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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, 2022

FINANCIAL HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the six months ended June 30, 2022 amounted to approximately RMB742.8 million, increase by 4.9% as compared with the same period last year.
- Unaudited consolidated loss after tax for the six months ended June 30, 2022 amounted to approximately RMB1.9 million (six months ended June 30, 2021: profit after tax approximately RMB101.9 million), representing a drop of 101.9% as compared with the same period last year.
- For the six months ended June 30, 2022, both basic and diluted loss per share was RMB0.20 cents (six months ended June 30, 2021: earnings per share was RMB25.12 cents).
- The earnings before interest, tax, depreciation and amortisation (EBITDA)* for the six months ended June 30, 2022 amounted to approximately RMB48.2 million (six months ended June 30, 2021: approximately RMB159.4 million), representing a drop of 69.8% as compared with the same period last year.
- The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2022 (six months ended June 30, 2021: HK\$10.00 cents).

* include profit/loss before tax but excluding finance costs and total depreciation and amortisation

The board (the “**Board**”) of directors (the “**Directors**”) of Jiashili Group Limited (the “**Company**” or “**Jiashili**”) is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) for the six months ended June 30, 2022 (the “**Reporting Period**”) together with the comparative figures for the corresponding period in 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2022

	NOTES	Six months ended June 30,	
		2022	2021
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	742,783	707,796
Cost of sales		<u>(566,339)</u>	<u>(488,299)</u>
Gross profit		176,444	219,497
Other income	5	25,760	21,210
Selling and distribution expenses		(110,580)	(94,610)
Administrative expenses		(41,323)	(40,145)
Other expenses	6	(30,892)	(29,945)
Impairment losses recognised under expected credit loss model (“ECL”), net		(5,656)	(15,152)
Other gains and losses	7	(768)	71,956
Share of results of associates		(2,065)	(1,221)
Share of results of a joint venture		1,040	(6,866)
Finance costs		<u>(18,259)</u>	<u>(11,997)</u>
(Loss) profit before tax		(6,299)	112,727
Income tax benefit (expense)	8	<u>4,353</u>	<u>(10,871)</u>
(Loss) profit and total comprehensive (expense) income for the period	9	<u>(1,946)</u>	<u>101,856</u>
(Loss) profit and total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(816)	104,235
Non-controlling interests		<u>(1,130)</u>	<u>(2,379)</u>
		<u>(1,946)</u>	<u>101,856</u>
(Loss) earnings per share	11		
— Basic and diluted (RMB cents)		<u>(0.20)</u>	<u>25.12</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2022

	<i>NOTES</i>	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	461,412	490,849
Right-of-use assets	12	208,777	213,594
Investment properties	12	11,121	—
Intangible assets	12	34,523	37,486
Goodwill		27,449	27,449
Interests in associates		28,852	20,863
Interest in a joint venture		4,081	3,041
Loans to a joint venture		168,017	172,023
Loan to a non-controlling shareholder of a subsidiary		—	10,714
Loan to an associate		—	5,667
Financial assets at fair value through profit or loss (“FVTPL”)	13	103,275	104,168
Loan receivables		5,300	14,403
Deferred tax assets		4,238	1,845
Other receivables and deposits	14	3,182	2,102
Deposit paid to a related company for acquisition of a subsidiary		93,000	—
Deposits paid for acquisition of right-of-use assets and property, plant and equipment		10,000	12,520
		1,163,227	1,116,724
CURRENT ASSETS			
Inventories		103,765	104,793
Trade, bills and other receivables	14	162,567	180,988
Loan receivables		151,863	100,102
Amounts due from associates		46,534	44,353
Amounts due from non-controlling shareholders of subsidiaries		8,975	11,531
Amounts due from a joint venture		147,336	123,974
Amount due from a related party		—	8
Loan to a non-controlling shareholder of a subsidiary		10,611	—
Loans to an associate		8,243	2,576
Income tax recoverable		5,840	3,588
Pledged/restricted bank deposits		116	21,044
Bank balances and cash		249,154	383,734
		895,004	976,691

	<i>NOTES</i>	June 30, 2022 <i>RMB'000</i> (unaudited)	December 31, 2021 <i>RMB'000</i> (audited)
CURRENT LIABILITIES			
Trade, bills and other payables	15	293,938	371,306
Contract liabilities		42,193	59,350
Income tax payables		11,077	10,740
Bank borrowings	16	570,524	404,124
Amount due to a non-controlling shareholder of subsidiaries		—	1,123
Amounts due to related parties		95	—
Amounts due to associates		293	—
Deferred income		1,928	1,891
Lease liabilities		33,516	3,344
		<u>953,564</u>	<u>881,948</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(58,560)</u>	<u>94,743</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,104,667</u>	<u>1,211,467</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		6,695	10,694
Deferred income		45,256	49,224
Bank borrowings	16	38,552	116,014
Lease liabilities		52,027	53,707
		<u>142,530</u>	<u>229,639</u>
NET ASSETS		<u>962,137</u>	<u>981,828</u>
CAPITAL AND RESERVES			
Share capital		3,285	3,285
Reserves		929,335	947,896
		<u>932,620</u>	<u>951,181</u>
Equity attributable to owners of the Company		932,620	951,181
Non-controlling interests		29,517	30,647
		<u>962,137</u>	<u>981,828</u>
TOTAL EQUITY		<u>962,137</u>	<u>981,828</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2022

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 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**”).

Going Concern Assessment

In preparing the financial statements, the management of the Group has given careful consideration to the future liquidity in light of the fact that the Group’s current liabilities exceeded its current assets by RMB58,560,000, and its available sources of financing in assessing whether the Group will have sufficient funds to fulfil its financial obligations and continue as a going concern. Based on cash flows projection from operating, investing and financing activities, and availability of undrawn bank facilities of RMB147,160,000, which includes facilities of RMB82,160,000 acquired on July 5, 2022, the management of the Group is of the opinion that the Group has sufficient funds for sustainable operations and it will be able to meet its financial obligations and commitments for the next twelve months from the issuance of the condensed consolidated financial statements.

The directors of the Company have reviewed the management’s assessment together with the underlying basis and are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than application of accounting policy related to investment properties which became relevant to the Group as below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2022 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2021.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Application of Amendments to International Financial Reporting Standards (“IFRSs”)

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to IFRSs in the current interim 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.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of the Group's revenue from major products is set out in note 4 as such analysis form part of the segment information reported to the management of the Group. All of the Group's revenue is recognised at a point in time.

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales channels		
Distributors	741,723	705,650
Supermarkets	1,060	2,146
	<u>742,783</u>	<u>707,796</u>
Total	<u>742,783</u>	<u>707,796</u>
	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Geographical markets		
The PRC (Country of domicile)	741,345	706,801
Other (<i>note</i>)	1,438	995
	<u>742,783</u>	<u>707,796</u>
Total	<u>742,783</u>	<u>707,796</u>

Note: Others represent export sales to locations other than the PRC.

4. SEGMENT INFORMATION

Information reported to the executive directors of the Group, being the chief operating decision maker (“CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of products manufactured and sold. The CODM reviews operating results and financial information on a product by product basis. Each individual type of 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 results are aggregated into one reportable segment. The CODM assesses the performance of the operating segments based on a measure of segment profit or loss which represents the gross profit of each operation segment.

The Group has one reportable segment under IFRS 8 as sales of biscuit products.

In addition to the above reportable segment, none of the other operating segments met the quantitative thresholds for the reportable segments in both current and prior periods. Accordingly, they were grouped in “Others”.

Segment revenue and results

The following is an analysis of the Group’s revenue and results by reportable and operating segments.

Six months ended June 30, 2022

	Biscuit products RMB’000	Others RMB’000	Total RMB’000
Revenue	727,945	14,838	742,783
Segment results	<u>174,412</u>	<u>2,032</u>	<u>176,444</u>
Other income			25,760
Selling and distribution expenses			(110,580)
Administrative expenses			(41,323)
Other expenses			(30,892)
Impairment losses recognised under ECL model, net			(5,656)
Other gains and losses			(768)
Share of results of associates			(2,065)
Share of results of a joint venture			1,040
Finance costs			<u>(18,259)</u>
Loss before tax			<u><u>(6,299)</u></u>

Six months ended June 30, 2021

	Biscuit products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	696,429	11,367	707,796
Segment results	<u>218,255</u>	<u>1,242</u>	<u>219,497</u>
Other income			21,210
Selling and distribution expenses			(94,610)
Administrative expenses			(40,145)
Other expenses			(29,945)
Impairment losses recognised under ECL model, net			(15,152)
Other gains and losses			71,956
Share of results of associates			(1,221)
Share of results of a joint venture			(6,866)
Finance costs			<u>(11,997)</u>
Profit before tax			<u><u>112,727</u></u>

Segment assets and liabilities

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

Revenue from major products

The following is an analysis of the Group's revenue from its major products.

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue by products		
Sweet single piece biscuits	267,085	277,090
Salty single piece biscuits	24,925	25,227
Sandwich biscuits	251,254	204,818
Wafers	82,394	76,559
Coarse grain biscuits	38,751	47,926
Other biscuits products	63,536	64,809
Others (<i>note</i>)	14,838	11,367
Total	<u><u>742,783</u></u>	<u><u>707,796</u></u>

Note: Others represent miscellaneous products other than biscuits, such as bread, candies and pastas.

5. OTHER INCOME

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants (<i>note</i>)	7,625	2,935
Interest income on:		
— bank deposits	2,742	4,200
— loan receivables	8,557	6,027
— loans to a joint venture	3,865	4,149
— loan to a non-controlling shareholder of a subsidiary	674	720
Sales of packaging materials	1,306	1,441
Rental income	634	468
Other non-operating income	357	1270
	25,760	21,210

Note: Government grants represents incentive subsidies received from a local government for improvement of working capital and compensation of research and development expenses incurred as well as government subsidies for the compensation of capital expenditures on the plant and machinery and right-of-use assets which are deferred and amortised to profit or loss over the estimated useful lives of the respective assets when they are ready to use.

6. OTHER EXPENSES

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Research and development expenses	30,349	29,835
Donation expenses	231	100
Penalty	72	—
Other non-operating expenses	240	10
	30,892	29,945

7. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Reversal of impairment loss on prepayments (<i>note</i>)	—	74,641
Net foreign exchange gains	119	29
Loss on disposal of property, plant and equipment	6	(4)
Fair value loss on FVTPL	(893)	(2,710)
	<u>(768)</u>	<u>(2,710)</u>
	<u>(768)</u>	<u>71,956</u>

Note: In 2019, an impairment loss of RMB74,641,000 has been provided in respect of a prepayment for purchase flour from Guangdong Kailan Flour Co. Limited* (廣東開蘭麵粉有限公司) (“**Kailan**”) in view of its solvency. On January 4, 2021, pursuant to the restructuring of Kailan as approved by the creditors and the Jiangmen People’s Court, the insolvency administrators arranged the judicial auction for the sale of 100% interest in Kailan. The Group’s joint venture, Guangdong Fengjia Food Co. Limited* (廣東豐嘉食品有限公司) (“**Fengjia**”) succeeded in the bidding for the sale of 100% interest in Kailan in the judicial auction with a bidding cost of RMB210,000,000.

The acquisition of Kailan by Fengjia was completed on January 20, 2021. The Group shall be entitled to recover approximately RMB80,474,000, including the unutilised prepayment balance, compensation and interest, from Kailan as stipulated under the restructuring of Kailan. During the period ended June 30, 2021, the Group has recovered approximately RMB50,474,000 from Kailan and the remaining outstanding balance from Kailan were fully recovered during the year ended December 31, 2021. Therefore, the Group reversed the impairment loss of RMB74,641,000 during the six months ended June 30, 2021.

* *English name for identification purpose only.*

8. INCOME TAX (BENEFIT) EXPENSE

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“ EIT ”) — Current tax	2,039	10,748
Deferred tax charges	(6,392)	123
	<u>(4,353)</u>	<u>10,871</u>
	<u>(4,353)</u>	<u>10,871</u>

No provision for Hong Kong Profits Tax has been made for the six months ended June 30, 2022 and 2021 as the Group has no assessable profits arising in Hong Kong.

Guangdong Jiashili Food Group Company Limited* (廣東嘉士利食品集團有限公司) (“**Guangdong Jiashili**”) was accredited as a High-New Technology Enterprise by the Science and Technology Bureau of Guangdong Province (廣東省科學技術廳) and relevant authorities in the PRC with effect from January 2021 for a term of three years. Guangdong Jiashili was registered with the local tax authority to be eligible to the reduced 15% EIT rate for three years from 2021 to 2023.

For other group entities in the PRC, under the Law of the PRC on EIT (the “**EIT Law**”) and Implementation Regulations of the EIT Law, the EIT rate was 25% for both periods.

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 a PRC entity to a non-PRC tax resident shall be subject to withholding EIT pursuant to Articles 3 and 19 of the EIT Law.

The Company’s subsidiaries that are PRC tax resident are required to withhold the PRC withholding EIT of 10% on dividend payment to their non-PRC resident immediate holding company.

* *English name for identification purpose only.*

9. (LOSS) PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2022	2021
	RMB’000	RMB’000
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging:		
Directors’ and chief executive’s remuneration	1,965	1,751
Other employee benefits expenses:		
— Salaries and allowances	113,143	93,756
— Contributions to retirement benefits scheme	11,665	10,807
	<hr/>	<hr/>
Total employee benefits expenses	126,773	106,314
	<hr/>	<hr/>

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	28,271	27,987
Depreciation of right-of-use assets	4,818	3,809
Depreciation of investment properties	224	—
Amortisation of intangible assets (included in cost of sales)	2,963	2,844
	<u>36,276</u>	<u>34,640</u>
Total depreciation and amortisation		
Expenses relating to short-term leases	374	477
Cost of inventories recognised as expenses with no impairment of inventories recognised	568,363	488,299
	<u>568,363</u>	<u>488,299</u>

10. DIVIDENDS

During the six months ended June 30, 2022, a final dividend of HK5 cents per share in respect of the year ended December 31, 2021, amounting to HK\$20,750,000 (equivalent to RMB17,745,000) (six months ended June 30, 2021: a final dividend of HK5 cents per share in respect of the year ended December 31, 2020, amounting to HK\$20,750,000 (equivalent to RMB17,266,000)) was recognised as distribution to the owners of the Company.

Subsequent to the end of the current interim period, the directors of the Company does not recommend the payment of an interim dividend for the six months ended June 30, 2022 (six months ended June 30, 2021: declared payment of an interim dividend of HK\$10 cents per ordinary share).

11. (LOSS) 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,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	(816)	104,235
	<u>(816)</u>	<u>104,235</u>

Six months ended June 30,

2022 2021
'000 **'000**

Number of shares

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share

415,000 **415,000**

**12. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS/
INVESTMENT PROPERTIES/INTANGIBLE ASSETS**

During the six months ended June 30, 2022, the Group had addition of approximately RMB10,591,000 (six months ended June 30, 2021: RMB99,827,000) on property, plant and equipment in order to upgrade its operating capacities.

During the six months ended June 30, 2022, the Group disposed of certain plant and equipment with an aggregate carrying amount of RMB412,000 (six months ended June 30, 2021: RMB414,000) for cash proceeds of RMB406,000 (six months ended June 30, 2021: RMB410,000), resulting in a gain on disposal of RMB6,000 (six months ended June 30, 2021: RMB4,000).

During the six months ended June 30, 2022, the Group entered into an agreement to lease out a building with a carrying amount of RMB11,345,000 (six months ended June 30, 2021: nil) to an independent third party for 6 years. The building is reclassified from the property, plant and equipment to investment property upon the commencement of the lease.

The Group had no significant additions in right-of-use assets during the six months ended June 30, 2022. During the six months ended June 30, 2021, the Group entered into several new lease agreements with lease terms ranged from 1 to 20 years. On lease commencement, the Group recognised right-of-use assets of RMB52,027,000 and lease liabilities of RMB53,005,000.

During the six months ended June 30, 2022 and 2021, the Group had no addition on intangible assets.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2019, the Group entered into a 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) Tsingtao Jia Hui Equity Investment Fund (Limited Partnership) (“**Jia Hui LLP**”), with three independent third parties. Pursuant to the limited partnership agreement, RMB103.5 million is to be contributed by the Group as a limited partner. Jia Hui LLP was set up on May 16, 2019. As at June 30, 2022 and December 31, 2021, the unlisted equity investment fund is classified as a non-current asset, of which Jia Hui LLP consists of six years term to maturity. Management of the Jia Hui LLP shall vest exclusively to the general partner of Jia Hui LLP (“**GP**”). Limited partners of Jia Hui LLP shall have the exclusive authority to monitor and oversight the behaviour of the GP and they shall not involve in the daily operation and are not allowed to act on behalf of the Jia Hui LLP externally. Jia Hui LLP is accounted for as a financial asset at FVTPL.

As at June 30, 2022, the fair value of the unlisted equity investment fund is amounting to RMB103,275,000 (at December 31, 2021: RMB104,168,000) with fair value loss recognised in profit or loss of RMB893,000 for the current period (for the six months ended June 30, 2021: RMB2,710,000).

The fair value of the Group’s unlisted equity investment fund at June 30, 2022 and December 31, 2021 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.

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

	June 30, 2022 <i>RMB'000</i> (unaudited)	December 31, 2021 <i>RMB'000</i> (audited)
Trade receivables and bills receivables	26,465	24,455
Less: Allowance for expected credit losses	(2,229)	(3,182)
Total trade and bills receivables, net	24,236	21,273
Prepayments for purchase of raw materials (<i>note a</i>)	64,960	74,108
Other receivables (<i>note b</i>)	28,570	30,178
Other prepayments (<i>note c</i>)	46,001	55,598
Rental and utility deposits	1,982	1,933
Less: Amount shown under current assets	(162,567)	(180,988)
Amount shown under non-current assets as other receivables and deposits (<i>note d</i>)	3,182	2,102

Trade and bills receivables

The following is an analysis of trade and bills receivables by age, net of allowance for ECL, presented based on the delivery of goods, which approximated the respective revenue recognition dates at the end of the reporting period:

	June 30, 2022 <i>RMB'000</i> (unaudited)	December 31, 2021 <i>RMB'000</i> (audited)
Within 2 months	19,727	14,626
Over 2 months but within 3 months	1,547	1,202
Over 3 months but within 6 months	1,962	2,980
Over 6 months but within one year	1,000	2,465
	24,236	21,273

As at June 30, 2022, the Group consists of bills receivables amounting to RMB3,776,000 (at December 31, 2021:RMB8,471,000) with a maturity period of less than one year.

Prepayment, other receivables and deposits

Notes:

- (a) Prepayments for purchase of raw materials mainly comprised prepayments for packaging materials.
- (b) Other receivables net of allowance represent input tax to be certified, advances to staff and other miscellaneous deposits, which are unsecured, non-interest bearing and amounts of RMB56,000 (at December 31, 2021: RMB170,000) 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 RMB7,000 (for the six months ended June 30, 2021: RMB29,000). The effective interest rate is 4.75% to 4.90% (for the six months ended June 30, 2021: 4.75% to 4.90%) per annum.

During the period ended June 30, 2022, the Group has provided an impairment loss of RMB2,991,000 (for the six months ended June 30, 2021: RMB2,650,000) on other receivables.

- (c) Other prepayments represent prepaid logistic fee to logistics companies to maintain a long term cooperation relationship and enjoy preferential price offered by the suppliers.
- (d) The amount mainly represents i) rental and utility deposits due after one year; and ii) advances to staff due after one year and therefore, classified as non-current.

15. TRADE, BILLS AND OTHER PAYABLES

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Trade payables	131,391	152,867
Bills payables	62,840	97,100
Total trade and bills payables	194,231	249,967
Accrued expense	29,208	38,629
Transportation fee payables	12,614	24,705
Payroll and welfare payables	24,645	36,168
Other tax payables	14,009	18,470
Dividend payables (<i>note 10</i>)	17,745	—
Other payables	1,486	3,367
	293,938	371,306

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, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	130,607	152,177
Over 3 months but within 6 months	74	518
Over 6 months but within 1 year	295	52
Over 1 year	415	120
	<hr/>	<hr/>
	<u>131,391</u>	<u>152,867</u>

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, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	35,000	76,070
Over 3 months but within 6 months	27,840	21,030
	<hr/>	<hr/>
	<u>62,840</u>	<u>97,100</u>

16. BANK BORROWINGS

During the six months ended June 30, 2022, the Group obtained new bank loans amounting to RMB490,500,000 (six months ended June 30, 2021: RMB509,000,000) and repaid bank loans amounted to RMB401,562,000 (six months ended June 30, 2021: RMB245,000,000). At June 30, 2022, the loans carry interest at fixed rates ranging from 2.89 % to 3.85% (at December 31, 2021: 2.89% to 4.10%) per annum or variable rates ranging from PRC Loan Prime Rate (“LPR”) minus 3.45% to LPR minus 4.90% (at December 31, 2021: 3.45% to 4.90%) per annum.

As at June 30, 2022, pursuant to bank borrowings agreement of a group entity, the group entity breached one of financial covenants, mainly related to the period-to-period change in profits ratio of the group entity. This result the bank has the right to demand the group entity to immediate repay the bank borrowings with principal of RMB249,300,000 and related interest. On discovery of the breach, the directors of the Company had informed the lender. On August 24, 2022, the lender provided a letter to the group entity to declare that they will not require early repayment under current situation. Up to the date of this report, the lender did not exercise the right of demand of repayment of these bank borrowings. As such, bank loans at June 30, 2022 of RMB135,700,000 with original repayment terms over one year are classified as current liabilities. In any event, should the lender call for immediate repayment of the loan, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

COVID-19 pandemic and impact on operations

The resurgence of the COVID-19 pandemic with the spread of highly contagious Omicron variant and pandemic-induced mobility restrictions and subsequent implementation of social distancing measures with adverse impacts on the economy in China has resulted in weakened consumer consumption on snack foods which heavily affected our business operations. The production utilisation rate of our plants was on average about 44% in the Reporting Period where in normal circumstances the utilisation rate can reach over 60%. Sales volume for our biscuits products decreased approximately 2% or 934 tonnes in aggregate during the Reporting Period compared with the same period last year, of which the coarse grain biscuits; sweet and salty single piece biscuits accounted for most of the decline in volume.

Our COVID-19 crisis management team led by the Board of Directors established in January of 2020 continued its COVID-19 monitoring and safety policies aiming at ensuring the Group's employees and customers remained safe and to support appropriate health and safety protocols. The health of our employee is crucial in ensuring the ongoing sustainability and success of the Group, particularly in delivering customer satisfaction and adopting safe practices in the workplace. To date, all of our employees and factory workers have been fully vaccinated, all of which have received booster doses. We act pursuant to commit local city COVID-19 regulations orders to have all employees and workers attending company-wide COVID-19 nucleic acid testing for every two-week in Kaiping city. Our focus on high quality, sustainably produced biscuits ensure we are positioning the Group for growth while creating long-term value for our customers, colleagues, suppliers, shareholders, consumers and the communities in which we operate.

Review of the first half

During the Reporting Period we have continued to invest and execute on our strategic priorities to ensure we can continue to deliver growth in the markets in which we operate. Group's revenue in the first-half of 2022 has been increased by 4.9% year-on-year to approximately RMB742.8 million due to the Group has adopted strategies of raising prices of its products. Nevertheless, the price increase in some products cannot fully compensate the rise in raw materials costs, which led to unfavorable impacts on the Group gross profit margin. As a consequence gross profit were decreased from approximately RMB219.5 million to approximately RMB176.4 million compared with the same period last year, a drop of 19.6% year-on-year. Overall gross profit margin of the Group has decreased to 23.7% in the first half of 2022, representing a drop of 7.3 percentage points from the same period last year. Profit after tax decreased by 101.9% year-on-year to become loss after tax of

approximately RMB1.9 million. The decrease was mainly attributable to (i) the unfavorable impacts of escalating costs of raw materials in the Reporting Period completely outweigh the rising prices of the Company's products; (ii) the reversal of impairment provision on prepayments is no longer exists in the Reporting period; and (iii) increase in additional impairment loss provisions under expected credit loss model in the Reporting Period due to expected credit risk impaired on existing loans and receivables.

Jiashili is one of the largest biscuits manufacturer in China and its products have been on the market for more than 66 years, and the products has been deeply rooted in the hearts of all ethnic groups in China, its principal product offerings include various kinds of biscuits products and confectionery products. Other miscellaneous products include bread, pastas and mooncakes. During the long and successful history of Jiashili, we have mastered many crises and once again we have proven that our company is up to the local challenges. Our objectives are to produce quality, popular and preferred biscuits and leisure snack products where you can share anytime, anywhere. Over the year, we 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.

New business

The Group adopted business strategy of diversified product category aiming at providing different food and snack categories with different portfolios to customers in the China market. Dare to accept innovative idea and product development are the driving force for the Group's continuous development. We continue to pursue a consistent and proven strategy of developing the business through a combination of organic growth, operational improvements and acquisition growth. In the second quarter of 2022, the Company has established a non-wholly owned subsidiary engaged in manufacturing and selling of low/stable sugar rice (“**wentang mi**, 穩糖米”), this product is principally designed for consumers who require to control blood sugar level or want to control body weight.

FINANCIAL REVIEW

Revenue

During the Reporting Period, Group's revenue recorded a increase by 4.9% year-on-year to RMB742.8 million. Breakdown of the revenue by product category for the Reporting Period and the comparative figures for the same period last year are as follows:

Revenue	For the six months ended June 30,		% of changes in revenue
	2022 RMB (million)	2021 RMB (million)	2022 vs 2021
Sweet Single piece biscuits	267.1	277.1	-3.6%
Salty Single piece biscuits	24.9	25.2	-1.2%
Sandwich biscuits	251.3	204.8	22.7%
Wafers	82.4	76.6	7.6%
Coarse grain biscuits	38.8	47.9	-19.0%
Other biscuits products	63.5	64.8	-2.0%
Others	14.8	11.4	29.8%
Total	<u>742.8</u>	<u>707.8</u>	<u>4.9%</u>

Breakdown of revenue by products

Sweet single piece biscuits

During the Reporting Period, revenue from sweet single piece biscuits recorded a slight decline of 3.6% to approximately RMB267.1 million as compared with the same period last year. The decrease was mainly driven by consumers switching their consumption behavior under COVID-19 pandemic environment.

Salty single piece biscuits

The revenue generated from salty single piece biscuits registered a slump in sales by approximately RMB0.3 million representing a slight decline of 1.2% year-on-year from the same period of last year. Similar to sweet single piece biscuits the decline was mainly due to consumers switching their consumption behavior under COVID-19 pandemic environment.

Sandwich biscuits

Turning to sandwiches biscuits, mainly fruit jam sandwiches biscuits (果樂果香) In the first half of 2022, revenue generated from sandwich biscuits recorded a strong increase by 22.7% year-on-year to approximately RMB251.3 million. The driver for the increase was mainly attributable as follows: (i) the continued increased acceptance by consumers has encouraged the consumption despite city lockdowns and stringent social distancing rules and regulations; and (ii) the online product promotion via Tik Tok (抖音) was proved to be effective means to promote images and increased awareness as most of our target consumers are mostly university students; youngsters and teenagers, their acknowledgment and acceptance on on-line social media was exceptionally high.

Wafers

During the Reporting Period, the revenue generated from wafers amounted to approximately RMB82.4 million, increase of 7.6% ahead of the corresponding period of last year. The results were primarily attributable to the success of the Group's marketing and pricing strategy and the wide market acceptance.

Coarse grain biscuits

During the Reporting Period, revenue of coarse grain biscuit amounted to approximately RMB38.8 million, representing a decline of 19.0% as compared with the same period last year. Market repositioning and marketing channel restructuring is underway for coarse grain biscuits.

Other biscuits products

It is the Group's policy of actively seeking to expand different mix of products with different brands and flavors to meet customer's demands. Other biscuits products include mainly Jiuzhou cookie (九洲曲奇), cream crackers, Ruishiyue products series (瑞士樂系列) and others. During the Reporting Period, revenue from other biscuits products drop by 2.0% to approximately RMB63.5 million as compared with the same period last year.

Others

Others represents non-biscuits related miscellaneous items mainly consists of short self-life bread, moon cakes and pastas. During the Reporting Period, the revenue generated from other products amounted to approximately RMB14.8 million, representing an increase of 29.8% as compared with the same period last year. In which revenue from short shelf-life bread amounted to approximately RMB14.2 million for the six months ended June 30, 2022 representing an increase of 40.6% year-on-year compared with last year. Short-shelf life bread has received much market acceptance since its first launch in the second half of 2020. Revenue from moon cakes in the first half of 2022 amounted to approximately RMB0.6 million, The Group is expecting more revenue from moon cakes will be generated in the peak seasons particularly in the second half of the year.

Cost of sales and gross profit

In the first half of 2022, gross profit decreased from approximately RMB219.5 million to approximately RMB176.4 million compared with the same period last year. Accordingly, gross profit margin dropped by 7.3 percentage points as compared with the corresponding period in 2021. The decline in gross profit and gross profit margin was mainly due to the double-digit price inflation on the cost of the Company's raw materials including palm oil, sugar, wheat flour and packaging materials. Especially palm oil have increased more than 55% compared with the corresponding period of last year which lead to the substantial increase in costs of production in the Reporting Period.

Other income

During the Reporting Period, other income has increased by 21.4% to approximately RMB25.8 million from approximately RMB21.2 million as compared with the same period last year. The increase was primarily due to the increase in income of government grants.

Selling and distribution expenses

Selling and distribution expenses primarily composed of the advertising and promotion expenses, delivery and transportation expenses and selling administration expenses. During the Reporting Period, such expense was increased by approximately RMB16.0 million or 16.9% year-on-year, to approximately RMB110.6 million. It was primarily due to increase in delivery and transportation expenses; advertising and promotions expenses and selling and administration expenses which aligned with the increase in revenue for the first half of 2022.

Administrative expenses

Administrative expenses in the Reporting Period was amounted to approximately RMB41.3 million, representing an increase of approximately RMB1.2 million or 3.0% over the same period of last year. Such increase was primarily attributable to the increase in compensations and allowance to employees and workers during COVID-19 pandemic for the first half of 2022.

Inventories

Group's inventories consist mainly of raw materials, packaging materials and finished goods. The Group's inventories as at June 30, 2022 was approximately RMB103.8 million, decreased by 1.0% from approximately RMB104.8 million as at December 31, 2021. The reason for the decrease in inventories was mainly due to the raw materials and finished goods balance at the end of 2021 was higher than that of June 30, 2022 as a result of the stock-up for the Lunar Chinese New Year in early-February of 2022. Accordingly, the inventory turnover days increased from 32.3 days for the first half of 2021 to 33.7 days for the first half of 2022.

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 KA together with bills receivables and other deposits and prepayments. The Group's trade, bills and other receivables as at June 30, 2022 was approximately RMB162.6 million, decreased by 10.2% from approximately RMB181.0 million as at December 31, 2021. Accordingly, the trade, bills and other receivables turnover days was decreased from 50.1 days for the first half of 2021 to 42.3 days for the first half of 2022.

Financial and liquidity position

We finance our operations and capital expenditure primarily by internally generated cash flows as well as banking facilities provided by our principal bankers. As at June 30, 2022, the Group had bank balances and cash amounted to approximately RMB249.1 million (as at December 31, 2021: approximately RMB383.7 million). Total bank borrowings as at June 30, 2022 amounted to approximately RMB609.1 million, an increase of 17.1% from December 31, 2021 as to finance our expansion and investment in the Reporting Period. As at June 30, 2022, the gross gearing ratio (defined as total liabilities over total assets) was 53.3% (as at December 31, 2021: 53.1%). We will from time to time adopt prudent financial management policy to address changing financial conditions.

As at June 30, 2022, the Group's net current liabilities was approximately RMB58.6 million (as at December 31, 2021: net current assets approximately RMB94.7 million). Current ratio of the Group as at June 30, 2022 was 0.94 (as at December 31, 2021: 1.11). The Board, having reassessed the principal risks and uncertainties, consider it appropriate to adopt the going concern basis of accounting in the preparation of the financial statements. In reaching this conclusion, the Board noted that the Group's business model which can generate sufficient cash flows and the substantial funding facilities available from our bankers to our Group and the resilience of the Group to a range of severe but plausible downside scenarios. The Group believed that we are in a strong and healthy position and has sufficient resources to support our working capital requirement and meet our foreseeable capital expenditure.

OUTLOOK

The Group believes that the full year of 2022 will continue to be a year full of challenges and uncertainties. The global economy is at risk of renewed commodity and materials shortages due to the rapid spread of the COVID-19 variant Omicron, rising energy costs, supply chain disruptions, labour and climate change. The greatest challenge to the Group will be the rising materials costs and managing the costs will be a priority for the Group over the longer term. Nevertheless, the Group remains optimistic about the prospects of the biscuits and confectionery products industry given the continued efforts by the Chinese Government to combat the COVID-19 pandemic and the gradual recovery of global trade and economy as China gradual transits towards an endemic phase, where restrictions are relaxed and most economic sectors has reopened. The Group will continue to explore new markets to broaden its revenue and enhance the competitiveness of the products.

OTHER INFORMATION

Human resources and remuneration of employees

As at June 30, 2022 the Group had a total of 3,082 employees. (June 30, 2021: 2,622) The Group's employees are remunerated with reference to their positions, performance, experience and prevailing salary trends in the market. 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 individual. For the six months ended June 30, 2022, the total employee benefits expenses (including Directors' and chief executive's remuneration) were approximately RMB126.8 million (for the six months ended June 30, 2021: approximately RMB106.3 million). The increase was primarily due to the increase in salaries, compensations, allowances and subsidies to employees and workers in view of the COVID-19 spread.

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 the principles and applicable code provisions of Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the “**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 CG Code except for deviation during the Reporting Period which is summarised as below.

Code Provision A.2.1

As stipulated in the Code provision A.2.1 of the Code, the role of chairman and chief executive should be separated and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Huang Xianming (“**Mr. Huang**”), the Company has deviated from the Code provision A.2.1 of the CG Code. As all major decisions are made in consultation with all members of the Board, and currently there are three independent non-executive Directors on the Board offering independent advises and providing fresh perspectives to the Company. In regard of this, the Board is of the view that it is appropriate this management structure is effective for the Group’s operations and sufficient checks and balances are in place and in the best interests of the Company for Mr. Huang to hold both positions as it helps to maintain the continuity of the policies and the stability of the operations of the Company. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

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 throughout the Reporting Period.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Kam Robert, Ms. Ho Man Kay and Mr. Ma Xiaoqiang. The audit committee together with the management, has reviewed constantly the accounting principles and practices adopted by the Group, discussed auditing, 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, 2022. 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 2022.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend. The Directors consider that this is prudent given the focus on managing the Group's cash flow positions in the second half of this financial year. We will consider the declaration of a dividend at the year end in the light of trading for the full financial year and the financial circumstances at that time.

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, 2022 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 30, 2022

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