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## **CHANGSHOUHUA FOOD COMPANY LIMITED**

### **長壽花食品股份有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1006)**

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020**

### **FINANCIAL HIGHLIGHTS**

For the six months ended 30 June 2020, the Group's revenue decreased by approximately 10.6% to approximately RMB1,287.4 million (for the six months ended 30 June 2019: approximately RMB1,440.2 million). For the six months ended 30 June 2020, the overall gross profit increased by 10.9% to approximately RMB358.6 million (for the six months ended 30 June 2019: approximately RMB323.3 million), and the overall gross profit margin rose to approximately 27.9% (for the six months ended 30 June 2019: approximately 22.4%), mainly attributable to the increase in average selling price of own brand products.

For the six months ended 30 June 2020, the Group recorded a decrease of approximately 11.8% in profit before income tax to approximately RMB160.1 million (for the six months ended 30 June 2019: approximately RMB181.6 million), and a decrease of approximately 13.3% in the Group's profit attributable to owners of the Company to approximately RMB132.9 million (for the six months ended 30 June 2019: approximately RMB153.4 million), respectively.

For the six months ended 30 June 2020, the Group's net profit margin was approximately 10.3% (for the six months ended 30 June 2019: 10.7%) and the basic and diluted earnings per share attributable to owners of the Company decreased to approximately RMB23.2 cents (for the six months ended 30 June 2019: RMB26.7 cents).

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

Through the optimisation of the sales' channel and introduction of different mid/high-end green healthy products, the Group is committed to the revamp of the “長壽花” (Longevity Flower) becoming the healthy kitchen product's brand image.

## INTERIM RESULTS

The board (the “Board”) of directors (the “Director(s)”) of Changshouhua Food Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group” or “Changshouhua”) for the six months ended 30 June 2020 together with the relevant comparative figures. The unaudited interim results have been reviewed by the Company’s auditor, BDO Limited and the Company’s audit committee (the “Audit Committee”).

### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		(unaudited)	(unaudited)
	Notes	RMB'000	RMB'000
Revenue	5	1,287,428	1,440,203
Cost of sales		<u>(928,843)</u>	<u>(1,116,892)</u>
<b>Gross profit</b>		<b>358,585</b>	323,311
Other income	5	27,298	56,248
Selling and distribution costs		(181,338)	(159,525)
Administrative expenses		<u>(44,417)</u>	<u>(38,434)</u>
<b>Profit from operations</b>	6	<b>160,128</b>	181,600
Finance costs	7	<u>(43)</u>	<u>(18)</u>
<b>Profit before income tax</b>		<b>160,085</b>	181,582
Income tax expense	8	<u>(27,175)</u>	<u>(28,199)</u>
<b>Profit for the period attributable to owners of the Company</b>		<b><u>132,910</u></b>	<b><u>153,383</u></b>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Earnings per share attributable to owners of the Company</b>			
— Basic and diluted	9	<b><u>23.173</u></b>	<b><u>26.742</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period	<u>132,910</u>	<u>153,383</u>
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>		
Exchange (loss)/gain on translation of financial statements of foreign operations	<u>(486)</u>	<u>101</u>
<b>Other comprehensive income for the period, net of tax</b>	<u>(486)</u>	<u>101</u>
<b>Total comprehensive income for the period attributable to owners of the Company</b>	<u>132,424</u>	<u>153,484</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		<b>30 June</b>	31 December
		<b>2020</b>	2019
		<b>(unaudited)</b>	(audited)
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		738,690	780,907
Right-of-use assets		167,372	169,345
Goodwill		62,762	62,762
Intangible asset		45,851	48,264
Deposits paid for acquisition of capital assets		62,004	61,367
		<u>1,076,679</u>	<u>1,122,645</u>
<b>Current assets</b>			
Inventories		245,000	153,766
Right of return assets		2,682	6,944
Trade receivables	<i>11</i>	395,869	565,481
Prepayments, deposits and other receivables		130,914	69,564
Amounts due from related companies		117,728	106,188
Cash and bank balances		1,862,055	1,832,463
		<u>2,754,248</u>	<u>2,734,406</u>
<b>Current liabilities</b>			
Trade payables	<i>12</i>	81,146	130,265
Accrued liabilities and other payables		169,781	188,055
Contract liabilities		37,573	125,084
Refund liabilities		3,345	8,662
Dividend payable		22,848	22,457
Lease liabilities		262	233
Amounts due to related companies		20,894	16,289
Current tax liabilities		33,359	36,967
		<u>369,208</u>	<u>528,012</u>
<b>Net current assets</b>		<u><b>2,385,040</b></u>	<u><b>2,206,394</b></u>

	<b>30 June 2020 (unaudited) RMB'000</b>	31 December 2019 (audited) RMB'000
<b>Total assets less current liabilities</b>	<b>3,461,719</b>	3,329,039
<b>Non-current liabilities</b>		
Borrowing	15,756	15,476
Lease liabilities	<u>20</u>	<u>44</u>
	15,776	15,520
<b>Net assets</b>	<b><u>3,445,943</u></b>	<b><u>3,313,519</u></b>
<b>EQUITY</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	50,109	50,109
Reserves	<u>3,395,834</u>	<u>3,263,410</u>
<b>Total equity</b>	<b><u>3,445,943</u></b>	<b><u>3,313,519</u></b>

## **NOTES TO THE INTERIM FINANCIAL INFORMATION**

*For the six months ended 30 June 2020*

### **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 own brand edible oil, non-branded edible oil and corn meal.

The interim financial information for the six months ended 30 June 2020 was approved and authorised for issue by the board of directors on 24 August 2020.

### **2. BASIS OF PREPARATION**

The interim financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial information is unaudited, but has been reviewed by BDO Limited in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

The interim financial information does not include all the information and disclosures required 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 2019.

### **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 2019, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning on or after 1 January 2020. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

#### 4. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

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.

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

	Six months ended 30 June 2020			
	Own brand products <i>RMB'000</i> (unaudited)	Non- branded products <i>RMB'000</i> (unaudited)	Corn meal <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Revenue from external customers	<u>997,346</u>	<u>97,890</u>	<u>192,192</u>	<u>1,287,428</u>
<b>Reportable segment revenue</b>	<u>997,346</u>	<u>97,890</u>	<u>192,192</u>	<u>1,287,428</u>
<b>Reportable segment profit</b>	<u>356,531</u>	<u>1,478</u>	<u>576</u>	<u>358,585</u>
<b>Depreciation</b>	<u>23,015</u>	<u>4,016</u>	<u>7,276</u>	<u>34,307</u>

	Six months ended 30 June 2019			
	Own brand products <i>RMB'000</i> (unaudited)	Non- branded products <i>RMB'000</i> (unaudited)	Corn meal <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Revenue from external customers	<u>842,236</u>	<u>357,587</u>	<u>240,380</u>	<u>1,440,203</u>
<b>Reportable segment revenue</b>	<u>842,236</u>	<u>357,587</u>	<u>240,380</u>	<u>1,440,203</u>
<b>Reportable segment profit/(loss)</b>	<u>321,173</u>	<u>20,310</u>	<u>(18,172)</u>	<u>323,311</u>
<b>Depreciation</b>	<u>15,558</u>	<u>10,072</u>	<u>7,721</u>	<u>33,351</u>

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	
	2020 (unaudited) <i>RMB'000</i>	2019 (unaudited) <i>RMB'000</i>
Reportable segment profit	<b>358,585</b>	323,311
Other income	<b>27,298</b>	56,248
Selling and distribution costs	<b>(181,338)</b>	(159,525)
Administrative expenses	<b>(44,417)</b>	(38,434)
Finance costs	<b>(43)</b>	(18)
Profit before income tax	<u><b>160,085</b></u>	<u>181,582</u>



## 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	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
<b>Revenue</b>		
Sale of goods	<u>1,287,428</u>	<u>1,440,203</u>
<b>Other income</b>		
Bank interest income	10,005	29,218
Sale of scrap materials	15,673	16,465
Compensation income from insurance company	—	157
Compensation income from sundry creditors	137	200
Government grant (note (a))	—	8,000
Net foreign exchange gain	18	—
Others	<u>1,465</u>	<u>2,208</u>
	<u>27,298</u>	<u>56,248</u>

Note:

- (a) The Group received unconditional discretionary grant from the relevant PRC government authority in support of enterprise operating in specified industry.

## 6. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Profit from operations is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	928,843	1,116,892
Depreciation on property, plant and equipment	43,130	40,097
Depreciation on right-of-use assets	2,159	2,199
Amortisation of intangible asset	2,413	—
Loss on disposal of property, plant and equipment	145	1,864
Change in loss allowance on trade receivables	641	(1)
Short-term lease expenses	946	1,123
Research and development costs	2,833	3,656
Employee costs (including directors' remuneration)		
— Wages, salaries and bonus	71,698	72,706
— Contribution to defined contribution pension plan	5,248	6,545
	<hr/>	<hr/>
Total employee costs	76,946	79,251
	<hr/> <hr/>	<hr/> <hr/>

## 7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on other borrowing	31	—
Interest on lease liabilities	12	18
	<hr/>	<hr/>
	43	18
	<hr/> <hr/>	<hr/> <hr/>

## 8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Current tax		
— Provision for PRC corporate income tax	<u>27,175</u>	<u>28,199</u>

PRC corporate income tax (“CIT”) 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.

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.

Pursuant to the approvals issued by the State Administration of Taxation of the PRC during the reporting period, the Company and one of its subsidiaries incorporated in the BVI are regarded as Chinese Resident Enterprises (“CREs”) and the relevant CIT Law of the PRC are applicable to the CREs with effect from 1 January 2019.

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 year ended 31 December 2019 and the six months ended 30 June 2020.

## 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	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	<u>132,910</u>	<u>153,383</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>573,560,000</u>	<u>573,560,000</u>

The diluted earnings per share is the same as the basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during the six months ended 30 June 2019 and 30 June 2020.

## 10. INTERIM DIVIDEND

The board of directors of the Company resolved not to declare an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

## 11. TRADE RECEIVABLES

	30 June	31 December
	2020 (unaudited) RMB'000	2019 (audited) RMB'000
Trade receivables	<u>395,869</u>	<u>565,481</u>

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 the invoice date, net of loss allowance, is as follows:

	<b>30 June 2020 (unaudited) RMB'000</b>	31 December 2019 (audited) RMB'000
Within 60 days	225,176	300,870
61-90 days	80,256	140,004
91-180 days	52,182	90,071
181-365 days	25,956	17,676
Over 365 days	12,299	16,860
	<u>395,869</u>	<u>565,481</u>

## 12. 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:

	<b>30 June 2020 (unaudited) RMB'000</b>	31 December 2019 (audited) RMB'000
Within 30 days	39,188	69,593
31-60 days	11,951	21,334
61-90 days	9,685	7,891
91-180 days	9,332	16,135
181-365 days	8,703	9,357
Over 365 days	2,287	5,955
	<u>81,146</u>	<u>130,265</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

China is facing unprecedented economic challenges under the impact of Coronavirus Disease 2019 pandemic (“COVID-19 pandemic”) during the first half of 2020. Despite the expectation of a gloomy economy ahead with weak domestic consumption, the Group continuously implemented its Five-Year Business Development Plan and offset against the above negative and uncertain macro factors by enhancing brand influence, diversifying products, optimising sales channels and promoting the high-end wholesale distributors and direct retails channels. In response to the dynamic industrial changes in edible oil market in China, the Group will continue to integrate and improve the sales network, so as to expand 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) as well as new series of condiment products including vinegar, soy sauce, oyster sauce and soybean paste. According to the Five-Year Business Development Plan, the Group is committed to the product diversification and the transformation of a single-product company to a retail brand corporation, and will focus on the development of the brand business of healthy kitchen series in line with the development approach favourable to the Group’s long-term prospect.

The Group’s long-term and enduring development depends on its mature and stable marketing and distribution network. As at 30 June 2020, the Group had a distribution network of 1,437 (31 December 2019: 1,410) wholesale distributors and 150 (31 December 2019: 150) retailers, covering all provincial-level administrative regions of Mainland China (except Tibet).

### Financial Review

For the six months ended 30 June 2020, the revenue of the Group’s products was solely derived from local sales in China. Due to the impact of uncertain factors of the COVID-19 pandemic and the ongoing conflict between China and the United States, revenue decreased by approximately 10.6% to approximately RMB1,287.4 million (2019: approximately RMB1,440.2 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 RMB997.3 million, RMB97.9 million and RMB192.2 million (2019: approximately RMB842.2 million, RMB357.6 million and RMB240.4 million), respectively, which accounted for approximately 77.5%, 7.6% and 14.9% (2019: approximately 58.5%, 24.8% and 16.7%) of the Group’s total revenue, respectively.

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

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	<i>RMB'000</i>	<i>Proportion</i>	<i>RMB'000</i>	<i>Proportion</i>
Own brand edible oil/food				
products under the kitchen series	997,346	77.5%	842,236	58.5%
Non-branded edible oil	97,890	7.6%	357,587	24.8%
Corn meal	192,192	14.9%	240,380	16.7%
	<u>1,287,428</u>	<u>100%</u>	<u>1,440,203</u>	<u>100%</u>

Sales of own brand products increased by approximately 18.4% to approximately RMB997.3 million. However, sales of non-branded (bulk) edible oil dropped drastically by approximately 72.6% to approximately RMB97.9 million due to the declining economy and business environment in China.

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

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	<i>Quantities (tonnes)</i>	<i>Overall proportion</i>	<i>Quantities (tonnes)</i>	<i>Overall proportion</i>
“長壽花” (Longevity Flower) brand				
Corn oil	60,119	69.6%	59,480	45.8%
Other edible oil	11,563	13.4%	11,804	9.0%
	<u>71,682</u>	<u>83.0%</u>	<u>71,284</u>	<u>54.8%</u>
Non-branded				
Corn oil	14,250	16.5%	58,449	45.0%
Other edible oil	424	0.5%	231	0.2%
	<u>14,674</u>	<u>17.0%</u>	<u>58,680</u>	<u>45.2%</u>
Overall edible oil	<u>86,356</u>	<u>100%</u>	<u>129,964</u>	<u>100%</u>
Corn meal	<u>131,640</u>		<u>180,338</u>	

Overall sales of edible oil decreased by 33.6% to 86,356 tonnes, mainly attributable to the weak performance of non-branded (bulk) edible oil.

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

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	<i>RMB'000</i>	<i>Proportion of gross profit (loss)</i>	<i>RMB'000</i>	<i>Proportion of gross profit (loss)</i>
“長壽花” (Longevity Flower) brand				
Corn oil	307,932	85.9%	256,483	79.3%
Other edible oil/food products under the kitchen series	48,599	13.6%	64,690	20.0%
	<u>356,531</u>	<u>99.5%</u>	<u>321,173</u>	<u>99.3%</u>
Non-branded				
Corn oil	1,489	0.4%	19,928	6.2%
Other edible oil	(11)	(0.1)%	382	0.1%
	<u>1,478</u>	<u>0.3%</u>	<u>20,310</u>	<u>6.3%</u>
Corn meal	<u>576</u>	<u>0.2%</u>	<u>(18,172)</u>	<u>(5.6)%</u>
Overall gross profit	<u><u>358,585</u></u>	<u><u>100%</u></u>	<u><u>323,311</u></u>	<u><u>100%</u></u>

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

	For the six months ended 30 June 2020	For the six months ended 30 June 2019
	<i>Gross profit (loss) margin</i>	<i>Gross profit (loss) margin</i>
“長壽花” (Longevity Flower) brand		
Corn oil	37.2%	38.6%
Other edible oil	29.1%	38.7%
	<u>35.9%</u>	<u>38.6%</u>
Non-branded		
Corn oil	1.6%	5.6%
Other edible oil	(0.4)%	23.2%
	<u>1.5%</u>	<u>5.7%</u>
Corn meal	<u>0.3%</u>	<u>(7.6)%</u>
Overall	<u><u>27.9%</u></u>	<u><u>22.4%</u></u>



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

	<b>For the six months ended 30 June 2020</b>		<b>For the six months ended 30 June 2019</b>	
	<i>Average selling price (RMB/tonne)</i>	<i>Average unit cost of sales (RMB/tonne)</i>	<i>Average selling price (RMB/tonne)</i>	<i>Average unit cost of sales (RMB/tonne)</i>
<b>“長壽花” (Longevity Flower) brand</b>				
Corn oil	<b>13,754</b>	<b>8,632</b>	11,179	6,867
Other edible oil	<b>13,607</b>	<b>9,645</b>	13,233	8,118
<b>Non-branded</b>				
Corn oil	<b>6,659</b>	<b>6,555</b>	6,090	5,749
Other edible oil	<b>7,061</b>	<b>7,087</b>	7,112	5,463

#### ***Own brand edible oil***

Although the first half of the year is the traditional low season for food consumption, for the six months ended 30 June 2020, the sales performance of the overall own brand edible oil was stable. Due to the rising average price, the gross profit of the overall own brand edible oil increased by 11.0% to approximately RMB356.5 million. However, affected by the rising cost of raw materials, the gross profit margin decreased to approximately 35.9% (for the six months ended 30 June 2019: 38.6%).

#### ***Non-branded edible oil***

Bulk edible oil market reflects the market condition. The sales of non-branded (bulk) edible oil dropped significantly by approximately 72.6% to approximately RMB97.9 million due to the declining economy and business environment in China under the impact of the COVID-19 pandemic.

#### ***By-product – corn meal***

For the six months ended 30 June 2020, the corn meal market was more stable than the past. The gross profit of corn meal showed a turn from loss to profit due to higher average selling price driven by the poultry farming industry.

## **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 87.3% of total cost of sales for the six months ended 30 June 2020 (for the six months ended 30 June 2019: 84.7%).

## **Other income**

For the six months ended 30 June 2020, other income decreased by approximately 51.5% to approximately RMB27.3 million (for the six months ended 30 June 2019: RMB56.2 million). Other income mainly comprised sales of scrap materials of approximately RMB15.7 million (for the six months ended 30 June 2019: approximately RMB16.5 million), bank interest income of approximately RMB10.0 million (for the six months ended 30 June 2019: approximately RMB29.2 million).

## **Selling and distribution costs**

For the six months ended 30 June 2020, selling and distribution costs increased by approximately 13.7% to RMB181.3 million (for the six months ended 30 June 2019: approximately RMB159.5 million). Selling and distribution costs mainly comprised transportation fees of approximately RMB41.9 million (for the six months ended 30 June 2019: approximately RMB25.1 million), advertising and promotion expenses of approximately RMB41.8 million (for the six months ended 30 June 2019: approximately RMB43.7 million), expenses of representative offices of approximately RMB51.2 million (for the six months ended 30 June 2019: approximately RMB43.4 million) and sales staff costs of approximately RMB43.9 million (for the six months ended 30 June 2019: approximately RMB44.2 million).

## **Administrative expenses**

For the six months ended 30 June 2020, administrative expenses increased by approximately 15.6% to approximately RMB44.4 million (for the six months ended 30 June 2019: approximately RMB38.4 million). Other administrative expenses mainly comprised: (i) administrative staff costs of approximately RMB12.8 million (for the six months ended 30 June 2019: approximately RMB14.4 million); (ii) depreciation and amortisation expenses of approximately RMB13.4 million (for the six months ended 30 June 2019: approximately RMB8.9 million); (iii) other taxes of approximately RMB4.3 million (for the six months ended 30 June 2019: approximately RMB4.8 million); and (iv) legal and professional fees of approximately RMB2.0 million (for the six months ended 30 June 2019: approximately RMB2.0 million).

### **Income tax expense**

For the six months ended 30 June 2020, the income tax expense of the Group decreased by approximately 3.6% to approximately RMB27.2 million (for the six months ended 30 June 2019: RMB28.2 million).

### **Profit before income tax and profit attributable to owners of the Company**

For the six months ended 30 June 2020, the Group recorded a decrease of approximately 11.8% in profit before income tax to approximately RMB160.1 million (for the six months ended 30 June 2019: approximately RMB181.6 million), and a decrease of approximately 13.3% in the Group's profit attributable to owners of the Company to approximately RMB132.9 million (for the six months ended 30 June 2019: approximately RMB153.4 million), respectively.

For the six months ended 30 June 2020, the Group's net profit margin decreased to approximately 10.3% (for the six months ended 30 June 2019: 10.7%) and the basic earnings per share attributable to owners of the Company decreased to approximately RMB23.2 cents (for the six months ended 30 June 2019: RMB26.7 cents).

### **Acquisition of property, plant and equipment**

As at 30 June 2020, the Group's deposits paid for the acquisition of property, plant and equipment increased to approximately RMB62.0 million (31 December 2019: RMB61.4 million).

### **Trade receivables**

As at 30 June 2020, trade receivables were approximately RMB395.9 million (31 December 2019: RMB565.5 million).

### **Prepayments, deposits and other receivables**

As at 30 June 2020, prepayments, deposits and other receivables amounted to approximately RMB130.9 million (31 December 2019: RMB69.6 million) which mainly comprised: (i) deposits paid for purchase of raw materials of approximately RMB83.0 million (31 December 2019: RMB39.8 million); (ii) other receivables of approximately RMB47.6 million (31 December 2019: RMB28.7 million); and (iii) prepaid advertising expenses of approximately RMB0.3 million (31 December 2019: RMB1.1 million).

## **PROGRESS OF 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.**

#### ***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, in an effort to refresh products and to maintain its young and vibrant brand image.

#### ***Wholesale distribution's campaigns***

The Group continues the expansions in the wholesale distribution network in the PRC. The Group held wholesale distribution conference in major regions before the peak retail season to promote “長壽花” (Longevity Flower) brand products, including new products of “長壽花” (Longevity Flower) healthy kitchen series.

#### ***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 from a single-product company to a retail brand corporation and attracting more potential consumers:

#### ***“長壽花” (Longevity Flower) condiments***

During the first half of 2020, the Group also launched its new products of rice, vinegar and oyster sauce to the market to provide consumers with more choices.

### ***Food products under the “長壽花” (Longevity Flower) 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 ““長壽花” (Longevity Flower) Healthy 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 2020, the Group had 1,437 wholesale distributors and 150 retailers for its distribution network, covering all provincial-level administrative regions in Mainland China (except Tibet) with approximately 390,000 domestic sales locations. The Group’s objective is to gradually expand its distribution network into all counties, townships and communities in the PRC.

#### ***Community partners***

A new sales model, “community partners” has been in full swing to cater for the changing customer’s consumption habit. Community partners can provide home-staying consumers with safe delivery services during the COVID-19 pandemic.

#### ***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 setup of the e-commerce department will be an important sales channel.

#### ***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.

## **CAPITAL STRUCTURE**

The Company’s issued share capital as at 30 June 2020 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 2020, the gearing ratio (calculated as total borrowings divided by shareholders’ equity) was 0.5% (31 December 2019: 0.5%). As a result, the current ratio (calculated as current assets divided by current liabilities) was 7.5 times (31 December 2019: 5.2 times). The Group continues to strictly monitor 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 2020, the Group had borrowing of approximately RMB15.8 million (31 December 2019: approximately RMB15.5 million) and cash and bank balances of approximately RMB1,862.1 million (31 December 2019: approximately RMB1,832.5 million).

## **MATERIAL ACQUISITION AND DISPOSAL**

The Company did not have any material acquisition or disposal for the six months ended 30 June 2020.

## **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 a RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is RMB. The Group’s cash and bank deposits are predominantly in RMB. The Group’s interest-bearing other borrowing is denominated in Hong Kong Dollars (“HKD”). The Company pays dividends in HKD 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 2020, none of the assets of the Group was pledged (31 December 2019: Nil).

## **CAPITAL COMMITMENTS**

The Group had capital commitments of approximately RMB160.3 million as at 30 June 2020 (31 December 2019: RMB170.4 million), which mainly represented the commitments made for purchase of fixed assets.

## **EMPLOYEE BENEFITS AND REMUNERATION POLICIES**

As at 30 June 2020, the Group had a total of 3,919 employees (31 December 2019: 4,310). 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 2020, staff costs (including Directors’ remunerations) amounted to approximately RMB76.9 million (for the six months ended 30 June 2019: RMB79.3 million). For the six months ended 30 June 2020, staff costs accounted for approximately 6.0% of the Group’s turnover (for the six months ended 30 June 2019: 5.5%).

## **SIGNIFICANT INVESTMENTS HELD**

As at 30 June 2020, there were no significant investments held by the Company.

## **CONTINGENT LIABILITIES**

As at 30 June 2020, 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 2020 (for the six months ended 30 June 2019: Nil).

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

For the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard set out in the Model Code during the six months ended 30 June 2020.

## **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 2020, the Company has been in compliance with the relevant 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, 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 2020.

## 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, approving the remuneration and terms of engagement of the external auditor, and addressing any issues relating to the resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and reviewing 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 (chairman), Mr. Wang Ruiyuan and Mr. Liu Shusong. The Audit Committee has reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2020.

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

Hong Kong, 24 August 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.*