Nissin Foods Company Limited

日清食品有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1475)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of Nissin Foods Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*4*	**2,902,271**	2,629,905
Cost of sales		**(1,867,706)**	(1,588,722)
Gross profit		**1,034,565**	1,041,183
Other income		**38,458**	31,583
Selling and distribution costs		**(603,709)**	(607,088)
Administrative expenses		**(163,294)**	(143,724)
Other expenses		**(40,212)**	(82,431)
Other gains and losses	*5*	**24,200**	(71,854)
Profit before taxation		**290,008**	167,669
Income tax expense	*6*	**(69,548)**	(60,517)
Profit for the year	*7*	**220,460**	107,152

	NOTE	2017 HK$'000	2016 HK$'000
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**119,859**	(110,532)
Share of translation reserve of an associate		**–**	(3)
Fair value loss on available-for-sale investments		**(8,224)**	(6,111)
Reclassification adjustment upon impairment of available-for-sale investments		**8,224**	6,111
		119,859	(110,535)
Total comprehensive income (expense) for the year		**340,319**	(3,383)
Profit for the year attributable to:			
Owners of the Company		**195,363**	90,762
Non-controlling interests		**25,097**	16,390
		220,460	107,152
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**308,695**	(13,917)
Non-controlling interests		**31,624**	10,534
		340,319	(3,383)
Earnings per share	*8*		
— Basis (HK cents)		**23.81**	11.29
— Diluted (HK cents)		**23.81**	11.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current Assets			
Property, plant and equipment		**1,295,386**	1,159,297
Prepaid lease payments for leasehold land		**83,750**	83,456
Goodwill		**40,082**	8,414
Trademark		**31,502**	34,733
Interest in an associate		**116**	116
Available-for-sale investments		**30,445**	38,669
Deferred tax assets		**29,295**	20,229
Loan receivable		**3,010**	3,557
Deposits paid for acquisition of property, plant and equipment		**18,875**	51,576
		1,532,461	1,400,047
Current Assets			
Prepaid lease payments for leasehold land		**2,201**	1,582
Inventories		**290,728**	215,131
Trade receivables	10	**420,626**	296,371
Other receivables, prepayments and deposits		**89,504**	72,041
Loan receivable		**547**	547
Amount due from ultimate holding company		**3,929**	3,447
Amounts due from fellow subsidiaries		**4,523**	541
Amount due from a non-controlling shareholder of a subsidiary		**–**	225
Tax recoverable		**7,343**	2,851
Time deposits over three months		**415,669**	346,221
Bank balances and cash		**1,693,459**	1,096,300
		2,928,529	2,035,257
Current Liabilities			
Trade payables	11	**267,684**	153,848
Other payables and accruals		**525,057**	502,618
Amount due to ultimate holding company		**19,793**	17,001
Amounts due to fellow subsidiaries		**4,051**	4,474
Tax liabilities		**40,363**	26,483
		856,948	704,424
Net Current Assets		**2,071,581**	1,330,833
Total Assets less Current Liabilities		**3,604,042**	2,730,880

	2017	2016
	HK$'000	*HK$'000*
Capital and Reserves		
Share capital	**2,941,441**	2,030,686
Reserves	**497,755**	588,169
Equity attributable to owners of the Company	**3,439,196**	2,618,855
Non-controlling interests	**111,878**	84,566
Total Equity	**3,551,074**	2,703,421
Non-current Liabilities		
Deferred tax liabilities	**33,831**	27,459
Deferred income	**19,137**	–
	52,968	27,459
	3,604,042	2,730,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Nissin Foods Company Limited (the "Company") is a limited company incorporated in Hong Kong on 19 October 1984 and its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 11 December 2017 (the "Listing Date").

The Company is principally engaged in the manufacturing and sales of noodles, retort foods, frozen foods, beverage products and snacks, and investment holdings.

The consolidated financial statements are presented in Hong Kong Dollar ("HK$"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results 2017 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory annual consolidated financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (the "Companies Ordinance") is as follows:

The Company will deliver the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance in due course. As the Company was a private company before its listing, it is not required to deliver its consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies, and has not done so.

The Company's auditor has reported on those consolidated financial statements. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years, but resulted additional disclosures, as set out in these consolidated financial statements.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require changes from financing cash flow to be disclosed.

4. REVENUE AND SEGMENT INFORMATION

Revenue mainly represents the amount received and receivable for goods sold during the year, net of discount and sales related tax.

The Group is organised into operating business units according to the major place of operations of the relevant group entities. The Group determines its operating segments based on these business units by reference to their respective major place of operations, for the purpose of reporting to the chief operating decision maker, i.e. the directors of the Company.

Specifically, the Group's operating and reportable segment under HKFRS 8 *Operating Segments* is as follows:

- HK Operations: Manufacturing and sales of noodles, frozen foods and other products in Hong Kong and overseas

- PRC Operations: Manufacturing and sales of noodle, frozen foods and other products in the People's Republic of China (the "PRC")

There are no aggregation of individual operating segments to derive the reportable segment.

Segment information about these operating and reportable segments is presented below:

Segment revenue and results

For the year ended 31 December 2017

	HK Operations *HK$'000*	**PRC Operations** *HK$'000*	**Reportable segment total** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
Revenue					
Segment revenue from external customers	**1,386,011**	**1,516,260**	**2,902,271**	**–**	**2,902,271**
Inter-segment revenue	**99,657**	**137,274**	**236,931**	**(236,931)**	**–**
Segment revenue	**1,485,668**	**1,653,534**	**3,139,202**	**(236,931)**	**2,902,271**
Result					
Segment results	**109,884**	**132,674**	**242,558**	**–**	**242,558**
Unallocated income					**14,548**
Unallocated expenses and other losses					**(16,002)**
Interest income					**23,910**
Impairment loss recognised on available-for-sale investments					**(8,224)**
Impairment loss recognised on property, plant and equipment					**(13,010)**
Gain on disposal of property, plant and equipment					**46,228**
Consolidated profit before taxation					**290,008**

For the year ended 31 December 2016

	HK Operations *HK$'000*	PRC Operations *HK$'000*	Reportable segment total *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Revenue					
Segment revenue from external customers	1,165,812	1,464,093	2,629,905	–	2,629,905
Inter-segment revenue	68,409	128,589	196,998	(196,998)	–
Segment revenue	1,234,221	1,592,682	2,826,903	(196,998)	2,629,905
Result					
Segment results	91,025	174,048	265,073	–	265,073
Unallocated income					3,964
Unallocated expenses and other losses					(67,557)
Interest income					27,619
Impairment loss recognised on available-for-sale investments					(6,111)
Impairment loss recognised on property, plant and equipment					(42,886)
Loss on disposal of property, plant and equipment					(4,853)
Write-down of inventories					(7,580)
Consolidated profit before taxation					167,669

Inter-segment revenue are charged at prevailing market rates.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of certain other expenses and other losses, certain other income, net exchange gain or loss, interest income, impairment losses recognised on available-for-sale investments and property, plant and equipment, gain (loss) on disposal of property, plant and equipment, and write-down of inventories. This is measure reported to the chief operating decision makers for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

No segment assets and liabilities are presented as the information is not regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of performance.

Geographical information

The Group's revenue from external customers is mainly derived from customers located in Hong Kong, the PRC and others, which is determined based on the location of customers, while the Group's non-current assets are located in Hong Kong and the PRC, which is determined based on the geographical location of these assets or place of group entities that hold such assets, where appropriate.

	2017	2016
	HK$'000	*HK$'000*
External revenue:		
Hong Kong	**1,287,422**	1,049,593
The PRC	**1,525,944**	1,489,468
Others (Canada, Australia, the United States of America, Taiwan, Macau, etc)	**88,905**	90,844
	2,902,271	2,629,905

	2017	2016
	HK$'000	*HK$'000*
Non-current assets *(Note)*:		
Hong Kong	**475,849**	436,337
The PRC	**993,862**	901,255
	1,469,711	1,337,592

Note: Non-current assets excluded available-for-sale investments, deferred tax assets and loan receivable.

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group is as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A[1]	**824,578**	775,921
Customer B[2]	**373,992**	383,381
Customer C[2]	**335,726**	339,130

1 From the PRC operations

2 From both HK and the PRC operations

5. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Exchange loss, net	**(794)**	(10,424)
Impairment loss recognised on available-for-sale investments	**(8,224)**	(6,111)
Impairment loss recognised on property, plant and equipment	**(13,010)**	(42,886)
Gain (loss) on disposal of property, plant and equipment	**46,228**	(4,853)
Write-down of inventories	**–**	(7,580)
	24,200	(71,854)

6. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**17,989**	15,946
PRC Enterprise Income Tax	**48,435**	42,434
PRC Withholding tax	**1,501**	1,269
	67,925	59,649
Under(over)provision in prior years:		
Hong Kong Profits Tax	**2,147**	(2,567)
PRC Enterprise Income Tax	**991**	1,425
	3,138	(1,142)
	71,063	58,507
Deferred tax	**(1,515)**	2,010
	69,548	60,517

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The EIT Law requires withholding tax to be levied on distribution of profits earned by the PRC entities for profits generated after 1 January 2008 at rate of 5% for Hong Kong resident companies, which are the beneficial owners of the dividend received.

The income tax expense for the year can be reconciled from the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation	**290,008**	167,669
Tax at the domestic income tax rate of 16.5%	**47,851**	27,665
Tax effect of expenses not deductible for tax purpose	**5,408**	13,660
Tax effect of income not taxable for tax purpose	**(1,709)**	(3,720)
Tax effect of tax losses not recognised	**3,287**	3,327
Utilisation of tax losses previously not recognised	**(2,040)**	(169)
Tax effect of other temporary differences not recognised	**346**	6,308
Utilisation of other temporary differences previously not recognised	**(6,206)**	–
Effect of different tax rates of subsidiaries operating in the PRC	**13,444**	12,087
Under(over)provision in prior years	**3,138**	(1,142)
Withholding tax attributable to undistributed profits of the PRC subsidiaries	**5,787**	1,594
Others	**242**	907
Income tax expense for the year	**69,548**	60,517

7. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Allowance for doubtful debts	**319**	1,462
Amortisation of prepaid lease payments for leasehold land	**3,468**	9,101
Amortisation of trademark	**3,231**	3,231
Auditor's remuneration	**4,686**	3,523
Cost of inventories recognised as expense	**1,867,706**	1,596,302
Depreciation of property, plant and equipment	**125,577**	90,780
Less: Amount capitalised in inventories and included in cost of sales upon sales	**(108,932)**	(78,263)
	16,645	12,517
Expenses relating to the closure of the production plant of Shanghai Nissin Foods Co., Ltd.	**–**	36,048
Listing expenses	**15,208**	21,085
Minimum lease payments paid under operating leases in respect of rented premises	**7,708**	7,190
Research and development expenditure	**25,004**	25,298

	2017	2016
	HK$'000	*HK$'000*
Staff costs		
Directors' emoluments		
— fees	**266**	158
— other emoluments	**6,016**	4,632
	6,282	4,790
Other staff costs excluding directors' emoluments	**496,147**	444,921
Total staff costs	**502,429**	449,711
Less: Amount capitalised in inventories and included in cost of sales upon sales	**(255,784)**	(236,779)
Less: Amount included as research and development expenditure as shown in above	**(11,780)**	(12,572)
	234,865	200,360

8. EARNINGS PER SHARE

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

	2017	2016
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (HK$'000)	**195,363**	90,762
Number of shares		
Weighted average number of ordinary shares for the purpose of		
— basic earnings per share	**820,677,385**	803,691,478
— diluted earnings per share	**820,677,385**	803,691,478

Notes:

(i) Number of ordinary shares in issue has taken into account of the share subdivision for one existing share subdivided into forty shares completed pursuant to a shareholders' resolution passed on 21 November 2017 (the "Share Subdivision").

(ii) The weighted average number of ordinary shares shown above has been arrived after deducting 528,000 shares (2016: 528,000 shares) held by a share award scheme trust, taking into account of Share Subdivision and adjusted to reflect the number of shares of 232,000 (2016: nil) vested during the year.

The computation of diluted earnings per share does not assure the exercise of the over-allotment option in initial public offering because the exercise price is higher than the average market price. In addition, the computation of diluted earnings per share for the years ended 31 December 2017 and 2016 has not considered the impact in respect of the outstanding share awards since the directors of the Company considered the impact to be insignificant.

9. DIVIDEND

	2017	2016
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2017 interim — HK$19.86 (2016: interim dividend HK$27.21) per share	**400,009**	540,000

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of 7.30 HK cents per ordinary share, in an aggregate amount of HK$78.4 million, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**422,702**	298,583
Less: allowance for doubtful debts	**(2,076)**	(2,212)
	420,626	296,371

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date, which approximates the respective revenue recognition dates at the end of the reporting period.

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**227,965**	186,473
31 to 90 days	**166,031**	104,111
91 to 180 days	**26,630**	5,787
	420,626	296,371

11. TRADE PAYABLES

The average credit period on purchases of goods is 60 days.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**146,953**	98,679
31 to 90 days	**100,239**	51,000
91 to 180 days	**20,414**	1,181
Over 180 days	**78**	2,988
	267,684	153,848

MANAGEMENT DISCUSSION & ANALYSIS

The Board is pleased to announce the results for the full year ended 31 December 2017.

The shares of the Company become successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 December 2017 (the "Listing"). The Listing demonstrates our commitment to and the dedication to serving the PRC and Hong Kong market. During the period under review, the Group witnessed a significant increase in profit attributable to owners of the Company in this year.

Revenue to the Group increased by 10.4% from HK$2,629.9 million to HK$2,902.3 million with positive revenue growth in both Hong Kong and the PRC operations. Gross profit margin decreased by 4.0% to 35.6%, owing to the impact from the strategic acquisition of 51% interest in MC Marketing & Sales (Hong Kong) Limited ("MCMS") in March 2017 and the increase in costs of sales. At EBITDA level, which represents a better measure to the Group's performance, the Group grew slightly at 1.8% to HK$374.8 million (2016: HK$368.2 million). Profit attributable to Owners of the Company increased significantly by 115.2% from HK$90.8 million to HK$195.4 million, due to better operating performance for the Hong Kong operations as well as the one-off gain in disposal of assets for the production plant located at Songjiang District of Shanghai of the PRC, amounting to HK$35.3 million and the smaller impairment loss recognised this year, while offset by the subpar performance in the PRC operations throughout the year.

The Group's basic earnings per share was 23.81 HK cents for the year (2016: 11.29 HK cents). The Board has resolved to declare a final dividend of 7.30 HK cents per share, representing a dividend payout ratio of 40% for the year.

BUSINESS REVIEW

Hong Kong Operations

In 2017, local retail market has been recovering slowly from the sluggish economy in 2016. According to the Census and Statistics Department of Hong Kong, retail sales value for the full year of 2017 increased slightly by 2.2%, representing a rebound from -8.1% in 2016 and a turnaround from the -3.2% in the first two months in Chinese New Year in 2017. We have witnessed a gradual improvement in market sentiment across most consumer sectors at the latter part of the year. According to the statistics information from the Hong Kong Tourism Board, tourism has also been recovering this year, with 2017 visitors statistics returned to positive by 3.2% to 58.5 million visitors, as opposed to a 4.5% drop in 2016. All in all, the retail environment in Hong Kong has been in positive trend but takes time for a material recovery.

For the year, revenue from Hong Kong operations increased by 18.9% from HK$1,165.8 million to HK$1,386.0 million, mainly attributable to the revenue increase contributed from MCMS distribution business since the acquisition in March 2017 despite a slight decrease in the sale of instant noodles. Currently, revenue from Hong Kong accounted for 47.8% of the Group's revenue. In terms of operating profit, the growth was minimal in the first half of the year while we saw year-on-year increase in the second half of the year, thanks to the stringent cost control through global procurement and the self-production of the packaging materials. Segment result recorded a healthy increase of 20.7% to HK$109.9 million in 2017 (2016: HK$91.0 million), thanks to the satisfactory performance of our Hong Kong operations as a market leader as well as the contribution from MCMS's operations, illustrating our strong positioning in the market.

During the twelve-month period ended 31 December 2017, the shift in Chinese New Year period and the transition of ***Demae Iccho*** distribution to our own distributor MCMS as disclosed in our prospectus had impacted on our instant noodles business in 2017, while we saw some momentum growth especially in the second half. All in all, the Group maintained its market leadership in the instant noodles market in Hong Kong with a balanced portfolio of products in different price range. Our flagship product brands, ***Demae Iccho*** (出前一丁) and ***CUP NOODLES*** (合味道), continued to be a household name for the consumers in Hong Kong enjoying high market share given our strong product research & development and innovative mindset. To cater for the health conscious customers, in addition to the current offerings of non-fried instant noodles product such as BAR RAMEN and organic products of *FROZEN SANUKI UDON*, the Group has also launched *CUP NOODLES LIGHT* in August, featuring non-fried instant noodles with less fat and calorie and the addition of dietary fibre. ***Doll Instant Noodles*** (公仔麵) and ***FUKU*** (福) are also well received in Hong Kong.

With our unparalleled strength in marketing and advertising, the Group has participated in various marketing campaigns in order to cater the interests of our different target consumers and also to provide more fruitful brand experience, such as the sponsorship of the "動漫節 Cosplay 大賽" in July 2017 in Ani-Com & Games Hong Kong by ***CUP NOODLES*** and the participation in the Food Expo 2017 in August 2017.

While the Group has traditionally been focusing on instant noodles market, we have consistently been exploring innovative products to our beloved consumers to broaden our income stream. These include a series of non-instant noodles products such as potato chips, cornflake and granola, to mention a few, in order to further utilise our core and corporate brands to attract customers' purchase.

In March 2017, the Group acquired 51% equity interest in the MCMS, allowing the Group to further explore along the value chain and to vertically integrate into the distributor's business. As disclosed in the prospectus, not only does MCMS distribute beverage, processed food and sauce products in Hong Kong, it also helps to distribute the ***Demae Iccho*** products after the acquisition, so as to better control our channel mix and understand the dynamics in distribution business. Further, it provides the Group with a more diversified business with stable income stream as a distributor.

In terms of infrastructure, the Group manufactures its instant noodles and some of its frozen food products in Hong Kong with the four production plants located in Tai Po of Hong Kong. As our business and the sales volume continue to grow, the Group has continuously made improvement to its production plants. In 2017, the Company has expanded and upgraded our Nissin Plant (located on 21-23 Dai Shing Street of Tai Po of Hong Kong) in Hong Kong with increased design production capacity. We believe these production plants give us convenience to our major suppliers and sales markets in Hong Kong and the PRC.

The PRC Operations

According to the National Bureau of Statistics of the People's Republic of the PRC, the economic growth in the PRC, as measured by gross domestic product (GDP), has been stable at 6.9% in 2017. The tertiary industry continued to gain its substance in the PRC, as reflected from the double digit increase in total retail sales of consumer goods in the PRC up to 10.2% in 2017 (2016: 10.9%). As per capita spending continued to improve over the years, we witnessed a trend to upscale towards the development of premium consumer products in various consumer sectors, including the instant noodles products. Consumption pattern has also been shifting to more premium international products as affordability and living standard continues to improve especially for the middle class and more focus being placed on food safety in the PRC. In terms of raw materials (e.g. wheat flour, palm oil, packaging materials), the prices continued to rise high during the year and will remain to be a pressure to most food manufacturer. All in all, while instant noodles market as a whole may have been stagnant, both international and national Chinese companies have been expanding quickly and aggressively in the premium instant noodles segment which helps to expand this segment as a whole.

In 2017, revenue from the PRC operations increased by 3.6% from HK$1,464.1 million to HK$1,516.3 million, turnaround from the negative growth of -3.6% in the first half of the year. Revenue growth can be attributed to the organic growth of instant noodles business in Renminbi term. Currently, revenue from the PRC accounted for 52.2% of the Group's revenue. With the commencement of operation of Xiamen production plant in 2016 and Pinghu production plant in 2017, operating profit has declined due to the surge in depreciation and the expenses related to the transition of Songjiang Production Plant to Pinghu Production Plant, which ultimately dampened the Group's operating profit level in 2017. We also observed a price increase of major raw materials in the PRC, which partly affected our profit in the PRC operations. Segment result was decreased by 23.8% to HK$132.7 million for 2017 (2016: HK$174.0 million).

We had anticipated a growing demand for the premium instant noodles products in the past few years. During the year under review, the Group continues to promote and develop our strategy in the premium instant noodles business. Progress has been made to the ***CUP NOODLES*** with new product offerings focusing on the seafood flavour. A more premium brand ***RAOH (拉王)***, featuring "Tonkotsu" or pork bone soup flavour, was also launched in July 2017 to target different clientele. The well reception of this prestigious quality product further strengthen our confidence in the PRC market as we continue to expand in the PRC.

To grow together with the mounting expectations of consumers, we strive to keep up with the market pace and trends. In order to better engage with our consumers, various animation and gaming (ACG) elements have been incorporated into our communication campaigns this year, for instance, the crossover with the Chinese Fleet Collection (Battleship Girl R) as well as Japanese animation "Gin Tama" to highlight our flagship products. We believe bringing higher quality, creativity and convenience to our consumers is the best way to enhance customers' loyalty.

For non-instant noodles segment, the Group began to produce the potato chips under ***Karamucho***, ***CUP NOODLES*** and ***Demae Iccho*** brands in one of the production lines in Shunde for both Hong Kong and the PRC and began to sell potato chips products in the PRC since June 2017. We anticipate the potato chip's business would be a bright market in the years to come.

Currently, we have five production plants in southern and eastern the PRC to support our business growth in the PRC. As disclosed in prospectus, we closed down the production plant located at Songjiang District of Shanghai of the PRC in October 2016. Subsequently, we have completed the construction of the new Pinghu Production Plant with instant noodle production lines and have commenced operation in May 2017. While the transition had some immediate impact to the 2017 operating performance, we are confident that this transition will benefit us in the long run with more advanced production machinery and equipment. We may consider to add production plants in future to catch up with our business expansion.

CORPORATE DEVELOPMENT

Research and Development and Food Safety

As one of the renowned instant noodle manufacturers in the PRC and Hong Kong, it is important for us to keep abreast of the latest market trends, developments and consumers' tastes and preference and improve our production techniques and develop new products that are beloved by the consumers. The Company regularly exchange ideas with the Nissin Global Innovation Center and the Nissin Global Food Safety Institute in Japan to facilitate our development capabilities.

In terms of quality control, all of our existing operational production plants in the PRC and Hong Kong, except for our Pinghu Production Plant and our Dongguan Production Plant, have been accredited with ISO 22000. Our Production Plant for frozen food product in Hong Kong has also been accredited with HKQAA — HACCP (Hazard Analysis and Critical Control Points). Food Safety Evaluation & Research Institute Co., Ltd. (日清(上海)食品安全研究開發有限公司), which we owns 5% stake, is accredited by the PRC National Accreditation Service for Conformity Assessment with ISO/IEC 17025. This helps us to prevent food contamination and ensure quality and safety of raw materials and finished goods.

Material Acquisition and Disposal

As disclosed in the prospectus, the Group has acquired 51% of the MCMS in March 2017 at the consideration of approximately HK$42.5 million, to better prepare the Company in future expansion in Hong Kong and the PRC.

In late December 2017, to make better allocation on the Group's resource, the Group has disposed the production plants located at Songjiang District of Shanghai of the PRC which was closed down since October 2016. The realised gain on disposal is HK$35.3 million under the Other Gains and Losses in the Profit and Loss Statement. Except the above-mentioned, the Group had no material acquisitions or disposals during the year.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2017, total assets of the Group amounted to HK$4,461.0 million (2016: HK$3,435.3 million) and the total equity was HK$3,551.1 million (2016: HK$2,703.4 million). The Group's working capital was HK$2,071.6 million (2016: HK$1,330.8 million), represented by the difference between the total current assets of HK$2,928.5 million (2016: HK$2,035.3 million) and the total current liabilities of HK$856.9 million (2016: HK$704.4 million). The current ratio was 3.4 in 2017 (2016: 2.9).

* *Current ratio: total current assets/total current liabilities*

The financial position of the Group remained healthy with net cash of approximately HK$2,109.2 million and HK$180.8 million in available banking facilities for the year under review. The Group has no external borrowing and the gearing ratio is nil for the year (2016: nil).

* *Gearing ratio: total borrowings/total equity attributable to owners of the Company*

Capital expenditure

The Group's capital expenditure was HK$259.7 million during the year under review (2016: HK$467.6 million), which was mainly due to the commencement of operation of the production plant in Pinghu in Zhejiang, the PRC and the Nissin Plant in Hong Kong.

Capital commitment

The Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided of HK$202.7 million as at 31 December 2017 (2016: HK$246.9 million).

Financial Risk Management

The Group does not enter into or trade in derivative financial instruments either for hedging or speculative purposes. The Company and several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. As HK Dollar is currently pegged to US Dollar, the Company considered that the Group's exposure to fluctuation in HK Dollar against US Dollar is limited. The currencies giving rise to this risk are primarily Japanese Yen, and Renminbi against HK Dollar.

Contingent Liability

The litigation disclosed in the prospectus (for more details, please refer to the prospectus section headed "Business — Legal proceedings and regulatory compliance — Particulars of claims against our Company as at the Latest Practicable Date") issued on 29 November 2017 has no material changes up to 31 December 2017.

Other than litigation that the Company is engaged into as mentioned above, there is no material contingent liability that the Company would require to disclose as of 31 December 2017.

Use of Proceeds from Global Offering

The Shares were listed on 11 December 2017 on the Main Board of the Stock Exchange. The total net proceeds from the Listing involving the issue of 268,580,000 ordinary shares of the Company amounted to approximately HK$950.8 million. During the period between the Listing Date and 31 December 2017, the net proceeds from the Listing had not been utilised given the short duration in between the Listing Date and the financial year end. The proposed applications of the Use of Proceeds have been set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 November 2017 ("Prospectus"). Currently, the Group held the unutilised net proceeds as deposit with licensed institutions in Hong Kong.

Future Prospect

Instant noodle's origin traces back to the invention in 1958 where the founder of our major shareholder, Nissin Foods Holdings Co., Ltd. ("Nissin Japan"), first innovated this product. As a spin-off from the major shareholder, our Company continues to inherit such innovative spirit when expanding our geographical presence and product portfolio. Leveraging the research and development expertise of Nissin Japan on its pioneer position in the industry, as well as the constant dialogue and experience sharing with the Nissin Global Innovation Center and the Nissin Global Food Safety Institute, the Company is able to introduce new and innovative products that suit the local taste in Hong Kong and the PRC.

Going forward, we would continue to maintain our dominant presence in Hong Kong with wider spectrum of new products to the consumers. In the PRC, the Company would focus on the expansion and promotion of premium instant noodles in the southern and eastern the PRC while continue to expand our geographical presence in the northern and western with greater coverage ratio. The Company will also explore inorganic by seeking any potential opportunities arising in order to better adjust to our business operations along the value chain.

All in all, as a business operator, sustainability and long term commitment is of utmost importance to the shareholders' value. We will continue to monitor and act proactively to the change in market sentiment and customers' preference and create value to all stakeholders in the community.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2017, the total number of staff of the Group was approximately 3,400 with staff costs (excluding directors' remuneration) amounting to HK$496.1 million. Remuneration package is determined with reference to the individual performance, qualification and experience of employees concerned and prevailing industry practice. The Group provides mandatory provident fund entitlement to Hong Kong's employees.

CORPORATE GOVERNANCE

The Group is committed to the maintenance of good corporate governance practices as set out in the Code Provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on Stock Exchange (the "Listing Rules"). The Company has complied with code provisions as set out in the CG Code from the Listing Date and up to 31 December 2017 except the following:

Pursuant to Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Kiyotaka Ando is currently the Chairman of the Board and the Chief Executive Officer, responsible for strategic planning and managing of the Group's overall business and operations. Mr. Ando has been responsible for overall management of the Group since 2009. The Board believes that the current structure enables the Company to make and implement business decision swiftly and effectively which promotes the Group's development in line with other strategies and business direction. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired because of the diverse background and experience of the non-executive director and independent non-executive directors. Further, the Audit Committee, which consists exclusively of independent non-executive directors, has free and direct access to the Company's external auditors and independent professional advisers when it considers necessary.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and render advice in respect of financial reporting as well as oversee internal control procedures and risk management systems of our Group. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Junichi Honda, Dr. Sumio Matsumoto and Professor Lynne Yukie Nakano.

Disclosure of financial information in this announcement complies with Appendix 16 to the Listing Rules. The Company's Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messers. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messers. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messers. Deloitte Touche Tohmatsu on the preliminary announcement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Specific enquiry has been made of all the directors of the Company and all the directors have confirmed that they have complied with the Model Code from the Listing Date and up to 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date and up to 31 December 2017.

FINAL DIVIDEND

The Board recommends payment of a final dividend of 7.30 HK cents per share for the year ended 31 December 2017 to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 28 June 2018. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 21 June 2018 (the "AGM"), the proposed final dividend will be paid to the Company's shareholders on 20 July 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of eligibility to attend and vote at the AGM, the Register of Members of the Company will be closed from 15 June 2018 to 21 June 2018 during which no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 14 June 2018.

For the purpose of determination of entitlement to final dividend, the Register of Members of the Company will be closed from 28 June 2018 to 3 July 2018 on which no transfer of shares will be registered. In order to qualify for final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 27 June 2018.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.nissingroup.com.hk. The 2017 Annual Report of the Company will be available at the websites of the Stock Exchange and the Company and be despatched to shareholders of the Company in due course.

By order of the Board
Kiyotaka Ando
Chief Executive Officer and Executive Director

Hong Kong, 22 March 2018

As at the date of this announcement, Executive Directors are Mr. Kiyotaka Ando, Mr. Shinji Tatsutani, Mr. Munehiko Ono, Mr. Yoshihide Semimaru and Mr. Hijiri Fukuoka; Non-executive Director is Mr. Tong Ching Hsi; and Independent Non-executive Directors are Dr. Sumio Matsumoto, Mr. Junichi Honda and Professor Lynne Yukie Nakano.