嘉士利集團有限公司

Jiashili Group Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1285)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 AND DISCLOSURE PURSUANT TO RULES 13.13 TO 13.16 OF THE LISTING RULES

Reference is made to the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"). Capitalised terms used in this announcement shall have the same meanings as those defined in the 2021 Annual Report unless otherwise stated.

The Board would like to supplement the following additional information in relation to the Group's loans to Fenjia in the aggregate principal amount of RMB165,300,000 as disclosed in the 2021 Annual Report.

I. LOANS ADVANCED TO FENGJIA

Reference is made to:

(i) the announcement of the Company dated 11 December 2020, in relation to the loan agreement between Guangdong Jiashili as lender and Fengjia as borrower. Pursuant to the loan agreement, Guangdong Jiashili agreed to grant a loan in the principal amount of RMB15,300,000 ("**Loan A**") to Fengjia on 11 December 2020 with maturity date of 11 December 2021.

(ii) the announcement of the Company dated 17 January 2021, in relation to the loan agreement between Guangdong Jiashili as lender and Fengjia as borrower. Pursuant to the loan agreement, Guangdong Jiashili agreed to grant a loan in the principal amount of RMB150,000,000 ("**Loan B**") to Fengjia on 17 January 2021 with maturity date of 17 January 2022 and interest repayment on quarterly basis.

The Supplemental Agreements

On 21 March 2022, Guangdong Jiashili as lender and Fengjia as borrower entered into two supplemental agreements in relation to Loan A and Loan B (collectively, the "**Supplemental Agreements**"), respectively, pursuant to which:

(i) the repayment date of Loan A shall be extended to 31 December 2023; and

(ii) (a) the repayment date of Loan B shall be extended to 31 December 2023 and (b) the interests repayment terms shall be adjusted, such that all outstanding interests in respect of Loan B shall be repaid in one lump sum on 31 December 2023.

((i) and (ii) are collectively referred to as "**Change of Repayment Terms**")

By the end of September 2022, the principal amount of Loan A, together with all outstanding interests, were fully repaid and settled by Fengjia. As at the date of this announcement, the outstanding amount of principal and accrued interests under Loan B amounts to approximately RMB164.1 million.

Loan A and Loan B (collectively, the "**Loans**") were granted to Fengjia to provide it with sufficient financial resources to (i) participate in the bidding to acquire 100% equity interest of Kailan, (ii) be utilised as daily working capital and (iii) to facilitate the continued operation and development of Kailan. The Board believed that after successful acquisition of 100% equity interest of Kailan the Group would be able to secure stable supply of quality flour from Kailan at a more reasonable price. The Board also believed that the persistent increase of international commodity and raw material prices in the past two years might provide an opportunity for Kailan to turn its business around.

Business and financial update on Kailan

Kailan is principally engaged in the manufacture and sale of flour products in Guangdong Province. The business operation and performance of Kailan have gradually improved after it was acquired by Fengjia in March 2021. For the financial year ended 31 December 2021, the revenue and net profit of Kailan amounted to approximately RMB119.0 million and RMB4.4 million, respectively. For the eleven months ended 30 November 2022, the unaudited revenue and net profit of Kailan amounted to approximately RMB258.4 million and RMB18.2 million (subject to final audit), respectively, showing a considerable increase as compared to last year. As at the date of this announcement, so far as the Board is aware, the business of Kailan is being conducted in accordance with its business plan and financial budget for the current year.

Credit risk assessment and risk control on the Loans

Since October 2021, the management of the Group had commenced negotiations with Fengjia, on arm's length basis, to evaluate the possibility to extend the repayment of the Loans and change of interest repayment terms. There had been several rounds of discussions between the parties about adjustments to the original repayment terms. In January 2022, the Group reviewed the financial statements of Fengjia and Kailan for the financial year ended 31 December 2021 as well as the financial budget and demand forecast of Kailan for the financial year ending 31 December 2022. The Board also considered the reports and opinions of the Group's representatives in the board of directors of Fengjia and Kailan in the aspects of the business performance, financial condition and development strategies of Kailan, and evaluated the needs of Kailan for working capital in the financial year ending 31 December 2022. With the primary purpose of ensuring full repayment of the principal and interests of the Loans by Fengjia, after further negotiations, the revised terms of repayment as well as the related loan documents were confirmed by the parties in March 2022.

Notwithstanding that Fengjia failed to repay the Loans upon the original maturity dates, the Board has considered the following factors in determining the Change of Repayment Terms in respect of the Loans and was satisfied that Fenjia would be able to settle the Loans and all outstanding interests upon their respective maturity dates if additional time is given:

1. The Group has been fully informed of the use of proceeds by Fengjia for settling the consideration for acquiring 100% equity interest of Kailan and general working purposes.

2. As at 31 December 2021, the two term loans respectively granted by Guangdong Jiashili to Fengjia in August and September 2020 in the aggregate principal amount of RMB15,300,000 together with all outstanding interests thereunder (the "**Previous Loans**") had been fully repaid and settled by Fengjia. Such past settlement record demonstrates the willingness and ability of Fengjia to make loan repayment.

3. The Group had assessed the financial position of Fengjia and Kailan by reviewing (i) the financial statements of Fengjia and Kailan for the financial year ended 31 December 2021 and (ii) the financial budget of Fengjia and Kailan for the year ending 31 December 2022. In particular, the improvement of the business outlook and financial position of Kailan as disclosed in the preceding paragraphs demonstrates the repayment ability of Fengjia in the near future.

4. Loan B had already been secured by 100% equity interest in Kailan pursuant to the original loan agreement in order to protect the interest of the Group.

5. With the continuous increase in global wheat price, the wheat previously imported by Kailan from overseas would allow Kailan to enjoy cost advantage in the production of flour or capture the gain from the resale of the wheat. Given the nature of wheat being easily realized in the market, the increase in value of the wheat inventory may assist Fengjia in repaying the Loans.

The Group has the following measures in place to control the credit risks in respect of the Loans:

1. Pursuant to the joint venture agreement of Fengjia, three out of the five directors in the board of directors of Fengjia are appointed by the Group. The Group has also appointed four out of the five directors in the board of directors of Kailan, as well as the supervisor, general manager and financial manager of Kailan. The aforementioned arrangement would allow the Group to monitor and ensure effective oversight of Kailan's operation, and thus preserving its interest in Kailan.

2. The financial statements of Fengjia and Kailan are provided to the Company on monthly basis, such that the management of the Company can continuously review and monitor the financial performance and condition of Fengjia and Kailan. The management of the Group attends the quarterly business analysis meeting of Kailan, and reports the business financial information of Fengjia and Kailan to the Board on monthly basis, which allows the Board to evaluate the risks associated with the Change of Repayment Terms and take appropriate and timely actions to protect the interests of the Company if there is any indication of deterioration in Fenjia's creditworthiness. The internal audit department of the Group conducts internal audit on Kailan annually.

Based on the above, the Board is of the view that the risks to be assumed by the Group for its continued provision of financial assistance to Fengjia are acceptable.

Reasons for and benefits of the Change of Repayment Terms

After acquisition of Kailan by Fengjia, the Group has been able to secure stable supply of quality flour from Kailan at reasonable price, notwithstanding the surging prices in commodity and raw materials globally. The flour supplied by Kailan is of a high quality and is important for the Group to maintain the reputation of its products in the market. Although Fengjia failed to repay the Loans upon the original maturity dates, the Board considered that commencing any legal action against Fengjia was not a commercially sound decision as the Group had long-established business relationship with Kailan and Fengjia, not to mention the potential incurrence of considerable amount of legal costs and time. Having considered that (i) the Change of Repayment Terms may provide greater flexibility to Fengjia and Kailan in allocating their financial resources to facilitate their business operation and development amid the challenging and uncertain macro environment; (ii) the continuous improvement in the business performance of Kailan would create value and generate return to the Group, being its indirect shareholder; (iii) the Group has established risk control measures in respect of the Loans to mitigate the credit risks as disclosed in the paragraphs headed "Credit risk assessment and risk control on the Loans" above; (iv) the Change of Repayment Terms did not involve any additional cash outflow from the Group or create any additional financial burden on the Group; and (v) the factors in determining the Change of Repayment Terms in respect of the Loans as disclosed in the paragraphs headed "Credit risk assessment and risk control on the Loans" above, the Board is of the view that the Change of Repayment Terms would not have any material adverse impact on the financial position of the Group, the terms of the Supplemental Agreements are on normal commercial terms and are fair and reasonable, and the entering into of the Supplemental Agreements and the Change of Repayment Terms are in the interest of the Company and its Shareholders as a whole.

II. ADVANCES TO AN ENTITY AND FINANCIAL ASSISTANCE GIVEN TO AFFILIATED COMPANIES

The Board would like to disclose details of advances to an entity and financial assistance given to affiliated companies of the Group (as defined under Rule 13.11(2)(a) of the Listing Rules) in accordance with Rules 13.13 and 13.16 of the Listing Rules.

As at the date of this announcement, the aggregate amount of the Group's advances to an entity and financial assistance given to affiliated companies of the Group exceeds 8% of the assets ratio (as defined under Rule 14.07(1) of the Listing Rules). Details are set out as follows:

Name of affiliated companies	**The Group's equity interest in affiliated companies**	**Loans to affiliated companies**	**Advances to affiliated companies**	**Aggregate amount of loans and advances**
		RMB'000	*RMB'000*	*RMB'000*
Fengjia	51%	150,000 *(Note 1)*	60,000 *(Note 1)*	210,000
Kailan	51%	—	106,351 *(Note 2)*	106,351
Quan Cheng	45%	16,000 *(Note 3)*	—	16,000
Guangdong Ruishiyue	5%	—	46,868 *(Note 4)*	46,868
		166,000	213,219	379,219

Notes:

(1) Fengjia owns the entire equity interest in Kailan. The loan to Fenjia was to provide financial assistance to Fenjia to acquire Kailan, such loan is (i) secured by 100% equity interest in Kailan, (ii) bearing interest at 5% per annum and (iii) due in December 2023. Advances are unsecured, interest-free and repayable on demand, which were provided to Fengjia to facilitate its continued operation and development. For details, please refer to the paragraphs headed "Loans advanced to Fengjia" in this announcement.

(2) Advances are unsecured, interest-free and repayable on demand. They were purchase prepayments.

(3) The loans to Quan Cheng were to provide financial assistance to facilitate its continued operation and for daily working capital purposes. Such loans are (i) unsecured. (ii) interest-free and (iii) expiring during the period from October 2022 to May 2023. As at the date of granting the loan to Quan Cheng by the Group, the equity interest in Quan Cheng was wholly owned by Jiarun Investment Co., Limited* (開平市嘉潤投資有限公司) ("**Jiarun**"), which was in turn owned as to 55% by Kaiping Xiangrun Paper Factory Co., Limited* (開平市祥潤紙品廠有限公司) ("**Xiangrun**") and 45% by the Group. In late October 2022, the Group completed the acquisition of 55% equity interest in Jiarun from Xiangrun. Since then, Jiarun and Quan Cheng have become indirect wholly-owned subsidiaries of the Company.

(4) The Group owns 5% equity interest in Guangdong Ruishiyue. Advances are unsecured, interest-free and repayable on demand. They were purchase prepayments.

The Company will comply with the disclosure requirements under Rules 13.20 to 13.22 of the Listing Rules where the circumstances giving rise to the disclosure under Rules 13.13 and 13.16 of the Listing Rules continue to exist at the Company's interim period end or annual financial year end.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 14.36 of the Listing Rules, where there is any material variation of the terms of a transaction previously announced pursuant to Chapter 14 of the Listing Rules, the listed issuer must, as soon as practicable, announce this fact by means of an announcement. The terms of the Supplemental Agreements and the Change of Repayment Terms constituted a material variation to the terms of the loan agreements in respect of the Loans previously announced.

As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules exceeds 25% but all of them were less than 100%, the Change of Repayment Terms, on an aggregate basis pursuant to Rule 14.22 of the Listing Rules, constituted a major transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Supplemental Agreements and the Change of Repayment Terms are subject to the notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rules 13.13 and 13.16 of the Listing Rules, a general disclosure obligation arises where the amount of advances by the Group to an entity and the financial assistance given to affiliated companies of the Group exceeds 8% under the assets ratio (as defined under Rule 14.07(1) of the Listing Rules). As at the date of this announcement, as the aggregate amount of the Group's advances and financial assistance given to affiliated companies of the Group exceeds 8% of the assets ratio, the Company is subject to the general disclosure obligations under Rules 13.13 and 13.16 of the Listing Rules.

Due to insufficient understanding of the Listing Rules without seeking professional advice on the relevant transactions at the material time and inadvertent oversight and inadequate attention on the disclosure obligations of the relevant transactions, the Company failed to comply with: (i) the requirements under Rule 14.36 of the Listing Rules to publish an announcement on the Supplemental Agreements and the Change of Repayment Terms; (ii) the notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules in respect of the Supplemental Agreements and the Change of Repayment Terms in a timely manner after the entry into of the Supplemental Agreements; and (iii) the disclosure requirements under Rules 13.13 and 13.16 of the Listing Rules by way of announcement in respect of the advances and financial assistance given to affiliated companies in a timely manner.

REMEDIAL MEASURES AND ACTIONS

The Company takes the above non-compliance of the Listing Rules seriously. The Directors and the management noted that there were deficiencies in the Company's overall compliance and the compliance team ("**Compliance Team**", comprising an executive director and the company secretary) of the Company shall be more vigilant to the requirements of notifiable transactions under the Listing Rules. As at the date of this announcement, remedial measures are put in place to further enhance the compliance function of the Group, in order to ensure and monitor compliance with the Listing Rules and other rules and regulations applicable to the Group, in particular to prevent re-occurrence of similar incidents of non-compliance. The remedial measures include the following:

1. The Company will strengthen the internal communications and reporting arrangements between the senior management, various subsidiaries and departments of the Group with the Compliance Team and the Board on potential notifiable transactions in assessing the disclosure obligations prior to the entering of the relevant transactions. Responsible staff or team will be required to notify the Compliance Team of any potential notifiable transactions and to circulate draft agreements for the Compliance Team's review to ensure that applicable requirements are complied with in a timely manner.

2. All the responsible staff have been reminded to strictly adhere to the reporting flow for transactions which may have potential implications under the Listing Rules.

3. The Board will appoint an additional executive Director to join the Compliance Team to give better and more comprehensive advice to the Board. The Compliance Team will also increase the frequency of periodic review and supervision of the Company's transactions to bi-weekly basis.

4. The Compliance Team will, where appropriate and necessary, seek advice from external legal advisers or other professional advice as to any action required to be taken in relation to any proposed transactions or events in the future.

5. The Company will engage external legal advisers to provide training to (i) the Directors, (ii) the senior management and company secretary of the Company and (iii) the management and finance team at the subsidiary level on compliance with the Listing Rules and other applicable laws and regulations, so as to strengthen their understanding and knowledge of relevant regulatory requirements.

6. The Board will discuss and review the internal control and compliance systems of the Company to identify any other weakness.

The Board is of the view that the implementation of the aforesaid follow-up actions and remedial measures would effectively prevent the re-occurrence of similar incidents. Going forward, the Board will closely monitor the implementation of the remedial measures and the Company will continue to assess and enhance the internal control procedures of the Group from time to time, thereby ensuring strict compliance with the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

"affiliated company"	has the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Jiashili Group Limited (嘉士利集團有限公司), a company incorporated under the laws of the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1285)
"Director(s)"	the director(s) of the Company
"Fengjia"	Guangdong Fengjia Food Co., Limited* (廣東豐嘉食品有限公司), a limited liability company established in the PRC, in which the Group owns 51% equity interest and is accounted as a joint venture of the Group
"Group"	collectively, the Company and its subsidiaries
"Guangdong Jiashili"	Guangdong Jiashili Food Group Co., Limited* (廣東嘉士利食品集團有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company

"Guangdong Ruishiyue"	Guangdong Ruishiyue Food Co., Limited* (廣東瑞士樂食品有限公司), a limited liability company established in the PRC, in which the Group owns 5% equity interest
"Kailan"	Guangdong Kailan Flour Co., Limited* (廣東開蘭麵粉有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of Fengjia
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"PRC"	the People's Republic of China which, for the purpose of this announcement, exclude Hong Kong, the Macau Special Administrative Region and Taiwan
"Quan Cheng"	Guangdong Quan Cheng Da Jian Kang Drink Company Limited* (廣東全成大健康飲品有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"%"	per cent.

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with "" is for identification purpose only.*

By Order of the Board
Jiashili Group Limited
Huang Xianming
Chairman

Hong Kong, 16 December 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.