**嘉士利集團有限公司**

**Jiashili Group Limited**

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

**(Stock Code: 1285)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

The board (the "**Board**") of directors (the "**Directors**") of Jiashili Group Limited (the "**Company**") is hereby to announce the consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2018, together with the comparative figures for the year 2017 as follows:

## FINANCIAL HIGHLIGHTS

| | **Year ended December 31,** | | |
|---|---|---|---|
| | **2018** | 2017 | |
| | ***(RMB'000)*** | *(RMB'000)* | Increase/decrease |
| Revenue | **1,449,288** | 1,174,977 | ↑ 23.3% |
| Gross profit | **461,965** | 356,403 | ↑ 29.6% |
| Gross profit margin | **31.9%** | 30.3% | ↑ 1.6 percentage points |
| Profit for the year | **86,176** | 106,566 | ↓ 19.1% |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owner of the Company | **86,479** | 106,566 | ↓ 18.8% |
| Non-controlling interest | **(303)** | — | N/A |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | **173,414** | 166,800 | ↑ 4.0% |
| Earnings per share — Basic and diluted *(RMB cents)* | **20.84** | 25.68 | ↓ 18.8% |
| Net profit margin | **6.0%** | 9.1% | ↓ 3.1 percentage points |
| Proposed final dividend per share *(HKD)* | **0.05** | 0.15 | ↓ 66.7% |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended December 31, 2018*

| | *NOTES* | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|---|
| Revenue | *3* | **1,449,288** | 1,174,977 |
| Cost of sales | | **(987,323)** | (818,574) |
| Gross profit | | **461,965** | 356,403 |
| Other income | | **30,447** | 21,078 |
| Selling and distribution expenses | | **(207,939)** | (154,798) |
| Administrative expenses | | **(85,261)** | (60,281) |
| Other expenses | | **(45,018)** | (41,525) |
| Impairment losses, net of reversal | *4* | **(12,404)** | (93) |
| Other gains and losses | *5* | **(3,190)** | 14,506 |
| Share of results of an associate | | **(162)** | — |
| Share of results of a joint venture | | **(11,141)** | (9) |
| Interests on bank borrowings | | **(16,619)** | (7,680) |
| Profit before tax | | **110,678** | 127,601 |
| Income tax expense | *6* | **(24,502)** | (21,035) |
| Profit and total comprehensive income for the year | *7* | **86,176** | 106,566 |
| Profit (loss) and total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **86,479** | 106,566 |
| Non-controlling interests | | **(303)** | — |
| | | **86,176** | 106,566 |
| Earnings per share | *9* | | |
| — Basic and diluted *(RMB cents)* | | **20.84** | 25.68 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At December 31, 2018*

| | NOTES | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **458,167** | 364,980 |
| Prepaid lease payments | | **73,228** | 37,824 |
| Investment property | | **9,600** | — |
| Intangible assets | | **46,717** | — |
| Goodwill | 10 | **27,449** | — |
| Interests in associates | | **1,120** | — |
| Interests in joint ventures | | **23,850** | 34,991 |
| Other receivables and deposits | | **2,073** | 15,975 |
| | | **642,204** | 453,770 |
| **CURRENT ASSETS** | | | |
| Inventories | | **89,569** | 72,437 |
| Prepaid lease payments | | **1,698** | 1,140 |
| Loan receivables | 11 | **141,282** | 35,000 |
| Trade, bills and other receivables | 12 | **123,344** | 90,581 |
| Amount due from an associate | | **19,445** | 34,258 |
| Amount due from a non-controlling shareholder of subsidiaries | | **1,133** | — |
| Amount due from a joint venture | | **100** | 100 |
| Loan to a related party | 13 | **9,054** | — |
| Income tax recoverable | | **—** | 99 |
| Financial assets designated as at fair value through profit or loss | | **—** | 185 |
| Pledged bank deposits | | **31,728** | 19,523 |
| Bank balances and cash | | **379,257** | 419,133 |
| | | **796,610** | 672,456 |
| **CURRENT LIABILITIES** | | | |
| Trade, bills and other payables | 14 | **220,249** | 179,541 |
| Advances from customers | | **—** | 75,745 |
| Contract liabilities | | **80,788** | — |
| Income tax payables | | **11,183** | 8,107 |
| Bank borrowings | | **263,751** | 190,762 |
| Amount due to a non-controlling shareholder of subsidiaries | | **6,800** | — |
| Deferred income | | **2,371** | — |
| | | **585,142** | 454,155 |
| **NET CURRENT ASSETS** | | **211,468** | 218,301 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **853,672** | 672,071 |

| | NOTES | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred income | | **39,926** | 11,163 |
| Deferred tax liabilities | | **14,445** | 2,143 |
| Bank borrowings | | **96,720** | — |
| | | **151,091** | 13,306 |
| **NET ASSETS** | | **702,581** | 658,765 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *15* | **3,285** | 3,285 |
| Reserves | | **687,599** | 655,480 |
| Equity attributable to the owners of the Company | | **690,884** | 658,765 |
| Non-controlling interests | | **11,697** | — |
| **TOTAL EQUITY** | | **702,581** | 658,765 |

## 1. GENERAL

Jiashili Group Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Island on December 19, 2013. Its immediate and ultimate holding company is Kaiyuan Investment Limited. Its ultimate controlling shareholder is Mr. Huang Xianming and his family. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of the principal place of business of the Company is Room 701A, East Ocean Center, 98 Granville Road, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are manufacturing and sales of biscuits in the People's Republic of China (the "PRC") and Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**New and amendments to IFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to IFRSs for the first time in the current year:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### *2.1 IFRS 15 Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, January 1, 2018. In accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue*, and the related interpretations.

The Group recognises revenue from sales of biscuits products.

Information about the Group's performance obligations resulting from application of IFRS 15 are disclosed in note 3.

*Summary of effects arising from initial application of IFRS 15*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

| | **Carrying amounts previous reported at December 31, 2017** | **Reclassification** | **Carrying amounts under IFRS 15 at January 1, 2018** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **Current Liabilities** | | | |
| Advances from customers | 75,745 | (75,745) | **—** |
| Contract liabilities | — | 75,745 | **75,745** |

*Note:* As at January 1, 2018, customers advances of RMB75,745,000 in respect of sales contracts signed with customers previously included in advances from customers are reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

| | As reported | Adjustments | Amounts without application of IFRS 15 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current Liabilities** | | | |
| Advances from customers | — | 80,788 | 80,788 |
| Contract liabilities | 80,788 | (80,788) | — |

Impact on the consolidated statement of cash flows

| | As reported | Adjustments | Amounts without application of IFRS 15 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Operating activities** | | | |
| Increase in advances from customers | — | 5,043 | 5,043 |
| Increase in contract liabilities | 5,043 | (5,043) | — |

### 2.2 *IFRS 9 Financial Instruments*

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retrained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

*Summary of effects arising from initial application of IFRS 9*

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

| | *Notes* | **Carrying amounts previous reported at December 31, 2017 under IAS 39** *RMB'000* | **Reclassification under IFRS 9** *RMB'000* | **Remeasurement impairment under ECL model under IFRS 9** *RMB'000* | **Carrying amounts under IFRS 9 at January 1, 2018** *RMB'000* |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Financial assets designated as at FVTPL | (a) | 185 | (185) | — | — |
| Financial assets at FVTPL | (a) | — | 185 | — | 185 |
| Loan receivables | (b) | 35,000 | — | (3,311) | 31,689 |
| Accumulated profits | (b) | (261,137) | — | 3,311 | (257,826) |

*Notes:*

(a) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the investment funds which are evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, the fair value of the investment funds of RMB185,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL. There was no impact on the amounts recognised in relation to these assets from the application of IFRS 9.

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39, trade receivables balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including bills and other receivables, loan receivables, amounts due from an associate and a joint venture, pledged bank deposits and bank balances, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition. The management assessed the expected credit loss on bills and other receivables, loan receivables, amounts due from an associate and a joint venture, pledged bank deposits and bank balances with significant balances individually

As at January 1, 2018, the additional credit loss allowance of RMB3,311,000 has been recognised against accumulated profits and loan receivables. Except for the loan receivables, the directors of the Company reviewed and assessed the impairment of trade receivables, bills and other receivables, amounts due from an associate and a joint venture, pledged bank deposits and bank balances under ECL model, and no additional loss allowance is recognised against accumulated profits.

All loss allowances for financial assets including trade receivables and loan receivables as at December 31, 2017 reconcile to the opening loss allowance as at January 1, 2018 is as follows:

| | **Loan receivables** *RMB'000* | **Trade receivables** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| Balance at December 31, 2017 under IAS 39 | — | 228 | 228 |
| Amounts remeasured through opening accumulated profits | 3,311 | — | 3,311 |
| Balance at January 1, 2018 | 3,311 | 228 | 3,539 |

***2.3 Impact on opening consolidated statement of financial position arising from the application of all new standards***

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had been restated. The following table summarises the adjustments recognised for each of the line items affected.

| | **December 31, 2017** *RMB'000* (Audited) | **IFRS 15** *RMB'000* | **IFRS 9** *RMB'000* | **January 1, 2018** ***RMB'000*** **(Restated)** |
|---|---|---|---|---|
| **Current assets** | | | | |
| Loan receivables | 35,000 | — | (3,311) | **31,689** |
| Financial assets designated as at FVTPL | 185 | — | (185) | **—** |
| Financial assets at FVTPL | — | — | 185 | **185** |
| **Current liabilities** | | | | |
| Advances from customers | 75,745 | (75,745) | — | **—** |
| Contract liabilities | — | 75,745 | — | **75,745** |
| **Reserves** | | | | |
| Accumulated profits | (261,137) | — | 3,311 | **(257,826)** |

For the purposes of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening statement of financial position as at January 1, 2018 as disclosed above.

## 3. REVENUE AND SEGMENT INFORMATION

### A. For the year ended December 31, 2018

#### *(i) Disaggregation of revenue from contracts with customers*

An analysis of the Group's revenue from its major products and revenue by locations is set out below. The Group's revenue is recognised at a point in time.

*Sales channels*

| | **2018** |
|---|---|
| | ***RMB'000*** |
| Distributors | **1,404,117** |
| Supermarkets | **45,171** |
| Total | **1,449,288** |

#### *(ii) Performance obligations for contracts with customers*

The Group sells biscuits products to distributors and supermarkets throughout the PRC and also export biscuits products to location other than the PRC.

For sales of biscuits products to customers, revenue is recognised at a point in time when control of the biscuits products is transferred, being when the goods have been shipped to the customers' specific location (delivery). Following delivery, the customers have full discretion over the manner of distribution and price to sell the goods, and have the primary responsibility on when selling the goods and bear the risks of obsolescence and loss in relation to the goods. For distributors, the Group normally receives an advance from customer before the goods delivered. For supermarkets, the normal credit term is 30 to 180 days upon delivery.

A contract liability represents the Group's obligation to sales of biscuits products to customers for which the Group has received consideration (or an amount of consideration is due to) from customers while revenue has yet been recognised.

#### *(iii) Transaction price allocated to the remaining performance obligation for contracts with customers*

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2018 and the expected timing of recognising revenue are as follows:

| | **Sales of biscuits products** |
|---|---|
| | *RMB'000* |
| Within one year | 80,788 |

These amount disclosed above do not include transaction price allocated to performance obligations which has been satisfied but not yet recognised due to variable consideration constraint.

**B. For the year ended December 31, 2017**

An analysis of the Group's revenue for the year is as follows:

| | 2017 |
|---|---|
| | *RMB'000* |
| Sales of biscuits products | 1,174,977 |

Information reported to the management of the Group, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of products manufactured and sold. The management of the Group reviews operating results and financial information on a product by product basis. Each individual product constitutes an operating segment. For operating segments that exhibit similar long-term financial performance as they have similar economic characteristics, are produced by using similar production processes and are distributed and sold to similar classes of customers, their segment information is aggregated into biscuits operation, as a single reportable segment. The management of the Group assesses the performance of the operating segments based on a measure of segment profit or loss which represents the gross profit of the Group as presented in the consolidated statement of profit or loss and other comprehensive income.

The accounting policies of the operating and reportable segment are the same as the Group's accounting policies.

**Segment assets and liabilities**

The consolidated assets and consolidated liabilities of the Group are regularly reviewed by the management of the Group as a whole; therefore, the measure of total assets and total liabilities by operating and reportable segment is not presented.

**Other segment information**

Amounts included in the measurement of segment results:

**Year ended December 31, 2018**

| | **Biscuits operation** | **Unallocated** | **Total** |
|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Depreciation of property, plant and equipment | **35,161** | **7,115** | **42,276** |
| Amortisation of intangible assets | **3,841** | **—** | **3,841** |
| Release of prepaid lease payments | **1,698** | **—** | **1,698** |

**Year ended December 31, 2017**

| | Biscuits operation | Unallocated | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation of property, plant and equipment | 27,139 | 3,880 | 31,019 |
| Amortisation of intangible assets | 500 | — | 500 |
| Release of prepaid lease payments | 1,140 | — | 1,140 |

**Revenue from major products**

The following is an analysis of the Group's revenue and gross profit from its major products:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue by products | | |
| Breakfast biscuits | **360,902** | 347,870 |
| Crisp biscuits | **295,315** | 275,388 |
| Sandwich biscuits | **362,761** | 276,153 |
| Wafers | **135,385** | 116,063 |
| Coarse grain biscuits | **131,832** | — |
| Others *(Note)* | **163,093** | 159,503 |
| | **1,449,288** | 1,174,977 |
| Gross profit by products | | |
| Breakfast biscuits | **103,442** | 101,357 |
| Crisp biscuits | **92,664** | 80,279 |
| Sandwich biscuits | **134,836** | 96,056 |
| Wafers | **42,295** | 32,582 |
| Coarse grain biscuits | **27,348** | — |
| Others *(Note)* | **61,380** | 46,129 |
| | **461,965** | 356,403 |

*Note:* Others included numerous products, none of which alone accounted for a material portion as a reportable product category and therefore, no further analysis is disclosed.

**Geographical information**

All of the Group's operations are located in the PRC. Information about the Group's revenue from external customers by location of the relevant customers and non-current assets by location of assets is presented below:

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| The PRC (Country of domicile) | **1,446,944** | 1,173,024 | **642,203** | 453,769 |
| Others *(Note)* | **2,344** | 1,953 | **1** | 1 |
| | **1,449,288** | 1,174,977 | **642,204** | 453,770 |

*Note:* Others represent export sales to locations other than the PRC and none of such locations alone accounted for a material portion as a reportable geographic segment.

**Information about major customers**

No single customer contributed over 10% of the total revenue of the Group during both years.

## 4. IMPAIRMENT LOSSES, NET OF REVERSAL

| | 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Impairment losses recognised on | | |
| — trade receivables | **(8)** | (93) |
| — loan receivables | **(11,450)** | — |
| — loan to a related party | **(946)** | — |
| | **(12,404)** | (93) |

## 5. OTHER GAINS AND LOSSES

| | 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Net foreign exchange losses | **(3,055)** | 1,125 |
| Loss on disposal of property, plant and equipment | **(98)** | (439) |
| Fair value loss on financial assets at FVTPL | **(75)** | — |
| Fair value loss on financial assets designated as at FVTPL | **—** | (164) |
| Reversal of impairment loss on amount due from a former associate | **—** | 12,250 |
| Fair value gain on structured deposits | **—** | 1,734 |
| Others | **38** | — |
| | **(3,190)** | 14,506 |

## 6. INCOME TAX EXPENSE

| | 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | | |
| — Current tax | **23,886** | 18,908 |
| — Overprovision in prior year | **(382)** | (16) |
| | **23,504** | 18,892 |
| Deferred tax | **998** | 2,143 |
| | **24,502** | 21,035 |

No provision for Hong Kong Profits Tax has been made for both years as the Group has no assessable profits arising in Hong Kong.

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Group's operating subsidiary, Guangdong Jiashili Food Group Company Limited ("Guangdong Jiashili"), was accredited as a "High and New Technology Enterprise" by the Science and Technology Bureau of Guangdong Province and relevant authorities in the PRC with effect from January 2015 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% EIT rate for three years from 2015 to 2017. The accreditation is now under processing for renewal of further three years. In the opinion of the directors of the Company, Guangdong Jiashili is eligible to the reduced 15% EIT rate for the year ended December 31, 2018 based on the management's assessment of the accreditation of "High and New Technology Enterprise".

For other subsidiaries, under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulations of the EIT Law, the enterprise income tax rate of the PRC subsidiaries was 25% during the year.

According to Cai Shui 2008 No.1, a joint circular of Ministry of Finance and State Administration of Taxation, dividend distributed out of the profits generated since January 1, 2008 by the PRC entity to non-PRC tax resident shall be subject to the PRC Enterprise Income Tax pursuant to Articles 3 and 19 of the PRC Enterprise Income Tax Law.

The Group's subsidiaries that are the PRC tax resident are required to withhold the PRC withholding tax of 10% on dividend payment to their non-PRC resident immediate holding company on or after April 4, 2014, when the group reorganisation as set out in the Group's annual report for the year ended December 31, 2015 (the "Group Reorganisation") completed, unless such dividend payment is qualified for the 5% reduced tax rate under the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "PRC-HK DTA").

Jiashili (Hong Kong) Limited ("Jiashili HK"), which was incorporated on December 24, 2013 in Hong Kong, was managed and controlled in Hong Kong and is qualified as a Hong Kong tax resident. The Hong Kong resident certificate was valid for 3 years ended December 31, 2017, which was issued by the Hong Kong Inland Revenue Department. Jiashili HK enjoys a reduced tax rate under Bulletin [2018] No. 9 (國家稅務總局公告2018年第9號) (e.g. beneficial ownership, shareholding percentage and holding period). The renewal of Hong Kong resident certificate is still under processing. In the opinion of the directors, Jiashili HK is qualified as Hong Kong resident certificate and entitled to enjoy 5% reduced tax rate for the year ended December 31, 2018. Hence, Jiashili HK should be qualified to enjoy a reduced withholding tax rate of 5% on dividend income for the years ended December 31, 2018 and 2017, pursuant to the PRC-HK DTA.

## 7. PROFIT FOR THE YEAR

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' and chief executive's remuneration | **3,388** | 3,569 |
| Other staff costs: | | |
| Salaries and allowances | **185,972** | 145,264 |
| Contributions to retirement benefits scheme | **19,385** | 15,510 |
| Share-based compensations | **846** | 2,162 |
| Total staff costs | **209,591** | 166,505 |
| Depreciation of property, plant and equipment | **42,276** | 31,019 |
| Amortisation of intangible asset (included in cost of sales) | **3,841** | 500 |
| Total depreciation and amortisation | **46,117** | 31,519 |
| Impairment loss recognised in respect of prepayment | **—** | 2,740 |
| Release of prepaid lease payments | **1,698** | 1,140 |
| Auditors' remuneration | **1,551** | 1,141 |
| Cost of inventories recognised as expenses with no impairment of inventories recognised | **987,323** | 818,574 |
| Legal and professional fees (included in administrative expenses) | **11,648** | 6,628 |
| Rental expense under operating lease in respect of land and buildings | **4,543** | 4,125 |

## 8. DIVIDEND

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividend for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2017 Final — HK15 cents (2017: 2016 final dividend of HK15 cents) per share | **52,035** | 55,050 |

Subsequent to the end of the reporting period, final dividend of HK5 cents (2017: HK15 cents) per share, amounting to approximately HK$20,750,000 (equivalent to approximately RMB18,181,000) (2017: approximately HK$62,250,000 (equivalent to approximately RMB52,035,000)), has been proposed by the directors and is subject to the approval by the shareholders at the forthcoming Annual General Meeting of the Company.

## 9. EARNINGS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share | **86,479** | 106,566 |

| | **2018** | 2017 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Number of ordinary shares for the purposes of basic and diluted earnings per share *(Note)* | **415,000** | 415,000 |
| Basic and diluted earnings per share *(RMB cents)* | **20.84** | 25.68 |

*Note:* The computation of diluted earnings per share for the year ended December 31, 2018 and December 31, 2017 does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for 2018 and 2017.

## 10. GOODWILL

The goodwill acquired in business combination during the year was arising from acquisition of two subsidiaries (details set out in note 16) in which the management considers as one business. For the purposes of impairment testing, goodwill with indefinite useful life have been allocated to an individual cash generating unit ("CGU"), comprising these two subsidiaries subsidiary in the manufacturing and sales and distribution of biscuits products in the PRC.

The recoverable amount of CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 11.57%. The cash flows beyond the 5-year period are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. During the year ended December 31, 2018, management of the Group determines that there is no impairment on the CGU. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

## 11. LOAN RECEIVABLES

The amounts represent loans advanced to independent third parties with aggregated principal value of RMB156,043,000 (December 31, 2017: RMB35,000,000). The amounts are unsecured, interest bearing at a rate ranging from 6% to 17% per annum. The amounts are repayable within one year.

As at December 31, 2018, the Group recognised an impairment allowance of RMB14,761,000 on loan receivables. During the current year, the impairment loss, net of reversal, of RMB11,450,000 was recognised in the profit or loss.

## 12. TRADE, BILLS AND OTHER RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **43,778** | 25,713 |
| Less: Allowance for doubtful debts | **(236)** | (228) |
| Trade receivables, net | **43,542** | 25,485 |
| Bills receivables | **1,287** | 12,392 |
| Total trade and bills receivables | **44,829** | 37,877 |
| Prepayments for purchase of raw materials | **58,282** | 41,901 |
| Other receivables | **9,886** | 6,949 |
| Other prepayments | **11,120** | 5,360 |
| Rental and utility deposits | **1,300** | 1,300 |
| Deposit for acquisition of an investment | **—** | 3,000 |
| Deposit for acquisition of property, plant and equipment | **—** | 8,920 |
| Deposit for acquisition of a land use right | **—** | 1,249 |
| | **125,417** | 106,556 |
| Less: Amount shown under current assets | **(123,344)** | (90,581) |
| Amount shown under non-current assets as other receivables and deposits | **2,073** | 15,975 |

**Trade and bills receivables**

The Group generally adopted a policy to require advance payment from majority of their customers before the delivery of goods.

Before accepting any new customers, the Group assesses the potential customers' credit quality and defines their credit limit based on the reputation of the customers in the industry. Limits attributed to customers are reviewed regularly.

The trade and bills receivables balances at the end of each reporting period mainly represents credit sales to certain customers. The Group generally allows a credit period of 30 to 180 days from the invoice date for trade receivables and a further credit period ranging from 90 to 180 days for bills receivables of these external customers based on bills issue date.

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

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 2 months | **35,694** | 17,489 |
| Over 2 months but within 3 months | **4,578** | 5,979 |
| Over 3 months but within 6 months | **3,270** | 2,017 |
| | **43,542** | 25,485 |

The following is an analysis of bills receivables by age presented based on the bills issue date at the end of the reporting period.

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Over 1 month but within 3 months | **1,287** | 6,200 |
| Over 3 months but within 6 months | **—** | 6,192 |
| | **1,287** | 12,392 |

In determining the recoverability of bills receivables, the Group considers any change in the credit quality of the bills issuers from the date credit was initially granted up to the end of the reporting period. In the opinion of the management of the Group, the bills receivables that are not past due nor impaired at the end of each reporting period are of good credit quality.

## 13. LOAN TO A RELATED PARTY

The amount represents loans advanced to a related party, an indirectly owned subsidiary owned by Mr. Huang and his family members, who are the controlling shareholder of the Company, with aggregated principal value of RMB10,000,000. The amount is unsecured, interest bearing at 6%. The amount is repayable within one year.

As at December 31, 2018, the Group recognised an impairment allowance of RMB946,000 on loan to a related party. During the current year, the impairment loss of RMB946,000 was recognised in the profit or loss.

## 14. TRADE, BILLS AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **105,396** | 80,117 |
| Bills payables | **10,000** | 15,000 |
| Total trade and bills payables | **115,396** | 95,117 |
| Accrued expenses | **27,043** | 16,453 |
| Transportation fee payables | **25,111** | 22,630 |
| Payroll and welfare payables | **27,586** | 21,052 |
| Construction costs payables | **5,579** | 3,373 |
| Other payables | **4,539** | 13,021 |
| Output value-added-tax and other tax payables | **14,995** | 7,895 |
| | **220,249** | 179,541 |

**Trade and bills payables**

The credit period of trade payables and bills payables is normally within 7 to 45 days from the invoice date and 3 to 6 months from the bills issue date, respectively. The Group has financial risk management policies in place to ensure that all payables are settled within the credit limit frame.

The following is an analysis of trade payables by age, presented based on the invoice date at the end of each reporting period:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **104,839** | 79,527 |
| Over 3 months but within 6 months | **—** | 305 |
| Over 6 months but within 1 year | **557** | 159 |
| Over 1 year | **—** | 126 |
| | **105,396** | 80,117 |

The following is an analysis of bills payables by age, presented based on bills issue date at the end of each reporting period:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Over 3 months but within 6 months | **10,000** | 15,000 |

## 15. SHARE CAPITAL

The movements in the Company's authorised and issued ordinary share capital are as follows:

| | Number of shares | Share capital |
|---|---|---|
| | | *HK$* |
| **Authorised:** | | |
| At January 1, 2017, December 31, 2017 and December 31, 2018 | | |
| — Ordinary shares of HK$0.01 each | 8,000,000,000 | 80,000,000 |
| **Issued and fully paid:** | | |
| At January 1, 2017, December 31, 2017 and December 31, 2018 | | |
| — Ordinary shares of HK$0.01 each | 415,000,000 | 4,150,000 |

| | At December 31, 2018 and 2017 |
|---|---|
| | *RMB'000* |
| Presented in the consolidated financial statements | 3,285 |

## 16. ACQUISITION OF SUBSIDIARIES

On April 1, 2018, the Group acquired 85% interests in Dongguan Kamtai Foods Company Limited ("Kamtai") and Silang Foods (Huaibei) Company Limited ("Silang").

**Consideration transferred**

| | |
|---|---|
| | *RMB'000* |
| Cash | 68,000 |

**Assets and liabilities recognised at the date of acquisition**

| | *RMB'000* |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 94,380 |
| Investment property | 9,600 |
| Intangible asset | 50,558 |
| Prepaid lease payment | 37,660 |
| **Current assets** | |
| Cash and cash equivalents | 19,206 |
| Trade and other receivables | 10,730 |
| Inventories | 7,077 |
| **Current liabilities** | |
| Trade and other payables | 16,033 |
| Borrowings | 118,000 |
| **Non-current liabilities** | |
| Deferred income | 29,180 |
| Deferred tax liabilities | 13,447 |
| | 52,551 |

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB10,730,000 at the date of acquisition equivalent to the gross contractual amounts, which is the best estimate at acquisition date of the contractual cash flows expected to be collected.

**Non-controlling interests**

The non-controlling interest (15%) in Kamtai and Silang recognised at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to RMB12,000,000.

**Goodwill arising on acquisition**

| | *RMB'000* |
|---|---|
| Consideration transferred | 68,000 |
| Plus: non-controlling interests | 12,000 |
| Less: recognised amount of identifiable net assets acquired (100%) | (52,551) |
| Goodwill arising on acquisition | 27,449 |

Goodwill arose on the acquisition of Kamtai and Silang because the acquisition included the strategic synergy of the resources for cracker products of the Group and strengthening the market coverage of the Group in the PRC as at the date of acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

**Net cash outflows arising on acquisition**

| | |
|---|---|
| | *RMB'000* |
| Cash | 68,000 |
| Less: cash consideration paid during the year ended December 31, 2017 | (3,000) |
| Less: consideration payable | (6,800) |
| Less: cash and cash equivalent balances acquired | (19,206) |
| | 38,994 |

**Impact of acquisition on the results of the Group**

Included in the profit for the year is loss of RMB2,020,000 attributable to Kamtai & Silang. Revenue for the for the year ended December 31, 2018 includes RMB131,832,000 is attributable to Kamtai & Silang.

Had the acquisition of Kamtai and Silang been effected at the beginning of the year, the total amount of revenue of the Group for the year ended December 31, 2018 would have been RMB1,511,105,000, and the amount of the profit for the year ended December 31, 2018 would have been RMB87,215,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year end, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Kamtai and Silang been acquired at the beginning of the year, the directors of the Company calculated depreciation and amortisation of property, plant and equipment and intangible asset based on the recognised amounts of property, plant and equipment and intangible asset at the date of the acquisition.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Company is one of the largest local biscuit manufacturers in PRC with long history of famous brand name "JIASHILI嘉士利" for more than 60 years. During 2018 our Group offers mainly five biscuits series including breakfast biscuits series, crisp biscuits series, sandwiches biscuits series, wafer series and corase grain biscuits series. Over the year, the Group have been adhering to the business philosophy of "JIASHILI-benefit the Nation and benefit to all people嘉士利、利國家、利大家" to provide delicious and high quality biscuits to the customers in the PRC.

In 2018, the Group's revenue increased by approximately 23.3% year-on-year to approximately RMB1,449 million. Gross profit margin increased by approximately 1.6 percentage points to 31.9% as compared with that of 2017 due to the decrease in cost of raw materials although mild increase in cost of packaging materials. The operating expenses (selling and distribution expenses and administrative expenses), increased by 36.3% to approximately RMB293.2 million as compared with that of 2017 which in line with the top line growth. Profit and total comprehensive income for the year attributable to the owners of the Company decreased by 18.8% to approximately RMB86.5 million as compared with that of 2017 with a net profit margin of 6.0%. EBITDA grew by 4.0% to approximately RMB173.4 million over that of 2017.

### Acquisition of Silang

In April 2018, the Group completed the acquisition of 85% equity interest of Dongguan Kamtai Foods Company Limited and Silang Foods (Huaibei) Company Limited (collectively, the "Silang"). During the year, revenue generated from coarse grain biscuits accounted for approximately 9.1% of the Group's total turnover to approximately RMB131.8 million, the Company believed that the acquisition of Silang provide unprecedented opportunities to enter into the coarse grain digestive crackers meets the increasing trend of customers demand for no additives, sugar-free and more healthier crackers.

Our Group adopted business strategy of "JIASHILI, diversified product category" aiming at providing different biscuits categories with different flavors to customers in the PRC market. Dare to accept innovative idea and product development are the driving force for the Group's continuous development.

**Production and supply chain**

Enhancement of product quality, our Group strives for best quality with competitive prices, and zero customers complaints. This could be achieved by improved quality management and production and packaging processes. Through straight and stringent control on product safety, quality check and review will be implemented on each stages of production leads to costs reduction and enhancement of production efficiency. The total customers' complaints were reduced by 43% in 2018 as compared with last year.

The Group has obtained a number of certification on ISO9001, ISO22000, ISO14000. Close supervision and monitoring on the quality of raw materials and packaging materials to ensure product safety at source. Our Group has a high quality review checks on our suppliers in order to ensure the sustainability of their business and also to ensure they can offer reliable supply to us. In 2018, the pass rate of raw materials has increased to 99.08% and the pass rate of packaging materials rose up to 99.93%. We believe, a high standard of good quality will give better assurance to our customers.

Currently, our Group has obtained 31 patents on advanced technical improvements and production processes in biscuits, it indicates our Group's solid foundations on research and development and ongoing innovation and progress to meet customers needs. In 2018, research and development expenses amounted to approximately RMB44.2 million increased by approximately 14.9% from last year. Research and development expenses accounted for approximately 3.1% of the total revenue.

**Promotion and marketing strategy**

In 2018, our Group has more than 1,400 distributors, approximately 58% was located in southern regions.

Our Group adopted mainly with single brand of "JIASHILI嘉士利" with different products for different ages and varied consumption pattern with different preferences. In response to new China economic growth and fast changing market environment, the Group continued to adopt product perfection, tasty with different flavors and serve as a good companion in luxury and free time. In 2018, we held 66,295 sample tasting events, we also carried out 113,818 special display events to showcase and promote our brand in different distribution channels.

Our Group is undergoing consolidation in different distributor channels, aligning with different distributors through various channels such as supermarkets, shops, convenience stores and key accounts (KA) to fulfil our customers' needs. Some differentiated products are sold exclusive through specific channel to avoid possible conflicts among channels. We also strived for product differentiation in packaging and specifications among different channels and regions.

## FUTURE PROSPECT

According to the Statistical Bulletin released by the National Bureau of Statistics of the PRC the annual growth rate of the society retail sales of consumer goods for 2018 was 9.0%, a drop by 1.2 percentage points from 2017. The GDP growth rate in 2018 is expected to be 6.6%. It indicates that domestic consumption power continued to growth slowly. The products in our industry became increasingly diversified with various biscuits manufacturers and increased sales promotions and discounts were allowed in the industry. Despite a slowdown in macroeconomic growth and the various challenges brought by other outside factors, All series of our Group products have recorded growth in sales in 2018 mainly due to the good quality and tastes of the products themselves, precise pricing strategies and effective marketing and distribution.

The price of packaging materials continued to rise in 2018 lead to our production costs to increase. The Group will focus more effective procurement and production efficiency in order to reduce costs. We are optimistic about the development in 2018 and expect the economy will grow steadily. We believed that the market for biscuits is still growing with ample domestic opportunities. The Group will focus on its core competitiveness and leverage on its organizational abilities in innovation to grasp the market trend and consumers' preference, and to continue developing high-quality innovative products. It will also facilitate sales channel reform and create reasonable returns for all shareholders.

Our Group will further enhance our distribution advantages in traditional channels in PRC to improve the comprehensive distributor management level and the direct control of the Group over retail terminals of retail shops, supermarkets, convenience stores. We will also explore e-commerce food distribution especially to cater for the needs of those youth generations who loves fast distribution and online consumptions experience. We will make more efforts on e-commerce platforms and endeavor to improve the sales network to lead the market development.

## FINANCIAL REVIEW

### Revenue

In 2018, the Group's revenue increased by approximately 23.3% to RMB1,449 million. Breakdown of the revenue and sales volume by product category for the year ended December 31, 2018 and the comparative figures for the year 2017 are as follows:

| Sales volume/Revenue | 2018<br>Tonne | <br>*RMB (million)* | <br>Revenue contribution | 2017<br>Tonne | <br>*RMB (million)* | <br>Revenue contribution | Changes in<br>Sales volume | <br>Revenue |
|---|---|---|---|---|---|---|---|---|
| Breakfast biscuits series | **32,662** | **360.9** | **24.90%** | 31,958 | 347.9 | 29.60% | **+2.2%** | **+3.7%** |
| Crisp biscuits series | **21,603** | **295.3** | **20.40%** | 20,490 | 275.4 | 23.40% | **+5.4%** | **+7.2%** |
| Sandwiches bisuits series | **21,827** | **362.8** | **25.00%** | 16,780 | 276.2 | 23.50% | **+30.1%** | **+31.4%** |
| Wafer series | **8,278** | **135.4** | **9.30%** | 6,953 | 116.1 | 9.90% | **+19.1%** | **+16.6%** |
| Coarse grain biscuits series | **6,490** | **131.8** | **9.10%** | — | — | — | — | — |
| Others | **13,229** | **163.1** | **11.30%** | 10,509 | 159.4 | 13.60% | **+25.9%** | **+2.3%** |
| Total | **104,089** | **1,449.3** | **100.0%** | 86,690 | 1,175.0 | 100.0% | **+20.1%** | **+23.3%** |

### Breakfast biscuits series

Sales revenue of breakfast biscuits segment increased by 3.7% from approximately RMB347.9 million for 2017 to RMB360.9 million for 2018 was mainly due to the increased marketing efforts of the Group.

### Crisp biscuits series

Sales of crisp biscuits series, increased by 7.2% to approximately RMB295.3 million (2017: approximately RMB275.4 million) as compared to the same period last year, which was mainly due to the effective pricing and promotional strategies.

### Sandwiches biscuits series

Demand for sandwiches biscuits series of the Group continued to be strong in this year. During the year, the revenue of sandwiches biscuits rose by 31.4% to approximately RMB362.8 million (2017: approximately RMB276.2 million), the sales volume reaches 21,827 tonnes representing an increase of 30.1% from last year. The revenue of sandwiches biscuits accounting for approximately 25.0% of the Group's total turnover, which became the largest revenue driver product with high growth potential under the Group. The increase was due to the continued increased acceptance by the youth customers group and the introduction of different flavors on the products. Sandwiches biscuits series products will certainly become a new growth point and the Group will constantly improve the quality on that with an aims for gaining more market share.

**Wafer series**

During reporting period, the sales generated from wafer series amounted to approximately RMB135.4 million, an increase of 16.6% as compared with the corresponding period of last year (2017: approximately RMB116.1 million). Growth in sales volume rose by approximately 19.1% to 8,278 tonnes (2017: 6,953 tonnes).The results were primarily attributable to the success of the Group's marketing and pricing strategy and the wide market acceptance.

**Coarse grain biscuits series**

Domestic consumers aim at health accords with high healthy standards and will be very cautious in selecting healthy snacks. Coarse grains made biscuits have received much attention and acceptance by customers. Sales of coarse grain biscuit series was approximately RMB131.8 million, representing 9.1% of the total sales revenue.

**Other biscuits series**

It is the Group's policy of actively seeking to expand the range of products with different quality and flavors to meet customer's expectations. During the year, revenue from other biscuits series rose by 2.3% to approximately RMB163.1 million (2017: approximately RMB159.4 million) while sales volume increased by 25.9% to 13,229 tonnes (2017: 10,509 tonnes). The success of the product images and famous brandname of Jiashili were the reasons for the increase.

**Gross profit and gross profit margin**

Breakdown of the gross profit and gross profit margin by product categories are set out as follows:

| | **2018** | | 2017 | | **Changes in** | |
|---|---|---|---|---|---|---|
| | **Gross profit *RMB (million)*** | **Gross profit margin** | Gross profit *RMB (million)* | Gross profit margin | **Gross profit *RMB (million)*** | **Gross profit margin *(percentage points)*** |
| Breakfast biscuits series | **103.4** | **28.7%** | 101.4 | 29.1% | **+2.0** | **−0.4%** |
| Crisp biscuits series | **92.7** | **31.4%** | 80.3 | 29.2% | **+12.4** | **+2.2%** |
| Sandwiches bisuits series | **134.8** | **37.2%** | 96.0 | 34.8% | **+38.8** | **+2.4%** |
| Wafer series | **42.3** | **31.2%** | 32.6 | 28.1% | **+9.7** | **+3.1%** |
| Coarse grain biscuits series | **27.3** | **20.7%** | — | — | **+27.3** | **—** |
| Others | **61.4** | **37.6%** | 46.1 | 28.9% | **+15.3** | **+8.7%** |
| Overall | **461.9** | **31.9%** | 356.4 | 30.3% | **+105.5** | **1.6%** |

In 2018, gross profit amounted to approximately RMB461.9 million (2017: approximately RMB356.4 million), representing a year-on-year increase of 29.6%. Gross profit margin has rose to 31.9% in 2018, representing an increase of 1.6 percentage points from last year. The increase in gross profit margin was due to the stringent control on costs and the reduced raw materials costs.

The Group's primary cost of sales include raw material costs (such as sugar, palm oil, and wheat flour), packaging materials costs, manufacturing costs (such as depreciation, amortization and utilities), wages and salaries. Among them, the raw material costs represented approximately 48.2% of total cost of sales and the packaging materials costs represented approximately 27.0% of total cost of sales. In 2018, the costs of sugar and palm oil has dropped by 18.3% and 16.6% respectively, while the costs of packaging material has tremendously increased by approximately 15.4% which deteriorate our gross profit margin. In response to the change in the prices of raw materials and packaging materials, Our Group will take proactive measures such as purchasing in advance, we will further strengthen on cost control, reasonably adjust prices according to the market condition, optimize the product structure, and continue to launch more high-margin products.

**Selling and distribution expenses**

The selling and distribution expenses increased by approximately 34.3% from RMB154.8 million in 2017 to RMB207.9 million in 2018. The Group's selling expenses as a percentage of revenue increased by 1.8 percentage points to 5.5% as compared with that of 2017. Distribution costs as a percentage of revenue is 5.9% in 2018 (2017: 5.8%).

**Administrative expenses**

During the year, the Group's administrative expenses increased by approximately 41.2% to approximately RMB85.3 million from last year (2017: approximately RMB60.3 million). The increase was mainly due to the expenses incurred in reorganisation of Group structure and operating expenses in line with expansion.

**Other gains and losses**

During the year, other losses were approximately RMB3.2 million, an increase of losses by approximately RMB17.7 million (2017: approximately RMB14.5 million gains) as compared with the corresponding period of last year. The increase of losses was mainly attributable to the no impairment provisions write-back gains amounted to approximately RMB12.2 million and the current year foreign exchange losses incurred amounted to approximately RMB3.1 million (2017: approximately RMB1.1 million exchange gains).

**Inventories**

Inventories as at December 31 2018 was approximately RMB89.6 million, an increase of approximately RMB17.2 million from approximately RMB72.4 million as at December 31, 2017 while the total amounts of raw materials and packaging materials accounted for approximately 57.9% of the total inventories. The increase as at the end of the year was mainly attributable to the purchases of raw materials and packaging materials in anticipation of an increase of their future prices and finished goods keeping to meet the demand from the Lunar Chinese New year in 2018. The inventory turnover days increase from 26.76 days in 2017 to 29.94 days in 2018.

**Trade, bills and other receivables**

The Group's trade, bills and other receivables increased by 36.2% from approximately RMB90.6 million as at December 31, 2017 to approximately RMB123.3 million as at December 31, 2018 primarily due to a growth of revenue from our major distributors and e-commerce and higher credit facilities offered to a few long-term high-performing distributors which led to an increase of receivables. The Group maintained a tight credit control policy on credit facilities grant to customers, in 2018 the trade, bills and other receivables turnover days was nearly the same from last year, an increase from 22.33 days in 2017 to 26.94 days in 2018.

**Financial position and liquidity**

We finance our operations and capital expenditure primarily by internally generated cash flows as well as banking facilities provided by principal bankers. As at December 31, 2018, the Group had cash and cash equivalents amounted to approximately RMB379.3 million (2017: approximately RMB419.1 million). The banking facilities provided by bankers were secured by the pledge of our bank deposits. As at December 31, 2018, the pledged bank deposits were approximately RMB31.7 million (2017: approximately RMB19.5 million).

The Directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure. As at December 31, 2018, the Group's net current assets was approximately RMB211.5 million (2017: approximately RMB218.3 million). The current ratio of the Group as at December 31, 2018 was 1.36 (2017: 1.48). Total equity as at December 31, 2018 was approximately RMB702.6 million, an increase of 6.6% from approximately RMB658.8 million as at December 31, 2017.

**Bank borrowings and gearing**

As at December 31, 2018, the Group had total bank borrowings of approximately RMB360.5 million, an increase of 89% from last year of approximately RMB190.8 million. The increase was due to finance the growth of expansion of the business and also for marketing and promotion strategies.

As at December 31, 2018, the Group was in a net cash position (cash and cash equivalents less borrowings) of approximately RMB18.8 million (2017: approximately RMB228.4 million). As at December 31, 2018, the gross gearing ratio (defined as total liabilities over total assets) was approximately 51.1% (2017: approximately 41.5%). The management will from time to time adopt prudent financial management policy to address changing financial conditions.

**Capital expenditure**

During the period, the Group acquired property, plant and equipment of approximately RMB135.7 million (2017: approximately RMB70.1 million) in line with a series of expansion and acquisition of production facilities and upgrade of some of the old plant and production transformation by the Group.

**Use of proceeds from the Listing**

The total net proceeds raised from the IPO of the Company were approximately HK$380 million after deduction of related listing expenses. The use of IPO proceeds has been consistent with the disclosure in the prospectus of the Company dated September 15, 2014. Up to the date of this announcement, the respective use of the net IPO proceeds is as follows:

| | Net Proceeds from IPO | | |
|---|---|---|---|
| | **Unused balance as of January 1, 2018** | **Used during the Reporting Period** | **Unused balance as of December 31, 2018** |
| | *HKD million* | *HKD million* | *HKD million* |
| Increasing the recognition and awareness of our brands and expansion of our distribution and sales network | 20.1 | 20.1 | — |
| Infrastructure investment in respect of the purchase and installation of more advanced and automated machineries and the upgrading of our existing production facilities in our production plants | — | — | — |
| Research and development activities in order to refine our existing product offerings and develop new products | — | — | — |
| Repayment of the principal amount and the accrued interest under the convertible promissory note issued to Actis Investment Holdings No. 151 Limited (now known as Rich Tea Investments Limited) | — | — | — |
| Working capital and other general corporate purpose | — | — | — |
| | 20.1 | 20.1 | — |

**Human resources and remuneration of employees**

Our average number of employees was approximately 3,427 in 2018. Our total remuneration expenses in 2018 amounted to approximately RMB209.6 million, representing a increase of approximately 25.9% over the year 2017. Included in the staff costs of 2018, there were approximately RMB8.8 million belongs to one-off reorganization redundancy payments. The remuneration package of our employees includes fixed salary, commissions and allowances (where applicable), and performance-based year-end bonuses having regard to the performance of the Group and the individual.

## CODE OF CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") as its own code of corporate governance. Since the date of its listing and up to the date of this announcement, the Company has complied with the code provisions under the Code except for deviation which is summarised as below.

### Code Provision A.6.7

As stipulated in the Code provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. One non -executive director and one independent non-executive director were unable to attend the annual general meeting of the Company held on June 15, 2018 (the "2017 AGM") due to prior or unexpected business engagements.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

Our 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 Listing Rules regarding directors' securities transactions. Specific enquiries have been made with our Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended December 31, 2018.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2018.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Kam Robert, Ms. Ho Man Kay and Mr. Mr. Ma Xiaoqiang.

The annual results and the consolidated financial statements of the Group for the year ended December 31, 2018 have been reviewed by the Audit Committee of the Company. The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

## ANNUAL GENERAL MEETING

The annual general meeting ("2018 AGM") of the Company will be held in Hong Kong on or before June 5, 2019. Notice of the 2018 AGM will be issued and disseminated to shareholders of the Company in due course.

## FINAL DIVIDEND

The Board has resolved to recommended the payment of a final dividend of HK5.00 cents per share for the year ended December 31, 2018 (2017: HK15.00 cents), to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at June 19, 2019. Subject to the approval by the shareholders of the Company, the final dividend will be paid on or about July 10, 2019.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from May 31, 2019 to June 5, 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2018 AGM, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on May 30, 2019. For determining the entitlement to receive the proposed final dividend, the register of members of the Company will be closed from June 20, 2019 to June 21, 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than Hong Kong time 4:30 p.m. on June 19, 2019.

## SCOPE OF WORK OF MESSERS 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 December 31, 2018 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 Engagement 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.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website (www.gdjsl.com) and the Stock Exchange's website (http://www.hkexnews.hk). The annual report for the year ended December 31, 2018 will be despatched to the shareholders of the Company and will be made available on the websites of the Company and the Stock Exchange in due course in accordance with the Listing Rules.


## ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express their sincere thanks to our shareholders and to our staff for their commitment and diligence during the year.


By order of the Board
**Jiashili Group Limited**
**Huang Xianming**
*Chairman*

Hong Kong, March 28, 2019

*As at the date of this announcement, the Board comprises Mr. Huang Xianming, Mr. Tan Chaojun, Mr. Chen Minghui as executive Directors; Mr. Lin Xiao as a non-executive Director; Mr. Kam Robert, Ms. Ho Man Kay and Mr. Ma Xiaoqiang as independent non-executive Directors.*