement of the poultry farming industry resulted in the increase in the price of corn meal as compared with the corresponding period of last year and therefore the gross loss of corn meal improved significantly to 1.2% from 6.8% as compared with the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 86.2% of total cost of sales for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 90.2%).

Other Income

For the six months ended 30 June 2018, other income increased by approximately 33.4% to approximately RMB51.9 million (for the six months ended 30 June 2017: RMB38.9 million). Other income mainly comprised sales of scrap materials of approximately RMB27.2 million (for the six months ended 30 June 2017: approximately RMB24.3 million), bank interest income of approximately RMB15.4 million (for the six months ended 30 June 2017: approximately RMB5.0 million) and net foreign exchange gain of approximately RMB5.8 million (for the six months ended 30 June 2017: approximately RMB8.2 million).

Selling and Distribution Costs

Selling and distribution costs amounted to approximately RMB160.9 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: approximately RMB151.0 million). Selling and distribution costs mainly comprised transportation fees of approximately RMB8.7 million (for the six months ended 30 June 2017: approximately RMB8.9 million), advertising and promotion expenses of approximately RMB47.7 million (for the six months ended 30 June 2017: approximately RMB44.3 million), expenses of representative offices of approximately RMB40.8 million (for the six months ended 30 June 2017: approximately RMB37.9 million) and sales staff costs of approximately RMB45.2 million (for the six months ended 30 June 2017: approximately RMB38.8 million).

Administrative Expenses

For the six months ended 30 June 2018, administrative expenses increased by approximately 23.3% to approximately RMB44.4 million (for the six months ended 30 June 2017: approximately RMB36.0 million). Other administrative expenses mainly comprised: (i) administrative staff costs of approximately RMB14.4 million (for the six months ended 30 June 2017: approximately RMB10.3 million); (ii) depreciation expenses of approximately RMB9.0 million (for the six months ended 30 June 2017: approximately RMB6.9 million); (iii) other taxes of approximately RMB9.2 million (for the six months ended 30 June 2017: approximately RMB9.0 million); and (iv) legal and professional fees of approximately RMB2.0 million (for the six months ended 30 June 2017: approximately RMB1.5 million).

The increase in other administrative staff costs was mainly due to the increase in the number of administrative staff and training expenses to cope with the continuous expansion of the Group's business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Income Tax Expense

For the six months ended 30 June 2018, the income tax expense of the Group increased to approximately RMB31.6 million (for the six months ended 30 June 2017: RMB28.4 million).

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

For the six months ended 30 June 2018, benefiting from the improvement of the overall gross profit, the Group's profit before income tax and profit attributable to owners of the Company increased by approximately 21.4% to approximately RMB190.9 million (for the six months ended 30 June 2017: approximately RMB157.2 million) and approximately 23.7% to approximately RMB159.3 million (for the six months ended 30 June 2017: approximately RMB128.8 million).

The net profit margin of the Group for the six months ended 30 June 2018 was approximately 10.8% (for the six months ended 30 June 2017: 8.6%). The basic earnings per share attributable to owners of the Company increased to approximately RMB27.8 cents for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB22.5 cents).

Acquisition of Property, Plant and Equipment

As at 30 June 2018, the Group's deposits paid for the acquisition of property, plant and equipment decreased to approximately RMB5.4 million (31 December 2017: RMB7.6 million).

Trade and Notes Receivables

As at 30 June 2018, trade and notes receivables were approximately RMB398.1 million (31 December 2017: RMB467.6 million).

Prepayments, Deposits and Other Receivables

As at 30 June 2018, prepayments, deposits and other receivables amounted to approximately RMB121.2 million (31 December 2017: RMB93.7 million) which mainly comprised: (i) deposits paid for purchase of raw materials of approximately RMB43.2 million (31 December 2017: RMB30.8 million); (ii) other receivables of approximately RMB38.4 million (31 December 2017: RMB36.9 million); and (iii) prepaid advertising expenses of approximately RMB27.3 million (31 December 2017: RMB11.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 upgrading and the further enhancement of brand image of “長壽花” (Longevity Flower) as a high-quality, green and healthy product in medium and high-end markets

Spokesperson

Since Ms. Fan Bingbing, an international celebrity, became the spokesperson, the brand awareness and reputation has been improved.

Reviewing and changing packaging on a regular basis

The Group reviews and changes packaging on a regular basis, in an effort to refresh products and maintain its young and vibrant brand image.

Wholesale distribution's campaigns

The Group continues the expansions in the wholesale distribution network. This year, the Group began to hold wholesale distribution conference in major regions before the peak retail season to promote Changshouhua brand products, including new products of Changshouhua kitchen series' products.

Advertising campaigns

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

2. Product diversification

The Company is committed to the product diversification and the transformation of single-product company to a retail brand corporation and attracting more potential consumers.

Changshouhua condiments

In Chinese proverbs, “Firewood, Rice, Oil, Salt, Sauce, Vinegar & Tea” are the essential cooking ingredients in Chinese family. Soy sauce and soybean paste are another basic cooking ingredients in Chinese family and are commonly used in cooking. The Company started the designation for the production in high-end condiment products, which were launched to the market under the brand of Changshouhua. New condiments are produced through traditional Taiwanese fermentation process, which include Aromatic Soy Sauce, Premium Soy Sauce, Superior Soy Sauce, Original Soy Sauce, Deluxe Dark Soy Sauce and soybean paste. The soy sauce series offers different capacity specifications for consumers: 160 ml, 500 ml, 855 ml, 1 litre, 1.3 liters, 1.6 liters, 1.9 liters and 4.3 liters, while soybean paste is sold in 680 grams.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Food products under the Changshouhua Kitchen series

The Group has introduced small size packing condiments, millet, Northeast Rice, mung beans and other grains and sales through wholesale distributors and e-commerce channel. The Group plans to develop a series of food products under the brand of “Changshouhua Kitchen” in long term to enrich the categories of high-quality green and healthy foods for customers.

3. Expanding and optimising sales network

As at 30 June 2018, the Group had 1,585 wholesale distributors and 152 retailers for its distribution network, covering all provincial-level administrative regions in mainland China (except Tibet) with approximately 200,000 domestic sales locations. The Group’s 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. To keep up with the trend of combining e-commerce with the Internet, the e-commerce 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 mainly rely on wholesale distributors, to ensure a more effective and extensive sales network and that its products reach target consumers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Structure

The Company's issued share capital as at 30 June 2018 was HK\$57,356,000, divided into 573,560,000 shares of HK\$0.1 each.

The Group adopts a prudent treasury policy. As at 30 June 2018, there was no borrowing and its gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) was 0% (31 December 2017: 7.3%). The current ratio (calculated as current assets divided by current liabilities) was 6.0 times (31 December 2017: 3.7 times). The Group continues to monitor stringent debt collection policy so as to minimise the risks of sales on credit and to ensure that funds are timely collected.

Liquidity and Financial Resources

As at 30 June 2018, the Group's borrowings was nil (as at 31 December 2017: approximately RMB200.0 million). The Group's cash and bank balances amounted to approximately RMB1,447 million (as at 31 December 2017: approximately RMB1,585 million).

Material Acquisition and Disposal

The Group did not have any material acquisition or disposal for the six months ended 30 June 2018.

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 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 2018, none of the assets of the Group was pledged (31 December 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Commitments and Operating Lease Commitments

The Group had capital commitment of approximately RMB1.9 million as at 30 June 2018 (31 December 2017: approximately RMB0.9 million), which mainly represented commitments made for purchase of fixed assets. The Group had operating lease commitments of approximately RMB1.7 million in respect of leased properties as at 30 June 2018 (31 December 2017: approximately RMB1.2 million).

Employee Benefits and Remuneration Policies

As at 30 June 2018, the Group had a total of 5,225 employees (31 December 2017: 4,568). 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 2018, staff costs (including Directors' remunerations) amounted to approximately RMB77.9 million (for the six months ended 30 June 2017: RMB65.7 million). For the six months ended 30 June 2018, staff costs accounted for approximately 5.3% of the Group's turnover (for the six months ended 30 June 2017: 4.4%).

Significant Investments Held

As at 30 June 2018, there were no significant investments held by the Company.

Contingent Liabilities

As at 30 June 2018, 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 2018 (for the six months ended 30 June 2017: Nil).

OTHER INFORMATION

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and associated corporations

As at 30 June 2018, the interests or short positions of the Directors or chief executives in the shares (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 299,037,249 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.

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 2018.

OTHER INFORMATION (CONTINUED)**Substantial shareholders' and other persons' interests and short positions in the Shares and underlying Shares of the Company**

As at 30 June 2018, the interests or short positions of substantial shareholders (as defined in the Listing Rules) of the Company and certain other persons, 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	51,766,000 (Note 2)	9.03%

Notes:

- (1) The 299,037,249 Shares are 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. Therefore, each of Sanxing Grease and Shandong Sanxing is deemed to be interested in these 299,037,249 Shares pursuant to the SFO.
- (2) These include:
- (i) 27,514,000 Shares held by FIL Investment Management (Hong Kong) Limited, and 19,752,000 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 27,514,000 Shares held by FIL Investment Management (Hong Kong) Limited and 19,752,000 Shares held by FIL Investment Management (Singapore) Limited pursuant to the SFO; and
- (ii) 4,500,000 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 4,500,000 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 positions in the Shares or underlying Shares of the Company as at 30 June 2018.

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

No option was granted, cancelled or lapsed during the six months ended 30 June 2018.

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 2018.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

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 2018, 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 2018.

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 2018.

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

Hong Kong, 29 August 2018

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Changshouhua Food Company Limited

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 19 to 44 which comprises the consolidated statement of financial position of Changshouhua Food Company Limited as of 30 June 2018 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 a summary of significant accounting policies 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, 29 August 2018

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Revenue	5	1,479,072	1,503,036
Cost of sales		(1,131,989)	(1,194,077)
Gross profit		347,083	308,959
Other income	5	51,885	38,872
Selling and distribution costs		(160,866)	(151,037)
Administrative expenses		(44,350)	(36,048)
Other operating expenses		(404)	(25)
Profit from operations	6	193,348	160,721
Finance costs	7	(2,407)	(3,507)
Profit before income tax		190,941	157,214
Income tax expense	8	(31,625)	(28,398)
Profit for the period attributable to owners of the Company		159,316	128,816
		RMB cents	RMB cents
Earnings per share attributable to owners of the Company	9		
– Basic		27.777	22.459
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Profit for the period	159,316	128,816
Other comprehensive income that may be reclassified subsequently to profit or loss		
Exchange loss on translation of financial statements of foreign operations	(305)	(534)
Other comprehensive income for the period, net of tax	(305)	(534)
Total comprehensive income for the period attributable to owners of the Company	159,011	128,282

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	751,049	765,816
Land use rights		174,173	176,175
Goodwill		62,762	62,762
Deposits paid for acquisition of capital assets		5,352	7,611
		993,336	1,012,364
Current assets			
Inventories		256,646	208,822
Right of return assets		6,127	–
Trade and notes receivables	12	398,098	467,644
Prepayments, deposits and other receivables		121,192	93,711
Amounts due from related companies		10,092	71,470
Cash and bank balances	13	1,447,022	1,585,032
		2,239,177	2,426,679
Current liabilities			
Trade payables	14	83,637	91,113
Accrued liabilities, other payables and deposits received		219,010	333,663
Contract liabilities		28,866	–
Refund liabilities		7,121	–
Dividend payable		3,163	37,568
Amounts due to related companies		10,652	6,155
Borrowing	15	–	166,560
Current tax liabilities		23,754	24,524
		376,203	659,583
Net current assets		1,862,974	1,767,096
Total assets less current liabilities		2,856,310	2,779,460
Non-current liabilities			
Borrowing	15	–	33,477
Net assets		2,856,310	2,745,983
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	50,109	50,109
Reserves		2,806,201	2,695,874
Total equity		2,856,310	2,745,983

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	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 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
Balance at 31 December 2017 as originally presented	50,109	483,051	257,990	53,941	69,131	1,904	47,766	1,782,091	2,745,983
Initial application of IFRS 9 (note 3)	-	-	-	-	-	-	-	(918)	(918)
Restated balances at 1 January 2018	50,109	483,051	257,990	53,941	69,131	1,904	47,766	1,781,173	2,745,065
2017 final dividend declared	-	-	-	-	-	-	(47,766)	-	(47,766)
Transactions with owners	-	-	-	-	-	-	(47,766)	-	(47,766)
Profit for the period	-	-	-	-	-	-	-	159,316	159,316
Other comprehensive income	-	-	-	-	-	(305)	-	-	(305)
Total comprehensive income for the period	-	-	-	-	-	(305)	-	159,316	159,011
At 30 June 2018 (unaudited)	50,109	483,051	257,990	53,941	69,131	1,599	-	1,940,489	2,856,310

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Net cash generated from operating activities	155,021	137,417
Net cash generated from/(used in) investing activities	782,779	(113,417)
Net cash (used in)/generated from financing activities	(275,505)	542
Net increase in cash and cash equivalents	662,295	24,542
Cash and cash equivalents at beginning of the period	485,032	856,003
Effect of foreign exchange rate changes on cash and cash equivalents	(305)	(534)
Cash and cash equivalents at end of the period	1,147,022	880,011

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

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 Main Board 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 2018 was approved and authorised for issue by the board of directors on 29 August 2018.

2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard (“IAS”) 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 for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”), and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

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 2017, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning on or after 1 January 2018. The impact of the adoption of IFRS 9 Financial Instruments (see note 3A below) and IFRS 15 Revenue from Contracts with Customers (see note 3B below) have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2018 did not have any material impact on the Group’s accounting policies.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)**A. IFRS 9 Financial Instruments (“IFRS 9”)***(i) Classification and measurement of financial instruments*

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the interim financial information.

The following table summarised the impact, net of tax, of transition to IFRS 9 on the opening balance of retained profits as of 1 January 2018 (increase/(decrease)):

	RMB'000
Retained profits as at 31 December 2017	1,782,091
Additional loss allowance of expected credit losses (“ECLs”) on trade receivables	(918)
Restated retained profits as at 1 January 2018	1,781,173

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“amortised cost”); (ii) financial assets at fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)**A. IFRS 9 Financial Instruments (“IFRS 9”) (Continued)***(i) Classification and measurement of financial instruments (Continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The accounting policies would be applied to the Group’s financial assets as follows:

Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)**A. IFRS 9 Financial Instruments (“IFRS 9”) (Continued)***(i) Classification and measurement of financial instruments (Continued)*

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at 1 January 2018 under IAS 39 RMB’000	Carrying amount as at 1 January 2018 under IFRS 9 RMB’000
Trade receivables	Loans and receivables	Amortised cost	464,594	463,676
Notes receivable	Loans and receivables	FVTPL	3,050	3,050
Deposit and other receivables	Loans and receivables	Amortised cost	36,851	36,851
Amounts due from related companies	Loans and receivables	Amortised cost	71,470	71,470
Cash and bank balances	Loans and receivables	Amortised cost	1,585,032	1,585,032

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group’s impairment model by replacing the IAS 39 “incurred loss model” to the ECLs model”. IFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised cost, contract assets and debt investment at FVOCI earlier than IAS 39. Cash and bank balances are subject to ECL model but the impairment is immaterial for the current period.

Under IFRS 9, the loss allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)

A. IFRS 9 Financial Instruments (“IFRS 9”) (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)

A. IFRS 9 Financial Instruments (“IFRS 9”) (Continued)

(ii) Impairment of financial assets (Continued)

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

The increase in loss allowance for trade receivables upon the transition to IFRS 9 as of 1 January 2018 were approximately RMB918,000. The loss allowance for trade receivables decreased by RMB362,000 during the six months ended 30 June 2018.

(b) Impairment of other receivables

Other financial assets at amortised cost of the Group includes amounts due from related companies and other receivables.

Applying the ECL model results in immaterial impairment on 1 January 2018 and for the six months ended 30 June 2018.

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)**B. IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)**

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The transition to IFRS 15 had no impact on the opening balances of retained profits.

The following table summarised the impact of adopting IFRS 15 on the Group’s consolidated statement of financial position as at 30 June 2018. There was no material impact on the Groups’ consolidated income statement, consolidated statement of comprehensive income or condensed consolidated statement of cash flows for the six months ended 30 June 2018.

Impact on the consolidated statement of financial position as of 30 June 2018 (increase/(decrease)):

	RMB’000
Assets	
Current assets	
Inventories	(6,127)
Right of return assets	6,127
Total current assets	–
Total assets	–
Liabilities	
Current liabilities	
Contract liabilities	28,866
Accrued liabilities, other payables and deposits received	(35,987)
Refund liabilities	7,121
Total current liabilities	–
Total liabilities	–

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15") (Continued)

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's goods are set out below:

Nature of the goods, satisfaction of performance obligations and payment terms

Customers obtain control of goods when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 45-180 days.

Right of return

Some of the Group's contracts with customers from the sale of goods provides customers a right of return (a right to be refunded in cash).

Advances received from customers

Generally, the Group receives short-term advances from its customers.

Nature of changes in accounting policies and impact on 1 January 2018

Right of return

When a contract provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns using a probability-weighted average amount approach similar to the expected value method under IFRS 15. Prior to adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognised in the consolidated statement of financial position within accrued liabilities with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included within inventories.

Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Group presents a refund liability and a right of return asset to recover goods from a customer separately in the consolidated statement of financial position.

Upon adoption of IFRS 15, the Group reclassified the provision for the right of return from accrued liabilities to refund liabilities and the related return asset from inventories to right of return assets.

Impact:

As of 1 January 2018, an increase in refund liabilities of approximately RMB4,924,000, an increase in right of return assets of approximately RMB4,345,000, a decrease in accrued liabilities of approximately RMB4,924,000 and a decrease in inventories of approximately RMB4,345,000 was recognised.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES (Continued)

B. IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) (Continued)

Nature of the goods, satisfaction of performance obligations and payment terms

Nature of changes in accounting policies and impact on 1 January 2018

Advances received from customers

Prior to the adoption of IFRS 15, the Group presented these advances as deposits received in the consolidated statement of financial position.

Upon the adoption of IFRS 15, reclassifications have been made from deposits received to contract liabilities for the outstanding balance of advances from customers.

Impact:

As of 1 January 2018, an increase in contract liabilities of approximately RMB40,978,000, and a decrease in deposits received of approximately RMB40,978,000 was recognised.

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. The Group’s reportable and operating segments for financial reporting purposes are 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 IFRSs.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June 2018			Total RMB'000 (Unaudited)
	Own brand Products RMB'000 (Unaudited)	Non-branded products RMB'000 (Unaudited)	Corn meal RMB'000 (Unaudited)	
Revenue from external customers	817,903	371,233	289,936	1,479,072
Reportable segment revenue	817,903	371,233	289,936	1,479,072
Reportable segment profit/(loss)	333,048	17,529	(3,494)	347,083
Depreciation	17,706	12,916	10,715	41,337

	Six months ended 30 June 2017			Total RMB'000 (Unaudited)
	Own brand Products RMB'000 (Unaudited)	Non-branded products RMB'000 (Unaudited)	Corn meal 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 2018

4. SEGMENT INFORMATION (Continued)

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	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Reportable segment profit	347,083	308,959
Other income	51,885	38,872
Selling and distribution costs	(160,866)	(151,037)
Administrative expenses	(44,350)	(36,048)
Other operating expenses	(404)	(25)
Finance costs	(2,407)	(3,507)
Profit before income tax	190,941	157,214

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. The Group has assessed that the disaggregation of revenue by operating segments in note 4 is appropriate in meeting the disclosure requirement as this is the information regularly reviewed by the Group's executive directors in order to evaluate the segment performance of the Group.

The Group's revenue from contracts with customers recognised at a point in time and other income is as follows:

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Revenue		
Sale of goods	1,479,072	1,503,036
Other income		
Interest income:		
– bank balances	15,359	5,007
– others	2,520	873
Sale of scrap materials	27,218	24,325
Compensation income from insurance company	206	53
Compensation income from sundry creditors	–	86
Net foreign exchange gain	5,767	8,156
Others	815	372
	51,885	38,872

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

6. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Profit from operations is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	1,131,989	1,076,925
Depreciation on property, plant and equipment	50,290	45,427
Amortisation of land use rights	2,002	1,923
Loss on disposal of property, plant and equipment	15	–
Change in loss allowance on trade receivables	(362)	–
Operating lease charges on rented premises	1,400	1,501
Research and development costs	605	489
Employee costs (including directors' remuneration)		
– Wages, salaries and bonus	71,750	60,657
– Contribution to defined contribution pension plan	6,108	5,066
Total employee costs	77,858	65,723

7. FINANCE COSTS

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Interest on bank and other borrowings	2,407	3,507

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Current tax		
– Provision for PRC corporate income tax	31,625	28,398

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 2017 and the six months ended 30 June 2018.

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	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	159,316	128,816
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 2017 and 30 June 2018.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

10. INTERIM DIVIDEND

The board of directors of the Company resolved not to declare an interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group incurred capital expenditure of approximately RMB3,054,000 (six months ended 30 June 2017: RMB9,484,000) in construction in progress, approximately RMB1,217,000 (six months ended 30 June 2017: RMB981,000) in office equipment, approximately RMB16,989,000 (six months ended 30 June 2017: RMB2,517,000) in plant and machinery and approximately RMB14,287,000 (six months ended 30 June 2017: RMB1,091,000) in buildings.

12. TRADE AND NOTES RECEIVABLES

	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
Trade receivables	397,558	464,594
Notes receivable	540	3,050
	398,098	467,644

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 2018

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 loss allowance, is as follows:

	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
Within 60 days	226,213	313,686
61-90 days	50,645	59,050
91-180 days	69,221	68,529
181-365 days	40,958	17,945
Over 365 days	11,061	8,434
	398,098	467,644

13. CASH AND BANK BALANCES

	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
Cash at banks and in hand	1,147,022	485,032
Short-term bank deposits	300,000	1,100,000
Cash and bank balances as stated in the consolidated statement of financial position	1,447,022	1,585,032
Short-term bank deposits that are not classified as cash and cash equivalents	(300,000)	(1,100,000)
Cash and cash equivalents for the presentation of the condensed consolidated statement of cash flows	1,147,022	485,032

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

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 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
Within 30 days	26,337	48,539
31-60 days	28,375	18,540
61-90 days	6,669	10,715
91-180 days	15,850	10,507
181-365 days	4,910	1,766
Over 365 days	1,496	1,046
	83,637	91,113

15. BORROWINGS

	31 December 2017 (audited) RMB'000
Non-current:	
Unsecured other borrowing	33,477
Current:	
Unsecured bank borrowing	166,560
	200,037
Interests borne at rates per annum in the range of:	
– floating-rate bank borrowing	HIBOR + 2.50%
– fixed-rate other borrowing	3.60%

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

15. BORROWINGS (Continued)

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

	31 December 2017 (audited) RMB'000
On demand or within one year	166,560
More than two years, but not exceeding five years	33,477
	200,037

As at 31 December 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 2017, 31 December 2017 and 30 June 2018	9,000,000,000	900,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 January 2017, 31 December 2017 and 30 June 2018	573,560,000	57,356,000

The issued and fully paid share capital is equivalent to approximately RMB50,109,000 as at 1 January 2017, 31 December 2017 and 30 June 2018.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

17. COMMITMENTS

Operating lease commitments

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

	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
Within one year	1,459	824
In the second to fifth years	225	332
	1,684	1,156

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 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
Contracted but not provided for property, plant and equipment	1,883	903

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

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	
		2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Sale of goods to related companies	(i)	1,739	307
Purchase of goods from related companies	(i)	79,584	213,849
Steam and electric power expense to a related company	(i)	29,674	23,800
Purchase of equipment from a related company	(i)	3,753	–

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 2018, 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 RMB107,746,000 (31 December 2017: RMB40,702,000). The Endorsed Notes had a maturity from three to twelve 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

20. FAIR VALUE MEASUREMENT

The fair values of trade receivables, amounts due from related companies, prepayments, deposits and other receivables, cash and bank balances, trade and other payables and amounts due to related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the notes receivable has been calculated by discounting the expected future cash flows using the rates currently available for instruments on similar terms, credit risk and remaining maturities which are not materially different from their respective carrying amounts.

Fair value hierarchy

The following table presents financial assets measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets. The fair value hierarchy has the following levels:

Level 1:	quoted prices (unadjusted) in active markets for identical assets;
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3:	inputs for the asset that are not based on observable market data (unobservable inputs)

The level in the fair value hierarchy within which the financial asset is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial asset measured at fair value in the consolidated statement of financial position at the reporting date is grouped into the fair value hierarchy as follows:

	Level 1 RMB'000 (Unaudited)	Level 2 RMB'000 (Unaudited)	Level 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 30 June 2018				
Financial asset at profit or loss				
Notes receivable	-	-	540	540

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2018

20. FAIR VALUE MEASUREMENT (Continued)

Fair value hierarchy (Continued)

There were no significant transfers between levels 1 and 2 and no transfers into or out of level 3 during the period.

The fair value of the notes receivable was calculated using the discounted cash flow method with the major input used in the method as follows:

Discount rate	1.3%
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Any changes in the major input into model will result in changes in the fair value of the notes receivable. Increase in the discount rate would decrease the fair value of the notes receivable.

Assuming all other variables are held constant; an addition in discount rate by 0.8% would decrease the notes receivable by a further RMB2,000.