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嘉士利集團有限公司
Jiashili Group Limited



(incorporated in the Cayman Islands with limited liability)

(Stock code: 1285)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019

FINANCIAL HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the six months ended June 30, 2019 amounted to approximately RMB751.1 million, grew by 18.4% as compared with the same period last year.
- Unaudited consolidated profit for the six months ended June 30, 2019 amounted to approximately RMB81.8 million (six months ended June 30, 2018: approximately RMB43.4 million), representing an increase of 88.3% as compared with the same period last year.
- For the six months ended June 30, 2019, both basic and diluted earnings per share was RMB19.65 cents (six months ended June 30, 2018: RMB10.47 cents).
- The Board has resolved to declare payment of an interim dividend of HK\$5.00 cents (six months ended June 30, 2018: Nil).

The board (the “Board”) of directors (the “Directors”) of Jiashili Group Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended June 30, 2019 (the “Reporting Period”) together with the comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2019

		Six months ended June 30,	
		2019	2018
	NOTES	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	751,103	634,256
Cost of sales		(500,108)	(436,324)
Gross profit		250,995	197,932
Other income	6	27,688	18,228
Selling and distribution expenses		(105,951)	(86,963)
Administrative expenses		(34,796)	(44,181)
Other expenses		(27,677)	(19,324)
Impairment losses reversed (recognised)			
under expected credit loss model, net	17	6,905	(1,419)
Other gains and losses	7	(644)	(3,920)
Share of results of associates		(2,313)	—
Share of results of a joint venture		(1,685)	139
Finance costs		(13,289)	(7,021)
Profit before tax		99,233	53,471
Income tax expense	8	(17,459)	(10,032)
Profit for the period	9	81,774	43,439
Other comprehensive expense for the period			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value loss on investment in financial assets at fair value through other comprehensive income		(1,027)	—
Total comprehensive income for the period		80,747	43,439
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
Owners of the Company		81,533	43,450
Non-controlling interests		241	(11)
		81,774	43,439
Earnings per share	11		
— Basic and diluted (RMB cents)		19.65	10.47

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

	NOTES	June 30, 2019 <i>RMB'000</i> (unaudited)	December 31, 2018 <i>RMB'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	477,981	458,167
Right-of-use assets		82,148	—
Prepaid lease payments		—	73,228
Investment property	12	9,900	9,600
Intangible assets	12	44,128	46,717
Goodwill		27,449	27,449
Interests in associates	13	29,412	1,120
Interests in joint ventures	14	22,165	23,850
Financial assets at fair value through other comprehensive income	18	102,473	—
Other receivables and deposits	15	1,955	2,073
		<u>797,611</u>	<u>642,204</u>
CURRENT ASSETS			
Inventories		78,357	89,569
Prepaid lease payments		—	1,698
Loan receivables	16	83,297	141,282
Trade, bills and other receivables	15	249,045	123,344
Amount due from an associate		20,754	19,445
Amount due from a non-controlling shareholder of subsidiaries		—	1,133
Amount due from a joint venture		100	100
Loan to a related party		—	9,054
Pledged bank deposits		200	31,728
Bank balances and cash		556,515	379,257
		<u>988,268</u>	<u>796,610</u>

	NOTES	June 30, 2019 <i>RMB'000</i> (unaudited)	December 31, 2018 <i>RMB'000</i> (audited)
CURRENT LIABILITIES			
Trade, bills and other payables	19	252,590	220,249
Contract liabilities		119,602	80,788
Amount due to a non-controlling shareholder of subsidiaries		11,514	6,800
Amount due to related parties		10,338	—
Income tax payables		7,694	11,183
Bank borrowings		394,671	263,751
Deferred income		1,515	2,371
Lease liabilities		3,860	—
Dividends payable		18,181	—
		<u>819,965</u>	<u>585,142</u>
NET CURRENT ASSETS		<u>168,303</u>	<u>211,468</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>965,914</u>	<u>853,672</u>
NON-CURRENT LIABILITIES			
Deferred income		91,412	39,926
Deferred tax liabilities		12,556	14,445
Bank borrowings		92,548	96,720
Lease liabilities		4,218	—
		<u>200,734</u>	<u>151,091</u>
NET ASSETS		<u><u>765,180</u></u>	<u><u>702,581</u></u>
CAPITAL AND RESERVES			
Share capital		3,285	3,285
Reserves		<u>749,957</u>	<u>687,599</u>
Equity attributable to owners of the Company		753,242	690,884
Non-controlling interests		<u>11,938</u>	<u>11,697</u>
TOTAL EQUITY		<u><u>765,180</u></u>	<u><u>702,581</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments, which are measured at fair values, as appropriate.

Other than adoption of new accounting policies and changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2018.

Adoption of new accounting policies

The Group has applied the following accounting policies which become applicable during the interim period.

Commission income

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In respect of the sales of pasta, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises commission income under “other income” and in the amount of any commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Equity instruments designated as at FVTOCI

Investments in equity instruments at fair value through other comprehensive income (“FVTOCI”) are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “other income” line item in profit or loss.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after January 1, 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

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

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases ("IFRS 16")

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For the contracts entered into on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office premise and branch premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and are measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment properties as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment properties”.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* (“IFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees. Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The amount of such adjustments are considered insignificant.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at January 1, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at December 31, 2018	11,288
Lease liabilities discounted at relevant incremental borrowing rates	10,096
Less: recognition exemption — short-term leases	(117)
Lease liabilities relating to operating leases recognised upon application of IFRS 16 as at January 1, 2019	<u>9,979</u>
Analysed as:	
Current	3,847
Non-current	<u>6,132</u>
	<u>9,979</u>

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		9,979
Adjustments on rental deposits at January 1, 2019	(a)	147
Reclassified from prepaid lease payments	(b)	<u>74,926</u>
		<u><u>85,052</u></u>
By class:		
Leasehold lands		74,926
Land and building		9,866
Motor vehicle		<u>260</u>
		<u><u>85,052</u></u>

Notes:

- (a) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB147,000 was adjusted to refundable rental deposits paid and right-of-use assets, respectively.
- (b) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments, amounting to RMB1,698,000 and RMB73,228,000 respectively, were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. The application of IFRS 16 as a lessor has no material impact on the condensed consolidated financial statements of the Group as at 1 January 2019 and during the current period as the amounts involved are not material.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at January 1, 2019 RMB'000
Non-current assets			
Prepaid lease payments	73,228	(73,228)	—
Right-of-use assets	—	85,052	85,052
Other receivables and deposits	2,073	(147)	1,926
Current asset			
Prepaid lease payments	1,698	(1,698)	—
Current liability			
Lease liabilities	—	3,847	3,847
Non-current liability			
Lease liabilities	—	6,132	6,132

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the condensed consolidated financial statements for the six months ended June 30, 2019, the critical judgments in applying the Group's accounting policies and the key sources of estimation uncertainty made by the Directors were the same as those applied in the preparation of the Group's annual financial statements for the year ended December 31, 2018, except for the following critical judgement and key sources of estimation uncertainty which are newly applied during the current interim period:

Fair value measurement and valuation process

Financial assets at FVTOCI were revalued by the Directors of the Company by reference to the valuation performed by an independent professional valuer.

The valuation of the unlisted equity investment fund was determined based on the asset based approach by subtracting the total liabilities of the unlisted equity investment fund from total assets. The carrying amount of unlisted equity investment fund for the six months ended 30 June 2019 was RMB102,473,000 (December 31, 2018: Nil) with fair value loss recognised in FVTOCI reserve of RMB1,027,000 (December 31, 2018: Nil). Notwithstanding that the management employs independent professional qualified valuer to perform fair value assessment based on their assumptions, the fair values of these unlisted equity investment fund may be higher or lower depending on the future net asset value.

4. REVENUE

Revenue represents sales of biscuits to external customers in the PRC and locations other than the PRC.

Disaggregation of revenue

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sales of biscuits products		
Breakfast biscuits	172,592	168,406
Crisp biscuits	134,251	135,120
Sandwich biscuits	207,297	155,010
Wafers	69,610	63,686
Coarse grain biscuits	62,514	32,062
Others	104,839	79,972
	<u>751,103</u>	<u>634,256</u>
Total	<u>751,103</u>	<u>634,256</u>

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Geographical markets		
The PRC (Country of domicile)	750,161	633,420
Other (<i>Note</i>)	942	836
	<u>751,103</u>	<u>634,256</u>
Total	<u>751,103</u>	<u>634,256</u>

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.

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sales channels		
Distributors	728,505	614,146
Supermarkets	22,598	20,110
	<u>751,103</u>	<u>634,256</u>
Total	<u>751,103</u>	<u>634,256</u>

5. SEGMENT INFORMATION

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 represent the gross profit of the Group as presented in the condensed consolidated statement of profit or loss and other comprehensive income.

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 reportable segment is not presented.

6. OTHER INCOME

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Government grants	17,622	11,412
Interest income on:		
— Bank deposits	6,386	2,603
— Loan receivables	1,717	3,680
— Advances to staff (<i>note 15</i>)	90	137
— Rental deposit	27	—
Commissions income	953	—
Sales of packaging materials	367	3
Rental income	369	375
Refund of handling charges from tax authority	136	—
Other non-operating income	21	18
	<u>27,688</u>	<u>18,228</u>

7. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net foreign exchange loss	(1,010)	(3,848)
Fair value change of investment property	300	—
Gain on disposal of property, plant and equipment	66	3
Fair value loss on financial assets at fair value through profit or loss	—	(75)
	<u>(644)</u>	<u>(3,920)</u>

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”) — Current tax	17,078	9,265
Deferred tax	381	767
	<u>17,459</u>	<u>10,032</u>

No provision for Hong Kong Profits Tax has been made for the six months ended June 30, 2019 and 2018 as the Group has no assessable profits arising in Hong Kong.

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. Subsequent to the reporting period, the accreditation has been approved for renewal of further three years from 2018 to 2020. In the opinion of the directors of the Company, Guangdong Jiashili is eligible to the reduced 15% EIT rate for the six months ended June 30, 2019 based on the accreditation of “High and New Technology Enterprise”.

For other subsidiaries, under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the enterprise income tax rate of the PRC subsidiaries was 25% during the period.

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 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 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. Jiashili HK has completed the renewal and obtained the Hong Kong resident certificate on July 29, 2019 for the calendar year 2018 and was valid for three years ending 31 December 2020, 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) of withholding tax rate of 5% on dividend income for the six months ended June 30, 2019 and 2018, pursuant to the PRC-HK DTA.

9. PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Directors' and chief executive's remuneration	3,433	2,124
Other staff costs		
— Salaries and allowances	86,909	82,707
— Contributions to retirement benefits scheme	9,314	8,556
— Redundancy costs	—	5,340
— Share-based compensations	33	545
Total staff costs	99,689	99,272
Depreciation of property, plant and equipment	26,064	22,581
Amortisation of intangible asset	2,589	1,282
Depreciation of right-of-use assets	2,904	—
Total depreciation and amortisation	31,557	23,863
Operating lease rental expenses	—	2,368
Expenses relating to short-term leases	203	—
Release of prepaid lease payments	—	726
Cost of inventories recognised as expenses with no impairment of inventories recognised	500,108	436,324

10. DIVIDENDS

During the six months ended June 30, 2019, a final dividend of HK5 cents (six months ended June 30, 2018: HK15 cents) per share in respect of the year ended December 31, 2018, amounting to HK\$20,750,000 (equivalent to RMB18,181,000) (year ended December 31, 2017, amounting to HK\$62,250,000 (equivalent to RMB52,035,000)) was recognised as distribution to the owners of the Company.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK\$5 cents (six months ended June 30, 2018: Nil) per ordinary share amounting to HK\$20,750,000 (six months ended June 30, 2018: Nil) in aggregate will be paid to the owners of the Company whose names appear in the register of members of the Company on October 11, 2019.

11. EARNINGS PER SHARE

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

	Six months ended June 30, 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>81,533</u>	<u>43,450</u>
	Six months ended June 30, 2019 '000	2018 '000
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share (<i>Note</i>)	<u>415,000</u>	<u>415,000</u>

Note: The computation of diluted earnings per share for the six months ended June 30, 2019 and 2018 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 the periods ended June 30, 2019 and 2018.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/INVESTMENT PROPERTY/INTANGIBLE ASSET

During the six months ended June 30, 2019, the Group had addition of approximately RMB46,016,000 (six months ended June 30, 2018: RMB16,693,000) on property, plant and equipment in order to upgrade its operating capacities.

During the six months ended June 30, 2019, the Group disposed of certain plant and equipment with an aggregate carrying amount of RMB138,000 (six months ended June 30, 2018: RMB165,000) for cash proceeds of RMB204,000 (six months ended June 30, 2018: RMB168,000), resulting in a gain on disposal of RMB66,000 (six months ended June 30, 2018: RMB3,000).

For the six months ended 30 June 2019, unrealised gain relating to investment property amounted to RMB300,000 (six months ended 30 June 2018: Nil) is included in the fair value change of investment property under “other gains and losses” recognised in profit or loss.

During the six months ended June 30, 2018, the Group had addition of RMB94,380,000, RMB50,558,000 and RMB9,600,000 on property, plant and equipment, intangible assets and investment property, respectively, which were arising from the acquisition of subsidiaries.

13. INTERESTS IN ASSOCIATES

	June 30, 2019 <i>RMB'000</i> (unaudited)	December 31, 2018 <i>RMB'000</i> (audited)
Cost of investments in associates — unlisted	31,887	1,282
Share of results of associates	<u>(2,475)</u>	<u>(162)</u>
	<u>29,412</u>	<u>1,120</u>

Details of the Group's associates at the end of the reporting periods are as follow:

Name of associates	Place of incorporation/ registration/ principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
		June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018	
Hong Kong Ruishiyue (International) Food Co., Limited* (“Hong Kong Ruishiyue”) 香港瑞士樂(國際)食品有限公司 (Note a)	Hong Kong	5%	5%	50%	50%	Investment holding and manufacture and sale of biscuits
Kaiping Jiarun Investment Co., Limited* (“Kaiping Jiarun”) 開平市嘉潤投資有限公司 (Note b)	The PRC	45%	45%	45%	45%	Investment holding and manufacture and sale of candies

* English name for identification purpose only.

Notes:

- (a) In 2017, a subsidiary of the Company had incorporated an associate with two independent third parties. Pursuant to the articles of association, the registered capital is US dollar (“US\$”) 3.7 million (approximately RMB25.2 million), among which, US\$187,500 (approximately RMB1.3 million) to be contributed by a subsidiary of the Company. During the year ended December 31, 2018, a subsidiary of the Company has invested for its 5% equity interest amounting to US\$187,500 (approximately RMB1.28 million). The board composition of the associate comprised of 4 directors, in which 2 of the directors were appointed by the Group and the remaining 2 directors were appointed by each of the two independent third parties, as such, the Group exercises significant influence in deciding the associate’s financial and operating policy, the resolution of which required approval by simple majority of the board and accordingly accounts for its interest in Hong Kong Ruishiyue as an associate. In 2018, Hong Kong Ruishiyue established a wholly foreign owned subsidiary, Guangdong Ruishiyue Food Co., Limited (“Guangdong Ruishiyue”), in the PRC principally engaged in manufacturing and selling of candy and biscuits (collectively referred to as “Hong Kong Ruishiyue Group”).
- (b) In 2018, a subsidiary of the Group had established an associate with an independent third party. Pursuant to the articles of association, the registered capital is RMB68 million, among which, RMB30.6 million to be contributed by a subsidiary of the Group. The board composition of the associate comprised of 3 directors, in which 1 of the directors were appointed by the Group and the remaining 2 directors were appointed by the other independent third party, as such, the Group exercises significant influence in deciding the associate’s financial and operating policy, the resolution of which required approval by simple majority of the Board and accordingly accounts for its interest in Kaiping Jiarun as an associate. In 2018, Kaiping Jiarun established two wholly owned subsidiaries in the PRC, 1) 廣東全成大健康飲品有限公司, which is principally engaged in manufacturing and selling healthy drinks and trading, and 2) 晉江嘉士柏食品貿易有限公司 (“晉江嘉士柏”) which is principally engaged in trading of food products. During the period ended June 30, 2019, a subsidiary of the Group has injected RMB5 million of investment capital into the associate.

14. INTERESTS IN JOINT VENTURES

	June 30, 2019 RMB’000 (unaudited)	December 31, 2018 RMB’000 (audited)
Cost of investments in joint ventures	35,000	35,000
Share of results of joint ventures	(12,835)	(11,150)
	<u>22,165</u>	<u>23,850</u>

Details of the Group's joint ventures at the end of the reporting periods are as follow:

Name of joint ventures	Place of establishment/ principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
		June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018	
深圳前海星旻利股權投資合夥企業(有限合夥) (Note a)	PRC	89.1%	89.1%	33.33%	33.33%	Inactive
江門建粵利嘉產業投資合夥企業(有限合夥) (“江門建粵利嘉”) (Note b)	PRC	34.98%	34.98%	33.33%	33.33%	Investment holding

Notes:

- (a) In 2016, a subsidiary of the Group had established a joint venture together with two independent third parties, 亞東複嘉食品投資中心(有限合夥) and 杭州浙商成長股權投資基金合夥企業(有限合夥). Pursuant to the joint venture agreement, the total registered capital is RMB150 million, among which, RMB1.5 million is to be contributed by 亞東複嘉食品投資中心(有限合夥) as the general partner, RMB133.65 million and RMB14.85 million are to be contributed by a subsidiary of the Company and 杭州浙商成長股權投資基金合夥企業(有限合夥), respectively, as the limited partner. Each party to the joint venture can appoint one director to the Board and all the relevant activities require unanimous consent of the directors in board of directors meeting, and accordingly the Group concluded that it had joint control in 深圳前海星旻利股權投資合夥企業(有限合夥) and accounted for its interest in 深圳前海星旻利股權投資合夥企業(有限合夥) as a joint venture. As at June 30, 2019, the joint venture remained inactive with nil carrying amount on the balance sheet, all parties had not yet injected investment capital in the joint venture.
- (b) In June 2017, a subsidiary of the Group has entered into a partnership agreement (“Partnership Agreement”) with two independent corporate partners to form a joint venture in the PRC with the principal business activity of investment in a specific company established in the PRC principally engaged in production and distribution of food products, namely 嘉士柏股份有限公司 (“嘉士柏”). Pursuant to the Partnership Agreement, a subsidiary of the Company has injected capital amounting to RMB35 million as limited partner. As all the relevant activities require unanimous consent of all partners of the partnership, the Group concluded that it had joint control in 江門建粵利嘉 and accounted for its interest in 江門建粵利嘉 as a joint venture.

15. TRADE, BILLS AND OTHER RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Trade receivables	30,353	43,778
Less: Allowance for doubtful debts	(315)	(236)
Trade receivables, net	30,038	43,542
Bills receivables	3,336	1,287
Less: Allowance for doubtful debts	(20)	—
Bills receivables, net	3,316	1,287
Total trade and bills receivables	33,354	44,829
Prepayments for purchase of raw materials (<i>note i</i>)	169,020	58,282
Other receivables (<i>note ii</i>)	12,433	9,886
Other prepayments	35,013	11,120
Rental and utility deposits	1,180	1,300
	251,000	125,417
Less: Amount shown under current assets	(249,045)	(123,344)
Amount shown under non-current assets as other receivables and deposits (<i>note iii</i>)	1,955	2,073

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 the 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 receivable of these external customers based on bills issue date.

As at June 30, 2019, impairment allowance of RMB79,000 (six months ended June 30, 2018: RMB131,000) and RMB20,000 (six months ended June 30, 2018: Nil) for doubtful debts of trade receivables and bills receivables had been recognised by the Group, respectively, and no amount was written off (six months ended June 30, 2018: RMB97,000) in the allowance for doubtful debts. Details of impairment assessment subject to ECL model are set out in the note 17.

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:

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Within 2 months	11,618	35,694
Over 2 months but within 3 months	6,838	4,578
Over 3 months but within 6 months	4,186	3,270
Over 6 months but within 1 year	7,396	—
	30,038	43,542

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

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Within 1 month	150	1,287
Over 1 month but within 3 months	1,173	—
Over 3 months but within 6 months	1,962	—
Over 6 months but within 1 year	31	—
	3,316	1,287

Prepayment, other receivables and deposits

Notes:

- (i) Prepayments for purchase of raw materials mainly comprised prepayments for sugar, flour and oil, net of impairment of RMB2,740,000 (December 31, 2018: RMB2,740,000).
- (ii) Other receivables represent advances to staff, interest receivables and prepaid expenses, which are unsecured, non-interest bearing and amount of RMB775,000 (December 31, 2018: RMB773,000) from advances to staff are repayable after one year and therefore classified as non-current.

The fair value of advances to staff are determined based on the present value of the estimated future cash flows and discounted using the prevailing market rate on initial recognition. The imputed interest income on the advances to staff is RMB90,000 for the six months ended June 30, 2019 (six months ended June 30, 2018: RMB137,000). The effective interest rate is ranging from 4.75% to 4.90% (six months ended June 30, 2018: 4.75% to 4.9% per annum) per annum for the six months ended June 30, 2019.

- (iii) The amount represents a) rental and utility deposits due after one year; and b) advances to staff due after one year.

16. LOAN RECEIVABLES

As at June 30, 2019, the amounts represent loans advanced to independent third parties with aggregated principal value of RMB92,000,000 (December 31, 2018: RMB156,043,000). The amounts are unsecured, interest bearing at from 6.5% to 24% per annum (December 31, 2018: 6% to 17% per annum). Based on the loan agreements, the amounts are repayable within one year.

As at June 30, 2019, the Group recognised an impairment allowance of RMB8,703,000 (December 31, 2018: RMB14,761,000) on loan receivables. During the current interim period, a reversal of impairment losses of RMB6,058,000 (December 31, 2018: an impairment losses of RMB11,450,000) was recognised in the profit or loss. Details of impairment assessment subject to ECL model are set out in the note 17.

17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Impairment losses reversed (recognised) in respect of		
— loan receivables	6,058	(1,419)
— loan to a related party	946	—
— trade receivables	(79)	—
— bills receivables	(20)	—
	<u>6,905</u>	<u>(1,419)</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 26 June 2019, an indirect wholly-owned subsidiary of the Group had entered into the limited partnership agreement for setting up an unlisted equity investment fund, 青島嘉匯股權投資基金合夥企業(有限合夥), with three independent third parties. Pursuant to the limited partnership agreement, RMB103.5 million is to be contributed by an indirect wholly-owned subsidiary of the Group as a limited partner. Management of the limited partnership joint venture shall be vested exclusively in the general partner. Limited partners shall have the exclusive authority to monitor and oversight the behavior of general partner and they did not manage daily operation of the limited partnership joint venture and are not allowed to act on behalf of the limited partnership joint venture externally. The unlisted equity investment fund is accounted for as financial assets at FVTOCI. Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits. As at June 30, 2019, the unlisted equity investment fund is amounting to approximately RMB102,473,000 with fair value loss recognised in FVTOCI reserve of approximately RMB1,027,000. Details of the establishment of an unlisted equity investment fund are set out in the Company's announcement dated June 26, 2019.

The fair value of the Group's unlisted equity investment fund at June 30, 2019 has been arrived at on the basis of valuation carried out by Asset Appraisal Limited ("Asset Appraisal"), an independent qualified professional valuer not connected with the Group. Asset Appraisal is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience.

19. TRADE, BILLS AND OTHER PAYABLES

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Trade payables	114,739	105,396
Bills payables	<u>20,000</u>	<u>10,000</u>
Total trade and bills payables	134,739	115,396
Accrued expense	14,830	27,043
Transportation fee payables	16,958	25,111
Payroll and welfare payables	21,450	27,586
Construction cost payables	13,551	5,579
Other payables	8,031	4,539
Output value-added-tax and other tax payables	17,431	14,995
Payables of capital injection in an associate	<u>25,600</u>	<u>—</u>
	<u>252,590</u>	<u>220,249</u>

Trade and bills payables

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

	June 30, 2019 <i>RMB'000</i> (unaudited)	December 31, 2018 <i>RMB'000</i> (audited)
Within 3 months	113,785	104,839
Over 3 months but within 6 months	8	—
Over 6 months but within 1 year	802	557
Over 1 year	144	—
	114,739	105,396

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

	June 30, 2019 <i>RMB'000</i> (unaudited)	December 31, 2018 <i>RMB'000</i> (audited)
Over 3 months but within 6 months	20,000	10,000

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

According to the latest data released by the National Bureau of Statistics of China, the gross domestic product (GDP) grew by 6.3% in the first half of 2019 as compared with the same period last year indicating China's economy maintained its growth momentum despite on-going trade war with United States. In the first seven-months of 2019, the total retail sales of consumer goods up by 8.3% year-on-year, this indicates that China has entered into a stage of stable economic growth with relatively steady growth in consumer spending.

Over the year, our 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 China.

Our Group has continued to optimize its product offering structure and sales and marketing build-up, adopt the multi-brand strategy, explore effective operating models for emerging distribution channels, strengthen brand building and increase the marketing activities for the communication with consumers in order to broaden market base. Coupled with increased efforts of our efficient sales team, the penetration rates of our products increased further.

For the first half of 2019, the Group's revenue increased by 18.4% year-on-year to approximately RMB751.1 million, gross profit increased to approximately RMB251.0 million, representing an increase of 26.8% as compared with the same period last year. Gross profit margin has increased to 33.4% in the first half of 2019, representing an increase of 2.2 percentage points the same period of last year. During the Reporting Period, net profit increased by 88.3% to approximately RMB81.8 million as compared with the same period last year. Breakfast and sandwich biscuits series remains as our Group's two main revenue drivers.

FINANCIAL REVIEW

Revenue

Due to the increased sales efforts, both the Group's total revenue and sales volume were recorded a double-digit growth as compared with the same period of last year, the revenue of the Group was approximately RMB751.1 million, representing an increase of approximately RMB116.8 million or up 18.4% during the Reporting Period. Sales tonnes increased by 11.5% to 51,587 as compared with the same period last year. Breakdown of the revenue and sales volume by product category for the Reporting Period and the comparative figures for the same period last year are as follows:

Revenue/Sales volume	For the six months ended June 30,				% of changes in revenue	% of changes in sales volume
	2019		2018		2019 vs 2018	2019 vs 2018
	<i>RMB (million)</i>	<i>Tonne</i>	<i>RMB (million)</i>	<i>Tonne</i>		
Breakfast biscuits series	172.6	15,374	168.4	15,252	2.5%	0.8%
Crisp biscuits series	134.3	9,990	135.1	9,947	-0.6%	0.4%
Sandwiches biscuits series	207.3	12,141	155.0	9,474	33.7%	28.2%
Wafer series	69.6	4,154	63.7	3,932	9.3%	5.6%
Coarse grain biscuits series	62.5	3,932	32.1	2,042	94.7%	92.6%
Others	104.8	5,996	80.0	5,611	31.1%	6.9%
Total	<u>751.1</u>	<u>51,587</u>	<u>634.3</u>	<u>46,258</u>	<u>18.4%</u>	<u>11.5%</u>

Breakfast biscuits series

During the Reporting Period, the revenue generated from our traditional breakfast biscuits series amounted to approximately RMB172.6 million, representing an increase of 2.5% as compared with the same period in 2018. Sales volume reaches 15,374 tonnes representing an increase of 0.8% from the same period last year.

Crisp biscuits series

During the Reporting Period, the revenue generated from crisp biscuits series slightly decreased by approximately RMB0.8 million to RMB134.3 million and sales volume increased by 0.4% to 9,990 tonnes over the same period last year.

Sandwiches biscuits series

Sandwich biscuits series, our leading product in the corresponding subdivided market, maintained its strong growing momentum continued its outstanding sales performance in the first half of the year. Benefited from our effective marketing efforts and its appealing market positioning and pricing strategy which strikes the right tone for the tastes and demand of youth and teenagers.

During the Reporting Period, the revenue of sandwiches biscuits rose by 33.7% to approximately RMB207.3 million as compared with same period last year, the sales volume reaches 12,141 tonnes rose by 28.2% year-on-year over the same period last year. The revenue of sandwiches biscuits series accounted for approximately 27.59% of the Group's total turnover, which became the Group's first largest revenue driver with high growth potential.

Wafer series

During the Reporting Period, the sales generated from wafer series amounted to approximately RMB69.6 million, an increase of 9.3% as compared with the corresponding period last year. Growth in sales volume rose by approximately 5.6% to 4,154 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. During the Reporting Period revenue of coarse grain biscuit amounted to approximately RMB62.5 million, representing an increase of 94.7% as compared with the same period last year. Sales volume reaches 3,932 tonnes representing an increase of 92.6% from the same period last year.

Others

It is the Group's policy of actively seeking to expand the range of biscuits with different quality and flavors to meet customer's expectations. During the Reporting Period, revenue from others series up 31.1% to approximately RMB104.8 million as compared with same period last year, while sales volume increased by approximately 6.9% to 5,996 tonnes.

Revenue in terms of sale channels

For the six months ended June 30, 2019, revenue from distributors was approximately RMB728.5 million, accounted for 97% of the Group's total revenue. The rest was from supermarkets.

Gross profit and Gross profit margin

In the first half of 2019, gross profit increased by 26.8% to approximately RMB251.0 million over the same period last year. Gross profit margin rose by 2.2 percentage points as compared with the same period in 2018. The market price trends of raw materials (palm oil, sugar and flour) and packaging materials varied but their total cost as a whole decreased as compared with the same period last year. The increase of gross profit margin were primarily due to our increased sales efforts and increase in sales of our products with higher gross profit margins (including sandwiches and crisp biscuits), and expansion of sales in others and coarse grain biscuits.

Other income

Other income during the Reporting Period has increased by approximately 51.9% to approximately RMB27.7 million as compared with the same period last year. The increase was primarily due to the increase in government grants of approximately RMB6.2 million and increase in interest income on various deposits and loan receivables approximately RMB1.8 million.

Selling and distribution expenses

Selling and distribution expenses represent mainly the advertising and promotion expenses, delivery and transportation expenses and salaries of the sales staffs. During the Reporting Period, such expenses grew by approximately RMB19.0 million or 21.8%, to approximately RMB106.0 million. The increase was in line with the expansion of the Group's revenue due to the increase in spending on advertising and promotion activities and delivery expenses in the first half of 2019.

Administrative expenses

Administrative expenses for the Reporting Period were amounted to approximately RMB34.8 million, represent a decrease of approximately RMB9.4 million or 21.2% over the same period last year. Such decrease was primarily attributed to the decrease in one-off redundancy staff costs incurred in 2018 which no longer incurred in the first half of 2019, and reduction in expenses on professional fees and other expenses incurred in the first half of 2019.

Total comprehensive income attributable to the owners of the Company

During the Reporting Period, total comprehensive income attributable to the owners of the Company increased by 87.6% from approximately RMB43.5 million to approximately RMB81.5 million as compared with the same period last year benefiting from the efficient control on operating costs and increase of gross profit.

Inventories

The Group's inventories consist primarily of raw materials, packaging materials and, finished goods. The Group's inventories as at June 30, 2019 was approximately RMB78.4 million, decreased by 12.5% from approximately RMB89.6 million as at December 31, 2018. The reason for the decrease in inventories was mainly due to the raw materials and finished goods balance at the end of 2018 was higher than that of June 30, 2019 as a result of the stock-up for the Chinese New Year at the end of 2018. The inventory turnover days increased slightly from 29.2 days for the first half of 2018 to 30.7 days for the first half of 2019.

Trade, bills and other receivables

The Group's trade, bills and other receivables refer to the Group's trade receivable balance from its customers, primarily including distributors and key accounts together with other prepayments and deposits. The Group's trade, bills and other receivables as at June 30, 2019 was approximately RMB249.0 million, increased by 101.9% from approximately RMB123.3 million as at December 31, 2018 primarily due to a rapid growth of revenue and improved credit conditions offered to certain good performing distributors with good credit records.

The trade, bills and other receivables turnover days increased from 33.5 days for the first half of 2018 to 45.4 days for the first half of 2019.

Liquidity and financial position

The Group finance operations and capital expenditure primarily by internally generated cash flows as well as banking facilities provided by principal bankers. As at June 30, 2019, the Group had pledged deposits and cash and bank balances in the aggregate amount of approximately RMB556.7 million (as at December 31, 2018: approximately RMB411.0 million). As at June 30, 2019 the total interest bearing bank borrowings increased by 35.2% from approximately RMB360.5 million as at December 31, 2018. During the Reporting Period, the Group was in a net cash position (bank balances and cash less bank borrowings) of approximately RMB69.3 million (as at December 31, 2018: approximately RMB18.8 million). This indicates the Group has a healthy and strong net cash balance. As at June 30, 2019 the gross gearing ratio (defined as total liabilities over total assets) was 57.2%. (as at December 31, 2018: 51.2%) The management will from time to time adopt prudent financial management policy to address changing financial conditions.

As at June 30, 2019, the Group had capital commitment for purchase of property, plant and equipment of approximately RMB35.6 million. Other capital commitments were approximately RMB133.7 million.

Contingent liabilities and guarantees

As at June 30, 2019, the Group did not provide any guarantees for any third party and had no significant contingent liabilities.

HUMAN RESOURCES

As at June 30, 2019 the Group had a total of 3,155 employees. (December 31, 2018: 3,427) The Group's employees are remunerated with reference to their positions, performance, experience and prevailing salary trends in the market. In addition to basic salaries, the Company provides various staff benefits to its employees. For the six months ended June 30, 2019, the total employee benefits expenses (including Director's remuneration) were approximately RMB99.7 million (for the six months ended June 30, 2018: approximately RMB99.3 million)

PROSPECT

Looking ahead to the second half of 2019, the Group will continue adhering to existing strategy to upgrade product quality and broaden product portfolios; expansion of distribution channels and increased marketing efforts with increased interactions with customers.

Improving production management system and optimizing the product manufacturing process and adopting safety process during production was the Group's daily operation practice. The Company will strengthen its internal management and coordination, optimize organization structure and resources allocation to maintain balance between production quality and cost control.

The Group is constantly reviewing the effectiveness of the existing channel of distribution and continued to explore different channels in order to meet customers demand. The Group believed that the combination of high talents sale team together with high performing distributors will form the key of success of the Company.

In terms of growth, the Group will keep an eye on opportunities of mergers and acquisitions and business cooperation in order to enhance and consolidate our leading position in producing and selling of cracker industry

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". We will keep on this Company's motto to drive the Company towards a higher level and to bring more returns to the shareholders of the Company.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining and ensuring high standards of corporate governance practices. In the opinion of the Directors, the Company has adopted and complied with the principles and applicable code provisions of Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the “Listing Rules”).

COMPLIANCE WITH MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the six months ended June 30, 2019.

AUDIT COMMITTEE

The audit committee, together with the management, has reviewed constantly the accounting principles and practices adopted by the Group, discussed review, internal control and financial reporting matters and reviewed the financial results of the Group.

The audit committee has reviewed and discussed the interim results of the Group for the six months ended June 30, 2019. The audit committee has no disagreement with the accounting treatment adopted by the Company.

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 first half of 2019.

INTERIM DIVIDEND

The Board has resolved to declare payment of an interim dividend of HK\$5.00 cents per ordinary share for the Reporting Period to shareholders whose names appear on the register of members of the Company on October 11, 2019 (six months ended June 30, 2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of the shareholders of the Company to receive the interim dividend for the six months ended June 30, 2019 (the “2019 Interim Dividend”), the register of members of the Company will be closed from Wednesday, October 9, 2019 to Friday, October 11, 2019, both dates inclusive, during which period no transfer of shares of the Company will be registered. The record date for entitlement to the 2019 Interim Dividend is Friday, October 11, 2019. In order to qualify for the entitlement to receive the 2019 Interim Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, October 8, 2019. The payment date of the 2019 Interim Dividend is expected to be on Thursday, November 7, 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (<http://www.gdjsl.com>). The interim report of the Company for the six months ended June 30, 2019 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

By Order of the Board
Jiashili Group Limited
Huang Xianming
Chairman

Hong Kong, August 28, 2019

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