嘉士利集團有限公司
JIASHILI GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1285

Annual Report 2018

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Huang Xianming
(Chairman)
Mr. Tan Chaojun
(Vice Chairman and Chief Executive Officer)
Mr. Chen Minghui

Non-Executive Director

Mr. Lin Xiao

Independent Non-Executive Directors

Mr. Kam Robert
Ms. Ho Man Kay
Mr. Ma Xiaoqiang

COMPANY SECRETARY

Mr. Shoom Chin Wan, FCPA, ACIS, CTA

AUDIT COMMITTEE

Mr. Kam Robert *(Chairman)*
Ms. Ho Man Kay
Mr. Ma Xiaoqiang

REMUNERATION COMMITTEE

Ms. Ho Man Kay *(Chairman)*
Mr. Huang Xianming
Mr. Kam Robert
Mr. Ma Xiaoqiang

NOMINATION COMMITTEE

Mr. Huang Xianming *(Chairman)*
Mr. Kam Robert
Ms. Ho Man Kay
Mr. Ma Xiaoqiang

AUTHORISED REPRESENTATIVES

Mr. Huang Xianming
Mr. Shoom Chin Wan

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

Bank of Communications, Hong Kong Branch

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investors Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER IN PRC

No. 18 Gangkou Road, Changsha
Kaiping
Guangdong
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 701A East Ocean Center
98 Granville Road
Kowloon
Hong Kong

CORPORATE WEBSITE

www.gdjsl.com

STOCK CODE

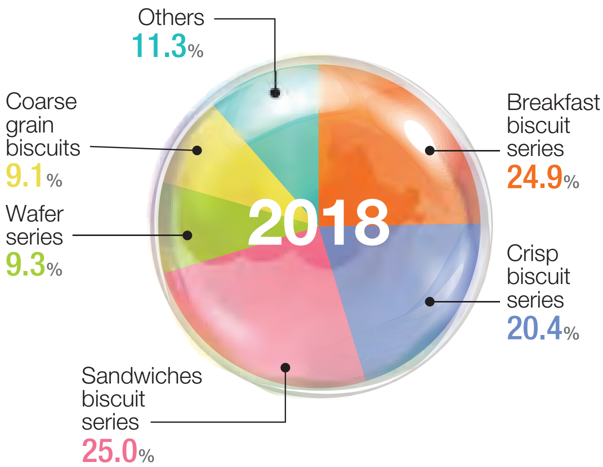
1285

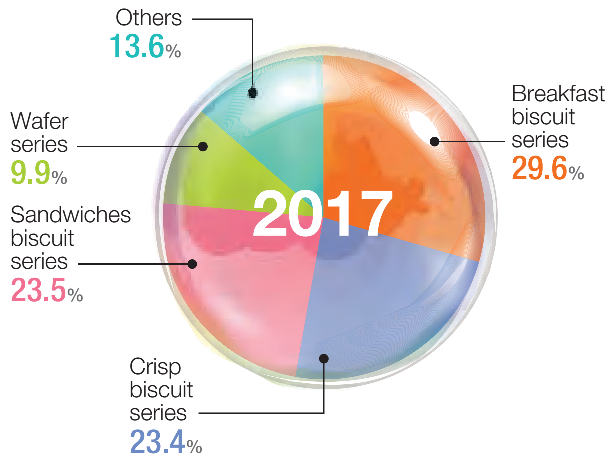
LISTING DATE

September 25, 2014

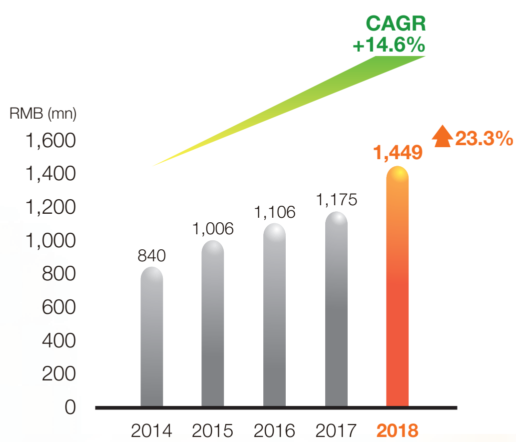
FINANCIAL HIGHLIGHTS

REVENUE BREAKDOWN BY MAJOR PRODUCT SEGMENTS

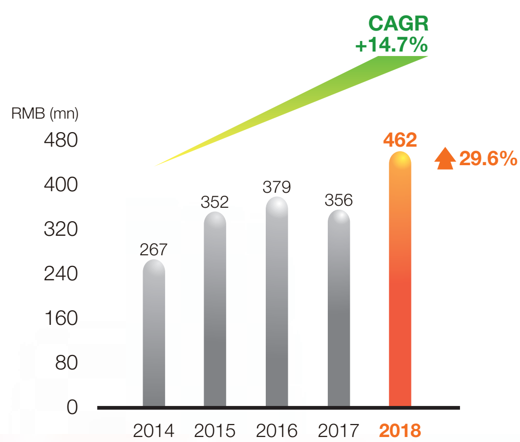




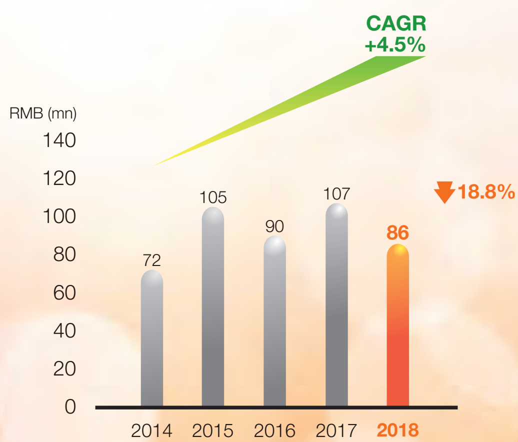
REVENUE



GROSS PROFIT



PROFIT FOR THE YEAR



Financial Highlights

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

JIASHILI-BENEFIT TO THE NATION AND BENEFIT TO ALL PEOPLE

On behalf of Jiashili Group Limited ("Jiashili" or the "Company", together with the subsidiaries, the "Group"), I am pleased to present the annual results of Jiashili for the year of 2018.

Throughout the year of 2018, the Group continued to experience growth among different challenges and highly competitive domestic environment. The Group hit record high on sales revenue of approximately RMB1,449 million representing an increase of 23.3% year-on-year from 2017. Gross profit increased by 29.6% to approximately RMB462 million as compared with that of 2017. Gross profit margin increased from 30.3% in 2017 to 31.9% in 2018, an up of 1.6 percentage points. There was no selling price increase across all products in 2018, however, prices of packaging materials had increased but was partially offset by reduction in prices of raw materials (palm oil, sugar and flower) leads to increase of the margin. The sales volume reached 104,089 tonnes, representing an increase of 20.1% compared with 2017. The increase in the Group's revenue was driven by two main categories: sandwiches and wafer represent more than one-third (34.3%) of the Group's biscuits revenue continuing to be the strong performer for the Group. Profit attributable to owners of the Company decreased to approximately RMB86.5 million represent a drop of 18.8% as compared with that of 2017. The decline was mainly attributable to the one-off provisions of impairment loss on loan receivables based on accounting standards amounted to approximately RMB12.4 million, provisions on expected diminution in investment in joint venture amounted to approximately RMB11.1 million and one-off restructuring costs of redundancy payments amounted to approximately RMB8.6 million. The Group will consistently review the investment and operation policy to maximize operating efficiency.

In April 2018, we completed the acquisition of Silang, a brand name engaged in producing coarse grain biscuits for domestic markets over 20 years. The business enables us to capture more consumer snacking in no additives, sugar-free crackers. Sales of coarse grain biscuits segment amounted to approximately RMB131.8 million represent 9.1% of the Group's revenue. The outlook for Silang coarse grain biscuits remains positive due to the strength of its brands and recognition of the quality products amongst domestic markets. The Group recognizes a growing demand towards naturally healthy foods and snacks. The management will strengthen the existing product portfolio and expand new products with healthier ingredients to meet the contemporary market trend.

OVERVIEW OF BUSINESS AND OPERATION ENVIRONMENT

The Group continued to experience growth albeit at uncertain macro environment and slow growth of personal consumptions in the PRC. The Group has nation-wide sales network covering various provinces in the PRC. Jiashili, together with multi-brands diversified product category which has been very successful in the past and has built up brand loyalty anchoring delicious biscuits. During the year, prevailing competition in the market remains keen, with consumers spoilt for choices and intense price competition in the retail industry. Backed by strong brand names, high quality products and extensive distribution networks, the Group has endeavored to sustain the existing market share by stepping up promotional activities, through sampling activities together with increased block/shelf displays at strategic positions and crowded locations like malls and market places.

For the coming year, the Group continues to draw up programs for promotional activities starting off with premium products and strategic products. More emphasis will be given on sampling activities to create and maintain product awareness and to increase block/shelf displays, to enhance the products exposure not only allowing more 90's generation to know about the Group's products, but also retaining the existing customers. These will enable the Group's sales team to market aggressively and to tap into both new and existing markets to drive growth to improve earnings.

The Group distributes its products via mainly distributors and modern channels with a total of 1,452 high performing distributors (2017: 1,106). In the next few years, new shopping mall outlets, will continue to increase, the Group will continue to follow the expansion of shopping malls to arrange block/shelf displays, to strengthen the establishment of the Group's brand image, exploring various distributors and enhance consumer awareness. The Group believes that through their strong sales force and its proactive marketing strategy and promotion plan, domestic market in the coming year will continue to bring benefits and business opportunities.

OUTLOOK AND FUTURE PROSPECTS

The Group continued to witness margin compression arising from costs pressures amid continued growth in revenue. Nevertheless, going forward, despite the many challenges that lay ahead, the Group will continue to optimize its business operations and efficiencies to enhance its supply chain in order to offset the pressure on the results and further drive growth in the Group.

The outlook for Jiashili biscuits remains positive due to the strength of its brands and recognition of the quality products amongst domestic local Chinese people. As a company that has been successful for more than 60 years in the PRC, the Group recognises a growing demand towards naturally healthy snack foods. The management will strengthen the existing product portfolio; expand new products with healthier ingredients to meet the contemporary market trend by enhancing in-house research and development. The Group believes that the brand name of Jiashili has been present in the market for over 60 years and are well known and recognized by customers with its tastes and quality will be the key success driver to bring the Group in next level.

The Group will continue to explore mergers and acquisitions opportunities should they arise in order to increase our product offerings with different flavors to meet customer demands for different age groups and customers tastes.

Last but not the least, I wish to take this opportunity to express my sincere gratitude to all directors and employees for their assiduous efforts. We will make utmost efforts to attain sustainable growth and enhance our profitability and exert all our efforts to create the greatest value for our customers and bring the best returns to our shareholders.

Jiashili Group Limited
Huang Xianming
Chairman of the Board

March 28, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

Acquisition of Silang

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

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

Production and supply chain

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

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

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

Promotion and marketing strategy

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

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

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

FUTURE PROSPECT

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

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

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

FINANCIAL REVIEW

Revenue

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

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

Breakfast biscuits series

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

Crisp biscuits series

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

Sandwiches biscuits series

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

Wafer series

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

Coarse grain biscuits series

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

Other biscuits series

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

Gross profit and gross profit margin

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

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

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

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

Selling and distribution expenses

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

Administrative expenses

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

Other gains and losses

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

Inventories

Inventories as at December 31 2018 was approximately RMB89.6 million, an increase of approximately RMB17.2 million from approximately RMB72.4 million as at December 31, 2017 while the total amounts of raw materials and packaging materials accounted for approximately 61.1% of the total inventories. The increase as at the end of the year was mainly attributable to the purchases of raw materials and packaging materials in anticipation of an increase of their future prices and finished goods keeping to meet the demand from the Lunar Chinese New year in 2018. The inventory turnover days increase from 26.76 days in 2017 to 29.94 days in 2018.

Trade, bills and other receivables

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

Financial position and liquidity

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

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

Bank borrowings and gearing

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

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

Capital expenditure

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

Human resources and remuneration of employees

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

CORPORATE GOVERNANCE REPORT

CODE OF CORPORATE GOVERNANCE PRACTICE

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

Code Provision A.6.7

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company. Having made specific enquiry by the Company to all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code since the date of the Company's listing (the "Listing Date") and up to the date of this report. No incident of non-compliance of the written guidelines governing the securities transactions by employees who are likely to be in possession of unpublished inside information of the Company was noted by the Company during the year.

BOARD OF THE DIRECTORS

Board Composition

During the year ended December 31, 2018, the Board of the Company was constituted by seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors.

The name of the Directors in office during the year is as follows:

Executive Directors

Mr. Huang Xianming *(Chairman)*
Mr. Tan Chaojun *(Vice Chairman and Chief Executive Officer)*
Mr. Chen Minghui

Non-Executive Director

Mr. Lin Xiao

Independent Non-Executive Directors

Mr. Kam Robert
Ms. Ho Man Kay
Mr. Ma Xiaoqiang

The biographical information of the Directors is set out on pages 27 to 28 of this annual report.

The composition of the Board is well balanced with different skills set and diversity of knowledge. Each member of the Board must be able to demonstrate the skills, experience and knowledge required to contribute to the effectiveness of the Board.

The Role and Function of the Board

The Board is responsible for setting the Group's strategy and ensuring the necessary resources and capabilities are in place to deliver the strategic aims and objectives. It determines the Group's key policies and reviews management and financial performance. The Group's governance framework is designed to facilitate a combination of effective, entrepreneurial and prudent management, both to safeguard Shareholders' interests and to sustain the success of Jiashili over the longer term. This is achieved through a control framework which enables risk to be assessed and managed effectively. The Board sets the Group's core values and standards and ensures that these, together with the Group's obligations to its stakeholders, are understood throughout the Group.

Board Meetings and General Meeting

During the year ended December 31, 2018, six meetings were held by the Board and the Directors did not authorise any alternate Director to attend Board Meeting. One general meeting was held, which is the annual general meeting held on June 15, 2018 to, among other things, receive and consider the audited financial statements and reports of the Directors and auditors of the Company for the year ended December 31, 2017. The attendance record of each Director at the Board meetings and the general meeting is set out below:

	General Meeting		Board Meeting	
Name of Board Members	**Number of attendance**	**Number of meetings**	**Number of attendance**	**Number of meetings**
Executive Directors				
Mr. Huang Xianming	1	1	5	5
Mr. Tan Chaojun	1	1	5	5
Mr. Chen Minghui	0	1	4	5
Non-Executive Director				
Mr. Lin Xiao	0	1	4	5
Independent Non-Executive Directors				
Mr. Kam Robert	1	1	5	5
Ms. Ho Man Kay	1	1	5	5
Mr. Ma Xiaoqiang	0	1	3	5

Notice of regular Board meetings is served to all Directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings.

Directors would receive relevant documents from the company secretary (the "Company Secretary") in a timely manner to enable the Directors to be informed decisions on matters discussed in the Board meetings. The Company Secretary would ensure the procedures of the Board meetings are observed and provide to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings. Board minutes prepared and kept by the Company Secretary are sent to the Directors for records and are open for inspection at any reasonable time on reasonable notice by any Director.

Independent Non-executive Directors

In compliance with Rules 3.10(1) and 3.10(A) of the Listing Rules, there are three Independent Non-executive Directors, representing at least one-third of the Board. Among the three Independent Non-executive Directors, one of them have appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Independent Non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the Independent Non-executive Directors annual written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers, all Independent Non-executive Directors, to be independent.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Huang Xianming is the Chairman of the Company. He is responsible for leadership of the Board, agreeing Board agendas and ensuring its effectiveness by requiring the provision of timely, accurate and clear information on all aspects of the Group's business, to enable the Board to take sound decisions and promote the success of the business. Mr. Tan Chaojun, is the Vice Chairman and Chief Executive Officer of the Company responsible for developing the strategy for the business, in conjunction with the Board, ensuring it is implemented, and the operational management of the business.

Appointment and Re-election of Directors

A Director of the Company shall have a term of office of one to three years and shall be entitled to be re-appointed when the term of office expires provided that the term of office of independent non-executive Directors shall not exceed six years. The Company has entered into service agreements with each of the executive Director, non-executive Director and independent non-executive Director with a term of not more than three years. In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board on any changes required. Appointments are made on merit, based on objective criteria, including skills and experience and recognising the benefits of diversity on the Board. As part of the appointment process, prospective directors are required to confirm that they will be able to devote sufficient time to the Company to discharge their responsibilities effectively. Furthermore, all directors are required to inform the Company of changes in their commitments to ensure that they continue to be able to devote sufficient time to the Company.

Directors' Continuous Training and Development

Directors should keep abreast of the responsibilities as a Director of the Company and of the conduct, business activities and development of the Group. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Group continuously updates Directors with circulars and guidance notes on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. The Group also provides all members of the Board with monthly updates on the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

A summary of training received by the Directors for the year ended December 31, 2018 is as follows:

Name of Board Members	Training on Corporate governance, regulatory development and other relevant topics
Executive Directors	
Mr. Huang Xianming	✓
Mr. Tan Chaojun	✓
Mr. Chen Minghui	✓
Non-Executive Director	
Mr. Lin Xiao	✓
Independent Non-Executive Directors	
Mr. Kam Robert	✓
Ms. Ho Man Kay	✓
Mr. Ma Xiaoqiang	✓

Summary of the Board's Work During the Year

During the year, the Board considered all matters reserved to the Board for decision, focusing in particular on the following:

- review of operations and current trading;
- approval of the interim financial statements;
- approval of the annual report and accounts;
- approval of the AGM resolutions;
- dividend policy;

- investor relations;
- treasury policy;
- growth and acquisition strategy;
- various acquisitions;
- adoption of the 2018 budget;
- review of the works of the Group's Audit Committee, Remuneration Committee and Nomination Committee.

Board Evaluation

The performance of the chairman, chief executive, the Board and its committees is evaluated formally annually against, amongst other things, their respective role profiles and terms of reference. The executive Directors are evaluated additionally against the agreed budget for the generation of revenue, profit and value to shareholders.

COMMITTEES OF THE BOARD

Remuneration Committee

During the year ended December 31, 2018, the Remuneration Committee had four members comprising one executive Director and three Independent Non-executive Directors: Ms. Ho Man Kay, Mr. Kam Robert, Mr. Ma Xiaoqiang and Mr. Huang Xianming respectively. Ms. Ho Man Kay is the Chairman of the Remuneration Committee.

Remuneration Committee is responsible for making recommendations to the Board on the remuneration of the Directors and senior management and specific remuneration packages and conditions of employment for the Directors and senior management and evaluating and making recommendations on employee benefit arrangements.

The remuneration of Directors is determined by the Board, upon recommendation of the Remuneration Committee with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

The terms of reference of the Remuneration Committee are posted on the websites of the Company and Hong Kong Stock Exchange.

During the year ended December 31, 2018, two meetings were held by the Committee to review and make recommendation of the remuneration of senior management and the attendance record of the Remuneration Committee members is set out in the table below:

Name of Director	Number of attendance	Number of meetings
Ms. Ho Man Kay	2	2
Mr. Huang Xianming	2	2
Mr. Kam Robert	2	2
Mr. Ma Xiaoqiang	1	2

Pursuant to the code B.1.5 of the Code, the following table sets forth the remuneration of the Directors and members of senior management categorised by remuneration group for the year ended December 31, 2018:

Group (Note)	Remuneration (RMB)	Numbers of Individuals
1	0–859,000	6
2	859,000–1,288,000	1

Note:

Group 1 includes 4 Directors and 2 members of senior management.

Group 2 includes 1 Director and nil members of senior management.

Further details of the Directors' emoluments and the top five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in note 13 to the consolidated financial statements contained in this annual report.

Audit Committee

During the year ended December 31, 2018, the Audit Committee had three members comprising three Independent Non-executive Directors: Mr. Kam Robert, Ms. Ho Man Kay and Mr. Ma Xiaoqiang respectively. Mr. Kam Robert is the Chairman of the Audit Committee.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, to review the Company's annual report and interim reports to provide advice and comments thereon to the Board, and to make recommendations to the Board on the appointment, re-appointment and removal of external auditors and assessing their independence and performance.

The terms of reference of the Audit Committee are posted on the websites of the Company and Hong Kong Stock Exchange.

During the year ended December 31, 2018, the Audit Committee had three meetings and the attendance record of the Audit Committee members is set out in the table below:

Name of Director	Number of attendance	Number of meetings
Mr. Kam Robert	3	3
Ms. Ho Man Kay	3	3
Mr. Ma Xiaoqiang	2	3

During the meetings, the Audit Committee had approved the audit fee for the year ended December 31, 2018, considered internal control review findings, the annual report of the Group for the year ended December 31, 2017 and the interim report of the Group for the six months ended June 30, 2018, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Additional meeting may also be held by the Audit Committee from time to time to discuss special projects or other issues which it considers necessary. The external auditor of the Company may request a meeting of the Audit Committee to be convened if they consider that necessary.

Auditors' Remuneration

For the year ended December 31, 2018, the total fee paid/payable in respect of audit services to the external auditors of the Group was approximately RMB1,551,000, and approximately RMB525,000 was incurred by the Company for professional consultancy services.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, reappointment and removal of the external auditors, which is subject to the approval by the Board and at general meeting of the Company by the shareholders. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

Nomination Committee

During the year ended December 31, 2018, the Nomination Committee had four members comprising one executive Director and three Independent Non-executive Directors: Mr. Huang Xianming, Ms. Ho Man Kay, Mr. Kam Robert and Mr. Ma Xiaoqiang respectively. Mr. Huang Xianming is the Chairman of the Nomination Committee.

The Nomination Committee is responsible for making recommendations to the Board on the appointment of Directors. The Committee is also responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and assessing the independence of the Independent Non-executive Directors.

The terms of reference of the Nomination Committee are posted on the websites of the Company and Hong Kong Stock Exchange.

During the year ended December 31, 2018, the Nomination Committee held two meetings and the attendance record of the Nomination Committee members is set out in the table below:

Name of Director	Number of attendance	Number of meetings
Mr. Huang Xianming	2	2
Ms. Ho Man Kay	2	2
Mr. Kam Robert	2	2
Mr. Ma Xiaoqiang	1	2

In the meeting, the Nomination Committee had assessed the independence of Independent Non-executive Directors, considered and recommended to the Board on the retirement by rotation and re-election of Directors at the 2017 annual general meeting. The Committee considered the size and composition of the Board to be sufficient to meet the Company's business needs.

COMPANY SECRETARY

The Company Secretary, Mr. Shoom Chin Wan, plays an important role in supporting the Board by ensuring good information flow within the Board and that board policy and procedures are followed.

All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters and should also facilitate induction and professional development of Directors. He confirmed that he had complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training during the year ended December 31, 2018.

INTERNAL CONTROLS

For the year ended December 31, 2018, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control and risk management system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board is responsible for maintaining an adequate internal control and risk management system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such system on an annual basis through the Audit Committee. During the year, the Board has conducted a review of the effectiveness of the Company's internal control and risk management systems and considered the systems are effective and adequate in all material aspects in both design and operations.

Key Elements of Internal Control System

The Group's internal control key processes include the following:

- An organisation structure which formally defines lines of responsibility and delegation of authority.
- Policies and procedures of all operating units within the Group are documented in the Standard Practice Instructions.
- Key functions such as corporate affairs, finance, tax, treasury and human resources are controlled centrally.
- Roles and responsibilities are properly segregated.
- Annual budgeting and target setting process which includes forecasts for each operating unit with detailed reviews at all levels of operations.
- Monetary limits are set up at different levels of authorised positions so that unauthorised transactions can be minimised.
- Effective reporting system in place to ensure timely generation of financial information for management review.
- Operating units meetings are conducted regularly to review financial performance, business development and deliberate on management issues.
- Executive Directors meet with senior management/all operating units to discuss and resolve key operational, financial and other key management issues. Significant issues are highlighted and discussed at Board meetings.
- The Audit Committee has access to external auditors and their reports and meets with them to discuss on their findings and reports.
- The Group has a policy on financial limits and approving authority for its operating and capital expenditure.

ACCOUNTABILITY AND AUDIT

Directors' Responsibility

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirement of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board will continue to prepare the consolidated financial statements on a going concern basis.

Internal Audit

Internal audit function was conducted with an objective that independent feedback and reviews will be provided to the Audit Committee and subsequently the Board of Directors. The Audit Committee reviewed through the findings of the internal auditors to ensure that any major weaknesses are recognised and rectified on a timely basis and an effective and efficient risk management and internal control systems are maintained.

The internal auditors reported on their findings, recommended corrective measures to be taken by the management and the management responses thereto. During the financial year, there was no material internal control weakness that would have resulted in any significant loss to the Group.

Further review on internal control system was also done by the Audit Committee through discussion with relevant management during the Board meeting whereby other concerns were addressed.

SHAREHOLDERS' RIGHTS

To safeguard shareholder's interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

1. Convening a General Meeting

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 58 of the Articles of Association by sending a written requisition to the Board or the company secretary. The objects of the meeting must be stated in the written requisition.

2. Putting Forward Proposals at General Meeting

If a shareholder wishes to propose a person other than a retiring Director for election as a Director of the Company at a general meeting, pursuant to Article 85 of the Articles of Association, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the despatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

3. Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

4. Contact Details

The contact details of the Company are set out in the Company's website (www.gdjsl.com) in order to enable the shareholders to make any query that they may have with respect to the Company.

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong branch share registrar. Their details are as follows:

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

5. Articles of Association of the Company

The Articles of Association was adopted pursuant to a special resolutions of the Company passed on August 21, 2014 and took effect from the Listing Date. Since then, there have been no changes to the Articles of Association and an up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

INVESTOR RELATIONS

The Company believes that effective communication with its shareholders and the investment community in a fair and timely basis is essential. Continuous dialogue is held with research analysts and institutional investors by means of roadshows, one on one meetings, conference calls and investors conferences to keep them abreast of the Group's business and development.

NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Huang Xianming, Ms. Huang Cuihong, Ms. Huang Rujiao, Ms. Huang Rujun, Ms. Huang Xianxian, Kaiyuan Investments Limited ("Kaiyuan"), Great Logistics Global Limited ("Great Logistics"), Jade Isle Global Limited ("Jade Isle"), Grand Wing Investments Limited ("Grand Wing"), Intelligent Pro Investments Limited ("Intelligent Pro") and Prestige Choice (Overseas) Investments Limited ("Prestige Choice Overseas") are the controlling shareholders (within the meaning of the Listing Rules) of the Company (the "Controlling Shareholders"). Each of the Controlling Shareholders has confirmed to the Company that none of them is engaged in, or interested in any business (other than the Group) to compete directly or indirectly with the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in the Group's favour on August 21, 2014.

In order to properly manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking, the Company has adopted the following corporate governance measures:

i. the Independent Non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;

ii. the Company will disclose any decisions on matters reviewed by the Independent Non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through the annual report or by way of announcement;

iii. the Company will disclose in the corporate governance report on how the terms of the non-compete undertaking have been complied with and enforced; and

iv. in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Company's articles of association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders, in particular, the minority shareholders.

Each of the Controlling Shareholders has confirmed to the Company that he/she/it has complied with the non-compete undertaking. The Independent Non-Executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Huang Xianming (黃銑銘), aged 47, is the chairman of the Board of our Company and was appointed as an executive Director of our Company on December 19, 2013. Mr. Huang became Controlling Shareholder and was appointed as chairman and chief executive officer of our Group in May 2007 and has been primarily responsible for overall operation and management, strategic planning and business development. Mr. Huang serves as the chairman of the board and a director of each of our subsidiaries. Since his acquisition of controlling stake in Guangdong Jiashili in May 2007, he has been focusing on the management and business development of our Group and had directed our business expansion from Guangdong province to other parts of China. Mr. Huang obtained a diploma of EMBA programme from Hong Kong International Business College (香港國際商學院) in January 2004. Mr. Huang is a vice chairman of the 4th Session of China Association of Bakery and Confectionary Industry (中國焙烤食品糖製品工業協會第四屆理事會副理事長) and a vice chairman of the Federation of Industry and Commerce of Jiangmen (江門市工商業聯合會副主席). Mr. Huang was also elected the chairman of Kaiping Association of Food Industry (開平市食品行業協會) in May 2013.

Mr. Tan Chaojun (譚朝均), aged 52, is the vice chairman and Chief Executive Officer of our Company and was appointed as an executive Director on April 16, 2014. Mr. Tan joined the management of our Group in August 2008 and has been primarily responsible for overall management, strategic planning and business development. Since joining our Group, Mr. Tan has been overseeing the overall operation of our operative subsidiaries and held various management positions such as chief financial officer, executive director and legal representative. Prior to joining our Group, Mr. Tan worked at Bank of China from August 1988 to July 2008, holding positions of officer and business manager of Kaiping sub-branch and seconded to Kaiping Tanjiang Bandao Hotel (開平潭江半島酒店), acting as the executive director and general manager. When working for Bank of China, Mr. Tan was recognised as economist and assistant accountant. Mr. Tan graduated from Electronic Engineering Department of Wuyi University (五邑大學) located in Guangdong, the PRC, majoring in computer application and obtained a diploma in July 1988 and completed a course in business administration at Sun Yat-sen University (中山大學) located in Guangzhou, the PRC in November 2003. Mr. Tan obtained the National Qualification of Senior Baking Worker (高級烘焙烘烤工國家職業資格) in July 2011. Mr. Tan was awarded as 2013 Guangdong Top Ten Professional Manager by the Professional Managers Association of Guangdong.

Mr. Chen Minghui (陳明輝), aged 50, joined our Group in May 2008 and was appointed as an executive Director on April 16, 2014. He also served as the deputy general manager of Guangdong Jiashili. Prior to joining our Group, Mr. Chen worked at Jiangmen Xinhui Pharmaceutical Co. Ltd (江門市新會醫藥有限公司) from March 1992 to April 2008, in various positions, such as sales representative, sales manager and sales director. Mr. Chen joined the army after graduation from high school in 1987 and retired from the army in March 1991.

NON-EXECUTIVE DIRECTOR

Mr. Lin Xiao (林曉), age 50, joined our Group and was appointed as a non-executive Director on April 16,2014. He joined Actis (Beijing) Investment Consulting Centre (L.P.) in September 2012, where he focused on private equity investments. Mr. Lin graduated from University of Canberra located in Australia, majoring in commerce in accounting and was granted a bachelor degree in April 1995. Mr. Lin is a member of the Institute of Chartered Accountants in Australia.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kam Robert (甘廷仲) (alias 甘定滔), age 61, was appointed as an independent non-executive Director on August 21, 2014. Mr. Kam started his career with one of the international accounting firms and is currently a partner of a chartered accountancy firm, Kam & Beadman, based in Sydney, Australia. He has many years of experience in providing audit services. Mr. Kam graduated with a bachelor of commerce degree from the University of Western Australia. Mr. Kam is a chartered accountant and a member of the Institute of Chartered Accountants in Australia and a Registered Auditor of the Australian Securities and Investments Commission. Mr. Kam is also a Justice of the Peace in the State of New South Wales in Australia. Mr. Kam has been an independent non-executive director of Vinda International Holdings Limited (stock code:3331), the shares of which are listed on the Main Board of the Stock Exchange, since June 2007 and he was resigned on March 31, 2018.

Ms. Ho Man Kay (何文琪), age 57, was appointed as an independent non-executive Director on August 21, 2014. Ms. Ho is a founding partner of Angela Ho & Associates. Prior to founding Angela Ho & Associates, she was a partner of the Messrs. P. C. Woo & Co. Solicitors & Notaries. She has been a practicing lawyer in Hong Kong since 1989, specialising in corporate commercial law and is also admitted as a solicitor in England, the Australian Capital Territory, Queensland, New South Wales, Victoria of Australia and Singapore. Ms. Ho has been an independent non-executive director of China Shanshui Cement Group Limited (stock code:0691), the shares of which are listed on the Main Board of the Stock Exchange, since December 2015 and she was resigned on May 2018. Ms. Ho was the president of the Hong Kong Federation of Women Lawyers from 2002 to 2005.

Mr. Ma Xiaoqiang (馬曉強), aged 36, graduated from Takada Junior College of Japan in 2004 majoring in information engineering. He was awarded a bachelor degree of operation science from Yokkaichi University of Japan in 2006 and a master degree of marketing from Mie University of Japan in 2008. Mr. Ma has over 9 years of work experience in international trading. Mr. Ma has been the chairman of Changjiang Trading Company Ltd. of Japan since 2008.

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, comprises the following:

Name	Age	Date of joining our Group	Date of appointment	Position/Title
Mr. Xu Huayu (許華裕)	44	June 2005	May 2014	Director of sales
Mr. Chen Songhuan (陳松浣)	51	June 2005	May 2014	Director of Supply Chain
Mr. Yang Zhiyong (楊志勇)	46	June 2012	May 2014	Vice president

Mr. Xu Huayu (許華裕), age 44, joined our Group in June 2005 and was appointed as director of sales of our Group responsible for sales management. Mr. Xu worked as a business officer at Jiashili Pastries during July 1995 to August 2004. Mr. Xu has been working in Jiashili Pastries and Guangdong Jiashili for more than 19 years. Mr. Xu graduated from South China Agricultural University (華南農業大學) located in Guangzhou, the PRC, majoring in trading economy, in June 1995 and completed the study of EMBA courses and obtained the certificate from Peking University on May 26, 2013.

Mr. Chen Songhuan (陳松浣), age 51, joined our Group when Guangdong Jiashili was established in June 2005 and was appointed as director of production of our Group responsible for overall management of production facilities and production planning and control. Prior to joining our Group, Mr. Chen worked at Jiashili Pastries and Guangdong Jiashili for 25 years, starting as a quality controller, and was promoted to senior management positions such as workshop manager, research and development officer and deputy general manager. Mr. Chen graduated from high school in 1986.

Mr. Yang Zhiyong (楊志勇), age 46, joined our Group in June 2012 and was appointed as vice president of our Group responsible for management of production system and material sourcing and supply. Prior to joining our Group, Mr. Yang worked as accounting supervisor at Zheng Da Kang Di (Panyu) Ltd. (正大康地(番禺)有限公司) from June 1996 to August 2001 and as senior manager of Fuda (China) Investment Co., Ltd. (福達(中國)投資有限公司) from August 2001 to March 2009. During March 2009 to March 2012, Mr. Yang served as general manager at Zhong Yi Heng (Dalian) Agricultural Products Co., Ltd. (中益恒(大連)農產品有限公司). Mr. Yang graduated from Guangdong Jiaying College of Education (廣東嘉應教育學院), majoring in accounting, in July 1996.

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended December 31, 2018.

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on December 19, 2013 as an exempted company with limited liability. The Company's shares were listed on the Main Board of the Stock Exchange on September 25, 2014.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activities of the Group are manufacturing and sales of biscuits in the PRC and overseas.

Segment analysis of the Group (categorised by major products) for the year ended December 31, 2018 is set out in note 6 to the consolidated financial statements of the Group contained in this annual report. A review of the business of the Group during the year and its future development and an analysis of the Group's performance during the year using financial key performance indicators as required under Schedule 5 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong), as well as particulars of important events affecting the Company that have occurred since the end of the year ended December 31, 2018, are set out in the "Chairman's Statement" on pages 6 to 8 and the "Management Discussion and Analysis" on pages 9 to 14 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The sales of the Group's products are subject to changes in consumer tastes, preferences and perceptions. The Group's continual success will depend in part on its ability to anticipate or adopt to changes in consumer tastes, preferences, perceptions and spending habits at any time and to offer, on a timely basis, new products that meet such new tastes, preferences and perceptions. With this in mind, the Group has been making efforts in research and development to proactively offer more flavors options to its existing product series and improving their tastes, such as the cheese series, xylitol series, milk series and cake series. The Group has also planned to enter into other sectors in the food and snack industry, as well as continued to launch products which are more nutritional and healthier, in order to accommodate the increasing demand from consumers for more healthy products.

On the other hand, the Group has been relying substantially on third-party distributors to sell its products. Any reduction in the number of the distributors or their orders may cause an adverse effect on the Group's results of operations. The Group has, therefore, been continually broadening and deepening its distribution and sales network and increasing the number of distributors (1,452 distributors as at December 31, 2018, compared to 1,106 distributors as at December 31, 2017). The Group has also been taking proactive approaches in monitoring the performance of the distributors and supporting them with sales and marketing efforts, so as to maintain good relationships with them and uphold the sales contribution of the distributors to the Group. Details of the Group's measures in maintaining the relationships with the distributors are set out in the paragraph headed "Relationships with Key Stakeholders" below in this report.

RESULTS AND DIVIDEND

The results of the Group are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 of this annual report. The Board has proposed a final dividend of HK5.00 cents per share for the year ended December 31, 2018 (2017: HK15.00 cents), to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at June 19, 2019. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company (the "2018 AGM"), the final dividend will be paid on or about July 10, 2019.

CLOSURE OF REGISTER OF MEMBERS

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

USE OF PROCEEDS FROM THE LISTING

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

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

1. Dialogue with shareholders

We engage actively with analysts and investors and are open and transparent in our communications. Thus enables us to understand what analysts and investors think about our strategy and performance as we drive the business forward. Regular dialogue is maintained with analysts and investors through meetings, presentations, conferences and ad hoc events.

2. Relationship with distributors

Consistent with market practice, the Group sells its products primarily through distributors in the PRC. As at December 31, 2018, the Group had 1,452 distributors and more than 200,000 points of sales in total, through which the Group has managed to establish an extensive nationwide distribution and sales network in the PRC. The Group believes that this extensive distribution network allows the Group to benefit from its distributors' established distribution channels and resources, save costs that would otherwise be required to build up an extensive logistics network across the PRC, increase the effectiveness of the penetration of the Group's products and launch of the Group's new products to the market within a short period of time.

The Group has selected its distributors on the basis of a number of factors, including their coverage of distribution channels, recent sales performance of other products, warehousing facilities, delivery capabilities, operating and business management capabilities, creditworthiness and compatibility with the Group's business strategies. The Group has entered into distribution agreements with the distributors in which the Group has set monthly or annual sales targets which are negotiated and determined with reference to various criteria, including the past performance of the distributor, the market conditions, the Group's plan in launching new products and the Group's own annual sales target. The Group provides incentives to its distributors in the form of rebates or reimbursement of the distributors' marketing expenses if they achieve certain sales targets.

Moreover, the Group closely monitors the performance of the distributors by requesting them to provide the Group with their inventory levels of the Group's products every month and checking their inventory records during on-site visits by the Group's sales representatives. If it is noted that the distributors have excessive inventories or if their sales volumes drop significantly, the Group will inquire into the situation and may initiate marketing and promotional events when necessary and reimburse the distributors their marketing expenses incurred in carrying out such activities. The Group also arranges its sales representatives to assist the distributors with their sales and marketing efforts.

The Group believes that all these have helped nurture mutually beneficial and long-term relationships between the distributors and the Group. These procedures, combined with the Group's general requirement for payment of purchase prices from the distributors before delivery of the Group's products to them and the Group's policy of no return or exchange of products other than defective or damaged products, have also been implemented to ensure that the Group's sales to the distributors reflect genuine market demand rather than accumulation of inventory at distribution level.

For the year ended December 31, 2018, there were more than 700 distributors which have managed to contribute sales of over RMB400,000 each to the Group. Moreover, 33 cities within the Group's distribution network have recorded revenue of over RMB10 million each.

3. **Relationship with suppliers**

The Group has chosen its suppliers on the basis of the quality and price of the raw materials supplied. Each of the Group's suppliers is subject to its annual evaluation of quality and prices of the raw materials supplied and they are also required to submit to the Group at least once a year reports issued by the provincial food quality supervision and inspection centres of the PRC in respect of the quality of their raw materials supplied. In order to reduce dependence on any single supplier, the Group has at least two suppliers for each type of its primary raw materials. During the year ended December 31, 2018, the Group did not experience any significant problems with the quality of the raw materials provided by its suppliers, nor did the Group have any material disputes with the suppliers. The Group also did not encounter any shortage of supply of raw materials. The total purchases of raw materials and packaging materials for the year 2018 was approximately RMB763 million.

4. **Relationship with employees**

As at December 31, 2018, the Group had a total of 3,427 full-time staff based in Hong Kong and the PRC. The Group has hired its employees based a number of factors, such as their work experience, educational background and vacancy needs. All of the Group's employees are paid a fixed salary and may be granted other allowances and commissions based on their position and performance. The Group has utilised a period employee evaluation programme whereby the employees receive feedback on their performance. The Group also has an incentive scheme for all of its employees. For the year ended December 31, 2018, the total staff costs, including Directors' and chief executive's remuneration, salaries and allowances for other employees, and contributions to retirement benefits scheme, amounted to approximately RMB209.6 million (2017: RMB166.5 million). The Group also provides continuing education and training programmes to its employees on a regular basis to enhance their skills and knowledge in various areas, including sales and marketing, product knowledge, sanitary requirements, production safety and quality management. Induction programmes and team-building trainings are also provided either internally or by external trainers.

The Directors believe that the Group's working environment and the support and benefits provided to the employees have contributed to maintaining good relationships with the employees. During the year ended December 31, 2018 and up to the date of this report, the Group did not experience any strikes or labour disputes with its employees which have had material effect on the Group's business.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales to the Group's five largest customers accounted for approximately 5.8% of the Group's turnover and sales to the Group's largest customer was approximately 1.5% of the Group's total revenue.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 29.4% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 8.8% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had interests in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 38 to the consolidated financial statements.

RESERVES

At December 31, 2018, the Company's reserves available for distribution amounted to approximately RMB324 million. Under the Companies Law of the Cayman Islands, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be distributed, the Company shall be able to pay its debts as they fall due in the ordinary course of business. Details of the movements in reserves of the Group and the Company are set out in the consolidated statement of changes in equity.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, all Directors shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses losses or liabilities which any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices. This permitted indemnity provision is currently in force and was in force throughout the year ended December 31, 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

DONATION

The Group made a charitable donation of approximately RMB0.2 million (2017: RMB2.6 million) during the year ended December 31, 2018.

FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on page 159 of this annual report.

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

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

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as set out below, the Company has not entered into any equity-linked agreement during the year of 2018.

PRE-IPO SHARE OPTION SCHEME

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme conditionally approved by our Shareholders on August 21, 2014:

1. Summary of terms

The purpose of the Pre-IPO Share Option Scheme is a share incentive scheme and is established to provide incentives and rewards to the employees and consultants of our Group for their future contribution and to retain key and senior employees of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by the written resolutions of our Shareholders passed on August 21, 2014, are substantially the same as the terms of the Share Option Scheme except for the following:

a) the exercise period shall commence on the first anniversary of the Listing Date and end on the day falling on the fifth anniversary of the Listing Date;

b) the total number of shares subject to the Pre-IPO Share Option Scheme is 14,900,000, representing approximately 3.59% of the total issued share capital of the Company immediately upon completion of the Global Offering and the exercise of the Over-allotment Option, and assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time (without taking into account any shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme);

c) the subscription price (the "Subscription Price") for the shares under the Pre-IPO Share Option Scheme will be fixed at HK$3.45, determined with reference to the costs per Share acquired by the Pre-IPO Investors, subject to any adjustment made in the manner as contemplated under the Pre-IPO Share Option Scheme;

d) the maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme will not exceed 40,000,000 shares, representing 10% of the issued share capital upon completion of the Global Offering and (taking no account of any shares which may be issued upon exercise of any share option which may be granted under the Share Option Scheme);

e) subject to the following vesting periods, any option granted under the Pre-IPO Share Option Scheme may be exercisable at anytime during the period commencing on the day falling on the first anniversary of the Listing Date and ending on the day failing on the fifth anniversary of the Listing Date (the "Option Period"):

Vesting date of the options	Percentage of the options vested
After the first anniversary of the Listing Date	25% of the total number of options granted
After the second anniversary of the Listing Date	25% of the total number of options granted
After the third anniversary of the Listing Date	25% of the total number of options granted
After the fourth anniversary of the Listing Date	25% of the total number of options granted

Outstanding and unexercised options at the end of each vesting period may be rolled over to the next vesting period and exercisable during the Option Period;

f) the Pre-IPO Share Option Scheme was valid and effective for a period which commenced on August 21, 2014, being the date on which the Pre-IPO Share Option Scheme was conditionally adopted by all the Shareholders and ending September 24, 2014, after which period no further options will be granted thereunder but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the exercise of any options granted.

2. Outstanding options granted under the Pre-IPO Share Option Scheme

Up to the date of this report, options to subscribe for an aggregate of 14,900,000 shares (representing approximately 3.59% of the total issued share capital of the Company) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme for a consideration HK$1.00 per grantee. Particulars of the options granted under the Pre-IPO Share Option Scheme to the employees (including Directors and senior management) of the Group are set out in the prospectus of the Company dated September 15, 2014. As at the date of this report, the Company has 415,000,000 shares in issue. No options granted under the Pre-IPO Share Option Scheme have been cancelled, lapsed or exercised as at the date of this report. The computation of diluted earnings per share does not assume the conversion of the Company's outstanding options since their exercise would result in an increase in earnings per share from continuing operations.

SHARE OPTION SCHEME

Pursuant to a resolution passed by all the shareholders on August 21, 2014, the Company has conditionally adopted the Share Option Scheme for the purpose of recognising and acknowledging the contributions the eligible participants had or may have made to the Group. The Board may, at their discretion, invite any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group and any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the Share Option Scheme. The Directors were authorised to grant options to subscribe for shares of the Company and to allot, issue and deal with the shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the Global Offering and the exercise of Over-Allotment Option, being 415,000,000 shares, excluding any shares that may be issued under the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company), unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

Unless otherwise approved by the shareholders of the Company in general meeting, the number of shares that may be granted to an eligible participant under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 1% of the shares in issue of the Company within any 12-month period. Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by Shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules, the number of shares that may be granted to a substantial shareholder or any independent non-executive Director or their respective associates under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 0.1% of the shares in issue, having an aggregate value in excess of HK$5 million, within any 12-month period.

Up to the date of this report, options to subscribe for an aggregate of 12,000,000 shares have been granted under the Share Option Scheme (representing approximately 2.89% of the total issued share capital of the Company as at the date of this report). As at the date of this report, options of 10,000,000 shares have been lapsed and no options granted under the Share Option Scheme have been exercised. Options to subscribe for an aggregate of 41,500,000 shares (representing approximately 10% of the total issued share capital of the Company as at the date of this report, without taking into account any shares which may be issued upon exercise of the options previously granted under the Pre-IPO Share Option Scheme or the Share Option Scheme are exercised) could be granted under the Share Option Scheme.

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the official closing price of the shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date (i.e. August 21, 2024). The amount payable on acceptance of an option is HK$1.00. Particulars of the movement of options in respect of the year ended December 31, 2018 was disclosed on note 39 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at the date of this report are set out in note 49 to the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Huang Xianming *(Chairman)*
Mr. Tan Chaojun *(Vice Chairman and Chief Executive Officer)*
Mr. Chen Minghui

Non-Executive Director

Mr. Lin Xiao

Independent Non-Executive Directors

Mr. Kam Robert
Ms. Ho Man Kay
Mr. Ma Xiaoqiang

According to article 84(1) of the Articles of Association of the Company, one-third of the Directors for the time being shall retire from office by rotation at the annual general meeting of the Company but shall then be eligible for re-election. Details of the Directors subject to rotation and re-election are contained in the circular despatched together with this annual report.

In compliance of Rule 3.10(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Board currently comprises three independent non-executive Directors, representing over one-third of the Board. Pursuant to paragraph 12B of Appendix 16 of the Listing Rules, each of the independent non-executive Directors has confirmed by annual confirmation that he/she has complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all three independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 27 to 29.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever is earlier). The Company has the right to give written notice to terminate the agreement.

Mr. Ma Xiaoqiang has signed a letter of appointment with the Company for an initial term of one year commencing from January 16, 2017, and will continue thereafter until terminated by not less than three months' notice in writing served by either party. Apart from Mr. Ma, each of our non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company with a term of office of three years, with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever is earlier).

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Details of other related party transactions entered into during the year were disclosed in note 47 to the consolidated financial statements. These related party transactions either did not constitute connected transactions under the Listing Rules or were discontinued prior to the listing of the Company's shares on the Stock Exchange. Save as the transactions aforementioned, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director, an entity connected with a Director, or the Controlling Shareholders had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, and there were no contract of significance for the provision of services to the Group by the Controlling Shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN THE SHARES UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR THE ASSOCIATED CORPORATION

As at December 31, 2018, the interests and short positions of our Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), or required, pursuant to section 352 of the SFO, to be entered in the register referred to therein are as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number and class of securities	Approximate percentage of Issued share capital
Mr. Huang Xianming ("Mr. Huang")	The Company	Interests of controlled corporation[2]	252,572,000 (L)[1]	60.86%
Mr. Huang	Kaiyuan	Interests of controlled corporation[3]	100 (L)[1]	100%
Mr. Huang	Great Logistics	Beneficial owner	1 (L)[1]	100%

Notes:

(1) The Letter "L" denotes our Directors' long position in the shares or the relevant associated corporation.

(2) The relevant shares are held by Kaiyuan, which is in turn held as to 80% by Great Logistics, a company wholly-owned by Mr. Huang, and the remaining 20% of Kaiyuan are held by four entities wholly-owned by Mr. Huang's family comprising, Ms. Huang Cuihong, Ms. Huang Rujun, Ms. Huang Rujiao and Ms. Huang Xianxian.

(3) Kaiyuan is held as to 80% by Great Logistics and 20% by four entities, which are all wholly-owned by Mr. Huang's family comprising, Ms. Huang Cuihong, Ms. Huang Rujun, Ms. Huang Rujiao and Ms. Huang Xianxian.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2018, the following persons have an interest or a short position in the shares required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO:

Name of shareholders	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Mr. Huang	Interest in controlled corporation(1); interest in family member(2)	252,572,000	60.86%
Ms. Huang Cuihong	Interest in controlled corporation(1); interest in family member(2)	252,572,000	60.86%
Ms. Huang Xianxian	Interest in controlled corporation(1); interest in family member(2)	252,572,000	60.86%
Ms. Huang Rujiao	Interest in controlled corporation(1); interest in family member(2)	252,572,000	60.86%
Ms. Huang Rujun	Interest in controlled corporation(1); interest in family member(2)	252,572,000	60.86%
Great Logistics	Interest in controlled corporation(1); interest in family member(2)	251,472,000	60.60%
Grand Wing	Interest in controlled corporation(1); interest in family member(2)	216,168,000	52.09%
Intelligent Pro	Interest in controlled corporation(1); interest in family member(2)	216,168,000	52.09%
Jade Isle	Interest in controlled corporation(1); interest in family member(2)	216,168,000	52.09%
Kaiyuan	Beneficial interest	216,168,000	52.09%
Prestige Choice Overseas	Interest in controlled corporation(1); interest in family member(2)	216,168,000	52.09%

Name of shareholders	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Actis 4 PCC	Interest in controlled corporation(3)	60,000,000	14.46%
Actis Global 4 LP	Interest in controlled corporation(3)	60,000,000	14.46%
Actis GP LLP	Interest in controlled corporation(3)	60,000,000	14.46%
Actis Investment Holdings Ship Limited ("Actis Ship")	Beneficial interest(3)	60,000,000	14.46%
Rich Tea Investment Limited ("Rich Tea")	Interest in controlled corporation(3)	60,000,000	14.46%

Notes:

(1) Kaiyuan was held as to 80% by Mr. Huang (through his investment holding company Great Logistics) and as to 5% by each of Ms. Huang Cuihong, Ms. Huang Xianxian, Ms. Huang Rujiao and Ms. Huang Rujun, through their investment holding companies, namely Jade Isle, Prestige Choice Overseas, Grand Wing and Intelligent Pro respectively;

(2) In addition to Mr. Huang, Huang's Family consist of Ms. Huang Cuihong, Ms. Huang Xianxian, Ms. Huang Rujiao and Ms. Huang Rujun. Ms. Huang Cuihong is the spouse of Mr. Huang, while Ms. Huang Xianxian, Ms. Huang Rujiao and Ms. Huang Rujun are the sisters of Mr. Huang, and therefore they are deemed to be parties acting in concert with Mr. Huang and are deemed to be interested in the shares in our Company in which Mr. Huang is interested, and Mr. Huang is deemed to be interested in the shares in which Huang's Family is interested, and vice versa.

(3) Actis Ship and Rich Tea are controlled by a group of limited partnerships and protected cell companies, and are parties acting in concert with each other. Therefore, Rich Tea and such group of limited partnerships and protected cell companies are deemed to be interested in the shares held by Actis Ship.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the "Corporate Governance Report" section set out on pages 15 to 29.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Stock Exchange. The Group's operations shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended December 31, 2018 and up to the date of this report, the Group has complied with all the relevant laws and regulations in the PRC and Hong Kong in all material respects.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge, as at the date of this report, there is sufficient public float of 25% of the Company's issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed together with the management and the external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2018.

AUDITOR

The consolidated financial statements for the year ended December 31, 2018 have been audited by Deloitte Touche Tohmatsu. A resolution for the reappointment of Deloitte Touche Tohmatsu as the Company's auditor is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board Jiashili Group Limited

Huang Xianming
Chairman
Hong Kong, March 28, 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF JIASHILI GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Jiashili Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 52 to 158, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Occurrence of revenue from sale of biscuit products to distributors and supermarkets	
We identified occurrence of revenue from sales of biscuit products to distributors and supermarkets as a key audit matter because revenue is one of the key significances of the consolidated financial statements and most of the revenue is generated from various distributors and supermarkets. The sales of biscuits are recognised as revenue when the control of the goods has been transferred to the distributors and supermarkets. The Group has recognised revenue from sales of biscuits of RMB1,449 million for the year ended December 31, 2018. The accounting policy of revenue and details of revenue are set out in notes 3 and 5, respectively, to the consolidated financial statements.	Our procedures in relation to occurrence of revenue from sales of biscuit products to distributors and supermarkets included: • Obtaining an understanding and testing of the key controls relating to the revenue recognition; • Understanding the revenue recognition policies of the Group and evaluating whether the identification of performance obligations, the allocation of the transaction price and the estimation of variable considerations in each distinct performance obligations are in accordance with the requirements of IFRS 15 *Revenue from Contracts with Customers*; • Performing tests of details by tracing to invoices and delivery notes to ensure the occurrence of transactions; • Verifying authenticity of value added tax invoices issued by the Group, on a sample basis; • Arranging sales confirmations to distributors and supermarkets, on a sample basis, for the occurrence of the transactions and performing background search on major distributors and supermarkets; • Performing tests on sales return record of distributors and supermarkets provided by the management, on a sample basis, if any, to ensure the revenue and sales return are properly recorded; and • Comparing monthly revenue analysis with historical financial information for any material fluctuations.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Acquisition of a business and impairment assessment of goodwill	
We identified the acquisition of a business and impairment assessment of goodwill arising from acquisition of a business in current year as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole, combined with the complexity and significant judgments made by the management in the assessment process. As disclosed in note 42 to the consolidated financial statements, the Group acquired 85% interests in Dongguan Kamtai Foods Company Limited ("Kamtai") and Silang Foods (Huaibei) Company Limited ("Silang") during the year ended December 31, 2018 at a consideration of RMB68,000,000. The Group has recognised an intangible asset of RMB50,558,000 and a goodwill of RMB27,449,000 from the acquisition of Kamtai and Silang. The Group has engaged an independent qualified professional valuer to perform the valuation and purchase price allocation. The key assumptions used in the valuation of intangible asset, representing trademark, on the acquisition date include the discount rate, revenue growth rate and estimated gross margin in the financial projection of Kamtai and Silang.	Our procedures in relation to the acquisition of a business and impairment assessment of goodwill included: • Understanding the nature of the intangible asset being identified from acquisition of a business and inquiring the Group's impairment assessment process of goodwill, including the impairment model and cash flow projections; • Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer and obtaining an understanding of their scope of work and terms of engagement; • Evaluating the reasonableness of the fair value assessment of identifiable net assets acquired and liabilities assumed by the Group in the acquisition. Involving our internal valuation expert to review the valuation performed by an independent qualified professional valuer in respect of the purchase price allocation and the key assumptions applied, including discount rate and impairment model, in the valuation at date of the acquisition;

KEY AUDIT MATTERS *(continued)*

Key audit matter

Acquisition of a business and impairment assessment of goodwill (continued)

For the purpose of assessing impairment of goodwill, the recoverable amount of Kamtai and Silang are determined from the value in use calculations which derived from discounted cash flow projection, with reference to financial budgets, past performance and management's expectations for the market development. The key assumptions for the value in use calculations included the discount rate, revenue growth rate and estimated gross margin. Details of impairment assessment of goodwill are set out in the note 20 to the consolidated financial statements.

Based on the management's assessment, no impairment loss in relation to goodwill arising on the acquisition has been recognised for the year ended December 31, 2018.

How our audit addressed the key audit matter

- Assessing the reasonableness of the key assumptions, including revenue growth rate and estimated gross margin, adopted in the financial projection of Kamtai and Silang for purchase price allocation and impairment assessment of goodwill;
- Performing the sensitivity analysis on the key inputs to evaluate the magnitude of their impacts on the results of impairment assessment of goodwill;
- Checking the arithmetical accuracy of the calculation underlying the purchase price allocation on the acquisition and impairment assessment of goodwill for Kamtai and Silang; and
- Evaluating the disclosures regarding the acquisition of Kamtai and Silang and impairment assessment of goodwill in notes 42 and 20 to the consolidated financial statements, respectively.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Chi Kin, Kinson.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 28, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	1,449,288	1,174,977
Cost of sales		(987,323)	(818,574)
Gross profit		461,965	356,403
Other income	7	30,447	21,078
Selling and distribution expenses		(207,939)	(154,798)
Administrative expenses		(85,261)	(60,281)
Other expenses	8	(45,018)	(41,525)
Impairment losses, net of reversal	9	(12,404)	(93)
Other gains and losses	10	(3,190)	14,506
Share of results of an associate		(162)	—
Share of results of a joint venture		(11,141)	(9)
Interests on bank borrowings		(16,619)	(7,680)
Profit before tax		110,678	127,601
Income tax expense	11	(24,502)	(21,035)
Profit and total comprehensive income for the year	12	86,176	106,566
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
Owners of the Company		86,479	106,566
Non-controlling interests		(303)	—
		86,176	106,566
Earnings per share	15		
— Basic and diluted (RMB cents)		20.84	25.68

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	458,167	364,980
Prepaid lease payments	17	73,228	37,824
Investment property	18	9,600	—
Intangible assets	19	46,717	—
Goodwill	20	27,449	—
Interests in associates	21	1,120	—
Interests in joint ventures	22	23,850	34,991
Other receivables and deposits	25	2,073	15,975
		642,204	453,770
CURRENT ASSETS			
Inventories	23	89,569	72,437
Prepaid lease payments	17	1,698	1,140
Loan receivables	24	141,282	35,000
Trade, bills and other receivables	25	123,344	90,581
Amount due from an associate	26	19,445	34,258
Amount due from a non-controlling shareholder of subsidiaries	27	1,133	—
Amount due from a joint venture	27	100	100
Loan to a related party	28	9,054	—
Income tax recoverable		—	99
Financial assets designated as at fair value through profit or loss	29	—	185
Pledged bank deposits	30	31,728	19,523
Bank balances and cash	30	379,257	419,133
		796,610	672,456
CURRENT LIABILITIES			
Trade, bills and other payables	31	220,249	179,541
Advances from customers	32	—	75,745
Contract liabilities	33	80,788	—
Income tax payables		11,183	8,107
Bank borrowings	34	263,751	190,762
Amount due to a non-controlling shareholder of subsidiaries	35	6,800	—
Deferred income	36	2,371	—
		585,142	454,155

Consolidated Statement of Financial Position

At December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
NET CURRENT ASSETS		211,468	218,301
TOTAL ASSETS LESS CURRENT LIABILITIES		853,672	672,071
NON-CURRENT LIABILITIES			
Deferred income	36	39,926	11,163
Deferred tax liabilities	37	14,445	2,143
Bank borrowings	34	96,720	—
		151,091	13,306
NET ASSETS		702,581	658,765
CAPITAL AND RESERVES			
Share capital	38	3,285	3,285
Reserves		687,599	655,480
Equity attributable to the owners of the Company		690,884	658,765
Non-controlling interests		11,697	—
TOTAL EQUITY		702,581	658,765

The consolidated financial statements on pages 52 to 158 were approved and authorised for issue by the board of directors on March 28, 2019 and are signed on its behalf by:

HUANG XIANMING
DIRECTOR

TAN CHAOJUN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000 (Note a)	Share options reserve RMB'000 (Note b)	Special reserve RMB'000 (Note c)	Contribution reserve RMB'000	Statutory reserve RMB'000 (Note d)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2017	3,285	411,181	16,589	(107,000)	18,333	87,264	175,051	604,703	–	604,703
Profit and total comprehensive income for the year	–	–	–	–	–	–	106,566	106,566	–	106,566
Appropriations	–	–	–	–	–	20,480	(20,480)	–	–	–
Dividends recognised as distribution (note 14)	–	(55,050)	–	–	–	–	–	(55,050)	–	(55,050)
Share-based compensations (note 39)	–	–	2,546	–	–	–	–	2,546	–	2,546
At December 31, 2017	3,285	356,131	19,135	(107,000)	18,333	107,744	261,137	658,765	–	658,765
Adjustment (note 2)	–	–	–	–	–	–	(3,311)	(3,311)	–	(3,311)
At January 1, 2018 (restated)	3,285	356,131	19,135	(107,000)	18,333	107,744	257,826	655,454	–	655,454
Profit (loss) and total comprehensive income (expense) for the year	–	–	–	–	–	–	86,479	86,479	(303)	86,176
Appropriations	–	–	–	–	–	20,037	(20,037)	–	–	–
Acquisition of subsidiaries (note 42)	–	–	–	–	–	–	–	–	12,000	12,000
Dividends recognised as distribution (note 14)	–	(52,035)	–	–	–	–	–	(52,035)	–	(52,035)
Share-based compensations (note 39)	–	–	986	–	–	–	–	986	–	986
At December 31, 2018	3,285	304,096	20,121	(107,000)	18,333	127,781	324,268	690,884	11,697	702,581

Notes:

a. The application of the share premium account is governed by the Company's articles of association and the Cayman Islands Companies Law, which provides that the share premium account may be applied in paying distributions or dividends to members, provided immediately following the date on which distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

b. Amounts represent equity reserve arising from share-based compensations under pre-IPO share option scheme and share option schemes of the Group provided to directors, employees and certain consultants in investor relation professional, details are set out in note 39.

c. Amount represents the paid-in capital of the subsidiaries acquired of RMB120 million less the payment of cash to the ultimate controlling shareholder of RMB227 million in May 2014 pursuant to a group reorganisation resulting in a reduction of net assets of the Group, which accounted for as a deemed distribution recognised in equity directly.

d. Statutory reserves comprise statutory surplus reserve and discretionary surplus reserve of the group subsidiaries established in the People's Republic of China (the "PRC"), which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the PRC and by the directors of the relevant subsidiaries in accordance with their Articles of Association. Statutory surplus reserve amounting to approximately RMB85,187,000 (2017: RMB71,829,000) as at December 31, 2018 can be used to make up for previous years' losses or convert into additional capital of the relevant group subsidiaries. Discretionary surplus reserve amounting to approximately RMB42,594,000 (2017: RMB35,915,000) as at December 31, 2018 can be used to expand the existing operations of the relevant subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit before tax		110,678	127,601
Adjustments for:			
Amortisation of intangible asset		3,841	500
Depreciation of property, plant and equipment		42,276	31,019
Fair value gain on structured deposits		—	(1,734)
Fair value loss on financial assets at fair value through profit or loss		75	—
Fair value loss on financial assets designated as at fair value through profit or loss		—	164
Interests on bank borrowings		16,619	7,680
Impairment losses on loan receivables, net of reversal		11,450	—
Impairment loss on loan to a related party		946	—
Impairment losses on trade receivables		8	93
Impairment loss recognised in respect of prepayment		—	2,740
Interest income		(15,131)	(7,591)
Loss on disposal of property, plant and equipment		98	439
Release of deferred income	36	(1,993)	(2,485)
Release of prepaid lease payments		1,698	1,140
Reversal of impairment loss on amount due from a former associate		—	(12,250)
Share of results of a joint venture		11,141	9
Share of results of an associate		162	—
Share-based compensations expenses	39	986	2,546
Operating cash flows before movements in working capital		182,854	149,871
Increase in inventories		(10,055)	(24,859)
Increase in trade, bills and other receivables		(22,041)	(43,222)
Decrease in other receivables and deposits		1,083	3,717
Decrease (increase) in amount due from an associate		14,813	(34,258)
Increase in amount due from a non-controlling shareholder of subsidiaries		(1,133)	—
Increase in trade, bills and other payables		34,494	422
Decrease in advances from customers		—	(36,895)
Increase in contract liabilities		5,043	—
Cash generated from operations		205,058	14,776
Income tax paid		(22,472)	(17,468)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		182,586	(2,692)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Loans advance paid		**(179,043)**	(62,000)
Purchase of property, plant and equipment		**(41,351)**	(69,754)
Net cash outflow on acquisition of subsidiaries	42	**(38,994)**	—
Placement of pledged bank deposits		**(31,728)**	(21,400)
Loans advance to a related party		**(10,000)**	—
Investment in an associate	21	**(1,282)**	—
Receipts of loans advance		**58,000**	30,000
Release of pledged bank deposits		**19,523**	5,500
Interest received		**15,131**	7,591
Receipts of asset-related government grants	36	**3,947**	1,940
Proceeds from disposal of property, plant and equipment		**170**	29
Proceeds from redemption of financial assets at fair value through profit or loss		**110**	—
Purchase of financial assets designated as at fair value through profit or loss		**—**	(110,000)
Investments in structured deposits		**—**	(105,000)
Investment in certificate of deposit		**—**	(105,000)
Investment in a joint venture	22	**—**	(35,000)
Payment for entrusted loan receivable		**—**	(15,000)
Deposit paid for acquisition of property, plant and equipment		**—**	(8,570)
Deposit paid for acquisition of an investment		**—**	(3,000)
Acquisition of land use rights		**—**	(1,675)
Deposit paid for acquisition of a land use right		**—**	(1,249)
Advance to a joint venture		**—**	(100)
Proceeds from redemption of financial assets designated as at fair value through profit or loss		**—**	109,651
Proceeds from structured deposits upon maturity		**—**	106,734
Proceeds from investment in certificate of deposit upon maturity		**—**	105,000
Receipts of entrusted loan receivable		**—**	15,000
Repayment from a former associate		**—**	12,250
NET CASH USED IN INVESTING ACTIVITIES		**(205,517)**	(144,053)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES			
New bank borrowings raised		539,397	304,628
Repayment of bank borrowings		(489,999)	(111,630)
Dividends paid	14	(52,035)	(55,050)
Interest paid		(16,619)	(7,680)
Loan advance received		—	9,819
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(19,256)	140,087
NET DECREASE IN CASH AND CASH EQUIVALENTS		(42,187)	(6,658)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		419,133	428,027
Effect of foreign exchange rate changes		2,311	(2,236)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR represented by bank balances and cash		379,257	419,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

1. GENERAL

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

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

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

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

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

The Group has applied the following new and amendments to IFRSs issued by International Accounting Standards Board ("IASB") for the first time in the current year:

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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

2.1 IFRS 15 *Revenue from Contracts with Customers*

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

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

The Group recognises revenue from sales of biscuits products.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of IFRS 15

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

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

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

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

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

2.1 IFRS 15 *Revenue from Contracts with Customers* *(continued)*

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

Impact on the consolidated statement of financial position

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

Impact on the consolidated statement of cash flows

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

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

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

2.2 IFRS 9 *Financial Instruments*

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

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

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

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of IFRS 9

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

	Notes	Carrying amounts previous recorded at December 31, 2017 under IAS 39	Reclassification under IFRS 9	Remeasurement of impairment under ECL model under IFRS 9	Carrying amounts at January 1, 2018 under IFRS 9
		RMB'000	RMB'000	RMB'000	RMB'000
Current Assets					
Financial assets designated as at fair value through profit or loss ("FVTPL")	(a)	185	(185)	–	–
Financial assets at FVTPL	(a)	–	185	–	185
Loan receivables	(b)	35,000	–	(3,311)	31,689
Accumulated profits	(b)	(261,137)	–	3,311	(257,826)

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

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

2.2 IFRS 9 *Financial Instruments* *(continued)*

Summary of effects arising from initial application of IFRS 9 (continued)

Notes:

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

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

(b) Impairment under ECL model

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

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

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

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

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

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

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

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had been restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

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

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

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

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after January 1, 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after January 1, 2021

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

5 Effective for annual periods beginning on or after January 1, 2020

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

New and amendments to IFRSs issued but not yet effective *(continued)*

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

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

New and amendments to IFRSs issued but not yet effective *(continued)*

IFRS 16 *Leases* *(continued)*

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB11,288,000 as disclosed in note 44. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB1,050,000 and refundable rental deposits received of RMB129,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

Amendments to IFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after January 1, 2020.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The 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 at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment property which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9/IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) *(continued)*

Consideration payable to a customer

Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer. Consideration payable to a customer also includes credit or other items (e.g. a coupon or voucher) that can be applied against amounts owed to the entity. An entity should account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue.

Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, it is recognised when (or as) the later of either of the following events occurs:

— the entity recognises revenue for the transfer of the related goods or services to the customer; and

— the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

Revenue from sales of biscuits products is recognised at a point in time when there is persuasive evidence that the control of the goods has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that affect customer acceptance products. Consideration payable to the customers includes fee for advertising services provided by customers for promotion of the Group's products is deducted from the revenue.

Revenue recognition (prior to January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land classified as finance leases held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging on operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire property, plant and equipment are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined retirement benefit plans and the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for a prospective basis.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Internally-generated intangible assets — research and development expenditure *(continued)*
An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The intangible assets of trademarks with finite useful lives are amortised on a straight-line basis over 10 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, bills and other receivables, loan receivables, amounts due from an associate, a non-controlling shareholder of subsidiaries and a joint venture, loan to a related party, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loan receivables and loan to a related party are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL *(continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is designated as at FVTPL.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018) (continued)

Financial assets at FVTPL *(continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 41(c).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivables, trade, bills and other receivables, amount due from an associate, amount due from a joint venture, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January, 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (before application of IFRS 9 on 1 January, 2018) (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification of debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade, bills and other payables, amount due to a non-controlling shareholder of subsidiaries and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair values less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash- generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying accounting policies *(continued)*

Control over Guangzhou Zhongzhi Lijia Partnership (Limited Partnership) (the "Zhongzhi Lijia")

On November 19, 2018, a subsidiary of the Group, Kaiping Lijia Industrial Investment Company Limited ("Kaiping Lijia") had entered into a subscription agreement (the "Subscription Agreement") with Zhuhai Zhongzhi Fund Management Limited ("Zhuhai Zhongzhi") pursuant to which the Group agreed to subscribe for 99% equity interest of Zhongzhi Lijia for RMB49.5 million. Kaiping Lijia has further injected 25.5 million into Zhongzhi Lijia, in total of RMB75 million, for investment purpose.

Pursuant to the Subscription Agreement, an investment manager of Zhuhai Zhongzhi, being a general partner, has rights to direct the investment decision of Zhuhai Zhongzhi while Kaiping Lijia, being a limited partner, has a right to appoint a committee member in the investment board. The investment board consists of 2 investment committee members, and the other committee member is nominated by Zhuhai Zhongzhi. All the investment decisions have to be approved by both of 2 investment committee members, and each of committee member is not able to make any investment decision at their own discretion without the other committee member's consent.

In making the judgments, the directors of the Company assessed whether or not the Group has achieved control over the Zhongzhi Lijia based on IFRS 10 *Consolidated Financial Statements* and considering the facts that i) the purpose of setting up Zhongzhi Lijia was initiated by the Group and solely for granting a loan to an independent third party (the "Borrower") and after the loan advanced to the Borrower, most of the investment capital in Zhongzhi Lijia has been used up and no further investment decisions could be made until the maturity of the loan; and ii) in accordance with the Subscription Agreement, the Group could receive the residual value from Zhongzhi Lijia after paying the administration fee, which is 2.5% fixed rate of investment balance of RMB75 million. After the assessment on all the facts in the Subscription Agreement, the directors of the Company concluded that Zhongzhi Lijia created significant exposure to variability of returns to the Group, and concluded that the Group has control over Zhongzhi Lijia under IFRS 10. Thus, the Group has to consolidate the assets and liabilities of Zhongzhi Lijia since Zhongzhi Lijia set up.

Significant influence over Hong Kong Ruishiyue (International) Food Co., Limited ("Hong Kong Ruishiyue")

Note 21 describes that Hong Kong Ruishiyue is an associate of the Group while the Group only owns 5% ownership interest in Hong Kong Ruishiyue. The Group has significant influence over Hong Kong Ruishiyue by virtue of the contractual right to appoint two out of the four directors to the board of directors of that company, and resolution in deciding the associate's financial and operating policy requires approval by simple majority of the board.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated allowance of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Regular operational procedures have been in place to monitor the allowance of inventories due to the significant balance involved and nature of the inventories are with relatively short useful life, such as flour, sugar and biscuit. The management identifies the aged, obsolete and damaged inventories based on expiry date and conditions of the finished goods and estimate the allowance with reference to the net realisable value. Although the Group carries out regular reviews on the net realisable value of inventories, the actual realisable value of inventories is not known until the sales is concluded.

As at December 31, 2018, the carrying amount of inventories of the Group was approximately RMB89,569,000 (2017: RMB72,437,000), of which RMB34,314,000 (2017: RMB26,902,000) were finished goods.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, the management assesses impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. The management will increase the depreciation charge where useful lives become shorter than expected, or will impair or write-off obsolete or non-strategic assets that have been abandoned.

At as December 31, 2018, the carrying amount of property, plant and equipment of the Group was approximately RMB458,167,000 (2017: RMB364,980,000). Details of the useful lives of the property, plant and equipment are disclosed in note 16.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Provision of ECL for allowance on trade, bills and other receivables, amounts due from an associate, a non-controlling shareholder of subsidiaries and a joint venture, loan to a related party, loan receivables, pledged bank deposits and bank balances

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivable are set out notes 41 and 25, respectively.

Estimated impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. As at December 31, 2018, the carrying amount of intangible assets is approximately RMB46,717,000 (December 31, 2017: Nil). No impairment loss has been recognised during the year ended December 31, 2018.

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to a cash generating unit (the "CGU"). The impairment assessment is based on the higher of fair value less costs of disposal and value in use of the CGU. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, an impairment loss may arise. In the opinion of the directors of the Company, no impairment of goodwill is required for the year ended December 31, 2018. As at December 31, 2018, the carrying amount of goodwill is approximately RMB27,449,000 (December 31, 2017: Nil).

5. REVENUE

A. For the year ended December 31, 2018

(i) Disaggregation of revenue from contracts with customers

An analysis of the Group's revenue from major products and revenue by geographical locations is set out in note 6 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.

Sales channels

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

(ii) Performance obligations for contracts with customers

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

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

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

5. REVENUE *(continued)*

A. For the year ended December 31, 2018 *(continued)*

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

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

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

B. For the year ended December 31, 2017

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

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

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

The accounting policies of the operating and reportable segment are the same as the Group's accounting policies described in note 3.

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

Other segment information

Amounts included in the measurement of segment results:

Year ended December 31, 2018

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

Year ended December 31, 2017

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

6. SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

Revenue from major products

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

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

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

6. SEGMENT INFORMATION *(continued)*

Geographical information

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

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

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

Information about major customers

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

7. OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Government grants (note 36)	**12,927**	11,629
Interest income on:		
— Bank deposits	**7,899**	2,542
— Loan receivables (note 24)	**7,232**	1,400
— Entrusted loan receivable	**—**	1,205
— Certificate of deposit	**—**	2,444
Sales of packaging materials	**1,093**	807
Rental income	**750**	739
Other non-operating income	**546**	312
	30,447	21,078

8. OTHER EXPENSES

	2018 RMB'000	2017 RMB'000
Research and development expenses	44,219	38,483
Donation expenses	564	2,575
Other non-operating expenses	235	467
	45,018	41,525

9. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses recognised, net of reversal		
— trade receivables	(8)	(93)
— loan receivables	(11,450)	—
— loan to a related party	(946)	—
	(12,404)	(93)

Details of impairment assessment for the year ended December 31, 2018 are set out in note 41(b).

10. OTHER GAINS AND LOSSES

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

11. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")		
— Current tax	23,886	18,908
— Overprovision in prior year	(382)	(16)
	23,504	18,892
Deferred tax (note 37):	998	2,143
	24,502	21,035

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

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

The Group's operating subsidiary, Guangdong Jiashili Food Group Company Limited ("Guangdong Jiashili"), was accredited as a "High and New Technology Enterprise" by the Science and Technology Bureau of Guangdong Province and relevant authorities in the PRC with effect from January 2015 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% EIT rate for three years from 2015 to 2017. 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 year ended December 31, 2018 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 Regulations of the EIT Law, the enterprise income tax rate of the PRC subsidiaries was 25% during the year.

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

11. INCOME TAX EXPENSE *(continued)*

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

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

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

	2018 **RMB'000**	2017 RMB'000
Profit before tax	**110,678**	127,601
Tax at PRC Tax rate of 25% (2017: 25%)	**27,670**	31,900
Tax effect on concessionary tax rate	**(10,154)**	(10,444)
Tax effect on concessionary policy on research and development expenses (Note)	**(8,004)**	(4,658)
Tax effect of income not taxable for tax purpose	**(77)**	(3,332)
Tax effect of expenses not deductible for tax purpose	**5,071**	4,445
Tax effect of tax losses not recognised	**1,866**	202
Tax effect on share of results of a joint venture	**2,785**	2
Tax effect on share of results of an associate	**40**	—
Effect of different tax rates of a subsidiary operating in Hong Kong	**(189)**	(133)
Tax effect of 5% withholding tax on undistributed profits of the PRC subsidiaries	**2,271**	2,143
Overprovision in prior year	**(382)**	(16)
Tax effect of deductible temporary difference not recognised	**3,605**	907
Others	**—**	19
Income tax expense recognised in profit or loss	**24,502**	21,035

Note: It represents additional 75% (2017: 50%) tax deduction in respect of qualifying research and development expenses incurred for the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

12. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging:		
Directors' and chief executive's remuneration (note 13)	3,388	3,569
Other staff costs:		
Salaries and allowances	177,332	145,264
Contributions to retirement benefits scheme	19,385	15,510
Redundancy costs	8,640	—
Share-based compensations	846	2,162
Total staff costs	209,591	166,505
Depreciation of property, plant and equipment	42,276	31,019
Amortisation of intangible assets (included in cost of sales)	3,841	500
Total depreciation and amortisation	46,117	31,519
Auditors' remuneration	1,551	1,593
Cost of inventories recognised as expenses with no impairment of inventories recognised	987,323	818,574
Impairment loss recognised in respect of prepayment	—	2,740
Legal and professional fees (included in administrative expenses)	11,648	6,176
Release of prepaid lease payments	1,698	1,140
Rental expense under operating lease in respect of land and buildings	4,543	4,125

13. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION

Directors' and chief executive's emoluments

Details of the emoluments paid to the directors and chief executive of the Company during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	2,928	2,960
Discretionary bonus	309	208
Contributions to retirement benefits scheme	11	17
Share-based compensations	140	384
	3,388	3,569

Year ended December 31, 2018

	Fee RMB'000	Salaries and allowances, and benefit in kind RMB'000	Performance related bonus RMB'000	Retirement benefits RMB'000	Share-based compensations RMB'000	Total RMB'000
Executive Directors (Note a)						
Mr. Huang Xianming 黃銑銘 *(Chairman)*	154	916	134	1	56	1,261
Mr. Tan Chaojun 譚朝均 *(Vice chairman and chief executive officer)*	154	668	103	5	43	973
Mr. Chen Minghui 陳明輝	154	420	72	5	41	692
Non-executive Director						
Mr. Lin Xiao 林曉	–	–	–	–	–	–
Independent Non-executive Director (Note b)						
Mr. Kam Robert 甘廷仲	154	–	–	–	–	154
Ms. Ho Man Kay 何文琪	154	–	–	–	–	154
Mr. Ma Xiao Qiang 馬曉強	154	–	–	–	–	154
	924	2,004	309	11	140	3,388

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13. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION *(continued)*

Directors' and chief executive's emoluments *(continued)*

Year ended December 31, 2017

	Fee RMB'000	Salaries and allowances, and benefit in kind RMB'000	Performance related bonus RMB'000	Retirement benefits RMB'000	Share-based compensations RMB'000	Total RMB'000
Executive Directors (Note a)						
Mr. Huang Xianming 黃銑銘						
(Chairman)	156	929	90	1	153	1,329
Mr. Tan Chaojun 譚朝均						
(Vice chairman and chief executive officer)	156	676	69	8	119	1,028
Mr. Chen Minghui 陳明輝	156	425	49	8	112	750
Mr. Lu Jianxiong 盧健雄						
(resigned on January 1, 2017)	–	–	–	–	–	–
Mr. Lee Ping Nam 李炳南						
(resigned on January 1, 2017)	–	–	–	–	–	–
Non-executive Director						
Mr. Lin Xiao 林曉	–	–	–	–	–	–
Independent Non-executive Director (Note b)						
Mr. Kam Robert 甘廷仲	156	–	–	–	–	156
Ms. Ho Man Kay 何文琪	156	–	–	–	–	156
Mr. Ma Xiao Qiang 馬曉強						
(appointed on January 16, 2017)	150	–	–	–	–	150
Mr. Cheung Yuen Tak 張元德						
(resigned on January 16, 2017)	–	–	–	–	–	–
	930	2,030	208	17	384	3,569

Notes:

(a) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

13. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION *(continued)*

Directors' and chief executive's emoluments *(continued)*

Mr. Huang Xianming is a director and also the chairman of the Company. The emoluments disclosed above are inclusive of services rendered by him as the chairman.

Performance related bonus for the year ended December 31, 2018 were determined by the management having regard to the performance of the directors of the Company and the Group's results from operation.

Mr. Huang Xianming has also been employed by Guangdong Zhongchen Industrial Group Company Limited (廣東中晨實業集團有限公司) ("Zhongchen"), a former immediate holding company of Guangdong Jiashili prior to the Group Reorganisation, which is currently owned by Mr. Huang Xianming, the ultimate controlling shareholder of the Company. The payment of his contributions to retirement benefits scheme was centralised and made by Zhongchen for the year in which the amount are considered to be insignificant.

For the year ended December 31, 2018, none of the directors of the Company has waived or agreed to waive any emoluments (2017: Nil).

Employees' remuneration

The five highest paid individuals included three (2017: three) directors for the year ended December 31, 2018. The emoluments of the remaining two (2017: two) individuals for the year ended December 31, 2018, are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and allowances	**1,174**	1,062
Contributions to retirement benefits scheme	**10**	22
Share-based compensations	**56**	182
	1,240	1,266

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13. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION *(continued)*

Employees' remuneration *(continued)*

The number of the five highest paid employees including directors of the Company whose emoluments were within the following bands is as follows:

	No. of individuals	
	2018	2017
Nil to HK$1,000,000 (equivalent to nil to RMB859,000)	**4**	3
HK$1,000,001 to HK$1,500,000 (equivalent to RMB859,000 to RMB1,288,000)	**1**	2

During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

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

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

15. EARNINGS PER SHARE

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

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

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

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

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For the year ended December 31, 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At January 1, 2017	133,566	31,036	162,788	22,671	7,069	53,508	410,638
Additions	12,823	–	30,626	8,460	304	17,932	70,145
Transfer	37,124	–	22,783	4,971	91	(64,969)	–
Disposals	–	–	(654)	(444)	(467)	–	(1,565)
At January 1, 2018	183,513	31,036	215,543	35,658	6,997	6,471	479,218
Additions	1,517	–	737	224	29	38,844	41,351
Acquired through acquisition of subsidiaries	77,089	–	15,254	546	1,491	–	94,380
Transfer	7,525	–	22,717	–	5,520	(35,762)	–
Disposals	–	–	(618)	(118)	(173)	–	(909)
At December 31, 2018	**269,644**	**31,036**	**253,633**	**36,310**	**13,864**	**9,553**	**614,040**
ACCUMULATED DEPRECIATION							
At January 1, 2017	19,933	–	48,229	10,807	5,347	–	84,316
Provided for the year	7,460	1,230	16,407	5,069	853	–	31,019
Eliminated on disposals	–	–	(286)	(367)	(444)	–	(1,097)
At January 1, 2018	27,393	1,230	64,350	15,509	5,756	–	114,238
Provided for the year	12,744	1,230	19,807	6,515	1,980	–	42,276
Eliminated on disposals	–	–	(386)	(90)	(165)	–	(641)
At December 31, 2018	**40,137**	**2,460**	**83,771**	**21,934**	**7,571**	**–**	**155,873**
CARRYING VALUES							
At December 31, 2018	**229,507**	**28,576**	**169,862**	**14,376**	**6,293**	**9,553**	**458,167**
At December 31, 2017	156,120	29,806	151,193	20,149	1,241	6,471	364,980

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis over the following years after taking into account the residual values:

Buildings	20 years
Leasehold improvement	6 years
Plant and machinery	5 to 10 years
Office equipment	3 to 5 years
Motor vehicles	5 years

The Group's buildings are located in the PRC.

17. PREPAID LEASE PAYMENTS

	The Group RMB'000
CARRYING VALUES	
At January 1, 2017	38,069
Additions	2,035
Released to profit or loss	(1,140)
At December 31, 2017	38,964
Acquired through acquisition of a subsidiary	37,660
Released to profit or loss	(1,698)
At December 31, 2018	**74,926**

	2018 RMB'000	2017 RMB'000
Analysed for reporting purpose:		
Current assets	**1,698**	1,140
Non-current assets	**73,228**	37,824
	74,926	38,964

The Group's prepaid lease payments comprise leasehold interest in land in the PRC. Land use rights are released to profit or loss over the lease terms ranged from 30 to 50 years.

18. INVESTMENT PROPERTY

	Total RMB'000
FAIR VALUE	
At January 1, 2018	—
Acquired through acquisition of a subsidiary	9,600
At December 31, 2018	**9,600**

The Group's property interest held for capital appreciation purpose is measured using the fair value model and are classified and accounted for as investment property.

18. INVESTMENT PROPERTY *(continued)*

The fair value of the Group's investment property as at 31 December 2018 has been arrived at on the basis of a 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.

In determining the fair value of the relevant properties, the board of directors of the Company determines the appropriate valuation techniques and inputs for fair value measurements.

The Group engages an independent qualified professional valuers to perform the valuation. The board of directors of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

As at 31 December 2018, the fair value of the industrial property was determined based on the market approach by taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the property, which ranged from RMB4,094 to RMB4,484 per square metre ("sqm"). Key inputs used in valuing the industrial property include internal rate of return of 5.61% and market unit rate of RMB4,220 sqm. An increase in the discount rate would result in a decrease in fair value measurement of the investment property and vice versa. An increase in the market unit rate would result in an increase in fair value measurement of the investment property, and vice versa.

There has been no change from the valuation technique used during the year ended December 31, 2018. In estimating the fair value of the property, the highest and best use of the property is their current use.

Details of the Group's investment property and information under Level 3 fair value hierarchy as at December 31, 2018 are as follows and there were no transfers out of level 3 during the year:

	2018 **RMB'000**
Industrial property located in the PRC	**9,600**

19. INTANGIBLE ASSETS

	Trademarks RMB'000
COST	
At January 1, 2017 and December 31, 2017	5,000
Acquired through acquisition of a subsidiary	50,558
At December 31, 2018	**55,558**
AMORTISATION	
At January 1, 2017	4,500
Charge for the year	500
At December 31, 2017	5,000
Charge for the year	3,841
At December 31, 2018	**8,841**
CARRYING VALUES	
At December 31, 2018	**46,717**
At December 31, 2017	—

Trademarks were purchased externally with estimated useful life of 10 years and are amortised on a straight-line basis.

20. GOODWILL

The goodwill acquired in business combination during the year was arising from acquisition of two subsidiaries (details set out in note 42) in which the management considers as one business. For the purposes of impairment testing, goodwill with indefinite useful life have been allocated to an individual cash generating unit ("CGU"), comprising these two subsidiaries in the manufacturing, sales and distribution of biscuits products in the PRC.

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

21. INTERESTS IN ASSOCIATES

	2018 **RMB'000**	2017 RMB'000
Cost of investments in associates — unlisted	**1,282**	—
Share of post-acquisition results of an associate	**(162)**	—
	1,120	—

21. INTERESTS IN ASSOCIATES *(continued)*

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

Name of associate	Place of incorporation/ establishment/ principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
		2018	2017	**2018**	2017	
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 candy and biscuits
Kaiping Jiarun Investment Co., Limited* ("Kaiping Jiarun") 開平市嘉潤投資有限公司 (Note b)	The PRC	**45%**	N/A	**45%**	N/A	Inactive

* English name for identification purpose only.

Notes:

(a) During the year ended December 31, 2017, a subsidiary of the Group 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 Group. During the year ended December 31, 2018, a subsidiary of the Group 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. During the year ended December 31, 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) During the year ended December 31, 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. During the year ended December 31, 2018, Kaiping Jiarun established a wholly owned subsidiary, 廣東全成大健康飲品有限公司, in the PRC principally engaged in manufacturing and selling healthy drinks. As at December 31, 2018, the associate remained inactive and both parties have not yet injected investment capital in the associate, details of the capital commitment are set out in note 45.

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21. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of a material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs. The associate is accounted for using the equity method in these consolidated financial statements.

Hong Kong Ruishiyue Group

	2018 **RMB'000**	2017 RMB'000
Current assets	**54,117**	41,169
Non-current assets	**3,791**	3,895
Current liabilities	**(35,508)**	(46,065)
Revenue	**13,136**	5,192
Loss for the year	**(2,228)**	(872)
Other comprehensive expense for the year	**(10)**	(129)
Loss and total comprehensive expense for the year	**(2,238)**	(1,001)

21. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of a material associate *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Hong Kong Ruishiyue Group recognised in the consolidated financial statements:

	2018 **RMB'000**	2017 RMB'000
Net assets (liabilities) of Hong Kong Ruishiyue Group	**22,400**	(1,001)
Proportion of the Group's ownership interest in Hong Kong Ruishiyue Group	**5%**	5%
	1,120	(50)
Loss and total comprehensive expense from Hong Kong Ruishiyue Group yet to be recognised	**–**	50
Carrying amount of the Group's interest in Hong Kong Ruishiyue Group	**1,120**	–
The unrecognised share of loss and total comprehensive expense of Hong Kong Ruishiyue Group for the year	**–**	(50)
Cumulative unrecognised share of loss and total comprehensive expense of Hong Kong Ruishiyue Group	**–**	(50)

22. INTERESTS IN JOINT VENTURES

	2018 **RMB'000**	2017 RMB'000
Cost of investments in joint ventures	**35,000**	35,000
Share of post-acquisition results of a joint venture	**(11,150)**	(9)
	23,850	34,991

22. INTERESTS IN JOINT VENTURES *(continued)*

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

Name of joint venture	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
		2018	2017	**2018**	2017	
深圳前海星旻利股權投資合夥企業(有限合夥) (Note a)	The 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)	The PRC	**34.98%**	34.98%	**33.33%**	33.33%	Investment holding

Notes:

(a) During the year ended December 31, 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 Group 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 December 31, 2018, the joint venture remained inactive with nil carrying amount on the consolidated statement of financial position, all parties had not yet injected investment capital in the joint venture, details of the capital commitment are set out in note 45.

(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, as its subsidiary, principally engaged in production and distribution of food products, namely 嘉士柏股份有限公司 ("嘉士柏") (collectively referred to as 江門建粵利嘉Group"). Pursuant to the Partnership Agreement, a subsidiary of the Group 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.

22. INTERESTS IN JOINT VENTURES *(continued)*

Summarised financial information of a material joint venture

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs. The joint venture is accounted for using the equity method in these consolidated financial statements.

江門建粵利嘉Group

	2018 **RMB'000**	2017 RMB'000
Current assets	**76,599**	137
Non-current assets	**83,992**	100,000
Current liabilities	**(70,006)**	(106)

	2018 **RMB'000**	2017 RMB'000
Revenue	**102,204**	16
Loss and total comprehensive expense for the year	**(55,675)**	(27)

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in 江門建粵利嘉Group recognised in the consolidated financial statements:

	2018 **RMB'000**	2017 RMB'000
Net assets of 江門建粵利嘉Group	**90,585**	100,031
Non-controlling interests of 江門建粵利嘉Group	**(22,403)**	–
	68,182	100,031
Proportion of the Group's ownership interest in 江門建粵利嘉Group	**34.98%**	34.98%
Carrying amount of the Group's interest in 江門建粵利嘉Group	**23,850**	34,991

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23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials and packing materials	54,770	45,482
Work-in-progress	485	53
Finished goods	34,314	26,902
	89,569	72,437

24. LOAN RECEIVABLES

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

As at December 31, 2018, the Group recognised an impairment allowance of RMB14,761,000 (2017: Nil) on loan receivables. During the current year, the impairment losses, net of reversal, of RMB11,450,000 (2017: Nil) was recognised in the profit or loss.

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

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

Trade and bills receivables

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

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

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

25. TRADE, BILLS AND OTHER RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS *(continued)*

Trade and bills receivables *(continued)*

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

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

As at December 31, 2017, included in the Group's trade receivables balances were debtors with aggregate carrying amount of approximately RMB273,000, which were past due at the end of the reporting period. Considering the high credibility of these customers, good track record with the Group and subsequent settlements, the management of the Group believes that no impairment allowance was necessary in respect of the remaining unsettled balances. The Group did not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	2017 RMB'000
Over 2 months but within 3 months	273

The Group has provided fully for all receivables over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable.

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

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

25. TRADE, BILLS AND OTHER RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS *(continued)*

Trade and bills receivables *(continued)*

As at December 31, 2017, in determining the recoverability of bills receivables, the Group considers any change in the credit quality of the bills issuers from the date credit was initially granted up to the end of the reporting period. In the opinion of the management of the Group, the bills receivables that were not past due nor impaired at the end of each reporting period were of good credit quality.

Movements in the allowance for doubtful debts:

	2017 RMB'000
At beginning of year	135
Impairment loss recognised on receivables	93
At end of year	228

Prepayments, 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 (2017: RMB2,740,000).

(ii) Other receivables represent advances to staff, interest receivables and prepaid expenses, which are unsecured, non-interest bearing and amounts of RMB773,000 (2017: RMB1,506,000) 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 RMB109,000 (2017: RMB141,000). The effective interest rate is ranging from 4.75% to 4.9% (2017: 4.75% to 4.9%) per annum.

(iii) The amount represents i) rental and utility deposits due after one year; ii) advances to staff due after one year; and iii) deposits paid by the Group as upfront payment for an investment/property, plant and equipment/a land use right are classified as non-current.

Details of impairment assessment of trade, bills and other receivables for the year ended December 31, 2018 as set out in note 41(b).

26. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, non-interest bearing and in the opinion of the Directors, such amount will be repaid or utilised to set off the Group's future purchase of finished goods from the associate within one year.

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27. AMOUNTS DUE FROM A NON-CONTROLLING SHAREHOLDER OF SUBSIDIARIES/A JOINT VENTURE

The amounts are unsecured, non-interest bearing and repayable on demand.

28. LOAN TO A RELATED PARTY

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

As at December 31, 2018, the Group recognised an impairment allowance of RMB946,000 (2017: Nil) on loan to a related party. During the current year, the impairment loss of RMB946,000 (2017: Nil) was recognised in the profit or loss.

29. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated as at FVTPL has been reclassified as financial assets at FVTPL from initial application of IFRS 9 on January 1, 2018. Financial assets designated as at FVTPL represented the investment funds acquired from Guangfa Futures Co., Ltd. The portfolio of the investment funds comprised of identified financial instruments that the Group manages together. The identified financial instruments include futures, shares and securities listed in PRC and bank deposits. Fair value loss of approximately RMB75,000 is charged to profit or loss for the year ended December 31, 2018 (2017: RMB164,000). The Group has fully redeemed the investment funds acquired from Guangfa Futures Co., Ltd. at fair value of RMB110,000 during the year ended December 31, 2018.

30. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposit of RMB31,728,000 (2017: RMB19,523,000) carry fixed interest rates ranged from 0.35% to 1.15% per annum.

Bank balances of RMB379,142,000 (2017: RMB419,133,000) carry interest at floating interest rates per annum as follows:

	Bank balances
At December 31, 2018	**0.01%–3.00%**
At December 31, 2017	0.01%–2.09%

30. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH *(continued)*

Pledged bank deposits/bank balances and cash are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	403,172	417,154
Hong Kong Dollars ("HK$")	5,618	7,961
US Dollars ("US$")	2,195	13,541
	410,985	438,656

RMB is not freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities and bills payables issued to suppliers of the Group for the purchase of raw materials.

31. TRADE, BILLS AND OTHER PAYABLES

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

31. TRADE, BILLS AND OTHER PAYABLES *(continued)*

Trade and bills payables

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

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

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

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

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

The bills payables are secured by pledged bank deposits as disclosed in note 30.

32. ADVANCES FROM CUSTOMERS

The Group entered into goods supply contracts with customers and received advance payments from customers which were interest-free. As at December 31, 2017, the advances were included in current liabilities based on the estimated amounts of purchase of goods within one year which have been fully utilised during the current year.

33. CONTRACT LIABILITIES

	December 31, 2018 RMB'000	January 1, 2018* RMB'000
Sales of biscuits products	80,788	75,745

* The amounts in this column are after the adjustments from the application of IFRS 15.

Contract liabilities are classified as current based on the Group's earliest obligation to transfer goods to the customers.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Sales of biscuits products RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	75,745

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives an advance from customer before the goods delivered, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

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34. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank borrowings — unsecured	360,471	190,762
The carrying amounts of the above bank borrowings are repayable within one year*	186,327	138,100
The carrying amounts of the above bank borrowings are repayable over one year*	96,720	—
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable within one year	77,424	52,662
	360,471	190,762
Less: non-current portion	(96,720)	—
Current portion	263,751	190,762

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The exposure of the Group's bank borrowings are as follows:

	2018 RMB'000	2017 RMB'000
Fixed-rate bank borrowings	186,327	190,662
Variable-rate bank borrowings	174,144	100
	360,471	190,762

The Group's variable-rate bank borrowings carry interest rates ranged from the Hongkong InterBank Offered Rate ("HIBOR") +1% to the PRC Loan Prime Rate ("LPR") +1.6% per annum.

34. BANK BORROWINGS *(continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	Year ended 2018	Year ended 2017
Effective interest rate:		
Fixed-rate bank borrowings	**3.35% to 4.44%**	1.57% to 4.35%
Variable-rate bank borrowings	**3.27% to 5.51%**	4.70%

The Group's bank borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	HK$ RMB'000
As at December 31, 2018	**77,424**
As at December 31, 2017	52,662

35. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF SUBSIDIARIES

The amount is unsecured, non-interest bearing and repayable on demand, which represents the remaining consideration payable for the acquisition of subsidiaries as set out in note 42.

36. DEFERRED INCOME

Amounts credited to profit or loss during the year:

	2018 RMB'000	2017 RMB'000
Incentive subsidies (Note a)	**10,934**	9,144
Released from asset-related government subsidies (Note b)	**1,993**	2,485
	12,927	11,629

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36. DEFERRED INCOME *(continued)*

The movement of deferred income is as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	11,163	11,708
Receipts of subsidies related to property, plant and equipment and prepaid lease payments (Note b)	3,947	1,940
Release to profit or loss during the year (Note b)	(1,993)	(2,485)
Arising through acquisition of a subsidiary (Note c)	29,180	—
At end of year	42,297	11,163
Analysed for reporting purpose:		
Current assets	2,371	—
Non-current assets	39,926	11,163
	42,297	11,163

Notes:

(a) Incentive subsidies were received from a local government for improvement of working capital and compensation of research and development expenses incurred.

(b) The Group received government subsidies for the compensation of capital expenditures on the plant and machinery, which are deferred and amortised to profit or loss over the estimated useful lives of the respective assets when they are ready to use.

(c) The amount is arising through acquisition of a subsidiary for the compensation of capital expenditure on the prepaid lease payment which are deferred and amortised to profit or loss over its estimated useful life of the prepaid lease payment when they are ready for use.

There are no unfulfilled conditions or other contingencies attached to the grants under (a) above. The subsidies were granted on a discretionary basis to the Group during the year.

37. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities recognised and movements thereon during the year:

	Fair value adjustment on intangible assets RMB'000	Undistributed profits of subsidiaries RMB'000	Total RMB'000
At January 1, 2017	—	2,135	2,135
Released upon declaration of dividend by Guangdong Jiashili	—	(2,135)	(2,135)
Charge to profit or loss	—	2,143	2,143
At December 31, 2017 and January 1, 2018	—	2,143	2,143
Released upon declaration of dividend by Guangdong Jiashili	—	(2,143)	(2,143)
Arising through acquisition of subsidiaries	13,447	—	13,447
(Credit) charge to profit or loss	(1,273)	2,271	998
At December 31, 2018	**12,174**	**2,271**	**14,445**

As at December 31, 2018, the Group has unrecognised deferred tax liability in relation to the PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries of RMB151,389,000 (2017: RMB142,858,000), as it is the intention of the directors to retain the remaining earnings with these subsidiaries for their future business development. The dividend withholding tax rate for the profit earned in the PRC subsidiaries for the year ended December 31, 2018 is 5% (2017: 5%).

At December 31, 2018, the Group has unused tax losses of RMB12,974,000 (December 31, 2017: RMB5,510,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At December 31, 2018, the Group has deductible temporary differences of RMB18,184,000 (December 31, 2017: RMB3,764,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

38. SHARE CAPITAL

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

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

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

39. SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company has conditionally adopted a pre-IPO share option scheme ("Pre-IPO Share Option Scheme") on August 21, 2014 to provide incentives and rewards to the directors and employees of the Group for their future contribution and to retain key and senior employees of the Group. The Group is authorised to issue options to a maximum of 10% of the shares in issue on the listing on September 25, 2014 under the Pre-IPO Share Option Scheme.

The total number of options granted to the directors and employees under the Pre-IPO Share Option scheme is 14,900,000 on the listing date of September 25, 2014 at the exercise price of HK$3.45 per share, determined with reference to the costs per share acquired by the pre-IPO investors, subject to any adjustment made in the manner as contemplated under the Pre-IPO Share Option Scheme.

39. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The following table discloses the details of and movements in the share options granted under the Pre-IPO Share Option Scheme for the year ended December 31, 2018:

For the year ended December 31, 2018

				Number of share options			
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2018	Granted during the year	Exercised during the year	At 12.31.2018
Directors of the Company	9.25.2014	9.25.2015–9.25.2019	HK$3.45	862,500	–	–	862,500
	9.25.2014	9.25.2016–9.25.2019	HK$3.45	862,500	–	–	862,500
	9.25.2014	9.25.2017–9.25.2019	HK$3.45	862,500	–	–	862,500
	9.25.2014	9.25.2018–9.25.2019	HK$3.45	862,500	–	–	862,500
Employees of the Group	9.25.2014	9.25.2015–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
	9.25.2014	9.25.2016–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
	9.25.2014	9.25.2017–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
	9.25.2014	9.25.2018–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
Total				14,900,000	–	–	14,900,000
Exercisable at year ended							14,900,000

For the year ended December 31, 2017

				Number of share options			
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2017	Granted during the year	Exercised during the year	At 12.31.2017
Directors of the Company	9.25.2014	9.25.2015–9.25.2019	HK$3.45	862,500	–	–	862,500
	9.25.2014	9.25.2016–9.25.2019	HK$3.45	862,500	–	–	862,500
	9.25.2014	9.25.2017–9.25.2019	HK$3.45	862,500	–	–	862,500
	9.25.2014	9.25.2018–9.25.2019	HK$3.45	862,500	–	–	862,500
Employees of the Group	9.25.2014	9.25.2015–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
	9.25.2014	9.25.2016–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
	9.25.2014	9.25.2017–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
	9.25.2014	9.25.2018–9.25.2019	HK$3.45	2,862,500	–	–	2,862,500
Total				14,900,000	–	–	14,900,000
Exercisable at year ended							11,175,000

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39. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The fair value of these options at date of grant was approximately RMB15,607,000, of which approximately RMB759,000 were charged to the profit or loss for the year ended December 31, 2018 (2017: RMB2,080,000).

The fair value of share options are measured by Binomial Model, using the following assumptions:

	On September 25, 2014
Share price (HK$)	3.89
Exercise price (HK$)	3.45
Risk-free rate	1.424%
Dividend yield	1.057%
Volatility	34.77%
Expiry date	September 25, 2019
Suboptimal factor	3.0

Share Option Scheme

The Company has conditionally adopted a share option scheme on August 21, 2014 to enable the Company to grant options to the eligible person as incentives or rewards for their contribution to the Group. The Group is authorised to issue options to a maximum of 10% of the shares in issue as at the listing date under the share option scheme.

The total number of options granted to a former director under the share option scheme was 2,000,000 on June 12, 2015 at exercise price of HK$4.58 per share. The exercise price is determined by the board of directors of the Company at its absolute discretion and shall not be less than the highest of (i) the closing price of HK$4.58 per share as quoted in the daily quotation sheet of the Stock Exchange on the grant date; (ii) the average closing price of approximately HK$4.54 per share as quoted in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the grant date; and (iii) the nominal value of HK$0.01 per share.

39. SHARE OPTION SCHEME *(continued)*

Share Option Scheme *(continued)*

The following table discloses the details of the share option and movement in the share option granted under the share option scheme for the year ended December 31, 2018:

For the year ended December 31, 2018

				Number of share options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2018	Granted during the year	Exercised during the year	Lapsed during the year	At 12.31.2018
Mr. Wu Meng-cher (Note)	6.12.2015	6.12.2016–6.12.2020	HK$4.58	500,000	–	–	–	500,000
	6.12.2015	6.12.2017–6.12.2020	HK$4.58	500,000	–	–	–	500,000
	6.12.2015	6.12.2018–6.12.2020	HK$4.58	500,000	–	–	–	500,000
	6.12.2015	6.12.2019–6.12.2020	HK$4.58	500,000	–	–	–	500,000
Total				2,000,000	–	–	–	2,000,000
Exercisable at year ended								1,500,000

For the year ended December 31, 2017

				Number of share options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2017	Granted during the year	Exercised during the year	Lapsed during the year	At 12.31.2017
Mr. Wu Meng-cher (Note)	6.12.2015	6.12.2016–6.12.2020	HK$4.58	500,000	–	–	–	500,000
	6.12.2015	6.12.2017–6.12.2020	HK$4.58	500,000	–	–	–	500,000
	6.12.2015	6.12.2018–6.12.2020	HK$4.58	500,000	–	–	–	500,000
	6.12.2015	6.12.2019–6.12.2020	HK$4.58	500,000	–	–	–	500,000
Total				2,000,000	–	–	–	2,000,000
Exercisable at year ended								1,000,000

Note: Mr. Wu Meng-cher was formerly a director and resigned as a director on December 1, 2015 and he is still under the employment of the Group.

39. SHARE OPTION SCHEME *(continued)*

Share Option Scheme *(continued)*

The fair value of the option granted on June 12, 2015 was approximately RMB2,408,000, of which approximately RMB227,000 for a former director of the Company was charged to the profit or loss for the year ended December 31, 2018 (2017: RMB466,000).

The fair value of share options are measured by Binomial Model, using the following assumptions:

	On June 12, 2015
Share price (HK$)	4.58
Exercise price (HK$)	4.58
Risk-free rate	1.314%
Dividend yield	1.31%
Volatility	33.93%
Expiry date	June 12, 2020
Suboptimal factor	2.8

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity owners through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

41. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	638,014	—
Loans and receivables (including cash and cash equivalent)	—	552,840
Designated as at FVTPL	—	185
Financial liabilities		
Amortised cost	545,482	345,955

(b) Financial risk management objectives and policies

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency which expose the Group to foreign currency risk. Approximately 0.16% of the Group's sales is denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 99.64% of the costs is denominated in the group entity's respective functional currency. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Currency risk *(continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

HK$ monetary assets and liabilities

	2018 RMB'000	2017 RMB'000
Cash and bank balances	5,618	7,961
Trade and other receivables	73	70
Other payables	(1,546)	(2,240)
Bank borrowings	(77,424)	(52,662)
	(73,279)	(46,871)

US$ monetary assets

	2018 RMB'000	2017 RMB'000
Cash and bank balances	2,195	13,541
Trade and other receivables	307	3,251
	2,502	16,792

Based on the above net exposures, and assuming that all other variables remain constant, a 5% depreciation/appreciation of the HK$ against the RMB would result in an increase/decrease in the Group's profit before tax for the year of approximately RMB3,664,000 for the year ended December 31, 2018 and increase/decrease in the Group's profit before tax for the year of approximately RMB2,344,000 for the year ended December 31, 2017. A 5% depreciation/appreciation of the US$ against the RMB would result in an decrease/increase in the Group's profit before tax for the year of approximately RMB125,000 for the year ended December 31, 2018 and decrease/increase in the Group's profit before tax for the year of approximately RMB840,000 for the year ended December 31, 2017.

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to cash flow interest rate risk on the variable-rate bank balances (see note 30 for details) and variable-rate bank borrowings (see note 34 for details). The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The management of the Group monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group is mainly exposed to interest rates quoted by the People's Bank of China.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The following sensitivity analysis represents the management's assessment of the reasonably possible change in interest rates.

Variable-rate bank balances and bank borrowings

If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year ended December 31, 2018 would increase/decrease by approximately RMB205,000 (2017: RMB419,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

Credit risk and impairment assessment

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

For the biscuits operation, the Group generally adopted a policy to require advance payment from majority of their customers before the delivery of goods.

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41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers

The trade receivables balances at the end of each reporting period mainly represented the credit sales to certain customers. With respective to these credit sales, the Group has concentration of credit risk as 45% (2017: 73%) of the Group's total trade receivables as at December 31, 2018, were due from five customers. Those five customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management of the Group is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management of the Group also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

Bills and other receivables, amounts due from an associate, a non-controlling shareholder of subsidiaries and a joint venture

The credit risks on bills and other receivables, amounts due from an associate, a non-controlling shareholder of subsidiaries and a joint venture are insignificant as the management of the Group periodically monitors the balances to ensure that the counterparties are viable to settle the debts.

Loan receivables and loan to a related party

The Group has concentration of credit risk on the loan receivables and loan to a related party as disclosed in notes 24 and 28 amounting to approximately HK$141,282,000 and RMB9,054,000, respectively. In order to minimise the concentration of credit risk, the management of the Group performs periodic evaluations and visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for loan receivables and loan to a related party. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on loan receivables and loan to a related party individually. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Pledged bank deposits and bank balances

The credit risk on liquid fund is limited because the counterparties are banks with high credit ratings.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired/ 12m ECL	12m ECL
Watch list	Debtor frequently settles after due date	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000
Financial assets at amortised cost				
Trade receivables	25	(Note 1)	Lifetime ECL — (provision matrix)	43,778
Bills receivable (Note 2)	25	Low risk	12-month ECL	1,287
Other receivables (Note 2)	25	Low risk	12-month ECL	11,186
Amount due from an associate (Note 2)	26	Low risk	12-month ECL	19,445
Amount due from a non-controlling shareholder of subsidiaries (Note 2)	27	Low risk	12-month ECL	1,133
Amount due from an joint venture (Note 2)	27	Low risk	12-month ECL	100
Loan receivables (Note 3)	24	Doubtful	Lifetime ECL — not credit impaired	156,043
Loan to a related party (Note 3)	28	Doubtful	Lifetime ECL — not credit impaired	10,000
Pledged bank deposits (Note 2)	30	Low risk	12-month ECL	31,728
Bank balances (Note 2)	30	Low risk	12-month ECL	379,142
			Total	653,842

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Notes:

(1) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9 for sales of biscuits products, which permits the use of the lifetime expected loss provision for these trade receivables. As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for accounts receivables which are assessed based on provision matrix as at December 31, 2018 within lifetime ECL (not credit-impaired).

Internal credit rating	Average loss rate	Trade receivables RMB'000
Low risk	0.2%	40,386
Watch list	1%	3,275
Doubtful	100%	117
		43,778

The estimated loss rates are estimated based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided RMB236,000 impairment allowance for accounts receivable based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables:

	Lifetime ECL — simplified approach (not credit-impaired) RMB'000	Lifetime ECL — individual assessment (credit-impaired) RMB'000	Total RMB'000
As at December 31, 2017 under IAS 39	—	228	228
Changes due to financial instruments recognised as at January 1:			
— Impairment losses reversed	—	(228)	(228)
New financial assets originated	236	—	236
As at December 31, 2018	236	—	236

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Notes: *(continued)*

(1) *(continued)*

The Group writes off trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the accounts receivable are over two years past due, whichever occurs earlier. None of the trade receivables has been written off.

(2) The Group assessed the loss allowance for bills and other receivables, amounts due from an associate, a non-controlling shareholder of subsidiaries and a joint venture, pledged bank deposits and bank balances on 12-month ECL basis. In determining the ECL, the Group has taken into account the historical default experience and forward looking information as appropriate. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that credit risk inherent in the Group's outstanding balances is insignificant.

(3) The Group assessed the loss allowance for loan receivables and loan to a related party on lifetime ECL basis. In determining the ECL, the Group performs periodic review on the financial position of the debtors, its settlement status and other contractual conditions to ensure it is financially viable to settle the loan receivables and loan to a related party. The Group has applied 9.46% of credit loss rate and concluded that adequate impairment loss is made for irrecoverable amount.

The following table show reconciliation of loss allowances that has been recognised for loan receivables and loan to a related party:

	Lifetime ECL — individual assessment (not credit-impaired) RMB'000
As at 31 December 2017 under IAS 39	—
Adjustment upon application of IFRS 9	3,311
As at 1 January 2018 — As restated	3,311
Changes due to financial instruments recognised as at 1 January:	
— impairment losses reversed	(3,311)
Impairment losses recognised on new financial assets	15,707
As at 31 December 2018	**15,707**

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at December 31, 2018, the Group has available unutilised bank facilities of approximately RMB287,483,000 (2017: RMB539,238,000).

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at December 31, 2018. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average interest rate	Repayable on demand or within 3 months	3–6 months	6 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2018							
Trade, bills and other payables	–	168,211	10,000	–	–	178,211	178,211
Amount due to a non-controlling shareholders of subsidiaries	–	6,800	–	–	–	6,800	6,800
Bank borrowings	4.34	136,627	102,921	32,737	106,588	378,873	360,471
		311,638	112,921	32,737	106,588	563,884	545,482
At December 31, 2017							
Trade, bills and other payables	–	155,193	–	–	–	155,193	155,193
Bank borrowings	3.4	129,077	62,936	–	–	192,013	190,762
		284,270	62,936	–	–	347,206	345,955

41. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

Bank loans with a repayment on demand clause are included in the "Repayable on demand or within 3 months" time band in the above maturity analysis. As at December 31, 2018, the aggregate undiscounted principal amounts of these bank loans amounted to RMB78,933,000 (2017: RMB52,984,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Maturity Analysis — Bank loans with a repayment on demand clause based on scheduled repayments		
	Less than 1 year RMB'000	Total undiscounted cash outflows RMB'000	Carrying amount RMB'000
As at December 31, 2018	**78,933**	**78,933**	**77,424**
As at December 31, 2017	52,984	52,984	52,662

(c) Fair value

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at December 31, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation techniques and key inputs
Financial assets designated as at FVTPL	N/A	Investment funds in the PRC: RMB185,000	Level 2	Derived from quoted bid prices of underlying investments in an active market.

Included in other gains and losses for the year ended December 31, 2018, fair value loss of RMB75,000 was related to financial assets at FVTPL which was fully redeemed during the year (2017: RMB796,000 was related to financial assets designated as at FVTPL held at December 31, 2017).

There were no transfers amongst Level 1, 2 and 3 during both years.

41. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value *(continued)*

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of other financial assets and financial liabilities recognised in the consolidated financial statements using discounted cash flow valuation technique approximate their fair values.

42. ACQUISITION OF SUBSIDIARIES

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

Consideration transferred

	RMB'000
Cash	68,000

Assets and liabilities recognised at the date of acquisition

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

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

42. ACQUISITION OF SUBSIDIARIES *(continued)*

Non-controlling interests

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

Goodwill arising on acquisition

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

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

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

Net cash outflows arising on acquisition

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

Impact of acquisition on the results of the Group

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

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

42. ACQUISITION OF SUBSIDIARIES *(continued)*

Impact of acquisition on the results of the Group *(continued)*

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

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	77,237	77,237
Amounts due from subsidiaries	276,934	323,352
	354,171	400,589
CURRENT ASSETS		
Prepayment	307	3,252
Bank balances	665	627
	972	3,879
CURRENT LIABILITY		
Accruals and other payable	1,546	2,241
NET CURRENT (LIABILITIES) ASSETS	(574)	1,638
NET ASSETS	353,597	402,227
CAPITAL AND RESERVES		
Share capital	3,285	3,285
Reserves	350,312	398,942
TOTAL EQUITY	353,597	402,227

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(continued)

Movement in the Company's share capital and reserve

	Share capital RMB'000	Share premium RMB'000	Share options reserves RMB'000	Accumulated profits RMB'000	Total RMB'000
At January 1, 2017	3,285	411,181	16,589	48,821	479,876
Loss and total comprehensive expense for the year	—	—	—	(25,145)	(25,145)
Dividends declared (note 14)	—	(55,050)	—	—	(55,050)
Share-based compensations	—	—	2,546	—	2,546
At December 31, 2017	3,285	356,131	19,135	23,676	402,227
Profit and total comprehensive income for the year	—	—	—	2,419	2,419
Dividends declared (note 14)	—	(52,035)	—	—	(52,035)
Share-based compensations	—	—	986	—	986
At December 31, 2018	**3,285**	**304,096**	**20,121**	**26,095**	**353,597**

44. OPERATING LEASE

The Group as lessee

Minimum lease payments under operating lease were approximately RMB4,493,000 (2017: RMB4,524,000), which represents the rent paid by the Group for land and buildings for the year ended December 31, 2018. Leases for land and buildings are negotiated for a term ranging from one to six years (2017: one to six years) with fixed rental.

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**4,638**	4,493
In the second to fifth year inclusive	**6,650**	10,333
	11,288	14,826

44. OPERATING LEASE *(continued)*

The Group as lessor

Property rental income earned during the year was RMB738,000 (2017: RMB775,000) from the sub-lease of the properties under operating lease where the Group is the lessee.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	738	775
In the second to fifth year inclusive	554	1,357
	1,292	2,132

45. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	36,176	38,341
Capital expenditure in respect of acquisition of land use right contracted for but not provided in the consolidated financial statements	–	1,249
Capital expenditure in respect of the establishment of an associate contracted for but not provided in the consolidated financial statements (Note 1)	30,600	1,270
Capital expenditure in respect of the establishment of an investment fund contracted for but not provided in the consolidated financial statements (Note 2)	133,650	133,650
Capital expenditure in respect of the establishment of a joint venture contracted for but not provided in the consolidated financial statements (Note 3)	133,650	133,650
Capital expenditure in respect of the acquisition of a subsidiary contracted for but not provided in the consolidated financial statements (Note 4)	–	218,000

45. CAPITAL COMMITMENTS *(continued)*

Notes:

1. On March 26, 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. Details of the investment in this associate are set out in note 21(b).

   On June 25, 2017, a subsidiary of the Group had established an associate with two independent third parties. The capital expenditure has been fully paid during the year ended December 31, 2018. Details of the investment in this associate are set out in note 21(a).

2. On December 16, 2015, a subsidiary of the Group entered into a partnership agreement (the "Agreement") with Xizang Fujia Food Investment Center (Limited Partnership) 西藏復嘉食品投資中心(有限合夥) ("Xizang Fujia") and Shanghai Fosun Wei Shi Equity Investment Fund Phase 1 上海復星惟實一期股權投資基金合夥企業 ("Fosun Weishi 1 Equity Fund") in respect of the establishment of an investment fund and the subscription of interest therein. During the year ended December 31, 2018, the establishment of the investment fund was suspended and a subsidiary of the Group is in the process of cancellation of the Agreement.

3. On January 28, 2016, a subsidiary of the Group entered into a joint venture agreement with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) in respect of the incorporation of a joint venture. Details of the joint venture are set out in note 22(a).

4. On October 24, 2017, a subsidiary of the Group entered into a sales and purchase agreement (the "Sales and Purchase Agreement") with an independent third party in respect of the acquisition of 90% of the equity interests of its subsidiary (the "Acquiree"). During the year ended December 31, 2018, the transaction lapsed as no equity interests of the Acquiree has been transferred to the Group on the date specified in the Sales and Purchase Agreement.

46. PLEDGED OF ASSETS

As at December 31, 2018, the Group has pledged its 85% of equity interests of Kamtai to secure bank borrowing.

As at December 31, 2018 and 2017, the following items were used to secure banking facilities granted to the Group:

	2018 **RMB'000**	2017 RMB'000
Pledged bank deposits	**31,728**	19,523

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47. RELATED PARTY DISCLOSURES

Related Party Transactions

	2018 RMB'000	2017 RMB'000
Sale of goods		
Zhongchen (Note a)	42	25
Guandong Ruishiyue (Note b)	1,652	997
嘉士柏 (Note b)	836	—
	2,530	1,022
Purchase of goods		
Guandong Ruishiyue (Note b)	11,904	5,192
嘉士柏 (Note b)	1,410	—
	13,314	5,192
Services expense		
Aurec Capital Ltd. ("Aurec") (Note c)	3,372	—
Prepaid services expenses		
Aurec (Note c)	—	3,372

Notes:

(a) Zhongchen was a former immediate holding company of Guangdong Jiashili prior to the Group Reorganisation. It is currently owned by Mr. Huang Xianming, the ultimate controlling shareholder of the Group.

(b) The amount represents the sales and purchase of biscuits and confectioneries. The transactions were entered into in the normal course of business of the Group at terms mutually agreed between the parties.

(c) The amount represents the investment advisory service provided by Aurec, which is a minority shareholder of the Company. As at December 31, 2017, the Group prepaid investment advisory service fee of RMB3,372,000 to Ayrec which was included in other prepayments in note 25. Such prepayment has been fully utilised during the year ended December 31, 2018.

The above transactions were carried out in the ordinary course of business and conducted in accordance with the terms and conditions mutually agreed by both parties.

47. RELATED PARTY DISCLOSURES *(continued)*

Related party balances

Details of balances with the Group's related parties are set out in notes 26, 27 and 28.

Key management personnel

The remuneration of key management personnel including the directors' remuneration during the year were as follows:

	2018 RMB'000	2017 RMB'000
Short-term benefits	**5,708**	5,223
Post-employment benefits	**31**	206
Share-based compensations	**245**	887
	5,984	6,316

48. RETIREMENT BENEFIT PLAN

The employees of the Group are members of the state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a certain percentage of basic payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The employee employed in Hong Kong is required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

The total expense recognised in profit or loss of approximately RMB19,396,000 (2017: RMB15,527,000) represent contributions paid and payable to the retirement benefit scheme during the year ended December 31, 2018.

49. GENERAL INFORMATION OF SUBSIDIARIES

Details of subsidiaries directly and indirectly hold by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place and date of establishment/ incorporations	Registered capital/issued and fully paid-up share capital	Equity interest attributable to the Company at December 31, 2018	2017	Principal activities
Direct					
Jiashili Limited 嘉士利有限公司	British Virgin Islands December 6, 2013	Ordinary shares of US$50,000 and paid-up capital of nil	100%	100%	Investment holding
Indirect					
Guangdong Jiashili Food Group Co., Limited* 廣東嘉士利食品集團有限公司	The PRC June 8, 2005	Registered capital of RMB220,000,000 and paid-up capital of RMB220,000,000	100%	100%	Investment holding and manufacturing and sale of confectioneries
Jiangsu Jiashili Food Company Limited* 江蘇嘉士利食品有限公司	The PRC September 30, 2009	Registered capital of RMB50,000,000 and paid-up capital of RMB50,000,000	100%	100%	Wholesale and retail of pre-packaged food and manufacture and sale of biscuits
Henan Jiashili Food Company Limited* 河南嘉士利食品有限公司	The PRC June 18, 2015	Registered capital of RMB50,000,000 of RMB50,000,000	100%	100%	Manufacture and sale of biscuits
Jiashili (Hong Kong) Limited 嘉士利(香港)有限公司	Hong Kong December 24, 2013	Ordinary shares of HK$10,000 and paid-up capital of nil	100%	100%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

49. GENERAL INFORMATION OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of establishment/ incorporations	Registered capital/issued and fully paid-up share capital	Equity interest attributable to the Company at December 31, 2018	2017	Principal activities
Kaiping Lijia Industrial Investment Company Limited* 開平市利嘉實業投資有限公司	The PRC January 22, 2017	Registered capital of RMB30,000,000 and paid-up capital of RMB30,000,000	100%	100%	Investment holding
Guangzhou Zhongzhi Lijia Partnership (Limited Partnership)*a 廣州中致利嘉投資合夥企業(有限合夥)	The PRC November 20, 2018	Registered capital of RMB50,000,000 and paid-up capital of RMB49,500,000	95%	–	Investment holding
Jinjiang Youchang Food Company Limited*b 晉江友昌食品有限公司	The PRC December 4, 2018	Registered capital of RMB10,000,000 and paid-up capital of RMB2,000,000	100%	–	Manufacture and sale of biscuits
Tangyin Lijia Property Company Limited*c 湯陰縣利嘉置業有限公司	The PRC July 19, 2018	Registered capital of RMB8,000,000 and paid-up capital of nil	100%	–	Investment holding
Jilin Jiashili Food Company Limited*d 吉林嘉士利食品有限公司	The PRC November 16, 2018	Registered capital of RMB5,000,000 and paid-up capital of nil	100%	–	Manufacture and sale of biscuits
Changchun Lijia Property Company Limited*e 長春市利嘉置業有限公司	The PRC November 15, 2018	Registered capital of RMB1,000,000 and paid-up capital of nil	100%	–	Investment holding

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49. GENERAL INFORMATION OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of establishment/ incorporations	Registered capital/issued and fully paid-up share capital	Equity interest attributable to the Company at December 31, 2018	2017	Principal activities
Guangdong Jiashli Huangpi Industry Development Company Limited*f 廣東嘉士利黃皮產業發展有限公司	The PRC October 12, 2018	Registered capital of RMB60,000,000 and paid-up capital of RMB10,000,000	90%	–	Manufacture and sale of food
Silang Foods (Huaibei) Company Limited*g 思朗食品 (淮北) 有限公司	The PRC August 25, 2008	Registered capital of USD14,000,000 and paid-up capital of USD14,000,000	85%	–	Manufacture and sale of biscuits
Dongguan Kamtai Foods Company Limited*g 東莞錦泰食品有限公司	The PRC July 1, 1998	Registered capital of HKD30,000,000 and paid-up capital of HKD30,000,000	85%	–	Sale of biscuits
Kamtaihong (Shenzhen) Trading Limited*h 錦泰鴻(深圳)貿易有限公司	The PRC September 29, 2018	Registered capital of RMB7,000,000 and paid-up capital of nil	60%	–	Trading business

* English name for identification purpose only
a The subsidiary was established on November 20, 2018.
b The subsidiary was established on December 4, 2018.
c The subsidiary was established on July 19, 2018.
d The subsidiary was established on November 16, 2018.
e The subsidiary was established on November 15, 2018.
f The subsidiary was established on October 12, 2018.
g The subsidiary was acquired on April 1, 2018.
h The subsidiary was established on September 29, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

50. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings (note 34) RMB'000	Loan advance included in other payable (note 31) RMB'000	Dividends payable (note 14) RMB'000	Total RMB'000
At January 1, 2018	**190,762**	**9,819**	**—**	**200,581**
Financing cash flows	**32,779**	**—**	**(52,035)**	**(19,256)**
Acquired through acquisition of subsidiaries	**118,000**	**—**	**—**	**118,000**
Foreign exchange translations	**2,311**	**—**	**—**	**2,311**
Interests on bank borrowings	**16,619**	**—**	**—**	**16,619**
Set off (Note 51)	**—**	**(9,819)**	**—**	**(9,819)**
Dividends	**—**	**—**	**52,035**	**52,035**
At December 31, 2018	**360,471**	**—**	**—**	**360,471**

	Borrowings (note 34) RMB'000	Loan advance included in other payable (note 31) RMB'000	Dividends payable (note 14) RMB'000	Total RMB'000
At January 1, 2017	—	—	—	—
Financing cash flows	185,318	9,819	(55,050)	140,087
Foreign exchange translations	(2,236)	—	—	(2,236)
Interests on bank borrowings	7,680	—	—	7,680
Dividends	—	—	55,050	55,050
At December 31, 2017	190,762	9,819	—	200,581

51. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2018, the loan advance of RMB9,819,000, included in other payables, has been set off with the deposits paid for acquisitions of property, plant and equipment and a land use right.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is prepared on the basis set out in the notes below:

RESULTS

	Year ended December 31				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONTINUING OPERATION					
Revenue	**1,449,288**	1,174,977	1,105,771	1,006,228	840,058
Cost of sales	**(987,323)**	(818,574)	(726,382)	(653,953)	(571,557)
Gross profit	**461,965**	356,403	379,389	352,275	268,501
Other income	**30,447**	21,078	14,703	13,193	9,298
Selling and distribution expenses	**(207,939)**	(154,798)	(167,717)	(127,748)	(101,688)
Administrative expenses	**(85,261)**	(60,281)	(64,197)	(59,132)	(38,421)
Other expenses	**(45,018)**	(41,525)	–	–	–
Impairment losses, net of reversal	**(12,404)**	(93)	–	–	–
Other gains and losses	**(3,190)**	14,506	(47,084)	(42,345)	(45,516)
Share of results of an associate	**(162)**	–	–	–	–
Share of results of a joint venture	**(11,141)**	(9)	–	–	–
Interests on bank borrowings	**(16,619)**	(7,680)	–	–	(2,341)
Profit before tax	**110,678**	127,601	115,094	136,243	89,833
Income tax expense	**(24,502)**	(21,035)	(25,457)	(31,092)	(18,205)
Profit for the year from continuing operation	**86,176**	106,566	89,637	105,151	71,628
DISCONTINUED OPERATION					
Profit for the year from discontinued operation	**–**	–	–	–	61
OTHER COMPREHENSIVE (EXPENSES) INCOME					
Items that may be reclassified subsequently to profit or loss					
(Decrease) increase in fair value of available-for-sale investment	**–**	–	(854)	2,389	–
Cumulative gain reclassified to profit or loss on sale of available-for-sales investment	**–**	–	(1,535)	–	–
Other comprehensive (expenses) income for the year	**–**	–	(2,389)	2,389	–
Total comprehensive income for the year	**86,176**	106,566	87,248	107,540	71,689

Five-Year Financial Summary

ASSETS AND LIABILITIES

	As at December 31				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,438,814**	1,126,226	905,417	909,873	630,859
TOTAL LIABILITIES	**(736,233)**	(467,461)	(300,714)	(344,594)	(162,974)
	702,581	658,765	604,703	565,279	467,885