



日清食品有限公司

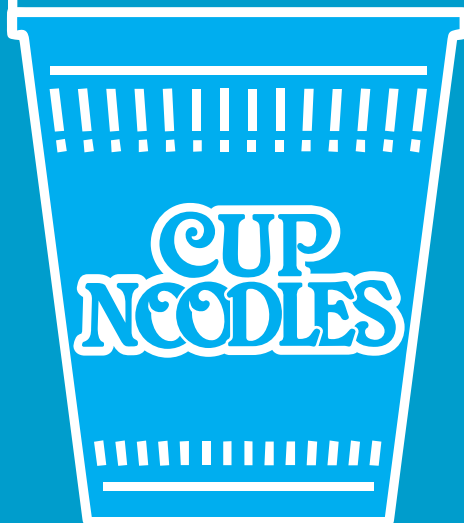
NISSIN FOODS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code: 1475

Interim Report 2019




**KEEP
SERVING
YOU**

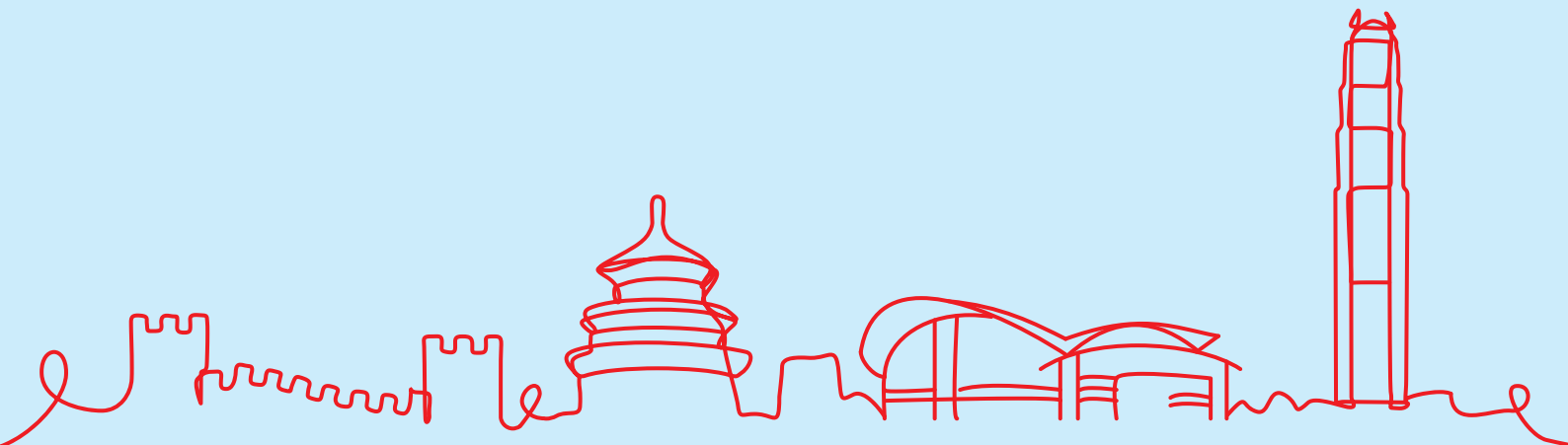


INTRODUCING LIP-MARK



Representing NISSIN FOODS, it is:

-  the lips of a person enjoying "food"
-  a smile inspired by "food"
-  a bowl in which "food" is served



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Kiyotaka Ando
Mr. Toshimichi Fujinawa
Mr. Shinji Tatsutani
Mr. Kazuo Kawasaki
Mr. Munehiko Ono

Non-executive Director

Mr. Tong Ching Hsi (*resigned on 1 September 2019*)

Independent Non-executive Directors

Dr. Sumio Matsumoto
Mr. Junichi Honda
Professor Lynne Yukie Nakano

Audit Committee

Mr. Junichi Honda (*Chairman*)
Dr. Sumio Matsumoto
Professor Lynne Yukie Nakano

Remuneration Committee

Mr. Junichi Honda (*Chairman*)
Mr. Kiyotaka Ando
Dr. Sumio Matsumoto

Nomination Committee

Mr. Kiyotaka Ando (*Chairman*)
Dr. Sumio Matsumoto
Mr. Junichi Honda

Company Secretary

Mr. Lo Tai On, *CPA*

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

CFN Lawyers in association with Broad & Bright
Broad & Bright Law Firm

Senior Management

Mr. Hijiri Fukuoka (*resigned on 1 September 2019*)
Mr. Taiji Matsumura
Mr. Satoshi Niibe (*resigned on 1 September 2019*)
Mr. Xi Xiaotong
Mr. Takeshi Shigemi
Mr. Gen Matsunobu
Mr. Akifumi Aiba
Mr. Ying Li Feng
Mr. Katsunori Hiroi (*appointed on 1 September 2019*)
Mr. Takeshi Kikunaga
Mr. Tse Chi Ping Roy
Mr. Zhao Xiongda
Ms. Tang Yuen Man, Amy (*appointed on 1 September 2019*)
Ms. Wong Wai Fong, Blanche (*appointed on 1 September 2019*)

Registered Office

21–23 Dai Shing Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong

Headquarter and Principal Place of Business

11–13 Dai Shun Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong

Principal Bankers

Mizuho Bank, Ltd.
MUFG Bank, Ltd.

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Contact Information

Website: www.nissingroup.com.hk
Investor Relations Email: ir@nissinfoods.com.hk
Media Relations Email: pr@nissinfoods.com.hk

Stock Code

1475

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Nissin Foods Company Limited (the "Company") is pleased to announce the interim results for the six months ended 30 June 2019.

INVESTING IN US; SERVING FOR YOU

In the first half of year 2019, we witnessed a disruption in global economy where disputes are raised among different countries which ultimately dampen the worldwide business environment. Thus, the GDP in Hong Kong unexpectedly grew by only 0.5% year on year in the first six months of year 2019 whereas in the PRC, the GDP growth was amongst one of the lowest levels at 6.3%, mounting the worrisome on the future economic outlook.

Against this backdrop, the Company has been excelling in different frontiers to create investment value and restore the joy for everyone. Investments were made by the Company on production capability to improve investors' and shareholders' value while innovative products were developed and introduced for delighting our customers.

Vertical and horizontal integration was deployed continually to our production plants. Additional investment in various production facilities, for instance, the granola production line and the bar ramen production line, were made to prepare for in-house production on other products which we consider possessing good opportunity and potential in the long run. To further improve the transparency of the Company, the Company has commenced disclosing quarterly financial information since May 2019 so that up-to-date information is disseminated to both shareholders and potential investors in a timely manner.

In order to enhance the customers' value and serve our customers' daily need, product advancements and breakthroughs with novel product ideas were introduced into our pipeline especially in non-noodles categories where new product categories were offered.

The collective efforts by the Company have been rewarded and recognised publicly. On 14 May 2019, MSCI Inc. announced the results of the May 2019 Semi-Annual Index Review for MSCI Equity Indexes where the Company has been added to the *MSCI Hong Kong Small Cap Index* with effect from 28 May 2019 after the market close. The inclusion reflects investors' unwavering trust in the Company and signifies the continuous effort of the Group in enhancing shareholder value.

FINANCIALS

For the period under review, the Group has achieved an outstanding performance in both Hong Kong and the PRC with improvement in margin amid the poor economic sentiment. Revenue increased by 1.1% to HK\$1,497.9 million (2018: HK\$1,481.6 million), primarily attributable to healthy growth in sale volume of our premium instant noodles from different regions in the PRC, partly offset by the negative impact of foreign exchange of Renminbi and the reduction in revenue in Hong Kong. Gross profit margin increased by 2.1% to 32.2% (2018: 30.1%), benefiting from stable raw material costs and better control in fixed costs.

At Adjusted EBITDA level ^(Note), the Group grew by 16.1% to HK\$230.3 million (2018: HK\$198.3 million), representing the Adjusted EBITDA margin of 15.4% for the period (2018: 13.4%). Profit attributable to owners of the Company increased by 41.1% to HK\$132.9 million (2018: HK\$94.2 million), reflecting our stringent control in operating expenses and the result of localisation. The Group's basic earnings per share increased to 12.37 HK cents for the period (2018: 8.77 HK cents).

Note: Adjusted EBITDA is a non-HKFRS measurement which is used by the management to assess performance of operating segments, allocate resources and make strategic decisions. The measurement basis of Adjusted EBITDA is defined as net profit before net interest expenses, tax, depreciation of property, plant and equipment, depreciation of right-of-use asset and amortisation of trademark. This also excludes share of material gains or losses which are of capital nature or non-operational related and fair value changes on financial assets at fair value through profit or loss.

BUSINESS REVIEW

Hong Kong Operations

Carried forward from the slow down economy since the second half of year 2018, the economy has yet to be recovered for the period under review. As published by the Census and Statistics Department of Hong Kong, retail sales value has marked a five-month-decreased since February 2019 and slipped by 2.6% year-on-year for the first six months of year 2019. While the influx of tourists from the PRC has been increasing this year, the additional benefits to economic growth was limited. With the political tensions in Hong Kong continued to impact on the physical economy, as suggested by the lackluster performance of many shopping malls and street shops, coupled with the reduction in consumer spending, we anticipate business sentiment would remain weak for the rest of the year 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

For the first half year of 2019, revenue from Hong Kong operations decreased by HK\$32.1 million or 4.9% to HK\$626.4 million (2018: HK\$658.5 million), mainly attributable to the change in product portfolio in our MC Marketing & Sales (Hong Kong) Limited (“MCMS”) distribution business where certain brand products were terminated during the period. On a like-for-like basis excluding the change in portfolio, the MCMS’s operation would have contributed positively to the revenue growth. While the economic turbulence in Hong Kong has resulted in a disruption of daily business activities, revenue growth from instant noodles and other products remained intact for the period. Currently, revenue from Hong Kong operations accounted for 41.8% (2018: 44.4%) of the Group’s revenue.

Segment results for Hong Kong operation increased by 11.8% to HK\$58.7 million during the period (2018: HK\$52.5 million). In addition to the improvement in profitability of our **Nissin Brands**, the Company has recorded improvement in profit from MCMS’s operation as well as additional contribution from the **Kagome** joint venture business.

The Company is never tired of introducing innovative products for customers delight. This year, the **Nissin Brands** portfolio serves our customers with two new flavours, namely *Clam Chowder Flavour* and *Lobster Bisque Flavour*, featuring western style soup in our signature **Cup Noodles** brand. Added to our current portfolio of collaborative products of **IPPUDO**, **Butao** and **Hakata Ikkousha**, the collaboration front has brought customers authentic and original Japanese ramen brand **Menya Musashi** in this year. With our success in **Bar Ramen** since we first launched in year 2016, we have further introduced to our customers a new product category of room-temperature, Japanese Inaniwa style **Bar Udon** this year with smooth surface and chewy texture.

For our joint venture with Kagome Co. Ltd., its business expansion has progressed smoothly and has well integrated into the current business portfolio. New flavours of *Setouchi Mandarin Mixed Juice*, *Apple Mixed Juice* and *Ehime Kiwi Mixed Juice* under **Kagome** brand have been launched during the year into supermarkets, convenience stores and some selected channels. The in-house production of Granola products has commenced subsequent to the completion of construction of production line in December 2018. During the period, the Company has enlarged our offerings in the Nissin Koikeya potato chip’s family with a series of potato sticks products.

The PRC Operations

The retail sales in the PRC has been growing at one of the slowest paces in the past few years. As measured by the National Bureau of Statistics of the PRC, the retail sales grew by only 8.4% for the six months of year 2019, much slower than that of last year. In response to supporting a stable future economic development, the Government has implemented a number of stimulus measures including tax reforms in year 2019. With the quality of life gradually improving in the PRC coupled with the increasing personal income level, we witnessed a trend of progressive consumption upgrade with increasing customers’ demand and preference to premium products that offers both better quality and safety for consumption.

For the period under review, the Company has maintained its double digit expansion pace (in local currency basis) in the premium instant noodles category and delivered a promising result in the PRC operations. Revenue increased by 5.9% (in local currency: 12.2%) from HK\$823.1 million to HK\$871.5 million, thanks to the success in improving the sale volume for our signature **Cup Noodles** and **Cup Noodles BIG** in different regions through channel expansion and extension of geographical coverage. Currently, revenue from the PRC operations accounted for 58.2% (2018: 55.6%) of the Group’s revenue.

During the period, the Company has made some progress in regional expansion alongside Eastern, Northern and Western China. Business activities have been expanded to the broader market of Shanghai and further extended to the nearby provinces in Zhejiang and Jiangsu, as well as expanding into some satellite cities in the Northeastern China which can offer good opportunities for the Company. While revenue growth has been at a slower pace in the first quarter, the revenue has been gradually improving in the second quarter during the period.

In terms of segment results, the Company has reported an increase of 42.3% from HK\$69.8 million to HK\$99.4 million during the period, mainly due to the cost efficiency associated with the increment in sale volume and the stable depreciation since 2018. Raw material costs were not so volatile during the period, providing the Company a better control over the costs of sales.

Last year, we reported the revamp of packaging of the **Cup Noodles** to include an inside lid to separate the utensil from the noodle cake and seasonings. The enhanced hygiene and quality control is well received by the customers. An innovative and spicy offering of collaboration product, 蒙古湯麵, was launched in January 2019 to enhance our fried instant noodles offerings. The Company would continue to focus on building its brand equity and maintain our premium pricing in the future.

In the non-fried instant noodles category, the Company has further expanded the product offerings on top of **RAOH** (launched in year 2017) and **IPPUDO** (launched in year 2018). **Menya Musashi** has been launched in June this year to enhance product offerings in this attractive market segment.

Subsequent to our success in the non-instant noodles category in Hong Kong, the Company has further introduced some of our portfolio to enhance customers' delight in the PRC. During the period, **Kagome** vegetable and fruit juices were introduced into some parts of the PRC with satisfactory result while the in-house produced Granola products were also sold to certain specific channels in the PRC in the second quarter of the year.

As we continue to further expand our business in the PRC, the Company is actively recruiting additional salesforce and expanding distribution and geographical coverage to facilitate business advancement.

SUBSEQUENT EVENT AFTER THE PERIOD

As set out in our announcement dated 2 July 2019, the Company has entered into an equity transfer agreement with Grandview China Holdings Limited (the "Seller") and its ultimate controlling shareholders, pursuant to which, Nissin Foods (China) Holding Company Limited, a wholly owned subsidiary of the Company agreed to conditionally acquire the entire equity interest in 珠海聯智科技有限公司 (UNI-INTEC (Zhuhai) Scientific Technology Co., Ltd.) (the "Target Company") (the "Acquisition").

The Target Company principally engages in the manufacturing business and owns the land use rights of a site of approximately 30,000 sq.m. located in Zhuhai, the PRC. Following the completion of the Acquisition, the Group intends to invest approximately RMB180 million to construct a new production plant on the site for the purpose of manufacturing packaging materials, which targets to complete the construction by year 2021. The new production plant would enable the Group to better mitigate its production costs and have synergy effect with the Group's existing production facilities also located in Zhuhai, the PRC. It also allows the possibility to collaborate with and have synergy with our controlling shareholder, Nissin Foods Holdings Co., Ltd.. Currently, the Group owns a packaging materials production plant in Dongguan, the PRC, which is operating at nearly full capacity.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2019, total assets of the Group amounted to HK\$4,432.1 million (31 December 2018: HK\$4,444.4 million) and the total equity was HK\$3,613.2 million (31 December 2018: HK\$3,595.2 million). The Group's working capital was HK\$2,099.3 million (31 December 2018: HK\$2,126.7 million), represented by the difference between the total current assets of HK\$2,863.4 million (31 December 2018: HK\$2,922.7 million) and the total current liabilities of HK\$764.1 million (31 December 2018: HK\$796.1 million). The current ratio was 3.7 as at 30 June 2019 (31 December 2018: 3.7).

The financial position of the Group remained healthy with net cash of approximately HK\$1,503.6 million (31 December 2018: HK\$1,677.5 million) and HK\$180.8 million (31 December 2018: HK\$180.8 million) in available banking facilities as at 30 June 2019. The Group had no external borrowing and the gearing ratio was nil as at 30 June 2019 (31 December 2018: Nil).

Capital expenditure

The Group's capital expenditure was HK\$128.2 million during the period under review (30 June 2018: HK\$94.1 million), which was mainly due to the capital investments on the production plants in Hong Kong and the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitment

The Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided of HK\$23.3 million as at 30 June 2019 (31 December 2018: HK\$116.0 million).

Financial Risk Management

The Group does not enter into or trade in derivative financial instruments either for hedging or speculative purposes. The Company and its several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. As HK Dollar is currently pegged to US Dollar, the Company considered that the Group's exposure to fluctuation in HK Dollar against US Dollar is limited. The currencies giving rise to this risk are primarily Japanese Yen and Renminbi against HK Dollar.

Contingent Liability

For the period under review, there has been no material development to the legal proceedings against the Company in respect of an alleged wrongful termination of distributorship of a former sub-distributor of our "Damae Iccho" instant noodles products (the "Proceedings") as disclosed in the prospectus of the Company issued on 29 November 2017 (the "Prospectus"). No provision for the claim in respect of the Proceedings was made by the Group and as at 30 June 2019, the Group had no material contingent liability (2018: Nil). For more details of the Proceedings, please refer to the section headed "Business — Legal proceedings and regulatory compliance — Particulars of claims against the Company as at the Latest Practicable Date" in the Prospectus.

Pledge of Assets

The Group did not have pledged assets as at 30 June 2019 (2018: Nil).

Use of Proceeds from Global Offering

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 December 2017 (the "Listing"). The total net proceeds from the Listing involving the issue of 268,580,000 ordinary shares of the Company amounted to approximately HK\$950.8 million. During the period, the net proceeds from the Listing were utilised in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 30 June 2019, the Group held the unutilised net proceeds as deposit with licensed institutions in Hong Kong.

FUTURE PROSPECTS

In the short term, the Company foresees the Sino-US trade disputes are likely to continue to impact on the economy in Hong Kong. The Company has conducted the price revision to adjust the ex-factory price of some of its container-type instant noodles products in Hong Kong in July 2019 amid the ongoing cost pressure on raw materials, labour costs and logistics cost. The Company would continue to keep a close eye on the latest economic development and is cautiously optimistic on the Hong Kong operations.

For the PRC operations, the Company expects a healthy business environment in the premium instant noodles market as the living standard in the PRC continues to improve. Additional efforts would be put on the expansion of distribution channels and the geographical coverage to improve the Company's competitiveness.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2019, the total number of staff of the Group was approximately 3,400 with staff costs (excluding directors' remuneration) amounting to HK\$288.0 million for the period. Remuneration package is determined with reference to the individual performance, qualification and experience of employees concerned and prevailing industry practice. The Group provides mandatory provident fund entitlement to Hong Kong's employees.

INTERIM DIVIDEND

The Board has not declared an interim dividend for the six months ended 30 June 2019 (2018: Nil).

CORPORATE GOVERNANCE

The Company is committed to the maintenance of good corporate governance practices. The Company has applied the principles and complied with all the applicable code provisions in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2019 except for the following deviation:

Pursuant to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Kiyotaka Ando is currently the Chairman of the Board and the Chief Executive Officer, responsible for strategic planning and managing of the Group’s overall business and operations. Mr. Ando has been responsible for overall management of the Group since 2009. The Board believes that the current structure enables the Company to make and implement business decision swiftly and effectively which promotes the Group’s development in line with other strategies and business direction. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired because of the diverse background and experience of the non-executive director and independent non-executive directors. Further, the Audit Committee, which consists exclusively of independent non-executive directors, has free and direct access to the Company’s external auditors and independent professional advisers when it considers necessary.

DIRECTORS’ SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has established its Audit Committee with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee include the review and supervision of the Group’s financial reporting system, risk management and internal control systems, review of the Group’s financial information, making recommendation to the Board on appointment and/or removal of external auditor and approving the remuneration and terms of engagement of the external auditor, reviewing and monitoring the external auditor’s independence, and the effectiveness of audit process in accordance with applicable standards. The Audit Committee comprises three Independent Non-executive Directors of the Company. The unaudited interim results of the Group for the six months ended 30 June 2019 have been reviewed by the Audit Committee in conjunction with the external auditor.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code, were as follows:

Long position in the shares

| Name of Director | Capacity/Nature | Number of ordinary shares held/interested | Percentage of interest |
|------------------|------------------|-------------------------------------------|------------------------|
| Kiyotaka Ando | Beneficial Owner | 16,534,480 ¹ | 1.54% |
| | | 164,160 ² | 0.01% |
| Shinji Tatsutani | Beneficial Owner | 21,920 ² | 0.00% |
| Munehiko Ono | Beneficial Owner | 16,400 ² | 0.00% |

Long position in the shares of associated corporation

| Name of Director | Name of associated corporation | Capacity/Nature | Number of ordinary shares held/interested | Percentage of interest |
|---------------------|--------------------------------|------------------|-------------------------------------------|------------------------|
| Kiyotaka Ando | Nissin Japan | Beneficial owner | 27,029 ³ | 0.02% |
| Toshimichi Fujinawa | Nissin Japan | Beneficial owner | 1,246 ⁴ | 0.00% |
| Shinji Tatsutani | Nissin Japan | Beneficial owner | 1,696 ⁴ | 0.00% |
| Kazuo Kawasaki | Nissin Japan | Beneficial owner | 4,162 ⁵ | 0.00% |
| Munehiko Ono | Nissin Japan | Beneficial owner | 3,359 ⁴ | 0.00% |

Notes:

1. These shares are held by Mr. Kiyotaka Ando directly in his personal name.
2. These shares are the shares granted by the Company pursuant to the Share Award Scheme as set out in Note 15 to the condensed consolidated financial statements.
3. Among 27,029 shares of Nissin Foods Holdings Co., Ltd. ("Nissin Japan") held by Mr. Kiyotaka Ando, 27,000 shares were held directly by him and 29 shares were held by a director share ownership association, namely 日清食品役員持株會, as a nominee of Mr. Kiyotaka Ando.
4. These shares were held by an employee share ownership association, namely 日清食品従業員持株會, as a nominee of the respective Director.
5. Among 4,162 shares of Nissin Japan held by Mr. Kazuo Kawasaki, 1,900 shares were held directly by him and 2,262 shares were held by an employee share ownership association, namely 日清食品従業員持株會, as a nominee of Mr. Kazuo Kawasaki.

Other than as disclosed above, none of the Directors nor their associates have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 30 June 2019.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" above, at no time during the six months ended 30 June 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL AND OTHERS SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2019, so far as known to any Directors, the following person (not being a Director or chief executive of the Company) had interest or short position in shares or underlying shares which fell to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in shares

| Name of Shareholder | Capacity/Nature | Number of ordinary shares held/interested | Percentage of interest |
|---------------------|------------------|-------------------------------------------|------------------------|
| Nissin Japan | Beneficial owner | 752,024,000 | 70.00% |

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares of the Company or any other interests representing 5% or more of the shares of the Company as at 30 June 2019.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes of directors' information of the Company since the date of the 2018 annual report is as follows:

- (1) Mr. Kiyotaka Ando has been appointed as non-official member to the Committee on Reduction of Salt and Sugar in Food by The Food and Health Bureau for the period from 15 April 2019 to 14 March 2021.
- (2) Mr. Tong Ching Hsi has retired from the position of vice-president and has simultaneously been elected as president of the Taiwan Japan Association for Business Communication with effect from 19 April 2019.
- (3) Mr. Tong Ching Hsi has resigned as Non-executive Director of the Company with effect from 1 September 2019 in order to devote more time to other commitments.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

To the Board of Directors Of Nissin Foods Company Limited

日清食品有限公司

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Nissin Foods Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 11 to 36, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | NOTES | Six months ended 30 June | |
|----------------------------------------------------------------------|-------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Revenue | 3 | 1,497,883 | 1,481,591 |
| Cost of sales and services | | (1,015,028) | (1,035,163) |
| Gross profit | | 482,855 | 446,428 |
| Other income | 5 | 23,831 | 21,242 |
| Selling and distribution costs | | (211,160) | (213,070) |
| Administrative expenses | | (101,308) | (100,593) |
| Finance costs | | (61) | – |
| Other expenses | | (12,254) | (10,425) |
| Other gains and losses | 6 | (2,714) | 988 |
| Profit before taxation | | 179,189 | 144,570 |
| Income tax expense | 7 | (33,190) | (38,820) |
| Profit for the period | 8 | 145,999 | 105,750 |
| Other comprehensive expense | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | (8,337) | (17,074) |
| Total comprehensive income for the period | | 137,662 | 88,676 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 132,866 | 94,166 |
| Non-controlling interests | | 13,133 | 11,584 |
| | | 145,999 | 105,750 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | 125,918 | 78,222 |
| Non-controlling interests | | 11,744 | 10,454 |
| | | 137,662 | 88,676 |
| Earnings per share | 10 | | |
| Basic (HK cents) | | 12.37 | 8.77 |
| Diluted (HK cents) | | 12.37 | 8.77 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | NOTES | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|----------------------------------------------------------------|-------|--------------------------------------------|----------------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 1,363,980 | 1,307,820 |
| Right-of-use assets | 11 | 80,322 | – |
| Prepaid lease payments for leasehold land | | – | 77,793 |
| Goodwill | | 40,082 | 40,082 |
| Trademark | | 26,656 | 28,271 |
| Interest in an associate | | 116 | 116 |
| Financial assets at fair value through profit or loss | | 30,016 | 31,821 |
| Loan receivable | | 2,189 | 2,463 |
| Deposits paid for acquisition of property, plant and equipment | | 4,006 | 14,454 |
| Deferred tax assets | | 21,334 | 18,806 |
| | | 1,568,701 | 1,521,626 |
| Current assets | | | |
| Prepaid lease payments for leasehold land | | – | 2,100 |
| Inventories | | 287,983 | 294,086 |
| Trade receivables | 12 | 435,428 | 449,932 |
| Other receivables, prepayments and deposits | | 80,803 | 81,839 |
| Loan receivable | | 547 | 547 |
| Amount due from ultimate holding company | | 2,750 | 1,666 |
| Amounts due from fellow subsidiaries | 18 | 689 | 8,965 |
| Financial assets at fair value through profit or loss | | 393,569 | 88,536 |
| Other financial assets | | 156,630 | 313,260 |
| Tax recoverable | | 1,399 | 4,350 |
| Time deposits over three months | | – | 292,758 |
| Bank balances and cash | | 1,503,568 | 1,384,707 |
| | | 2,863,366 | 2,922,746 |
| Current liabilities | | | |
| Trade payables | 13 | 215,978 | 252,540 |
| Other payables and accruals | | 497,058 | 502,071 |
| Amount due to ultimate holding company | 18 | 24,958 | 23,961 |
| Amounts due to fellow subsidiaries | 18 | 4,784 | 4,438 |
| Lease liabilities | | 1,278 | – |
| Tax liabilities | | 18,760 | 11,812 |
| Deferred income | | 1,269 | 1,274 |
| | | 764,085 | 796,096 |
| Net current assets | | 2,099,281 | 2,126,650 |
| Total assets less current liabilities | | 3,667,982 | 3,648,276 |

| | NOTE | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|-----------------------------------------------|------|--------------------------------------------|----------------------------------------------|
| Capital and reserves | | | |
| Share capital | 14 | 2,941,441 | 2,941,441 |
| Reserves | | 563,071 | 539,095 |
| Equity contributable to owners of the Company | | 3,504,512 | 3,480,536 |
| Non-controlling interests | | 108,725 | 114,637 |
| Total equity | | 3,613,237 | 3,595,173 |
| Non-current liabilities | | | |
| Lease liabilities | | 315 | – |
| Deferred tax liabilities | | 35,111 | 33,277 |
| Deferred income | | 19,319 | 19,826 |
| | | 54,745 | 53,103 |
| | | 3,667,982 | 3,648,276 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | | | | | |
|-------------------------------------------------------------------|---------------------------------------|-------------------------------------------|-----------------------------|---------------------------------|----------------------------------------|------------------------------------|---------------------------------|---------------------------------------|------------------------------|----------------------|---------------------------------------|-------------------|
| | Share capital HK\$'000 | PRC | Capital reserve HK\$'000 | Translation reserve HK\$'000 | Merger reserve HK\$'000 (Note 2) | Shares held | Share award reserve HK\$'000 | Other reserve HK\$'000 (Note 3) | Retained profits HK\$'000 | Subtotal HK\$'000 | Non-controlling interests HK\$'000 | Total HK\$'000 |
| | | statutory reserve HK\$'000 (Note 1) | | | | for share award scheme HK\$'000 | | | | | | |
| At 1 January 2019 (audited) | 2,941,441 | 58,654 | 1,099 | (54,213) | (238,168) | (678) | 252 | 14,403 | 757,746 | 3,480,536 | 114,637 | 3,595,173 |
| Profit for the period | - | - | - | - | - | - | - | - | 132,866 | 132,866 | 13,133 | 145,999 |
| Exchange differences arising on translation of foreign operations | - | - | - | (6,948) | - | - | - | - | - | (6,948) | (1,389) | (8,337) |
| Total comprehensive (expense) income for the period | - | - | - | (6,948) | - | - | - | - | 132,866 | 125,918 | 11,744 | 137,662 |
| Recognition of equity-settled share-based payment (Note 15) | - | - | - | - | - | - | 118 | - | - | 118 | - | 118 |
| Transfer of reserves | - | 5,584 | - | - | - | - | - | - | (5,584) | - | - | - |
| Dividend recognised as distribution (Note 9) | - | - | - | - | - | - | - | - | (102,060) | (102,060) | - | (102,060) |
| Dividend recognised as distribution to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (17,656) | (17,656) |
| At 30 June 2019 (unaudited) | 2,941,441 | 64,238 | 1,099 | (61,161) | (238,168) | (678) | 370 | 14,403 | 782,968 | 3,504,512 | 108,725 | 3,613,237 |

| | Attributable to owners of the Company | | | | | | | | | | | |
|-------------------------------------------------------------------|---------------------------------------|-----------|---------|------------------------------------|-------------------------------------------|-------------|---------------------------------------|------------------------------------------|---------------------------------|----------------------|----------------------------------------------|-------------------|
| | Share capital HK\$'000 | PRC | | Translation reserve HK\$'000 | Merger reserve HK\$'000 (Note 2) | Shares held | Share award reserve HK\$'000 | Other reserve HK\$'000 (Note 3) | Retained profits HK\$'000 | Subtotal HK\$'000 | Non- controlling interests HK\$'000 | Total HK\$'000 |
| | | statutory | Capital | | | for share | | | | | | |
| | | reserve | reserve | | | award | | | | | | |
| (Note 1) | | | | | | | | | | | | |
| At 1 January 2018 (audited) | 2,941,441 | 46,776 | 1,099 | 32,279 | (238,168) | (1,146) | - | 14,403 | 642,512 | 3,439,196 | 111,878 | 3,551,074 |
| Profit for the period | - | - | - | - | - | - | - | 94,166 | 94,166 | 11,584 | 105,750 | |
| Exchange differences arising on translation of foreign operations | - | - | - | (15,944) | - | - | - | - | (15,944) | (1,130) | (17,074) | |
| Total comprehensive (expense) income for the period | - | - | - | (15,944) | - | - | - | 94,166 | 78,222 | 10,454 | 88,676 | |
| Transfer of reserves | - | 5,411 | - | - | - | - | - | (5,411) | - | - | - | |
| Recognition of equity-settled share-based payment (note 15) | - | - | - | - | - | 553 | - | - | 553 | - | 553 | |
| Shares vested under share award scheme | - | - | - | - | - | 468 | (553) | 85 | - | - | - | |
| Dividend recognised as distribution (note 9) | - | - | - | - | - | - | - | (78,425) | (78,425) | - | (78,425) | |
| Dividend recognised as distribution to non-controlling interests | - | - | - | - | - | - | - | - | - | (19,425) | (19,425) | |
| At 30 June 2018 (unaudited) | 2,941,441 | 52,187 | 1,099 | 16,335 | (238,168) | (678) | - | 14,403 | 652,927 | 3,439,546 | 102,907 | 3,542,453 |

Notes:

- According to the articles of association and board resolution of subsidiaries of the Company in the People's Republic of China ("PRC"), 10% of the profits after taxation, as determined under the PRC accounting rules and regulations, were transferred to general reserve funds under "PRC statutory reserve". The transfers to such reserves must be made before the distribution of a dividend to equity owners of those subsidiaries until the aggregated amounts have reached 50% of their registered capitals. These reserves should only be used for making up losses, capitalisation into capital and expansion of production and operation.
- Merger reserve represents the difference between the share capital issued by the Company, and the aggregate of (1) the share capital of Winner Food Products Limited ("Winner Food") and (2) the retained profits of Winner Food, net of non-controlling interests, prior to the original acquisition of Winner Food by Nissin Foods Holdings Co., Ltd., the Company's immediate and ultimate holding company, in 1989, arising from a group reorganisation on 1 January 2014.
- On 22 December 2014, the Company further acquired 26% interest in Winner Food from the non-controlling shareholder for a cash consideration of HK\$129,453,000. The difference between the cash consideration paid and the carrying amount of the net assets attributable to the additional interest in Winner Food acquired from the non-controlling shareholder of HK\$14,403,000 is recognised in "other reserve". Upon completion of this acquisition, Winner Food became a wholly-owned subsidiary of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|--------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| NET CASH FROM OPERATING ACTIVITIES | 180,100 | 115,924 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | | |
| Interest received | 16,978 | 17,720 |
| Purchase of property, plant and equipment | (113,227) | (74,987) |
| Proceeds from disposal of property, plant and equipment | 245 | 3,451 |
| Loan repaid | 274 | 274 |
| Advance to ultimate holding company | (2,749) | (1,808) |
| Repayment from ultimate holding company | 1,647 | 3,955 |
| Proceeds from disposal of financial assets at fair value through profit or loss | 88,593 | – |
| Proceed from disposal of other financial assets | 313,260 | – |
| Purchase of financial assets at fair value through profit or loss | (392,332) | – |
| Purchase of other financial assets | (156,630) | – |
| Placement of time deposits with original maturity of more than three months | – | (438,381) |
| Withdrawal of time deposits with original maturity of more than three months | 292,758 | 463,399 |
| | 48,817 | (26,377) |
| CASH USED IN FINANCING ACTIVITIES | | |
| Dividend paid to non-controlling interests | (2,204) | (2,768) |
| Dividend paid to owners of the Company | (102,060) | – |
| Repayment of lease liabilities | (872) | – |
| Interest paid | (61) | – |
| | (105,197) | (2,768) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 123,720 | 86,779 |
| EFFECT OF FOREIGN EXCHANGE RATES CHANGES | (4,859) | (8,927) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 1,384,707 | 1,693,459 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash | 1,503,568 | 1,771,311 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|-----------------------|------------------------------------------------------|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

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

Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs and an interpretation *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

2.1 *Key changes in accounting policies resulting from application of HKFRS 16*

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

Definition of a lease

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

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

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles and staff quarters have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

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

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

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs and an interpretation *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1 *Key changes in accounting policies resulting from application of HKFRS 16 (continued)*

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs and an interpretation *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1 *Key changes in accounting policies resulting from application of HKFRS 16 (continued)*

As a lessee *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

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

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

2.2 *Transition and summary of effects arising from initial application of HKFRS 16*

Definition of a lease

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs and an interpretation *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of HKFRS 16 *(continued)*

As a lessee

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

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

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16 C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate for the leases in Hong Kong applied is 2.715% and for the leases in the People's Republic of China (the "PRC") applied is 4.750%.

| | HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------|----------|
| Operating lease commitments disclosed as at 31 December 2018 | 5,717 |
| Lease liabilities discounted at relevant incremental borrowing rates | 5,557 |
| Add: Termination options reasonably certain not to be exercised | 654 |
| Less: Recognition exemption-short term leases | (5,147) |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and as at 1 January 2019 | 1,064 |
| Analysed as: | |
| Current | 664 |
| Non-current | 400 |
| | 1,064 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs and an interpretation *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of HKFRS 16 *(continued)*

As a lessee *(continued)*

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

| | HK\$'000 |
|------------------------------------------------------------------------------------------|----------|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 1,064 |
| Reclassified from prepaid lease payments for leasehold land (Note) | 79,893 |
| | <hr/> |
| | 80,957 |
| | <hr/> |
| By class: | |
| Leasehold land | 79,893 |
| Land and buildings | 947 |
| Motor vehicles | 117 |
| | <hr/> |
| | 80,957 |
| | <hr/> |

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments for leasehold land as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments for leasehold land amounting to HK\$2,100,000 and HK\$77,793,000 respectively were reclassified to right-of-use assets.

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. However, no adjustment has been made to adjust the refundable rental deposits paid and right-of-use assets since the discounting effect is insignificant.

The transition of HKFRS 16 has no material impact on the retained profits as at 1 January 2019.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs and an interpretation *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.2 *Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

As a lessee (continued)

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

| | Carrying amounts previously reported at 31 December 2018 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000 |
|-------------------------------------------|----------------------------------------------------------------------------------|-------------------------|---------------------------------------------------------------------------|
| Non-current assets | | | |
| Prepaid lease payments for leasehold land | 77,793 | (77,793) | – |
| Right-of-use assets | – | 80,957 | 80,957 |
| Current assets | | | |
| Prepaid lease payments for leasehold land | 2,100 | (2,100) | – |
| Current liabilities | | | |
| Lease liabilities | – | 664 | 664 |
| Non-current liabilities | | | |
| Lease liabilities | – | 400 | 400 |

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

| | For the six months ended 30 June 2019 (unaudited) | | | For the six months ended 30 June 2018 (unaudited) | | |
|--------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|-------------------|-----------------------------------------------------------|------------------------------------------------------------|-------------------|
| | HK Operations (as defined in Note 4) HK\$'000 | PRC Operations (as defined in Note 4) HK\$'000 | Total HK\$'000 | HK Operations (as defined in Note 4) HK\$'000 | PRC Operations (as defined in Note 4) HK\$'000 | Total HK\$'000 |
| Types of goods and services | | | | | | |
| Sales of goods | 626,159 | 868,838 | 1,494,997 | 657,412 | 822,154 | 1,479,566 |
| Others (Note) | 252 | 2,634 | 2,886 | 1,073 | 952 | 2,025 |
| Total | 626,411 | 871,472 | 1,497,883 | 658,485 | 823,106 | 1,481,591 |
| Timing of revenue recognition | | | | | | |
| A point in time | 626,411 | 870,459 | 1,496,870 | 658,485 | 822,312 | 1,480,797 |
| Over time | – | 1,013 | 1,013 | – | 794 | 794 |
| Total | 626,411 | 871,472 | 1,497,883 | 658,485 | 823,106 | 1,481,591 |

Note: Other mainly includes revenue from provision of publicity services.

4. SEGMENT INFORMATION

The Group is organised into operating business units according to the major place of operations of the relevant group entities. The Group determines its operating segments based on these business units by reference to their respective major place of operations, for the purpose of reporting to the chief operating decision maker, i.e. the managing director of the Company.

Specifically, the Group's operating and reportable segments under HKFRS 8 *Operating Segments* are as follows:

- HK Operations: Manufacturing and sales of noodles, frozen foods and other products in Hong Kong and overseas, and provision of publicity service
- PRC Operations: Manufacturing and sales of noodles, frozen foods and other products in the PRC and provision of publicity service

There are no aggregation of individual operating segments to derive the reportable segments.

4. SEGMENT INFORMATION *(continued)*

Segment revenue and results

For the six months ended 30 June 2019 (unaudited):

| | HK Operations HK\$'000 | PRC Operations HK\$'000 | Reportable segment total HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---------------------------------------------------|------------------------------|-------------------------------|--------------------------------------------|-------------------------|-------------------|
| Revenue | | | | | |
| Segment revenue from external customers | 626,411 | 871,472 | 1,497,883 | – | 1,497,883 |
| Inter-segment revenue (Note) | 76,429 | 81,220 | 157,649 | (157,649) | – |
| Segment revenue | 702,840 | 952,692 | 1,655,532 | (157,649) | 1,497,883 |
| Result | | | | | |
| Segment results | 58,711 | 99,361 | 158,072 | – | 158,072 |
| Unallocated income and other gains | | | | | 2,082 |
| Unallocated expenses and other losses | | | | | (1,083) |
| Interest income | | | | | 19,944 |
| Gain on disposal of property, plant and equipment | | | | | 174 |
| Consolidated profit before taxation | | | | | 179,189 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

For the six months ended 30 June 2018 (unaudited):

| | HK Operations HK\$'000 | PRC Operations HK\$'000 | Reportable segment total HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---------------------------------------------------|------------------------------|-------------------------------|--------------------------------------------|-------------------------|-------------------|
| Revenue | | | | | |
| Segment revenue from external customers | 658,485 | 823,106 | 1,481,591 | – | 1,481,591 |
| Inter-segment revenue (Note) | 55,573 | 70,862 | 126,435 | (126,435) | – |
| Segment revenue | 714,058 | 893,968 | 1,608,026 | (126,435) | 1,481,591 |
| Result | | | | | |
| Segment results | 52,503 | 69,837 | 122,340 | – | 122,340 |
| Unallocated income and other gains | | | | | 3,555 |
| Unallocated expenses and other losses | | | | | (564) |
| Interest income | | | | | 19,091 |
| Gain on disposal of property, plant and equipment | | | | | 148 |
| Consolidated profit before taxation | | | | | 144,570 |

Note: Inter-segment revenue are charged at prevailing market rates.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of certain other expenses and other losses, other income, net exchange loss, interest income, fair value changes in financial assets at fair value through profit or loss, and gain on disposal of property, plant and equipment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

No segment assets and liabilities are presented as the information is not regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of performance. Therefore, only segment revenue and segment results are presented.

5. OTHER INCOME

| | Six months ended 30 June | |
|----------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Interest income from bank deposits | 18,649 | 19,091 |
| Interest income from financial assets at fair value through profit or loss | 1,295 | – |
| | 19,944 | 19,091 |
| Miscellaneous income | 3,887 | 2,151 |
| | 23,831 | 21,242 |

6. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|-----------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Exchange losses, net | (1,083) | (564) |
| Fair value changes on financial assets at fair value through profit or loss | (1,805) | 1,404 |
| Gain on disposal of property, plant and equipment | 174 | 148 |
| | (2,714) | 988 |

7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|-------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Current tax: | | |
| Hong Kong Profits Tax | 9,670 | 8,373 |
| PRC Enterprise Income Tax | 22,376 | 23,196 |
| PRC withholding tax | 1,911 | 2,246 |
| | 33,957 | 33,815 |
| Overprovision in prior years: | | |
| PRC Enterprise Income Tax | – | (4,859) |
| Deferred taxation | (767) | 9,864 |
| | 33,190 | 38,820 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

8. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|----------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Profit for the period has been arrived at after charging (crediting): | | |
| Amortisation of prepaid lease payments for leasehold land | – | 1,133 |
| Amortisation of trademark | 1,615 | 1,615 |
| Depreciation of right-of-use assets | 1,737 | – |
| Cost of inventories recognised as expense | 1,015,028 | 1,035,163 |
| Depreciation of property, plant and equipment | 68,900 | 73,257 |
| Less: Amount capitalised in inventories and included in cost of sales upon sales | (60,195) | (64,198) |
| | 8,705 | 9,059 |
| Research and development expenditure | 12,254 | 10,425 |
| Staff costs (Note) | | |
| Directors' emoluments: | | |
| – fees | 400 | 400 |
| – other emoluments | 7,828 | 5,674 |
| | 8,228 | 6,074 |
| Other staff costs excluding directors' emoluments (Note) | 287,991 | 285,863 |
| Total staff costs | 296,219 | 291,937 |
| Less: Amount capitalised in inventories and included in cost of sales upon sales | (136,918) | (137,477) |
| Less: Amount included as research and development expenditure as shown in above | (7,155) | (5,826) |
| | 152,146 | 148,634 |

Note: Contributions to retirement benefit scheme included in other staff costs for the six months ended 30 June 2019 amounted to HK\$28,288,000 (for the six months ended 30 June 2018: HK\$23,717,000).

9. DIVIDEND

During the current interim period, the Company declared and recognised the 2018 final dividend of 9.5 HK cents per ordinary share amounting to HK\$102,060,000 (for the six months ended 30 June 2018: 2017 final dividend of 7.3 HK cents per ordinary share amounted to HK\$78,425,000) in aggregate as distribution to its shareholders.

10. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------|
| | 2019 (unaudited) | 2018 (unaudited) |
| Earnings | | |
| Profit for the period attributable to the owners of the Company for the purposes of basic and diluted earnings per share (HK\$'000) | 132,866 | 94,166 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,074,144,370 | 1,074,036,980 |
| Effect of dilutive potential ordinary shares in respect of outstanding share awards | 159,210 | – |
| Weighted average number of ordinary shares of the purpose of diluted earnings per share | 1,074,303,580 | 1,074,036,980 |

For the six months ended 30 June 2018, the calculation of diluted earnings per share has not considered the impact in respect of the outstanding share awards since the directors of the Company considered the impact to be insignificant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period,

- (i) the Group had incurred total expenditures of HK\$128,197,000 (for the six months ended 30 June 2018: HK\$94,057,000) on acquisition of property, plant and equipment, for the purpose of business expansion and administration;
- (ii) the Group disposed of certain plant and machinery with an aggregate carrying amount of HK\$71,000 (for the six months ended 30 June 2018: HK\$3,303,000) for cash proceeds of HK\$245,000 (for the six months ended 30 June 2018: HK\$3,451,000), resulting in a gain on disposal of HK\$174,000 (for the six months ended 30 June 2018: HK\$148,000); and
- (iii) the Group entered into new lease agreements for the use of offices and apartments for two to three years. The Group is required to make fixed monthly payments. On lease commencement during the current interim period, the Group recognised additional right-of-use assets of HK\$1,415,000 and lease liabilities of HK\$1,415,000.

12. TRADE RECEIVABLES

The following is an aged analysis of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates at the end of the reporting period.

| | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|----------------|------------------------------------------------------|----------------------------------------------|
| 0 to 30 days | 244,525 | 261,209 |
| 31 to 90 days | 152,030 | 157,810 |
| 91 to 180 days | 38,873 | 30,913 |
| | 435,428 | 449,932 |

The Group allows an average credit period of 90 days to its trade customers.

13. TRADE PAYABLES

The average credit period on purchases of goods is 60 days.

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

| | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|----------------|------------------------------------------------------|----------------------------------------------|
| 0 to 30 days | 123,248 | 111,980 |
| 31 to 90 days | 80,279 | 118,972 |
| 91 to 180 days | 12,173 | 21,569 |
| Over 180 days | 278 | 19 |
| | 215,978 | 252,540 |

14. SHARE CAPITAL

| | Number of shares | Share capital HK\$'000 |
|------------------------------------|---------------------|------------------------------|
| Issued and fully paid | | |
| At 1 January 2019 and 30 June 2019 | 1,074,319,480 | 2,941,441 |

Details of the shares held under the share award scheme are set out below:

| | Average purchase price HK\$ | Number of shares held | Value of shares HK\$'000 |
|----------------------------------------|-----------------------------------|--------------------------|--------------------------------|
| At 1 January 2018 | 4 | 295,840 | 1,146 |
| Shares vested under share award scheme | – | (120,730) | (468) |
| At 31 December 2018 and 30 June 2019 | 4 | 175,110 | 678 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

15. SHARE-BASED PAYMENT TRANSACTIONS

On 7 March 2016, the share award scheme was adopted by the Company. The share award scheme is valid and effective for a period of 10 years commencing from 7 March 2016. Pursuant to the rules of the share award scheme, the Group has set up a trust for the purpose of administering the share award scheme and holding the awarded shares before they are vested.

On 25 May 2018, a total of 279,940 award shares (the "2018 Awarded Shares") of the Company have been awarded to certain selected employees (including but not limited to directors, executives, officers and other employees, whether full-time or part-time, of any members of the Group) at no consideration.

120,730 of the 2018 Awarded Shares were vested on 11 June 2018 and the remaining 159,210 of the 2018 Awarded Shares shall be vested on 11 December 2020. During the respective vesting periods, the selected employees must remain as a director or an employee of the Company or its subsidiaries.

The following table discloses movements of the Company's share award held by directors and employees during the period:

| Category of grantees | Date of grant | Vesting period | Numbers of shares awarded | |
|----------------------|---------------|--------------------------------------|------------------------------|----------------------------|
| | | | Balance as at 1 January 2019 | Balance as at 30 June 2019 |
| Employees | 25 May 2018 | From 25 May 2018 to 11 December 2020 | 159,210 | 159,210 |

The estimated fair value of the 2018 Awarded Share was HK\$4.58 per share based on the market trading price of the share at the grant date. The total fair value of the 2018 Awarded Shares is HK\$1,282,000.

The Group recognised the total expense of HK\$118,000 (for the six months period ended 30 June 2018: HK\$553,000) in relation to share award granted by the Company in the current period.

16. COMMITMENTS

As at the end of the reporting period, capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements amounted to HK\$23,294,000 (31 December 2018: HK\$116,015,000).

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

The accounting team determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The accounting team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The accounting team reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the assets and liabilities.

The fair values of these financial assets and financial liabilities 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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements and valuation processes *(continued)*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|-------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------------------------|----------------------|----------------------------------------------------------|
| | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) | | |
| Non-current: | | | | |
| Listed equity securities classified as financial assets at fair value through profit or loss | 10,230 | 12,035 | Level 1 | Quoted prices in an active market |
| Club debenture classified as financial assets at fair value through profit or loss | 272 | 272 | Level 2 | Quoted prices in a secondary market for identical assets |
| Unlisted equity instruments classified as financial assets at fair value through profit or loss | 19,514 | 19,514 | Level 3 | Price to earning ratio adjusted for marketability (Note) |
| Current: | | | | |
| Structured notes classified as financial assets at fair value through profit or loss | 393,569 | 88,536 | Level 2 | Quoted price in a secondary market for identical assets |

Note : An increase in the price to earning ratio would result in an increase in the fair value measurement of the unlisted equity instruments, and vice versa.

There were no transfers between Level 1, 2 and 3 during the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their corresponding fair values.

The fair value of the financial assets and financial liabilities above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

18. RELATED PARTY DISCLOSURES

The following is an aged analysis of trade receivables from related companies (which are unsecured, interest-free and with credit terms ranging from 30 to 40 days) presented based on the invoice date, which approximate the respective revenue recognition dates at the end of the reporting period.

Amounts due from fellow subsidiaries

| | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|----------------|------------------------------------------------------|----------------------------------------------|
| 0 to 30 days | 440 | 8,727 |
| 31 to 90 days | 203 | 238 |
| 91 to 180 days | 46 | – |
| | 689 | 8,965 |

The following is an aged analysis of trade payables to related companies (which are unsecured, interest-free and with credit terms ranging from 30 to 40 days) presented based on the invoice date at the end of the reporting period.

Amount due to ultimate holding company

| | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|----------------|------------------------------------------------------|----------------------------------------------|
| 0 to 30 days | 18,143 | 11,327 |
| 31 to 90 days | 5,563 | 8,046 |
| 91 to 180 days | 754 | 3,040 |
| Over 180 days | 498 | 1,548 |
| | 24,958 | 23,961 |

Amounts due to fellow subsidiaries

| | 30 June 2019 HK\$'000 (unaudited) | 31 December 2018 HK\$'000 (audited) |
|---------------|------------------------------------------------------|----------------------------------------------|
| 0 to 30 days | 4,727 | 3,872 |
| 31 to 90 days | 57 | 566 |
| | 4,784 | 4,438 |

Amount due from ultimate holding company is non-trade in nature, unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

18. RELATED PARTY DISCLOSURES *(continued)*

Apart from the balances with related parties as disclosed in the condensed consolidated statement of financial position, the Group has entered into the following transactions with its related parties:

| | Six months ended 30 June | |
|-------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Ultimate holding company | | |
| Management fee received | 152 | 130 |
| Outsourcing manufacturing and procurement of finished goods | 16,882 | 14,627 |
| Purchase of raw materials | 18,008 | 16,941 |
| Purchase of equipment and parts | 100 | 280 |
| Rental income received | 9 | – |
| Royalty charges paid (Note) | 7,913 | 7,468 |
| Software license fee | 18 | 5 |
| Publicity service income | 1,013 | 794 |

Note: The amount represents royalty paid to ultimate holding company for the rights to use certain trademarks and technical know-how in connection with the manufacturing and sales of certain licensed products which is calculated at certain percentage on the net sales of these licensed products.

| | Six months ended 30 June | |
|-------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Fellow subsidiaries | | |
| Food testing fee | 2,111 | 2,240 |
| Outsourcing manufacturing and procurement of finished goods | 21,648 | 20,608 |
| Purchases of raw materials | 2,468 | 1,008 |
| Sales of raw materials and finished goods | 19,992 | 16,876 |

The compensation to key management personnel consists mainly of directors' emoluments as disclosed in Note 8.

19. EVENTS AFTER THE REPORTING PERIOD

On 2 July 2019, the Group entered into an equity transfer agreement with independent third parties to acquire the entire equity interest in an entity established in the PRC which holds a land use right in the PRC, for the purpose of acquiring such land use right to construct a new production plant. With certain conditions as contained in the equity transfer agreement yet to be fulfilled, such transaction has not completed up to the date of this report.