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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1006)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

During the second half of the year, the overall performance of consumption market in Mainland China remained sluggish under the uncertainty of economic prospects due to the China-U.S. trade tensions. For the year ended 31 December 2019, the Group's revenue decreased by approximately 12.4% to approximately RMB3,003.5 million (2018: approximately RMB3,428.2 million) and the gross profit decreased by approximately 8.7% to approximately RMB728.1 million (2018: approximately RMB797.9 million), whereas the gross profit margin increased to approximately 24.2%, due to a drastic decline in the sales of non-branded (bulk) edible oil which generated a lower profit margin.

For the year ended 31 December 2019, the Group recorded a decrease of approximately 7.9% in profit before income tax to approximately RMB378.8 million (2018: approximately RMB411.5 million), and a decrease of approximately 7.6% in profit for the year attributable to owners of the Company to approximately RMB320.5 million (2018: approximately RMB346.9 million), respectively.

For the year ended 31 December 2019, the Group's net profit margin was approximately 10.7% (2018: 10.1%). The basic earnings per share attributable to owners of the Company decreased to approximately RMB55.89 cents (2018: RMB60.48 cents).

FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019.

PROGRESS OF THE FIVE-YEAR BUSINESS DEVELOPMENT PLAN (2016–2020)

The Company has been progressively transformed to a retail brand corporation and diversified its condiment products and rice and noodle products with a range of flavors in order to attract more potential consumers.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Changshouhua Food Company Limited (the "Company") is pleased to present the audited consolidated income statement and the consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 and the Group's audited consolidated statement of financial position as at 31 December 2019, together with the relevant comparative figures.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Revenue	*4*	**3,003,471**	3,428,155
Cost of sales		**(2,275,327)**	(2,630,290)
Gross profit		**728,144**	797,865
Other income	*4*	**97,507**	97,463
Selling and distribution costs		**(362,079)**	(380,936)
Administrative expenses		**(84,685)**	(98,709)
Other operating expenses		**—**	(986)
Profit from operations	*5*	**378,887**	414,697
Finance costs	*6*	**(60)**	(3,215)
Profit before income tax		**378,827**	411,482
Income tax expense	*7*	**(58,283)**	(64,577)
Profit for the year attributable to owners of the Company		**320,544**	346,905
Earnings per share attributable to owners of the Company	*9*		
Basic (RMB cents)		**55.89**	60.48
Diluted (RMB cents)		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**320,544**	346,905
Other comprehensive income that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**86**	(933)
Other comprehensive income for the year, net of tax	**86**	(933)
Total comprehensive income for the year attributable to owners of the Company	**320,630**	345,972

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		**780,907**	709,088
Land use rights		—	173,036
Right-of-use assets		**169,345**	—
Goodwill		**62,762**	62,762
Intangible asset		**48,264**	—
Deposits paid for acquisition of capital assets and land use rights		**61,367**	5,663
Total non-current assets		**1,122,645**	950,549
Current assets			
Inventories		**153,766**	172,228
Right of return assets		**6,944**	6,131
Trade receivables	*10*	**565,481**	508,827
Prepayments, deposits and other receivables	*11*	**69,564**	78,325
Amounts due from related companies		**106,188**	11,206
Cash and bank balances		**1,832,463**	1,807,836
Total current assets		**2,734,406**	2,584,553
Current liabilities			
Trade payables		**130,265**	118,583
Accrued liabilities and other payables		**188,055**	222,480
Contract liabilities		**125,084**	85,828
Refund liabilities		**8,662**	7,423
Dividend payable		**22,457**	3,293
Lease liabilities		**233**	—
Amounts due to related companies		**16,289**	22,745
Current tax liabilities		**36,967**	31,479
Total current liabilities		**528,012**	491,831
Net current assets		**2,206,394**	2,092,722
Total assets less current liabilities		**3,329,039**	3,043,271
Non-current liabilities			
Borrowing		**15,476**	—
Lease liabilities		**44**	—
Total non-current liabilities		**15,520**	—
Net assets		**3,313,519**	3,043,271
EQUITY			
Equity attributable to owners of the Company			
Share capital		**50,109**	50,109
Reserves		**3,263,410**	2,993,162
Total equity		**3,313,519**	3,043,271

Notes:

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 "HKEX") since 18 December 2009.

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

In the opinion of the directors, the ultimate parent of the Company is 山東三星集團有限公司 ("Shandong Sanxing"), which is established in the PRC.

The consolidated financial statements for the year ended 31 December 2019 were approved by the board of directors on 31 March 2020.

2. ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements for the year ended 31 December 2019 are consistent with those used in the consolidated financial statements for the year ended 31 December 2018, except for the adoption of the standards, amendments and interpretations issued by the International Accounting Standard Board mandatory for annual periods beginning on or after 1 January 2019. The impact of the adoption of International Financial Reporting Standards ("IFRSs") 16 Leases has been summarised below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any material impact on the Group's accounting policies.

IFRS 16 – Leases ("IFRS 16")

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases-Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application, if any. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarises the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	RMB'000
Consolidated statement of financial position as at 1 January 2019	
Land use rights	(173,036)
Right-of-use assets	173,179
Lease liabilities (non-current)	46
Lease liabilities (current)	97

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitment as of 31 December 2018	732
Less: short-term leases for which lease terms end within 31 December 2019	(581)
Less: future interest expenses	(8)
Total lease liabilities as of 1 January 2019	143

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.22%.

(ii) The new definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use assets

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost less any accumulated depreciation and any impairment loss, adjusted for any remeasurement of lease liability.

Lease liabilities

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (1 January 2019), if any. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under IAS 17 and measure at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

3. 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 of the Company 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 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 consolidated financial statements under IFRSs.

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

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

	Year ended 31 December 2019			
	Own brand products *RMB'000*	**Non-branded products** *RMB'000*	**Corn meal** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**2,043,533**	**507,280**	**452,658**	**3,003,471**
Reportable segment revenue	**2,043,533**	**507,280**	**452,658**	**3,003,471**
Reportable segment profit/(loss)	**731,358**	**22,879**	**(26,093)**	**728,144**
Depreciation of property, plant and equipment	**37,065**	**13,683**	**13,523**	**64,271**

	Year ended 31 December 2018			
	Own brand products *RMB'000*	Non-branded products *RMB'000*	Corn meal *RMB'000*	Total *RMB'000*
Revenue from external customers	1,985,294	827,037	615,824	3,428,155
Reportable segment revenue	1,985,294	827,037	615,824	3,428,155
Reportable segment profit/(loss)	788,843	17,068	(8,046)	797,865
Depreciation of property, plant and equipment	36,344	24,604	18,951	79,899

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:

	2019 *RMB'000*	2018 *RMB'000*
Reportable segment profit	**728,144**	797,865
Other income	**97,507**	97,463
Selling and distribution costs	**(362,079)**	(380,936)
Administrative expenses	**(84,685)**	(98,709)
Other operating expenses	**—**	(986)
Finance costs	**(60)**	(3,215)
Profit before income tax	**378,827**	411,482

All of the Group's revenue from external customers and the non-current assets of the Group are located in the PRC (i.e. the country of domicile of the Company).

4. 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 3 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 are as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**3,003,471**	3,428,155
Other income		
Bank interest income	**39,582**	28,230
Sale of scrap materials	**34,651**	51,413
Compensation income from insurance company	**615**	1,063
Compensation income from sundry creditors	**1,188**	4,805
Government grants *(note)*	**8,380**	—
Gain on disposal of property, plant and equipment	**8,751**	—
Net foreign exchange gain	**6**	3,480
Others	**4,334**	8,472
	97,507	97,463

Note: The Group received unconditional discretionary grant from the relevant PRC government authority in support of enterprise operating in specified industry.

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**565,481**	508,827
Contract liabilities	**125,084**	85,828

The Group has applied the practical expedient and decided not to disclose the amount of revenue the Group will be entitled to when it satisfies the remaining performance obligations for contracts that had an original expected duration of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. PROFIT FROM OPERATIONS

	2019	2018
	RMB'000	*RMB'000*
Profit from operations is arrived at after charging/(crediting):		
Auditor's remuneration	**1,631**	1,553
Cost of inventories recognised as an expense	**2,275,327**	2,630,290
Depreciation on property, plant and equipment*	**77,353**	97,082
Depreciation on right-of-use assets** *(note)*	**4,239**	—
Amortisation of land use rights**	**—**	3,949
(Gain)/loss on disposal of property, plant and equipment	**(8,751)**	36
Change in loss allowance on trade receivables	**91**	133
Net foreign exchange gain	**(6)**	(3,480)
Short-term lease expenses	**3,107**	—
Total minimum lease payments for lease previously classified as operating leases under IAS 17 *(note)*	**—**	2,956
Research and development costs	**3,872**	4,109
Employee costs (including directors' remuneration)		
— Wages, salaries and bonus	**159,214**	173,965
— Contribution to defined contribution pension plan^	**13,039**	13,971
Total employee costs	**172,253**	187,936

* Depreciation on property, plant and equipment has been included in:

- cost of sales of approximately RMB64,271,000 (2018: RMB79,899,000);
- administrative expenses of approximately RMB11,772,000 (2018: RMB15,990,000); and
- selling and distribution costs of approximately RMB1,310,000 (2018: RMB1,193,000).

** Depreciation on right-of-use assets and amortisation of land use rights have been included in administrative expenses.

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

Note: The Group has initially applied IFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 (if any) to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. See note 2(i) for details.

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**31**	3,215
Interest on lease liabilities	**29**	—
	60	3,215

7. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax		
— Provision for PRC corporate income tax	**58,283**	64,577

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 jurisdictions of the Cayman Islands and BVI during the years.

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

Shandong Sanxing Corn Industry Technology Company Limited ("Corn Industry") 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 and 2018, Corn Industry has been re-qualified as a High-tech Enterprise for three years. Therefore, Corn Industry is accordingly entitled to the tax rate of 15% for the years ended 31 December 2018 and 2019.

No deferred tax asset has been recognised in respect of the unused tax losses of RMB70,977,000 (2018: RMB76,877,000), that are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the relevant entities in the Group in which the losses arose, due to the unpredictability of future profit streams.

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of subsidiaries of RMB2,320,680,000 (2018: RMB2,033,908,000) as the Group is in a position to control the dividend policies of the subsidiaries and it is probable that such amount will be reinvested in the foreseeable future.

The Group did not have any other significant temporary differences which gave rise to a deferred tax asset or liability as at 31 December 2018 and 2019.

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

	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**378,827**	411,482
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	**52,178**	62,268
Tax effect of tax losses not recognised	**3,445**	1,910
Tax effect of non-taxable and non-deductible items, net	**2,827**	1,210
Utilisation of tax losses previously not recognised	**(167)**	(811)
Income tax expense	**58,283**	64,577

8. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2019 (2018: Hong Kong 10 cents per share).

9. EARNINGS PER SHARE

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	**320,544**	346,905
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 years ended 31 December 2019 and 2018.

10. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables, net	**565,481**	508,827

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 receivables are non-interest bearing.

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

	2019	2018
	RMB'000	*RMB'000*
Within 60 days	**300,870**	327,632
61-90 days	**140,004**	66,095
91-180 days	**90,071**	98,913
181-365 days	**17,676**	10,175
Over 365 days	**16,860**	6,012
	565,481	508,827

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Prepayments	**40,844**	40,198
Other receivables	**28,720**	38,127
Deposits paid for acquisition of capital assets and land use rights	**61,367**	5,663
	130,931	83,988
Less: Portion due within one year included under current assets	**(69,564)**	(78,325)
Non-current portion included under non-current assets	**61,367**	5,663

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Although the Chinese economy and the domestic consumption were under a gloomy atmosphere due to the China-US trade war, the Group continued to optimise its sales and the high-end wholesale of distributors and direct retails channels. As a result of the brand revamp of the Group through the promotion of the Five-Year Business Development Plan, the gross profit margin of our own-brand products remained stable. In response to the dynamic industrial changes in edible oils market in the PRC, the Group continued to carry out development plan for revamp of the brand, product diversification and expansion in and optimisation 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 prioritise 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). 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 focus on the development of the own brand business in line with the Company's long-term development approach.

The Group's long-term and enduring development depends on its mature and stable marketing and distribution network. As at 31 December 2019, the Group had a distribution network of 1,410 (31 December 2018: 1,479) wholesale distributors and 150 (31 December 2018: 153) retailers, covering all provincial-level administrative regions (except Tibet) of the PRC.

Financial Review

For the year ended 31 December 2019, the revenue of the Group's products was solely derived from local sales in the PRC. Despite that the sales performance of the own brand products were relatively fine under weak domestic consumption, the poor performance of non-branded corn oil and corn meal led to a decrease in the total revenue of the Group by approximately 12.4% to approximately RMB3,003.5 million (2018: approximately RMB3,428.2 million). Of which, the sales of (i) own-brand edible oil/food products under the kitchen series; (ii) non-branded edible oil; and (iii) corn meal contributed approximately RMB2,043.5 million, RMB507.3 million and RMB452.7 million (2018: approximately RMB1,985.3 million, RMB827.0 million and RMB615.8 million) respectively and accounted for approximately 68.0%, 16.9% and 15.1% (2018: approximately 57.9%, 24.1% and 18.0%) of the Group's total revenue, respectively.

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

	For the year ended 31 December 2019		For the year ended 31 December 2018	
	RMB'000	**Proportion**	*RMB'000*	Proportion
Own brand edible oil/food products under the kitchen series	**2,043,533**	**68.0%**	1,985,294	57.9%
Non-branded edible oil	**507,280**	**16.9%**	827,037	24.1%
Corn meal	**452,658**	**15.1%**	615,824	18.0%
	3,003,471	**100%**	3,428,155	100%

Sales of products under the brand of "長壽花" (Longevity Flower) increased by approximately 2.9% (i.e. approximately RMB58.2 million) and sales of non-branded edible oil decreased by approximately 38.7% (i.e. approximately RMB319.8 million).

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

	For the year ended 31 December 2019		For the year ended 31 December 2018	
	Quantities (tonnes)	**Overall proportion**	Quantities (tonnes)	Overall proportion
"長壽花" (Longevity Flower) brand				
Corn oil	**143,019**	**57.0%**	140,205	44.7%
Other edible oil	**28,466**	**11.3%**	30,075	9.6%
	171,485	**68.3%**	170,280	54.3%
Non-branded				
Corn oil	**77,295**	**30.8%**	142,392	45.5%
Other edible oil	**2,160**	**0.9%**	636	0.2%
	79,455	**31.7%**	143,028	45.7%
Overall edible oil	**250,940**	**100%**	313,308	100%
Corn meal	**329,055**		432,816	

Overall sales volume of edible oil decreased by 19.9% to 250,940 tonnes.

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

	For the year ended 31 December 2019		For the year ended 31 December 2018	
	RMB'000	**Proportion of gross profit (loss)**	*RMB'000*	Proportion of gross profit (loss)
"長壽花" (Longevity Flower) brand				
Corn oil	**596,307**	**81.9%**	635,520	79.7%
Other edible oil/food products under the kitchen series	**135,051**	**18.5%**	153,323	19.2%
	731,358	**100.4%**	788,843	98.9%
Non-branded				
Corn oil	**22,852**	**3.1%**	17,281	2.2%
Other edible oil	**27**	**0.1%**	(213)	(0.1)%
	22,879	**3.2%**	17,068	2.1%
Corn meal	**(26,093)**	**(3.6)%**	(8,046)	(1.0)%
Overall gross profit	**728,144**	**100%**	797,865	100%

	For the year ended 31 December 2019 gross profit (loss) margin	For the year ended 31 December 2018 gross profit (loss) margin
"長壽花" (Longevity Flower) brand		
Corn oil	**36.8%**	40.9%
Other edible oil	**33.6%**	37.8%
	36.2%	40.3%
Non-branded		
Corn oil	**4.6%**	2.1%
Other edible oil	**0.2%**	(5.2)%
	4.5%	2.1%
Corn meal	**(5.8)%**	(1.3)%
Overall	**24.2%**	23.3%

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

	For the year ended 31 December 2019		For the year ended 31 December 2018	
	Average selling price ***(RMB/ton)***	**Average unit cost of sales** ***(RMB/ton)***	Average selling price *(RMB/ton)*	Average unit cost of sales *(RMB/ton)*
"長壽花" (Longevity Flower) brand				
Corn oil	**11,335**	**7,165**	11,082	6,549
Other edible oil	**13,307**	**8,841**	13,253	8,241
Non-branded				
Corn oil	**6,378**	**6,082**	5,780	5,658
Other edible oil	**6,634**	**6,621**	6,388	6,723

Own brand edible oil

Despite the weak performance of the edible oil industry in Mainland China, the sales volume and the average prices of the overall edible oil were still able to maintain their growing momentums through the efforts of band revamp and the optimisation of sales channels. For the year ended 31 December 2019, the sales volume and the revenue of the overall own brand edible oil achieved a leap of 0.7% and 2.4% respectively. The surge in the costs of the raw material, the corn embryo, which is the raw material for manufacturing corn oil, had led to the cutbacks in overall gross profit by 8.0%, down to approximately RMB723.4 million (for the year ended 31 December 2018: approximately RMB786.3 million), whereas the gross profit margin of such amounted to 36.2% (for the year ended 31 December 2018: 40.3%).

Non-branded edible oil

The non-branded (bulk) edible oil is extremely sensitive to market. There was uncertainty under the China-U.S. trade tension. In addition, non-branded (bulk) corn oil recorded loss for a certain period of time due to the increase in the cost of raw material, the corn embryo. Given that the Group was committed to profitable sales, there were no price cut for the loss making sales. Eventually, no price cut of the non-branded (bulk) corn oil resulted in the significant decrease in its sales volume. For the year ended 31 December 2019, the sales volume of the non-branded (bulk) edible oil dropped by 44.4%, which in turn led to a decrease in its revenue by 38.7% to approximately RMB507.3 million.

By-product – corn meal

Due to the weak performance of the poultry farming industry in Mainland China during the second half of the year, the market price of corn meal decreased, so that the gross loss of such also rose to 5.8% for the year ended 31 December 2019.

Cost of Sales

The cost of sales mainly included costs of raw materials, direct labour and manufacturing overhead. Direct labour costs include wages and other compensation paid to production workers. Manufacturing overhead includes depreciation, freight costs, electricity and steam, indirect labour and packing expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 88.6% of the total cost of sales for the year ended 31 December 2019 (2018: 88.2%).

Other Income

For the year ended 31 December 2019, other income amounted to approximately RMB97.5 million (2018: RMB97.5 million). Other income mainly comprised sales of scrap materials of approximately RMB34.7 million (2018: approximately RMB51.4 million), bank interest income of approximately RMB39.6 million (2018: approximately RMB28.2 million), government grant of approximately RMB8.4 million (2018: nil) and the one-off gain on disposal of properties of approximately RMB8.8 million during the year (2018: nil).

Selling and Distribution Costs

Selling and distribution costs decreased by approximately 5.0% to RMB362.1 million for the year ended 31 December 2019 (2018: approximately RMB380.9 million). Selling and distribution costs mainly comprised transportation fees of approximately RMB54.1 million (2018: approximately RMB63.7 million), advertising and promotion expenses of approximately RMB67.8 million (2018: approximately RMB45.9 million), expenses of representative offices of approximately RMB121.4 million (2018: approximately RMB137.8 million) and sales staff costs of approximately RMB96.5 million (2018: approximately RMB106.1 million).

Administrative Expenses

For the year ended 31 December 2019, administrative expenses decreased by approximately 14.2% to approximately RMB84.7 million (2018: approximately RMB98.7 million). Other administrative expenses mainly comprised: (i) administrative staff costs of approximately RMB35.1 million (2018: approximately RMB37.3 million); (ii) depreciation and amortisation expenses of approximately RMB16.0 million (2018: approximately RMB19.9 million); (iii) other taxes of approximately RMB11.2 million (2018: approximately RMB17.7 million); and (iv) legal and professional fees of approximately RMB4.0 million (2018: approximately RMB5.4 million).

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

For the year ended 31 December 2019, the Group recorded a decrease of approximately 7.9% in profit before income tax to approximately RMB378.8 million (2018: approximately RMB411.5 million), and a decrease of approximately 7.6% in the Group's profit attributable to owners of the Company to approximately RMB320.5 million (2018: approximately RMB346.9 million), respectively.

For the year ended 31 December 2019, the Group's net profit margin was approximately 10.7% (2018: 10.1%). The basic earnings per share attributable to owners of the Company decreased to approximately RMB55.89 cents (2018: RMB60.48 cents).

Acquisition of Property, Plant and Equipment

As at 31 December 2019, the Group's deposits paid for acquisition of property, plant and equipment amounted to approximately RMB61.4 million (31 December 2018: RMB5.7 million).

Trade Receivables

As at 31 December 2019, trade receivables amounted to approximately RMB565.5 million (31 December 2018: RMB508.8 million).

Prepayments, Deposits and Other Receivables

As at 31 December 2019, prepayments, deposits and other receivables amounted to approximately RMB69.6 million (31 December 2018: RMB78.3 million), which mainly comprised (i) deposits paid for purchase of raw materials of approximately RMB39.8 million (31 December 2018: RMB23.3 million); (ii) other receivables of approximately RMB28.7 million (31 December 2018: RMB38.1 million); and (iii) prepaid advertising expenses of approximately RMB1.1 million (31 December 2018: RMB1.4 million).

PROGRESS OF THE FIVE-YEAR BUSINESS DEVELOPMENT PLAN (2016–2020)

In response to China's ever-changing edible oil industry, the Group announced a five-year business development plan for the brand of "長壽花" (Longevity Flower) in the 2015 interim results announcement in order to better cope with future challenges under our business model.

1. **Brand upgrading and 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.**

   Brand cooperation

   The brand of "長壽花" (Longevity Flower) has become a partner of Shandong Airlines to jointly build Changshouhua's healthy kitchen up in the air. We provided passengers of Shandong Airlines with a healthy and green dining experience up in the air by using edible oil, condiments and other food products of "長壽花" (Longevity Flower).

   Reviewing and changing packaging on a regular basis

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

Promotion campaigns

There have been on-going expansions in the wholesale distribution network across the PRC. Given "長壽花" (Longevity Flower) as a regional Shandongese brand, the Group had taken part in the public brand building campaign of "齊魯糧油" (Qilu Grain and Oil) in the year of 2019. It had also launched the promotion and marketing of products under the brand of "長壽花" (Longevity Flower) on the platform of the flagship store of "齊魯糧油" (Qilu Grain and Oil) in the provincial capital, Jinan city.

Media publicity

In September 2019, the national mainstream news media Shandong Trip took a field visit to the Group's industrial plant site of the food products of Changshouhua's healthy kitchen under the campaign of "道不盡齊魯糧油好", where exhaustive reports had been published in relation to the development of these industrial chains and the branding operation.

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. Condiment products include soy sauce, cooking wine, vinegar, sesame oil and soybean paste with a range of flavors. Rice and noodle products include rice, mixed grains and cereals, and wheat flour of all kinds.

Expanding and optimising sales network

As at 31 December 2019, the Group continued to expand and optimise its sales network, which had 1,410 wholesale distributors and 150 retailers for its distribution network, covering all provincial-level administrative regions in the Mainland China (except Tibet) and there was approximately 390,000 additional domestic sales locations. The Group's future objective is to gradually expand its distribution network into all counties, townships and communities in the PRC.

Expansion in sales channel cooperation

In addition to the continuous close cooperation with retailers and the promotion of a cooperative alliance model, the Group also reviews and optimises the layout of traditional sales channels on a regular basis, such as developing cooperation with small and medium-sized supermarkets, reviewing the list of partner distributors regularly and introducing new cooperative distributors, 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's healthy kitchen experience stores in order to complement the future series of "Changshouhua Shang Ai 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.

CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2019 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 31 December 2019, the gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) of the Group was 0.5% (31 December 2018: not applicable). As a result, the current ratio (calculated as current assets divided by current liabilities) was 5.2 times (31 December 2018: 5.3 times). The Group continues to closely monitor the 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 31 December 2019, the Group has borrowing of approximately RMB15.5 million (31 December 2018: nil) and cash and bank balances of approximately RMB1,823.5 million (31 December 2018: approximately RMB1,807.8 million).

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition or disposal by the Company during the year ended 31 December 2019.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Most transactions of the Group are settled in Renminbi ("RMB") since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating under an RMB environment and the functional currency of the major subsidiaries is RMB, except interest-bearing borrowing of the Group which are denominated in Hong Kong Dollars. The Company will pay dividends in Hong Kong Dollars if dividends are declared.

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

PLEDGE OF GROUP ASSETS

As at 31 December 2019, none of the assets of the Group was pledged (31 December 2018: Nil).

CAPITAL COMMITMENTS

The Group had capital commitment of approximately RMB170.4 million as at 31 December 2019 (31 December 2018: approximately RMB0.8 million), which mainly represented the commitments made for construction of production plants.

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 4,310 employees (31 December 2018: 5,501). The employees of the Group were remunerated based on their experience, qualifications, the Group's results and the market condition. For the year ended 31 December 2019, staff costs (including Directors' remunerations) amounted to approximately RMB172.3 million (2018: approximately RMB187.9 million) which accounted for approximately 5.7% of the Group's turnover (2018: approximately 5.5%).

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group has no material contingent liabilities.

FINAL DIVIDEND

Due to global impact from the coronavirus disease, there will be uncertainty about the growth of cashflow of the Group. The Guangzhou refining and packing plants are in final construction stage which requires large part of investment. There will be another squeezing plant for our production in Qiqihar and the Group just started its construction. These two productions expansion requires large capital expenditure. Finally, the Group kicked off the campaign of healthy kitchen and therefore a large amount of capital is required for the enhancement and expansion of the sales' network. Thus, the Board does not recommend any final dividend for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders of the Company to attend and vote at the forthcoming annual general meeting to be held on Monday, 29 June 2020 (the "AGM"), the register of members of the Company will be closed from Monday, 22 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 June 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") in Appendix 14 to the Listing Rules as its own code of corporate governance. During the year ended 31 December 2019, the Company was in compliance with the code provisions set out in the CG Code except for the deviations explained below.

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

Save as the aforesaid and in the opinion of the Directors, the Company had met the relevant code provisions set out in the CG Code during the year ended 31 December 2019.

AUDIT COMMITTEE

The Company established the Audit Committee on 23 November 2009 with written terms of reference in compliance 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 review the Company's financial reporting system and the risk management and 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 audited consolidated financial statements of the Group for the year ended 31 December 2019.

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

Hong Kong, 31 March 2020

As at the date of this announcement, the Board consists of five executive Directors, namely Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, Mr. Cheng Wenming and Mr. Ren Zaishun and three independent non-executive Directors, namely Mr. Wang Aiguo, Mr. Liu Shusong and Mr. Wang Ruiyuan.