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 2019

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Huang Xianming *(Chairman)*
Mr. Tan Chaojun *(Vice Chairman)*
Mr. Chen Minghui (resigned on June 30, 2019)
Mr. Chen Songhuan (appointed on July 1, 2019)

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
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
35/F, One Pacific Place
88 Queensway
Hong Kong

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 54 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

Flat 10A, 14/F,
Splendid Centre
100 Larch Street
Kowloon
Hong Kong

CORPORATE WEBSITE

www.gdjsl.com

STOCK CODE

1285

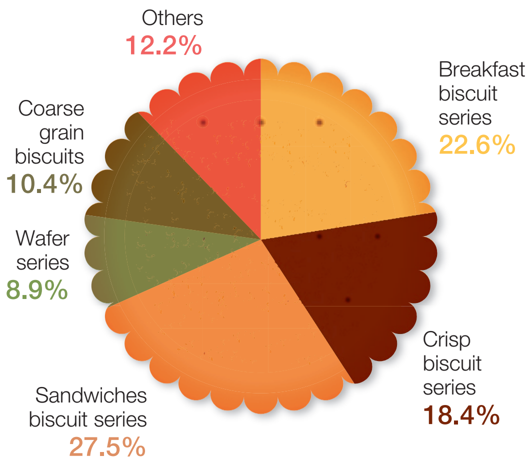
LISTING DATE

September 25, 2014

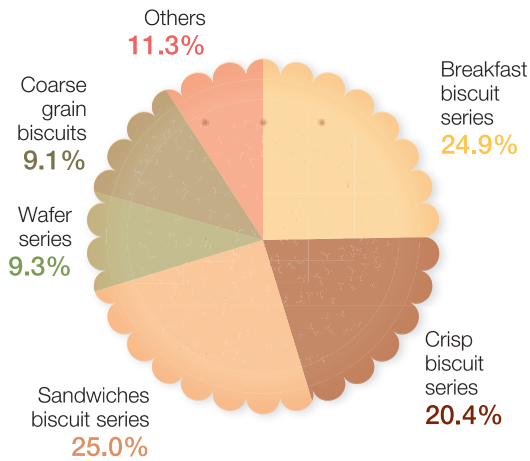
FINANCIAL HIGHLIGHTS

REVENUE BREAKDOWN BY MAJOR PRODUCT SEGMENTS

2019



2018

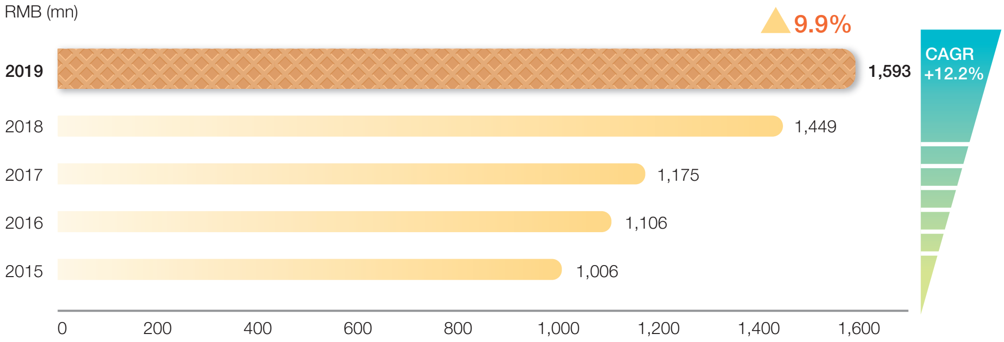


	Year ended December 31, 2019 (RMB'000)	2018 (RMB'000)	Increase/ decrease
Revenue	**1,593,067**	1,449,288	↑ 9.9%
Gross profit	**538,865**	461,965	↑ 16.6%
Gross profit margin	**33.8%**	31.9%	↑ 1.9 percentage points
Profit for the year	**108,539**	86,176	↑ 26.0%
Profit for the year (exclude one-off impairment provision on prepayments)	**183,180**	86,176	↑ 112.6%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**223,001**	173,414	↑ 28.6%
Earnings per share — Basic and diluted (RMB cents)	**26.41**	20.84	↑ 26.7%
Net profit margin	**6.8%**	6.0%	↑ 0.8 percentage point
Proposed final dividend per share (HKD)	**0.05**	0.05	—

Financial Highlights

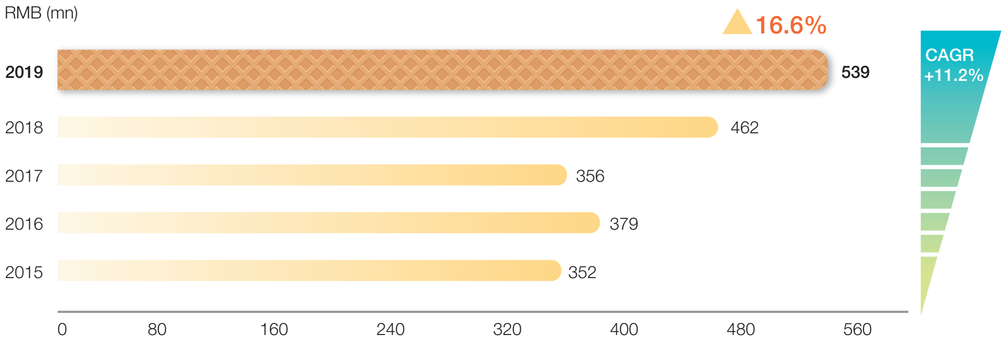
REVENUE

RMB (mn)



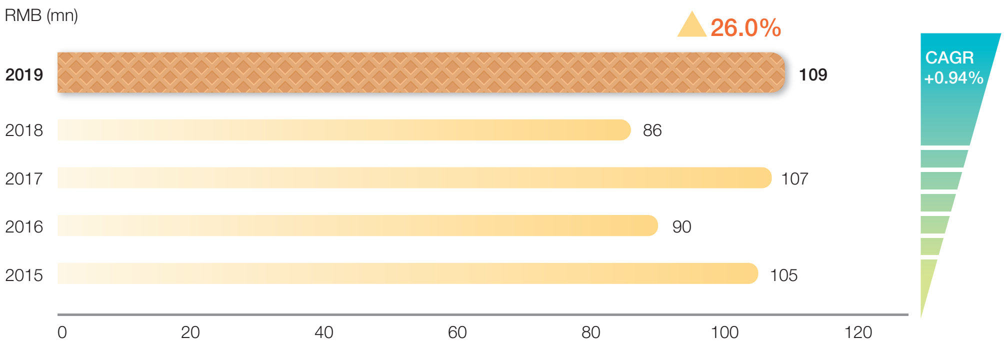
GROSS PROFIT

RMB (mn)



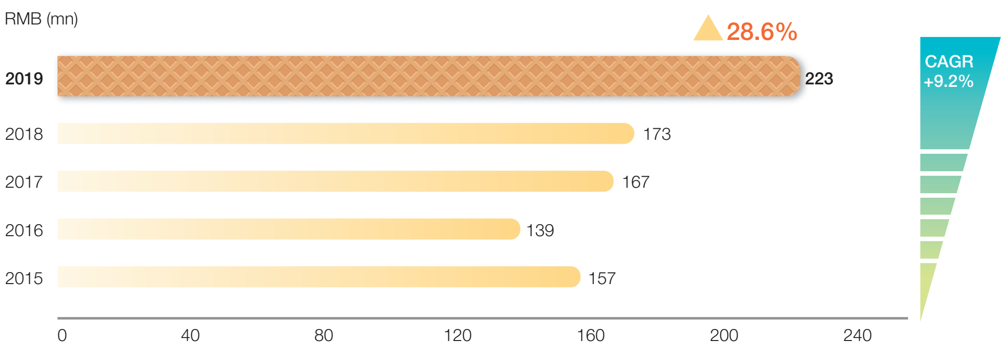
PROFIT FOR THE YEAR

RMB (mn)



EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION, EBITDA

RMB (mn)



CHAIRMAN'S STATEMENT

Dear Shareholders,

PERFORMANCE REVIEW

On behalf of Jiashili Group Limited ("Jiashili" or the "Company", together with its subsidiaries collectively, the "Group", "we", "our", "us"), I am pleased to present the annual results of Jiashili for the year of 2019.

Despite the challenging trading environment in 2019, Jiashili once again continued its solid growth path and further extended its leading position in the local biscuit market. We increased our market share in strategically important markets and once again achieved sales growth within our target range. Although the market environment continues to be very challenging, we still managed to achieve a very strong performance. Various political instabilities, along with a changing retail landscape, are putting pressure on the local biscuit market. Despite this, the local biscuit and snack market is experiencing higher than average growth across China – a trend that Jiashili can benefit from as a leading global manufacturer of quality biscuits. Group sales increased to approximately RMB1,593 million. This represents organic growth of 9.9% year-on-year, which is within the target range set for the financial year. With 64 years of history in local biscuit manufacturing business, we are keenly aware that manufacturing efficiency are vital to achieve full asset utilisation. Our production lines are running with the utilisation rate on average of above 65%. With seasonal peak, some of our production lines' utilisation rate can reach up to 80%.

Sandwich biscuit segment is still the most important segment for Jiashili Group, contributing more than 25% of Group revenue. Organic growth in the sandwich biscuit segment was very solid with year-on-year increase of 20.8% and volume growth rose by 18.2%. The unique taste and flavors together with our successful marketing and positioning strategy provide unprecedented experience and continues to drive significant value for our end-customers. Our coarse grains biscuit segment enjoyed a successful year, with strong underlying sales and volume growth of 25.7% and 49.6% increase year-on-year respectively. Cost

Chairman's Statement

savings in our "Silang" branded coarse grains biscuit segment proved to be effective and continues to pay off as we have adjusted the business model in terms of production, selling and marketing strategy.

IMPACT OF IFRS 16 'LEASES'

In January 2019 the Group adopted the new accounting standard (IFRS 16 'Leases'), which had the impact of increasing depreciation expenses of right-of-use assets by approximately RMB6 million, and the effect of increasing finance cost by approximately RMB0.4 million.

OUR VALUE CHAIN

The value chain starts from the purchasing raw materials and ends with the consumers' disposal of the product packaging after consumption. We believe our competitive advantages are the operations, marketing and sales. We understand that to enable long term value creation, we need to establish comparative advantages against the competition.

An important element of our strategy is a commitment to maintaining the highest quality in all areas of activity and to ensuring the business is managed according to sustainable principles. Group raw materials purchases reaches more than RMB750 million every year, a good and reliable suppliers base will enable us to create a sustainable supply chain that not only minimise the cost structure, provide quality materials and adopt sustainable best practices in their decision-making process. We will strengthen our existing sourcing and supply chain strategy to meet our goal of achieving a fully traceable and verifiable supply chain for our raw materials in the future.

Chairman's Statement

Prices for our most important raw materials such as palm oil, sugar and wheat flour decline slightly in 2019, the cost of packaging materials was also lower than last year. The combined efforts of our successful procurement strategy and decreased in costs of raw materials, Jiashili managed to balance the price fluctuations in our cost of materials which led to Group gross margin expansion. Our gross profit margin for the year 2019 increased by 1.9 percentage points to 33.8% (2018: 31.9%). Group operating profit margin was maintained at 10.5% (2018: 8.8%), rose by 1.7%.

CORPORATE RESPONSIBILITY

At Jiashili, our purpose is to provide delicious, nutritious, affordable biscuit snack that is great value for money. We are committed to being a good neighbour and supporting the communities where we operate. We concerns go well beyond purely our financial performance: we are a company with heart and soul. It is very much in our interest to act responsibly and in particular to continuously improve the sustainability of our business activities. The main focus is on our efforts to protect the environment and combat climate change, as well as ensuring the long-term supply of our raw materials. We constantly strive to minimise our ecological footprint in our business processes. These include programmes that can reduce our energy consumption, recycle of waste materials and product packaging, as well as water conservation. We are striking to minimize the environmental impact and achieve full compliance with environmental regulations. Our core value of "Jiashili, benefit the nation and benefit to all people 嘉士利、利國家、利大家" provide clarity and guidance across all our businesses for employees, customers, suppliers and shareholders alike.

We have only been able to report all this positive news thanks to another outstanding performance from our employees in 2019. On behalf of the Board (the "Board") of directors (the "Directors") and Group Management, we would like to thank them all personally for their hard work. Thanks to their huge commitment, we have once again achieved another successful performance in what has been a challenging year in many respects.

OUTLOOK

We continue to see clear momentum in the business and a supportive market backdrop which has helped produce another set of great results. I look to the future with confidence knowing that we have a strong sense of purpose, a clear and focused strategy and great talent to continue to deliver strong growth and shareholder returns.

The spread of the novel coronavirus (COVID-19) presents serious concerns and challenges for many around the world. A global recession, affecting developed and developing countries, seems inevitable in the first two quarters of 2020 and we will remain vigilant in the development of COVID-19 outbreak and closely evaluate the potential financial and business impacts. Board's preliminary assessment on COVID-19's impact on our business and corresponding measures imposed was disclosed under the section headed "Principal Risks and Uncertainties" on page 33.

Looking ahead, I remain confident that Jiashili brands have the portfolio, capabilities and people to deliver sustainable, profitable growth for you, our shareholders.

Jiashili Group Limited
Huang Xianming
Chairman of the Board

March 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

According to the latest data released by the National Bureau of Statistics of China, in 2019 the gross domestic product ("GDP") exceeded RMB99 trillion, grew by 6.1% year-on-year indicating China's economy maintained its growth momentum despite on-going trade war with United States. However, this is the consecutive past three-year declining growth of GDP in China. Furthermore, the total retail sales of consumer goods exceeded RMB41 trillion, representing a year-on-year increase of 8.0%. The subsector of edible oil and foods consumption spending even grow by 10.2% year-on-year. The food and snack industry in China is still the biggest market with a lot of potentials amid competitions and challenges.

The continuous consumption upgrade and an increasing middle class in China have given the leisure foods and snack industry the drive to upgrade and optimize product structure, and the unfolding of the new consumption era is pushing leisure foods and snack industry players to meet consumers' increasing demand for healthy, readily accessible and personalized products. As such, high-end, healthy, diversified leisure foods and snack products have become growth engines of the industry, and leading players are resorting to developing new and high-quality leisure foods to seize market share. Biscuits and crackers is one of a type of leisure foods and snack to offer leisure for people in times of social gathering, to refuel their body and to kill their boredom.

BUSINESS REVIEW

Jiashili is one of the largest producer of quality biscuits and crackers in China more than 60 years, we market, sell and distribute our products under more than 10 brand names in approximately 31 Provinces and Municipalities with more than 550 stock keeping units ("SKU") offered to market in China. The operating environment in 2019 is expected to remain highly competitive. Nevertheless, the Group is ready to face them by maintaining and improving our quality coupled with more aggressive promotion planning.

2019 is a year for Jiashili mixed with challenges and opportunities, the Group recorded sales revenue of approximately RMB1,593 million (2018: approximately 1,449 million) increased by approximately 9.9% year-on-year. The increase in the Group's revenue was driven by three main categories: sandwiches biscuit, coarse grain biscuit and others. Being the major selling category, sandwiches and coarse grain biscuits series and others represents 50.2% of the Group's revenue. Consolidated sales volume increased by 6.0% year-on-year to 110,303 tonnes was mainly due to solid marketplace growth in select market segment. Gross profit margin increased by approximately 1.9 percentage points to 33.8% as compared with that of 2018 due to the decrease in both the cost of raw materials and packaging materials. We continue to focus on operational efficiency as we look to maintain or improve margins, the selling, distribution and administrative expenses ("SDA") were effectively controlled, the SDA expenses in 2019 was increased by 0.6% to approximately RMB294.9 million as compared with that of 2018 thanks to expenses savings program was effectively implemented. Group operating profit (earnings before interest and tax, EBIT) rose by 31.5% to approximately RMB167.4 million (2018: approximately RMB127.3 million). Profit attributable to owners of the Company increased by 26.7% to approximately RMB109.6 million as compared with that of 2018 mainly due to strong volume growth achieved in the year and the contribution from strategic acquisition of Silang in 2018. EBITDA increased by 28.6% to approximately RMB223.0 million, year-on-year, benefited by growth in gross profit margin, reversal of impairment provisions on loan receivables and increase in other income.

MANAGEMENT DISCUSSION AND ANALYSIS

We are committed to innovation, the continuous pursuit of improvement and the maintenance of our efficient manufacturing capability. We aim to operate in a sustainable, ethical, efficient and safe manner. We have a strong culture of continuing operational improvement and focus on delivering exceptional quality and customer service. The group takes a long-term approach to investment and is committed to increasing shareholder value through sound commercial, responsible and sustainable business decisions that deliver steady growth in earnings and dividends.

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. 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. We believe, a high standard of good quality will give better assurance to our customers.

Innovation has always been a strong tradition at Jiashili. Today, our pace of innovation is faster than ever, and every year we bring new creations on to the market. To cater for constantly changing consumer demands, our product specialists work day after day to ensure that every new product has the potential to become a classic one day. In 2019, research and development expenses amounted to approximately RMB52.4 million increased by 18.4% year-on-year. Research and development expenses accounted for approximately 3.3% of total revenue in 2019 (2018: 3.0%).

In 2019, our Group has more than 2,000 distributors in China and has arranged more than 65,000 on-site tasting events. Jiashili is a consumer-led organisation. Our business model, structures and strategies continue to evolve, centred around a deep understanding of diverse local consumer preference. Jiashili continues to meet a wide range of rapidly evolving consumer preferences. Across different consumer landscape, today's most pronounced preferences include clean and cleaner label, convenience, nutrition & wellness, authenticity and premiumisation. These distinct preferences can mean different things to consumers in different parts of the world. Central to Jiashili's approach is the fundamental understanding of how to address these needs and support customers as they seek to innovate to win in today's marketplace. These ever-evolving consumer preferences are redefining consumption occasions right across end use markets and channels. Our customers is at the centre everything we do, we aims to adding value by offering so much more to distributors and our end customers

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.

MANAGEMENT DISCUSSION AND ANALYSIS

"Jiashili biscuits" has been present in the market for over 60 years and are well known and recognized by consumers with its established taste and quality. The Group had and would continuously improve its quality and expand the manufacturing capacities to support the market demand for this product. During the year, prevailing competition in the market remains keen, with consumers spoilt for choices amid 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 and tasting activities together with increased block/shelf displays at strategic positions and crowded locations like super and hyper markets and mini markets. The Group continues to draw up programs for promotional activities starting off with bestselling and premium products. More emphasis will be given on sampling activities to create and maintain product awareness and to increase block/shelf displays, to build our brand and 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 actively promote products, increase distribution points and market shares to improve earnings. Our Group will continue and improve our product and diversification strategy and continue exploring different channels to meet the market demand.

To increase top-line every year, our Group has a policy and control on promoting our products and brandnames through discounts, tasting events, advertisement and media. During the year, selling, advertising and promotion expenses on our products accounted for 8.3% of the 2019 consolidated revenue (2018: 8.4%).

PROSPECT

We continue to perform well in 2019 in terms of sales revenue and volume growth. Our overall strategy remains dynamic and well implement, we have been able to take advantage of increased market opportunities from recent industry consolidation and strong customer demand, which has contributed to our rate of growth. We are in markets that are generally supportive and performing as we expected. Our product mix include different brand names provide a broad range of product portfolio serving different age groups prove to be successful during the year. Our unique taste and nutrition positioning, bakery expertise and deep understanding of the intersection of taste and nutrition were key drivers of increased innovation across a wide range of applications. Our objective is to deliver sustainable value and superior performance to distributors and end customers by extending our industry-leading position and delivering superior total returns for shareholders. We deliver the very best levels of customer service throughout our networks to enable that growth every day.

The Group is closely monitoring an outbreak of the COVID-19 caused by novel coronavirus since January 2020 in China, the COVID-19 has impacted a host of sectors within China including retail, manufacturing, travel and hospitality. We are taking steps to protect our employees, consumers and business. The COVID-19 temporary affects our local supply chain in February and up to early March 2020 and it was relieved after mid-March. All factories of the Group have resumed production in mid-February 2020, we will remain vigilant in the development of COVID-19 outbreak and closely evaluate the potential financial and business impacts.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking ahead to 2020, Jiashili continues to adapt to the rapidly changing market landscape, investing in and further developing the Jiashili business model to consistently outperform our markets and respond to evolving local consumer trends and customer requirements through industry leading innovation.

Over the year, the Group have been adhering to the business philosophy of "Jiashili, benefit the nation and benefit to all people嘉士利、利國家、利大家". We will keep on this Company's motto to drive the Company towards a higher level and to bring more returns to the shareholders of the Company.

FINANCIAL REVIEW

Revenue

In 2019, Group's revenue increased by approximately 9.9% to approximately RMB1,593 million with consolidated sales volume growth of 6.0%. Breakdown of the revenue and sales volume by product category for the year ended December 31, 2019 and the comparative figures for the year 2018 are as follows:

Sales volume/Revenue	**2019** Tonne	**2019** RMB (million)	**2019** Revenue contribution	2018 Tonne	2018 RMB (million)	2018 Revenue contribution	Changes in Sales volume	Changes in Revenue
Breakfast biscuits series	**31,860**	**359.4**	**22.6%**	32,662	360.9	24.9%	-2.5%	-0.4%
Crisp biscuits series	**21,828**	**292.8**	**18.4%**	21,603	295.3	20.4%	1.0%	-0.8%
Sandwiches biscuits series	**25,789**	**438.1**	**27.5%**	21,827	362.8	25.0%	18.2%	20.8%
Wafer series	**8,478**	**141.5**	**8.9%**	8,278	135.4	9.3%	2.4%	4.5%
Coarse grain biscuits series	**9,710**	**165.7**	**10.4%**	6,490	131.8	9.1%	49.6%	25.7%
Others	**12,638**	**195.5**	**12.2%**	13,229	163.1	11.3%	-4.5%	19.9%
Total	**110,303**	**1,593**	**100.0%**	104,089	1,449.3	100.0%	6.0%	9.9%

Breakfast biscuits series

Sales revenue of breakfast biscuits segment slightly decreased by 0.4% from approximately RMB360.9 million in 2018 to approximately RMB359.4 million in 2019. The decline was mainly due to the change of the Group's marketing and product mix strategy.

Crisp biscuits series

In 2019, the revenue generated from crisp biscuits series was slightly declined by 0.8% to approximately RMB292.8 million (2018: approximately RMB295.3 million) as compared to the same period last year. The sales volume increased by 1.0% to 21,828 tonnes over the same period last year. The market landscape for crisp biscuits continued to be challenged in the period.

Sandwiches biscuits series

Sandwiches biscuits delivered strong growth since its launch in late 2012, market demand for sandwiches biscuits of the Group continued to be strong in this year. Benefited from our effective marketing efforts and its appealing market positioning and pricing strategy which strikes the right tone for the tastes and demand of youth and teenagers. During the year, the revenue of sandwiches biscuits rose by 20.8% to approximately RMB438.1 million (2018: approximately RMB362.8 million), sales volume reaches 25,789 tonnes representing an increase of 18.2% from last year. The revenue of sandwiches biscuits accounting for approximately 27.5% of the Group's total revenue, became the largest revenue performer with high growth potential. The increase was due to the continued increased acceptance by the youth customers group and introduction of different flavors on the products.

Wafer series

In 2019, the sales generated from wafer series amounted to approximately RMB141.5 million, an increase of 4.5% as compared with the corresponding period of last year (2018: approximately RMB135.4 million). Sales volume rose by 2.4% to 8,478 tonnes (2018: 8,278 tonnes).The results were primarily attributable to the success of the Group's marketing and favorable price/mix 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. We market and sell coarse grains made biscuits using the brand name of "Silang" since our acquisition the brands from April 2018. Sales revenue of coarse grain biscuit series was approximately RMB165.7 million, an increase of 25.7% year-on-year. Sales volume rose to 9,710 tonnes or up 49.6% year-on-year. Silang coarse grains products are always the good choice for customers who are aiming for nutrients and healthy snack.

Other series

It is the Group's policy of actively seeking to expand different mix of products with different brands and flavors to meet customer's demands. Other series include mainly Jiuzhou cookie (九洲曲奇), cream crackers, Ruishiyue products series (瑞士樂系列) and others. During the year, revenue from other series rose by 19.9% to approximately RMB195.5 million (2018: approximately RMB163.1 million) while sales volume decreased by 4.5% to 12,638 tonnes. The success of the product images and famous brandname of Jiashili were the reasons for the increase.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

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

	2019		2018		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	110.4	30.7%	103.4	28.7%	7.0	2.0%
Crisp biscuits series	90.8	31.0%	92.7	31.4%	-1.9	-0.4%
Sandwiches biscuits series	164.7	37.6%	134.8	37.2%	29.9	0.4%
Wafer series	47.9	33.9%	42.3	31.2%	5.6	2.7%
Coarse grain biscuits series	60.5	36.5%	27.3	20.7%	33.2	15.8%
Others	64.6	33.0%	61.4	37.6%	3.2	-4.6%
Overall	538.9	33.8%	461.9	31.9%	77.0	1.9%

In 2019, gross profit amounted to approximately RMB538.9 million (2018: approximately RMB461.9 million), representing a year-on-year increase of 16.6%. Gross profit margin rose to 33.8% in 2019, representing an increase of 1.9 percentage points from last year. The increase in gross profit margin was due to the stringent control on manufacturing costs and the reductions on cost of raw materials and packaging materials. The Group's primary cost of sales includes raw material costs (such as sugar, palm oil, and wheat flour), packaging materials costs and manufacturing costs (such as plant depreciation, amortization and utilities, labour wages and salaries). Among them, the raw material costs represented approximately 49.4% of total cost of sales and the packaging materials costs accounted for approximately 27.0%. In 2019, the price of sugar and palm oil has dropped by 6.2% and 3.9% respectively from last year, the costs of packaging material has also decreased by approximately 21.0% which altogether contributed to our gross profit margin expansion.

Selling and distribution expenses

The selling and distribution expenses rose by 5.3% from RMB207.9 million in 2018 to RMB219.0 million in 2019. We have a stringent control on the promotional expenditures, promotional activities includes tasting events, in-store display, price discounts. In 2019 selling expenses as a percentage of revenue was 8.3% (2018: 8.5%) which in line with Group's predetermined level. Logistics and transportation expenses as a percentage of revenue is 5.4% in 2019 (2018: 5.9%). To deliver our products timely within shortest distance to our distributors and our consumers is one of our paramount concerns.

Administrative expenses

During the year, Group's administrative expenses decreased by 11.1% to approximately RMB75.8 million from last year (2018: approximately RMB85.3 million). Benefited from the expenses savings program include savings from office and administration expenses and one-off reorganization redundancy expenses in 2018 not occurred during the year of 2019.

Other gains and losses

During the year, other losses were approximately RMB69.7 million, an increase of losses by approximately RMB66.5 million (2018: approximately RMB3.2 million losses) as compared with the corresponding period of last year. The increase of losses was mainly attributable to the impairment provisions on advanced payment amounted to approximately RMB74.6 million and fair value loss of our private equity fund amounted to approximately RMB2.5 million partial offset by the gains on disposal of a joint venture amounted to approximately RMB13.6 million.

Inventories

Inventories as at December 31, 2019 was approximately RMB72.7 million, a decrease of approximately RMB16.9 million from approximately RMB89.6 million as at December 31, 2018, the decrease in inventory was mainly due to the early consumption of our finished goods at the year end because the Lunar Chinese New Year was in January 2020. As at December 31, 2019 Group's finished goods was approximately RMB20.3 million, a decrease of 40.8% year-on-year. As a result, the inventory turnover days decrease from 29.94 days in 2018 to 28.09 days in 2019.

Trade, bills and other receivables

The Group's trade, bills and other receivables increased by 53.7% from approximately RMB123.3 million as at December 31, 2018 to approximately RMB189.5 million as at December 31, 2019 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. Our Group maintained a tight credit control policy on credit facilities grant to customers, as a result the receivables turnover days for 2019 was 35.84 days, an increase of 8.9 days from 2018.

Working capital position

Our group believed that we are in a strong and healthy position and has sufficient resources to support our working capital requirement and meet our foreseeable capital expenditure. As at December 31, 2019, the Group's net current assets was approximately RMB202.2 million (2018: approximately RMB211.5 million). Current ratio of the Group as at December 31, 2019 was 1.29 (2018: 1.36).

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash and liquidity position

The Group's net cash and liquidity position is illustrates as follows:

RMB (million)	December 31, 2019	December 31, 2018
Bank balances and cash	**432,113**	379,257
Bank borrowings — current	**(319,699)**	(263,751)
Bank borrowings — long term	**(59,000)**	(96,720)
Lease liabilities — current	**(3,835)**	—
Lease liabilities — long term	**(2,298)**	—
Total net cash	**47,281**	18,786

We finance our operations and capital expenditure primarily by internally generated cash flows as well as banking facilities provided by our principal bankers. As at December 31, 2019, the Group had bank balances and cash amounted to approximately RMB432.1 million (2018: approximately RMB379.3 million). Total bank borrowings as at December 31, 2019 amounted to approximately RMB378.7 million, an increase of 5.1% from corresponding period of last year as to finance our expansion and investment in 2019. As at December 31, 2019, the Group was in a net cash position (bank balances and cash less borrowings and lease liabilities) of approximately RMB47.3 million (2018: approximately RMB18.8 million). As at December 31, 2019, the gross gearing ratio (defined as total liabilities over total assets) was 52.6% (2018: 51.1%). We will from time to time adopt prudent financial management policy to address changing financial conditions.

Human resources and remuneration of employees

Our average number of employees was approximately 2,956 in 2019. Our total staff costs in 2019 amounted to approximately RMB198.5 million, representing a decrease of 5.3% over the year of 2018. Such a decrease was mainly attributable to the one-off reorganization redundancy payment in 2018 was not occurred in 2019 anymore. The remuneration package of our employees includes fixed salary, commissions and allowances (where applicable), and performance based year-end bonuses having regard to the performance of the Group and individual.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board meets regularly during the year and 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.

The Group's strategy, however, remains unchanged and we continue to deliver on our promises and execute our strategy of organic growth and acquisitions. As we grow it is crucial that our governance structures keep pace so that we can ensure growth is both responsible and sustainable. We need to manage our risks efficiently and ensure transparency across the business. We are confident that the Board is well placed to do that and we remain committed to maintaining the very highest standards of corporate governance. We recognize that good governance is essential in promoting the success of the business for the benefit of its members as a whole.

BOARD COMPOSITION AND DIVERSITY

The board of directors is collectively responsible to the Company's shareholders for the direction and oversight of the Company to ensure its long-term success. The board met regularly throughout the year to approve the group's strategic objectives, to lead the group within a framework of effective controls which enable risk to be assessed and managed, and to ensure that sufficient resources are available to meet the objectives set.

Each member of our Board must be able to demonstrate the skills, experience and knowledge required to contribute to the effectiveness of the Board. It is also important that we address issues of diversity in terms of skills, gender, ethnicity and experience relevant to our business. During the year Mr. Chen Songhuan has joined our Board as executive Director for the replacement of Mr. Chen Minghui. We believe the Board is appropriately balanced in terms of diversity with a good mix of specialist skills and market expertise. However, we continue to review the composition of the Board to ensure it remains appropriate to support the ongoing development of the Group.

Board Composition

During the year ended December 31, 2019 and as at the date of this report, 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)*
Mr. Chen Songhuan (appointed on July 1, 2019)

Non-Executive Director

Mr. Lin Xiao

Independent Non-Executive Directors

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

Corporate Governance Report

The biographical information of the Directors is set out on pages 48 to 49 of this report.

AREAS OF BOARD FOCUS

During the past year the Board has paid particular attention to the following important areas:

— the efficacy of our strategy and the degree to which it remains appropriate in light of market developments, acquisitions opportunities and longer-term objectives;

— the effectiveness of our capital structure and capital allocation priorities;

— evaluating our operating model and structure to ensure they remain fit for purpose as Jiashili grows and markets change;

— assessing the effectiveness of our health and safety practices and monitoring across the Group, and identifying areas for improvement

— ensuring our key management resource remains motivated and appropriately rewarded; and

— ongoing senior recruitment.

COMPLIANCE

We endeavour to monitor and comply with ongoing changes in corporate governance and evolving best practice in this area. The Board is committed to maintaining and ensuring high standards of corporate governance practices. In the opinion of the Directors, the Company has adopted the principles and applicable code provisions of Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules") as its own code of corporate governance. Since the date of its listing and up to the date of this announcement, the Company has complied with the code provisions under the CG Code except for deviation during the year which is summarised as below.

Code Provision A.6.7

As stipulated in the Code provision A.6.7 of the 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 5, 2019 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 as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended December 31, 2019.

Corporate Governance Report

THE ROLE AND FUNCTION OF THE BOARD AND COMMITTEES

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.

The Board has established three principal board committees, the Audit Committee, the Nomination Committee and the Remuneration Committee, which support the operation of the Board through their focus on specific areas of governance. The membership, responsibilities and activities of these committees are described on pages 23 to 26.

BOARD MEETINGS AND GENERAL MEETING

During the year ended December 31, 2019, 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 5, 2019 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, 2018. 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	6	6
Mr. Tan Chaojun	1	1	6	6
Mr. Chen Minghui (resigned on June 30, 2019)	0	1	4	4
Mr. Chen Songhuani (appointed on July 1, 2019)	0	0	2	2
Non-Executive Director				
Mr. Lin Xiao	0	1	4	6
Independent Non-Executive Directors				
Mr. Kam Robert	1	1	6	6
Ms. Ho Man Kay	1	1	6	6
Mr. Ma Xiaoqiang	0	1	3	6

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 of the Listing Rules 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. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

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 nine 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, 2019 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 for the six months ended June 30, 2019;
- approval of the annual report and accounts for the year ended December 31, 2018;
- approval of the AGM resolutions;
- dividend policy;
- investor relations;
- treasury policy;
- growth and acquisition strategy;
- adoption of the 2019 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

Audit Committee

The Audit Committee assists the Board in its oversight and monitoring of financial reporting, risk management and internal controls.

During the year ended December 31, 2019 and as at the date of this report, the Audit Committee comprised 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 principal responsibilities of the Committee are to:

— monitor the integrity of the interim and annual results, including a review of the significant financial reporting judgements contained therein;

— establish and oversee the Company's relationship with the external auditor, including the external audit process, their audit and non-audit fees and independence and make recommendations to the Board on the appointment of the external auditor;

— review and assess the effectiveness of the Company's internal financial controls and internal control and risk management systems;

— oversee the nature, scope and effectiveness of the internal audit work undertaken; and

— monitor the Company's policies and procedures for handling allegations from whistle-blowers.

During the year ended December 31, 2019, the Audit Committee had four 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 *(Chairman)*	4	4
Ms. Ho Man Kay	4	4
Mr. Ma Xiaoqiang	3	4

During the meetings, the Audit Committee had approved the audit fee for the year ended December 31, 2019, considered internal control review findings, the annual report of the Group for the year ended December 31, 2018 and the interim report of the Group for the six months ended June 30, 2019, as well as key financial adjustments prepared by the external auditor covering major findings in the course of its audit/review.

The key audit areas for consolidated financial results for the year ended December 31, 2019 have reviewed as below:

— management of the Group and auditors discussed and reviewed the sufficiency and completeness of the impairment loss on prepayments of raw materials from one of our supplier of which he encountered financial difficulties. The committee is satisfied that the judgements taken are appropriate. Further details are provided in note 10 to the consolidated financial statements;

— the Group undertakes an formal goodwill impairment review on Dongguan Kamtai Foods Company Limited and Silang Foods (Huaibei) Company Limited (collectively, the "Silang Group"). This is based on the latest approved budget and five-year financial forecasts of Silang Group. The Group classifies certain business of Silang Group as separate cash-generating units ('CGUs'), due to them generating separately identifiable cash flows. During the year ended December 31, 2019, management of the Group determines that there is no impairment on the CGUs of the Silang Group.

  The committee is satisfied that the CGUs are appropriate to the Group and that there is no impairment of the carrying value of goodwill in the CGUs of Silang Group. The carrying value of goodwill at December 31, 2019 is approximately RMB27.4 million (2018: approximately RMB27.4 million). Further details are provided in note 22 to the consolidated financial statements; and

— The committee review and assess the impact of IFRS 16 'Leases' ('IFRS 16'), which is effective from 1 January 2019 will result in the recognition of a right-of-use asset and a lease liability reflecting future lease payments on the consolidated statement of financial position for all lease contracts other than short-term leases and leases of low-value assets. After review and discuss with the auditors the impact of IFRS16 on consolidated statement of profit or loss for the year ended December 31, 2019 was increasing the depreciation expenses of right-of-use assets by approximately RMB6 million, and the effect of increasing finance costs by approximately RMB0.4 million.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Auditors' Remuneration

For the year ended December 31, 2019, the total fee paid/payable in respect of audit services to the external auditors of the Group was approximately RMB2,044,000 (2018: approximately RMB1,551,000).

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, 2019 and as at the date of this report, 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 chair of the Nomination Committee.

The Nomination Committee is responsible for making recommendations to the Board on the appointment, reappointment, retirement or continuation of any Director. 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.

During the year ended December 31, 2019, 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 *(Chairman)*	2	2
Ms. Ho Man Kay	2	2
Mr. Kam Robert	2	2
Mr. Ma Xiaoqiang	1	2

The committee objective is to have a broad range of skills, background and experience within the Board as they believe that this ensures the Board is best placed to serve the Company. While they will continue to ensure that appoint the best people for the relevant roles, the committee recognise the benefits of diversity in ensuring a mix of views and providing a broad perspective. When considering the recruitment of a new director, the committee considers the required balance of skills, knowledge, experience and diversity to ensure that any new appointment adds to the overall Board composition.

Remuneration Committee

During the year ended December 31, 2019, 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 chair 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.

During the year ended December 31, 2019, 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 *(chairman)*	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 CG 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, 2019:

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 14 to the consolidated financial statements contained in this annual report.

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, 2019.

INTERNAL CONTROLS

For the year ended December 31, 2019, 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 54, 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-COMPETITION 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-competition 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-competition 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-competition 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-competition 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-competition 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-competition undertaking. The independent non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-competition undertaking and confirmed that all the undertakings thereunder have been complied with.

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, 2019.

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, 2019 is set out in note 6 to the consolidated financial statements of the Group contained in this 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, 2019, are set out in the "Chairman's Statement" on pages 6 to 8 and the "Management Discussion and Analysis" on pages 9 to 16 of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

Managing our risk

Our risk management framework

The Group recognises the importance of identifying and managing financial and non-financial risks faced by the business. In response to this, it has developed a rigorous risk management framework designed to identify and assess the likelihood and consequences of risks and to manage the actions necessary to mitigate their impact.

Our risk identification processes seek to identify risks from both a top-down strategic perspective and a bottom-up business perspective. The Board has overall responsibility for risk management, setting of risk appetite and implementation of the risk management policy. This is designed to enable our employees to take advantage of attractive opportunities, yet to do so within the risk appetite set by the Board. The Group Risk Register is the core of the Group's risk management process. It contains an overall assessment of the risks faced by the Group together with the controls established to reduce those risks to an acceptable level and is maintained by the Group audit committee. The Group audit committee meets as required, but at least twice a year, with the objective of encouraging best risk management practice across the Group and a culture of regulatory compliance and ethical behaviour.

Report of the Directors

Principal risks and uncertainties

We must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of our food products depends on our ability to identify the tastes, preferences and perceptions of consumers and to offer products that appeal to their preferences, including concerns of consumers regarding health and wellness, product attributes, and ingredients. Introduction of new products and product extensions requires significant development and marketing investment. If our products fail to meet consumer preferences, or we fail to introduce new and improved products on a timely basis, then the return on that investment will be less than anticipated and our strategy to grow sales and profits with investments in acquisitions, marketing, and innovation will be less successful. Similarly, demand for our products could be affected by consumer concerns or perceptions regarding the health effects of ingredients such as palm oil, sugar, or other product ingredients or attributes.

Changes in our relationships with significant distributors could adversely affect us.

There continues to be competitive product and pricing pressures in the markets where we operate, as well as challenges in maintaining profit margins. We must maintain mutually beneficial relationships with our key distributors and retailers to compete effectively. There can be no assurance that our significant distributors and retailers will continue to purchase our products in the same quantities or on the same terms as in the past, particularly as increasingly powerful distributors continue to demand lower pricing. The loss of a significant distributors or a material reduction in sales to a significant distributors could materially and adversely affect our product sales, financial condition, and results of operations. The Group has, therefore, been continually broadening and deepening its distribution and sales network and increasing the number of our distributors (as at December 31, 2019, we have 2,148 distributors compared to 1,452 as at December 31, 2018). 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 us.

Disruption of our supply chain could have an adverse impact on our business, financial condition, and results of operations.

Our ability to make, distribute and sell our products is critical to our success. Damage or disruption to our supply chain, including third-party manufacturing or transportation and distribution capabilities, due to weather, including any potential effects of climate change, natural disaster, fire or explosion, terrorism, pandemics, strikes, government action, or other reasons beyond our control or the control of our suppliers and business partners, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, particularly when a product is sourced from a single supplier or location, could adversely affect our business or financial results. In addition, disputes with significant suppliers, including disputes regarding pricing or performance, could adversely affect our ability to supply products to our customers and could materially and adversely affect our product sales, financial condition, and results of operations. The Group believes that we take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place to manage disruptive events if they were to occur.

Any damage to our reputation could have a material adverse effect on our business, financial condition, and results of operations.

Maintaining a good reputation of Jiashili is critical to selling our products. Product contamination or tampering, the failure to maintain high standards for product quality, safety, and integrity, including with respect to raw materials and ingredients obtained from suppliers, or allegations of product quality issues, mislabeling, or contamination, even if untrue, may reduce demand for our products or cause production and delivery disruptions. Our reputation could also be adversely impacted by any of the following, or by adverse publicity (whether or not valid) relating thereto: the failure to maintain high ethical, social, and environmental standards for all of our operations and activities; the failure to achieve any stated goals with respect to the nutritional profile of our products; our research and development efforts; or our environmental impact, including use of packaging, energy use, and waste management. Moreover, the growing use of social and digital media by consumers has greatly increased the speed and extent that information or misinformation and opinions can be shared. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial information could also hurt our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could have a material adverse effect on our business, financial condition, and results of operations, as well as require additional resources to rebuild our reputation. In order to mitigate those impacts on the Group, we have introduced our own quality control standards to all of our suppliers and distributors; policies and practices to take account of changes in legal and environmental obligations; relevant ethical training and programs to educate staffs and workers.

The outbreak of the COVID-19 caused by novel coronavirus could have a material adverse effect on our business, financial condition, and results of operations

The COVID-19 pandemic since January 2020 may impact our continuity of business operations, but at the date of this report, the disruption of our operations mainly on supply chain was found out to be in short term and temporarily in basis. No material adverse impact on the business and financial performance as at the date of this report. To understand COVID-19's threat to the business, by end of January 2020 a crisis management team was set up led by Board members. The crisis management team need to assess how much the virus and efforts to contain its spread will affect the company's supply chain, sales forecast, employee health and productivity, and key strategic initiatives. The Board will track that management stays up to date on fast-changing information and adapts its response to the virus's impact. Frequent conversations between the Board and the crisis management team ensure everybody knows the parts they play. It is management's responsibility to develop and update a pandemic response plan and integrate it with existing crisis and business continuity plans. It is the Directors' responsibility to have a clear, effective, and open rapport with management. Also, Directors must ensure that the identification and treatment of disruptive risks is a standing agenda item on the full board or committee level.

To ensure effective crisis management reporting, the Board should know what information they can expect to receive from management and how frequently. In order to help the Board understand what's going on, crisis management team should report on key indicators that represent operational impact, risk mitigation, and business recovery.

The Board has developed protocols for internal communications and decision-making, of which these protocols should clearly and properly inform employees about the impact the COVID-19 response is having on the business. The proper internal communication strategy addresses employees' fear and prevents it from paralysing the workforce and reducing productivity. The Board has also devised an external communications strategy that targets customers, investors, government agencies, suppliers and other stakeholders to prevent damaging, incorrect and misunderstood message to the market during the crisis.

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 57 of this report. The Board has proposed a final dividend of HK5.00 cents per share for the year ended December 31, 2019 (2018: HK5.00 cents), to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at Wednesday, July 15, 2020. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company (the "2020 AGM"), the final dividend will be paid on or about Thursday, August 13, 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, June 23, 2020 to Monday, June 29, 2020 (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 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, June 22, 2020. For determining the entitlement to receive the proposed final dividend, the register of members of the Company will be closed from Tuesday, July 14, 2020 to Wednesday, July 15, 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than Hong Kong time 4:30 p.m. on Monday, July 13, 2020.

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, 2019, the Group had 2,148 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, 2019, there were 801 distributors which have managed to contribute sales of over RMB500,000 each to the Group. Moreover, 40 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, 2019, 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 2019 was approximately RMB764.8 million (2018: approximately RMB763.5 million).

4. Relationship with employees

As at December 31, 2019, the Group had a total of 2,956 full-time staff based in the PRC and in Hong Kong. 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, 2019, 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 RMB198.5 million (2018: approximately RMB209.6 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, 2019 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 5.1% of the Group's turnover and sales to the Group's largest customer was approximately 1.0% of the Group's total revenue.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 23.3% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 6.7% 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 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 41 to the consolidated financial statements.

RESERVES

At December 31, 2019, the Company's reserves available for distribution amounted to approximately RMB310.7 million (2018: approximately RMB350.3 million). Details of the movements in reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 60 and 161 respectively.

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. The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the year ended December 31, 2019.

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 RMB2.9 million (2018: approximately RMB0.6 million) during the year ended December 31, 2019.

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 171 of this 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, 2019.

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 2019.

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 any time 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, or exercised during the year. The pre-IPO Share Option Scheme has expired on September 25, 2019. No pre-IPO Share Option remained outstanding as at December 31, 2019.

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.

No option was granted, exercised, cancelled or lapsed during the year. As at December 31, 2019, the number of share options have been granted and remained outstanding under the Share Option Scheme was 2,000,000 shares.

Particulars of the movement of options in respect of the year ended December 31, 2019 was disclosed on note 42 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at the date of this report are set out in note 53 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)*
Mr. Chen Songhuan *(appointed on July 1, 2019)*

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 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 48 to 50.

DIRECTORS' SERVICE CONTRACTS

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

Save as disclosed under the section headed "Continuing Connected Transactions" below and note 51 "Related Party Disclosures" to the consolidated financial statements, no transaction, arrangement or contract of significance (as defined in the Appendix 16 of the Listing Rules) in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director, an entity connected with a Director, or Controlling Shareholders had a material interest, whether directly or indirectly, subsisted at the end of 2019 or at any time during 2019.

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.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2019, the Group had entered a continuing connected transaction (the "Continuing Connected Transactions") which is required to be disclosed in the annual report in accordance with the Listing Rules on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This Continuing Connected Transactions is subject to annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules and reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

Detail of the Continuing Connected Transactions during the year was as follows:

Pursuant to a master purchase agreement dated October 17, 2019 entered into between Guangdong Jiashili Food Group Company Limited (廣東嘉士利食品集團有限公司) (for itself and on behalf of its subsidiaries), an indirect wholly-owned subsidiary of the Company and Guangdong Kangli Food Company Limited (廣東康力食品有限公司), a wholly-owned subsidiary of Guangdong Zhongchen Industrial Group Company Limited (廣東中晨實業集團有限公司), Guangdong Jiashili Food Group Company Limited (廣東嘉士利食品集團有限公司) agreed to purchase pasta products from Guangdong Kangli Food Company Limited (廣東康力食品有限公司). The master purchase agreement is for a term ending on December 31, 2021 subject to the annual caps of RMB12,000,000, RMB80,000,000 and RMB100,000,000 for the financial years of 2019, 2020 and 2021 respectively.

Guangdong Zhongchen Industrial Group Company Limited (廣東中晨實業集團有限公司), a limited liability company owned as to 80% by Mr. Huang Xianming ("Mr. Huang"), 5% by Ms. Huang Cuihong (the spouse of Mr. Huang), 5% by Ms. Huang Xianxian (a sister of Mr. Huang), 5% by Ms. Huang Rujiao (a sister of Mr. Huang) and 5% by Ms. Huang Rujun (a sister of Mr. Huang). As Mr. Huang is an executive Director, the chairman and a controlling shareholder of the Company, Guangdong Kangli Food Company Limited* (廣東康力食品有限公司) is a connected person of the Company. Accordingly, the entering into of the master purchase agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company, namely Mr. Kam Robert, Ms. Ho Man Kay and Mr. Ma Xiaoqiang, have reviewed the Continuing Connected Transactions and confirmed that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better from the perspective of the Group; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing the findings and conclusions in respect of the Continuing Connected Transactions as disclosed above in accordance with rule 14A.56 of the Listing Rules and nothing has come to his attention that causes him to believe that the disclosed Continuing Connected Transactions:

(i) have not been approved by the Board of Directors of the Company;

(ii) which involve the purchase of pasta products by the Group, were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iii) have exceeded the annual caps in respect of the disclosed Continuing Connected Transactions as set by the Company.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The Continuing Connected Transactions amounts for the year ended December 31, 2019 was as follows:

Name of connected parties	Nature of transactions	Transaction amount during the year ended December 31, 2019	Annual cap for the year ended December 31, 2019
Guangdong Kangli Food Company Limited* (廣東康力食品有限公司)	Purchase of Pasta Products (Cost of sales/Trade payable)	RMB4,587,800	RMB12,000,000

* The English name is for identification purpose only

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

As at December 31, 2019, 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, 2019, 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%
Actis 4 PCC	Interest in controlled corporation(3)	60,000,000	14.46%

Name of shareholders	Nature of interest	Number of shares held	Approximate percentage of issued share capital
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 17 to 30.

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, 2019 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, 2019.

AUDITOR

The consolidated financial statements for the year ended December 31, 2019 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 30, 2020

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Huang Xianming (黃銑銘), aged 48, is the chairman 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 53, is the vice chairman 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 Songhuan (陳松浣), age 52, joined the Group since June 2005 is currently the technical research director of Guangdong Jiashili Food Group Co., Limited (廣東嘉士利食品集團有限公司) responsible for product research and development. Mr. Chen was appointed as an executive Director on July 1, 2019. Mr. Chen is also the general manager of Dongguan Kamtai Foods Company Limited (東莞錦泰食品有限公司) responsible for overall production and administration. Prior to joining the Group, Mr. Chen worked at Jiashili Pastries (嘉士利餅業) and Guangdong Jiashili (廣東嘉士利) 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.

Biographical Details of Directors and Senior Management Profile

NON-EXECUTIVE DIRECTOR

Mr. Lin Xiao (林曉), age 51, 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 62, 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 58, 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 37, was appointed as an independent non-executive Director on January 16, 2017. Mr. Ma was 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.

Biographical Details of Directors and Senior Management Profile

SENIOR MANAGEMENT

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

Mr. Liu Guowang (劉國旺), aged 51 is the marketing and sales director of the Group. Mr. Liu joined the Group in May 2008 as regional sales manager and has held current post since September 2019. Mr. Liu is responsible for formulating and implementing sales, marketing and promotion. Mr. Liu has around 30 years of sales experience working with companies in the consumable industry. Prior to joining the Group, Mr. Liu served at Harbin Fook Sing Food Company (哈爾濱福星食品公司) from October 2000 to April 2008 as sales manager. Prior to that, Mr. Liu worked at Heilongjiang Province Timber Main Company (黑龍江省木材總公司) as assistant sales manager from October 1990 to August 1999. Mr. Liu holds a technical secondary school diploma in material computing and information from Heilongjiang Province Material School (黑龍江省物資學校) in July 1990.

Mr. Xiong Yongqiang (熊永強), aged 47 joined the Group in 2014 is currently the supply chain director responsible for the management of the Group's supply chain process and overall management of Kai Ping factory. Prior to joining the Group Mr. Xiong worked at Guangdong Zhongchen Industrial Group Company Limited (廣東中晨實業集團有限公司) for four years. Mr. Xiong has around 30 years of executive management and administration experience in various enterprises.

Mr. Sun Linlin (孫琳琳), aged 38 is the director of Group's enterprise management centre responsible for overseeing the group's administration and human resources development. Prior to joining the Group Mr. Sun served at Kaiping Weishida Seasonings Company Limited (開平味事達調味品有限公司) from October 2013 to December 2015 as continuous improvement manager. Prior to that, Mr. Sun worked at Guangdong Cnlight Company Limited (廣東雪萊特光電科技股份有限公司) from February 2010 to July 2011 as lean specialist. Mr. Sun also worked at Emerson Electric (艾默生) from July 2006 to January 2010 as lean production engineer. Mr. Sun graduated from Xian Polytechnic University (西安理工大學) with a bachelor's degree in applied management in July 2006. Mr. Sun has around 13 years of production and lean management experience.

Mr. Zhang Chaopeng (張超鵬), aged 51 is the director of the Group's capital and industry division responsible for the Group's overall treasury and financing function. Prior to joining the Group, Mr. Zhang has work in China Construction Bank for around 30 years. Mr. Zhang holds a junior college diploma in village and town enterprise management from South China Agricultural University (華南農業大學) in July 2003.

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 57 to 170, which comprise the consolidated statement of financial position as at December 31, 2019, 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, 2019, 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter

Occurrence of revenue from sales 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 due to its quantitative significance to 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 RMB1,593 million for the year ended December 31, 2019.

The accounting policy of revenue and details of revenue are set out in notes 3 and 5, respectively, to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to occurrence of revenue from sales of biscuit products to distributors and supermarkets included:

- Understanding and testing the key controls relating to the revenue recognition for sales to distributors and supermarkets;
- Understanding the revenue recognition policies of the Group and evaluating whether the identification of performance obligations, allocation of the transaction price and estimation of variable considerations in each distinct performance obligations are in accordance with IFRS 15 *Revenue from Contracts with Customers*;
- Performing tests of details by tracing to invoices and delivery notes, on a sample basis, 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, 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
Impairment assessment of goodwill	
We identified impairment assessment of goodwill allocated to Dongguan Kamtai Foods Company Limited ("Kamtai") and Silang Foods (Huaibei) Company Limited ("Silang") 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 management in the recoverable amounts. 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 developments. The significant inputs for the value in use calculations included the discount rates, revenue growth rates and estimated gross margins. Details of impairment assessment of goodwill are set out in the note 22 to the consolidated financial statements. The Group has engaged an independent qualified professional valuer to assess the valuation model and significant inputs used for the value in use calculations for the impairment assessment of goodwill. As at December 31, 2019, the carrying amount of goodwill was RMB27,449,000. Based on the management's assessment, no impairment loss in relation to goodwill allocated to Kamtai and Silang has been recognised for the year ended December 31, 2019.	Our procedures in relation to impairment assessment of goodwill included: • Understanding the Group's impairment assessment process, including the impairment model, value in use allocation and preparation of the discounted cash flow projection; • Evaluating the appropriateness of impairment model applied by the management; • Assessing the reasonableness of the significant inputs, including discount rates, revenue growth rates and estimated gross margins, adopted in the discounted cash flow projection of Kamtai and Silang for impairment assessment of goodwill; • 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; • Performing the sensitivity analysis on the significant inputs to evaluate the magnitude of their impacts on the financial projection results of impairment assessment of goodwill; • Evaluating the historical accuracy of the financial projection of Kamtai and Silang by comparing them to actual results in the current year and understanding the causes for any significant variances; and • Evaluating the disclosure regarding the impairment assessment of goodwill in note 22 to the consolidated financial statements.

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.

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.

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

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 30, 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**1,593,067**	1,449,288
Cost of sales		**(1,054,202)**	(987,323)
Gross profit		**538,865**	461,965
Other income	7	**48,322**	30,447
Selling and distribution expenses		**(219,046)**	(207,939)
Administrative expenses		**(75,844)**	(85,261)
Other expenses	8	**(56,193)**	(45,018)
Impairment losses reversed (recognised) under expected credit loss model, net	9	**5,030**	(12,404)
Other gains and losses	10	**(69,738)**	(3,190)
Share of results of associates		**(2,535)**	(162)
Share of results of a joint venture		**(1,420)**	(11,141)
Finance costs	11	**(20,046)**	(16,619)
Profit before tax		**147,395**	110,678
Income tax expense	12	**(38,856)**	(24,502)
Profit and total comprehensive income for the year	13	**108,539**	86,176
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**109,584**	86,479
Non-controlling interests		**(1,045)**	(303)
		108,539	86,176
Earnings per share	16		
— Basic and diluted (RMB cents)		**26.41**	20.84

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	459,361	458,167
Right-of-use assets	18	98,440	—
Prepaid lease payments	19	—	73,228
Investment property	20	—	9,600
Intangible assets	21	41,650	46,717
Goodwill	22	27,449	27,449
Interests in associates	23	3,613	1,120
Interests in joint ventures	24	—	23,850
Financial assets at fair value through profit or loss	25	101,037	—
Other receivables and deposits	26	1,992	2,073
		733,542	642,204
CURRENT ASSETS			
Inventories	27	72,715	89,569
Prepaid lease payments	19	—	1,698
Loan receivables	28	97,281	141,282
Trade, bills and other receivables	26	189,541	123,344
Amounts due from associates	29	47,459	19,445
Amount due from a non-controlling shareholder of a former subsidiary/subsidiary	30	4,200	1,133
Amount due from a joint venture	30	—	100
Amount due from a related party	30	9	—
Loan to a related party	31	—	9,054
Income tax recoverable		4,889	—
Pledged bank deposits	32	52,005	31,728
Bank balances and cash	32	432,113	379,257
		900,212	796,610
CURRENT LIABILITIES			
Trade, bills and other payables	33	260,252	220,249
Contract liabilities	34	82,733	80,788
Income tax payables		15,311	11,183
Bank borrowings	35	319,699	263,751
Amount due to a non-controlling shareholder of subsidiaries	36	11,501	6,800
Amount due to a related party	37	2,870	—
Deferred income	38	1,805	2,371
Lease liabilities	40	3,835	—
		698,006	585,142

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NET CURRENT ASSETS		202,206	211,468
TOTAL ASSETS LESS CURRENT LIABILITIES		935,748	853,672
NON-CURRENT LIABILITIES			
Deferred income	38	87,181	39,926
Deferred tax liabilities	39	12,445	14,445
Bank borrowings	35	59,000	96,720
Lease liabilities	40	2,298	—
		160,924	151,091
NET ASSETS		774,824	702,581
CAPITAL AND RESERVES			
Share capital	41	3,285	3,285
Reserves		760,887	687,599
Equity attributable to the owners of the Company		764,172	690,884
Non-controlling interests		10,652	11,697
TOTAL EQUITY		774,824	702,581

The consolidated financial statements on pages 57 to 170 were approved and authorised for issue by the board of directors on March 30, 2020 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, 2019

	Attributable to owners of the Company								Non-controlling interests	Total
	Share capital	Share premium	Share options reserve	Special reserve	Contribution reserve	Statutory reserves	Accumulated profits	Total		
	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000 (Note d)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	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 45)	–	–	–	–	–	–	–	–	12,000	12,000
Dividends recognised as distribution (note 15)	–	(52,035)	–	–	–	–	–	(52,035)	–	(52,035)
Share-based compensations (note 42)	–	–	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
Profit (loss) and total comprehensive income (expense) for the year	–	–	–	–	–	–	109,584	109,584	(1,045)	108,539
Appropriations	–	–	–	–	–	22,621	(22,621)	–	–	–
Dividends recognised as distribution (note 15)	–	(36,362)	–	–	–	–	–	(36,362)	–	(36,362)
Share-based compensations (note 42)	–	–	(17,713)	–	–	–	17,779	66	–	66
At December 31, 2019	3,285	267,734	2,408	(107,000)	18,333	150,402	429,010	764,172	10,652	774,824

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 42.

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 RMB100,269,000 (2018: RMB85,187,000) as at December 31, 2019 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 RMB50,133,000 (2018: RMB42,594,000) as at December 31, 2019 can be used to expand the existing operations of the relevant subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before tax		147,395	110,678
Adjustments for:			
Amortisation of intangible assets		5,067	3,841
Depreciation of property, plant and equipment		44,442	42,276
Depreciation of right-of-use assets		6,051	—
Fair value loss on financial assets at fair value through profit or loss		2,463	75
Fair value gain on investment property		(300)	—
Finance costs		20,046	16,619
Gain on disposal of a joint venture		(13,570)	—
Impairment losses (reversed) recognised under expected credit loss model, net			
— loan receivables		(6,302)	11,450
— loan to a related party		(946)	946
— trade receivables		2,218	8
Impairment loss on prepayments		74,641	—
Imputed interest income		(131)	(109)
Interest income		(23,081)	(15,131)
(Gain) loss on disposal of property, plant and equipment		(143)	98
Loss on disposal of a subsidiary	46	5,700	—
Release of deferred income	38	(1,636)	(1,993)
Release of prepaid lease payments		—	1,698
Share of results of a joint venture		1,420	11,141
Share of results of associates		2,535	162
Share-based compensations expenses	42	66	986
Operating cash flows before movements in working capital		265,935	182,745
Decrease (increase) in inventories		16,854	(10,055)
Increase in trade, bills and other receivables		(142,925)	(21,932)
(Increase) decrease in other receivables and deposits		(66)	1,083
(Increase) decrease in amounts due from associates		(28,014)	14,813
Decrease (increase) in amount due from a non-controlling shareholder of a former subsidiary/subsidiary		1,133	(1,133)
Decrease in amount due from a joint venture		100	—
Increase in amount due from a related party		(9)	—
Increase in amount due to a non-controlling shareholder of subsidiaries		4,701	—
Decrease in amount due to a related party		2,870	—
Increase in trade, bills and other payables		40,003	34,494
Increase in contract liabilities		1,945	5,043
Cash generated from operations		162,527	205,058
Income tax paid		(41,617)	(22,472)
NET CASH FROM OPERATING ACTIVITIES		120,910	182,586

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		(103,500)	—
Loans advance paid		(56,000)	(179,043)
Placement of pledged bank deposits		(51,800)	(31,728)
Purchase of property, plant and equipment		(45,943)	(41,351)
Payments for right-for-use assets		(19,439)	—
Investment in an associate	23	(5,000)	(1,282)
Receipts of loans advance		106,303	58,000
Receipts of asset-related government grants	38	48,325	3,947
Proceeds from disposal of a joint venture	46	36,000	—
Release of pledged bank deposits		31,523	19,523
Interest received		23,081	15,131
Receipts of loan advance to a related party		10,000	—
Proceeds from disposal of property, plant and equipment		450	170
Net cash outflow on acquisition of subsidiaries	45	—	(38,994)
Loan advance to a related party		—	(10,000)
Proceeds from redemption of financial assets at fair value through profit or loss		—	110
NET CASH USED IN INVESTING ACTIVITIES		(26,000)	(205,517)
FINANCING ACTIVITIES			
New bank borrowings raised		699,456	539,397
Repayment of bank borrowings		(682,014)	(489,999)
Dividends paid	15	(36,362)	(52,035)
Interest paid		(19,663)	(16,619)
Repayments of lease liabilities		(4,229)	—
NET CASH USED IN FINANCING ACTIVITIES		(42,812)	(19,256)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		52,098	(42,187)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		379,257	419,133
Effect of foreign exchange rate changes		758	2,311
CASH AND CASH EQUIVALENTS AT END OF THE YEAR Represented by bank balances and cash		432,113	379,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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 Flat 10A, 14/F, Splendid Centre, 100 Larch Street, 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 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance 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, 2019

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 16 *Leases*

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

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 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 January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, January 1, 2019.

As at January 1, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

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

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. elected not to recognise right-of-use assets and lease liabilities for lease term ends within 12 months of the date of initial application; and

iv. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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 16 *Leases* *(continued)*

As a lessee *(continued)*

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 incremental borrowing rate applied is 4.75%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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 16 *Leases* *(continued)*

As a lessee *(continued)*

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

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

Notes:

(a) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB147,000 was adjusted to refundable rental deposits paid and right-of-use assets, respectively.

(b) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments, amounting to RMB1,698,000 and RMB73,228,000 respectively, were reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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 16 *Leases* *(continued)*

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

The application of IFRS 16 as a lessor has no material impact on the consolidated financial statements of the Group as at January 1, 2019 and during the current year as the amounts involved are not material.

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

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

Note: For the purpose of reporting cash flows from operating activities and financing activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

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

New and amendments to IFRSs in issue 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 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

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

2 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.

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

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

5 Effective for annual periods beginning on or after January 1, 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after January 1, 2020.

Except for the new and amendments to IFRSs mentioned below, the Directors 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 in issue but not yet effective *(continued)*

Amendments to IFRS 3 *Definition of a Business*

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

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 judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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 accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), 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 at initial recognition 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, 2019

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;

- 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; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash- generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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.

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 is not allocated to any asset, including goodwill, that 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers

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 or 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers *(continued)*

Consideration payable to a customer *(continued)*

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.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

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

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

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 or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Short-term leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) *(continued)*

Right-of-use assets

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

The cost of right-of-use asset includes:

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

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

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

Refundable rental deposits

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) *(continued)*

Lease liabilities

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

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

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

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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessee (prior to January 1, 2019)

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.

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.

The Group as a lessor

Classification and measurement of leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 2)

Refundable rental deposits

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

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.

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 non-current assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. 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-based payment 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-based payment 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-based payment reserve will be transferred to accumulated profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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

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

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 to the same taxable entity by the same taxation authority.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are tangible assets that are 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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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.

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.

Effective January 1, 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income.

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.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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. Effective January 1, 2019, a leased property which is recognised as a right-of-use asset upon application of IFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these 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 property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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 value 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 on property, plant and equipment, right-of-use assets 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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. 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 fair value through profit or loss ("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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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

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.

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 selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets *(continued)*

(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.

(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

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, bills and other receivables, loan receivables, amounts due from associates, a non-controlling shareholder of a former subsidiary/subsidiary, a joint venture and a related party, loan to a related party, pledged bank deposits and bank balances) which are subject to impairment under IFRS 9. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

(i) Significant increase in credit risk *(continued)*

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.

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(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 *(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.

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

Classification as 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.

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, amount due to a related party and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

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.

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 judgements, 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.

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

Note 23 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.

Fair value measurement and valuation process

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

The valuation of the unlisted equity investment fund was determined based on the asset based approach by subtracting the total liabilities of the unlisted equity investment fund from total assets. The carrying amount of unlisted equity investment fund for the year ended December 31, 2019 was RMB101,037,000 (2018: Nil) with fair value loss recognised in other gains and losses of RMB2,463,000 (2018: Nil). Notwithstanding that the management employs independent professional qualified valuer to perform fair value assessment based on their assumptions, the fair values of these unlisted equity investment fund may be higher or lower depending on the future net asset value.

The information about the fair value measurement of the unlisted equity investment fund is set out in note 44(c).

Estimated impairment on prepayments

When there is objective evidence of impairment loss on prepayments such as default, the Group takes into consideration the estimation of future cash flows expected to recover the prepayments. The amount of the impairment loss is measured as the difference between the prepayments being default and the recoverable amount of the prepayments. The recoverable amount is determined, with reference to the relevant market information, legal opinion from our independent lawyer and properties valuation, by the management of the Company.

As at December 31, 2019, the carrying amount of prepayments is approximately RMB152,476,000, net of accumulated impairment loss of RMB74,641,000 (2018: RMB69,402,000, net of accumulated impairment losses of Nil). Details of the impairment loss on prepayments are disclosed in note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

Key sources of estimation uncertainty *(continued)*

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, 2019, the carrying amount of inventories of the Group was RMB72,715,000 (2018: RMB89,569,000), of which RMB20,328,000 (2018: RMB34,314,000) 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, 2019, the carrying amount of property, plant and equipment of the Group was RMB459,361,000 (2018: RMB458,167,000). Details of the useful lives of the property, plant and equipment are disclosed in note 17.

Provision of ECL for allowance on trade, bills and other receivables, amounts due from associates, a non-controlling shareholder of a former subsidiary/subsidiary, a joint venture and a related party, 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 receivables are set out in notes 44 and 26, respectively.

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

Key sources of estimation uncertainty *(continued)*

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, 2019, the carrying amount of intangible assets is RMB41,650,000 (2018: RMB46,717,000). No impairment loss has been recognised during the year ended December 31, 2019.

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, 2019. As at December 31, 2019, the carrying amount of goodwill is RMB27,449,000 (2018: RMB27,449,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

5. REVENUE

(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

	2019 RMB'000	2018 RMB'000
Distributors	1,562,791	1,404,117
Supermarkets	30,276	45,171
	1,593,067	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

5. REVENUE *(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, 2019 and 2018 and the expected timing of recognising revenue are as follows:

Sales of biscuit products

	2019 **RMB'000**	2018 RMB'000
Within one year	**82,733**	80,788

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

6. SEGMENT INFORMATION *(continued)*

Other segment information

Amounts included in the measurement of segment results:

Year ended December 31, 2019

	Biscuits operation RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation of property, plant and equipment	36,962	7,480	44,442
Amortisation of intangible assets	5,067	—	5,067
Depreciation of right-of-use assets	6,051	—	6,051

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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:

	2019	2018
	RMB'000	RMB'000
Revenue by products		
Breakfast biscuits	**359,406**	360,902
Crisp biscuits	**292,834**	295,315
Sandwich biscuits	**438,079**	362,761
Wafers	**141,497**	135,385
Coarse grain biscuits	**165,717**	131,832
Others (Note)	**195,534**	163,093
	1,593,067	1,449,288
Gross profit by products		
Breakfast biscuits	**110,427**	103,442
Crisp biscuits	**90,824**	92,664
Sandwich biscuits	**164,675**	134,836
Wafers	**47,901**	42,295
Coarse grain biscuits	**60,452**	27,348
Others (Note)	**64,586**	61,380
	538,865	461,965

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC (Country of domicile)	**1,590,933**	1,446,944	**733,541**	642,203
Others (Note)	**2,134**	2,344	**1**	1
	1,593,067	1,449,288	**733,542**	642,204

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

	2019	2018
	RMB'000	RMB'000
Government grants (note 38)	**20,792**	12,927
Interest income on:		
— Bank deposits	**12,192**	7,899
— Loan receivables (note 28)	**10,889**	7,232
Commission income (note 51(e))	**2,427**	—
Sales of packaging materials	**1,015**	1,093
Rental income	**738**	750
Refund of handling charges from tax authority	**136**	—
Imputed interest income		
— Advances to staff (note 26(b))	**76**	109
— Rental deposits	**55**	—
Other non-operating income	**2**	437
	48,322	30,447

8. OTHER EXPENSES

	2019 RMB'000	2018 RMB'000
Research and development expenses	52,357	44,219
Donation expenses	2,931	564
Penalty charges	678	—
Other non-operating expenses	227	235
	56,193	45,018

9. IMPAIRMENT LOSSES REVERSED (RECOGNISED) UNDER EXPECTED CREDIT LOSS MODEL, NET

	2019 RMB'000	2018 RMB'000
Impairment losses recognised, net of reversal		
— loan receivables	6,302	(11,450)
— loan to a related party	946	(946)
— trade receivables	(2,218)	(8)
	5,030	(12,404)

Details of impairment assessment for both years are set out in note 44(b).

10. OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Impairment loss on prepayments (Note)	(74,641)	—
Loss on disposal of a subsidiary (note 46(c))	(5,700)	—
Fair value loss on financial assets at FVTPL	(2,463)	(75)
Net foreign exchange losses	(637)	(3,055)
Gain on disposal of a joint venture (note 46(a))	13,570	—
Fair value gain on investment property	300	—
Gain (loss) on disposal of property, plant and equipment	143	(98)
Others	(310)	38
	(69,738)	(3,190)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

10. OTHER GAINS AND LOSSES *(continued)*

Note: On February 1, 2019, Guangdong Jiashili Food Group Company Limited (廣東嘉士利食品集團有限公司) ("Guangdong Jiashili"), a wholly-owned subsidiary of the Company, entered into a strategic cooperative agreement with Guangdong Kailan Flour Company Limited (廣東開蘭麵粉有限公司) ("Kailan") for procurement of flour from February 1, 2019 to December 31, 2019, in return, Kailan shall supply flour to Guangdong Jiashili at a discounted price. Balance of the prepayment, if any, shall be returned to Guangdong Jiashili by the year end. Mr. Ye Runtang (葉潤棠) ("Mr. Ye") and Ms. Guan Peiling (關佩玲) ("Ms. Guan"), as the management of Kailan, shall provide joint and several guarantee for the obligations of Kailan under the strategic cooperative agreement. Pursuant to the strategic cooperative agreement, Guangdong Jiashili shall make a prepayment to Kailan in total amount of RMB100,000,000.

The Group has procured flour and related products from Kailan for over ten years. The current kind of purchase arrangement has commenced since 2015, as the Group considered such arrangement could secure stable supply of flour to the Group at a favourable price for use in the Group's ordinary course of business. Balance of the prepayment amount had been fully returned to the Group in the past years. For the year ended December 31, 2019, out of the total purchase price amounted to RMB38,327,000, RMB24,579,000 was net off with the prepayment made by the Group and RMB13,748,000 was purchased in January 2019 prior to the prepayments made and was settled by cash. Subsequently, Kailan suspended its operation due to financial problem, and therefore failed to observe its obligations under the strategic cooperative agreement and defaulted on the supply of flour and return the balance of the prepayment amount to Guangdong Jiashili.

On September 24, 2019, Guangdong Jiashili filed a claim with Guangdong Kaiping People's Court (廣東省開平市人民法院) against Kailan, Mr. Ye and Ms. Guan for breach of a strategic cooperation agreement. On December 26, 2019, a judgment was made by Guangdong Kaiping People's Court (廣東省開平市人民法院) in favour of Guangdong Jiashili, pursuant to which, among other things, (i) Kailan shall pay RMB80,332,000, being the balance of the prepayment amount of RMB75,421,000 as well as a compensation charge of RMB4,911,000, to Guangdong Jiashili within ten days from the effective date of the judgment; and (ii) Guangdong Jiashili can enforce its rights against the collaterals provided by Kailan, including the flour and wheat in the warehouse of Kailan.

The Group evaluated the recoverable amount from the legal case with reference to the legal opinion from an independent lawyer. In accordance with the legal opinion, the Group has advance compensation priority on the stock of flour and wheat from Kailan, while as at the year ended December 31, 2019, the stock of flour and wheat has all been delivered out through normal transaction by Kailan and the expected value of the stock is Nil. Based on information available from the legal opinion and public search, majority of Kailan's lands and buildings, vehicles, production facilities and equipment have been pledged to its banks and creditors, while Mr. Ye has also pledged certain of his lands and buildings to his bank. With reference to the unpledged assets list of Kailan, Mr. Ye and Ms. Guan from the legal opinion and public search, the Group assessed that the expected recoverable amount of the prepayment from Kailan, Mr. Ye and Ms. Guan amounted to RMB780,000 and an impairment loss of RMB74,641,000 has been provided in respect of prepayment to Kailan during the year ended December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

11. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expenses on		
— bank borrowings	**19,663**	16,619
— lease liabilities	**383**	—
	20,046	16,619

12. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")		
— Current tax	**38,968**	23,886
— Overprovision in prior years	**(383)**	(382)
	38,585	23,504
Deferred tax (note 39):	**271**	998
	38,856	24,502

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 2018 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 2018 to 2020.

12. INCOME TAX EXPENSE *(continued)*

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.

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. Jiashili HK has completed the renewal and obtained the Hong Kong resident certificate on July 29, 2019 for the calendar year 2018 and was valid for three years ended December 31, 2020, which was issued by the Hong Kong Inland Revenue Department. Jiashili HK enjoys a reduced tax rate under Bulletin [2018] No. 9 (國家稅務總局公告2018年第9號) (e.g. beneficial ownership, shareholding percentage and holding period) of withholding tax rate of 5% on dividend income for the years ended December 31, 2019 and 2018, pursuant to the PRC-HK DTA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

12. INCOME TAX EXPENSE *(continued)*

The income 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:

	2019 RMB'000	2018 RMB'000
Profit before tax	147,395	110,678
Tax at PRC Tax rate of 25% (2018: 25%)	36,849	27,670
Tax effect on concessionary tax rate	(6,188)	(10,154)
Tax effect on concessionary policy on research and development expenses (Note)	(9,426)	(8,004)
Tax effect of income not taxable for tax purpose	(3,217)	(77)
Tax effect of expenses not deductible for tax purpose	5,596	5,071
Tax effect of tax losses not recognised	859	1,866
Tax effect of deductible temporary difference not recognised	11,890	3,605
Tax effect on share of results of a joint venture	355	2,785
Tax effect on share of results of associates	634	40
Effect of different tax rates of a subsidiary operating in Hong Kong	(91)	(189)
Tax effect of 5% withholding tax on undistributed profits of the PRC subsidiaries	1,978	2,271
Overprovision in prior years	(383)	(382)
Income tax expense recognised in profit or loss	38,856	24,502

Note: It represents additional 75% (2018: 75%) 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, 2019

13. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging:		
Directors' and chief executive's remuneration (note 14)	3,087	3,388
Other staff costs:		
Salaries and allowances	175,296	177,332
Contributions to retirement benefits scheme	20,042	19,385
Redundancy costs	—	8,640
Share-based compensations	66	846
Total staff costs	198,491	209,591
Depreciation of property, plant and equipment	44,442	42,276
Depreciation of right-of-use assets	6,051	—
Amortisation of intangible assets (included in cost of sales)	5,067	3,841
Total depreciation and amortisation	55,560	46,117
Auditors' remuneration	2,044	1,551
Cost of inventories recognised as expenses with no impairment of inventories recognised	1,054,202	987,323
Legal and professional fees (included in administrative expenses)	11,775	11,648
Release of prepaid lease payments	—	1,698
Expenses relating to short-term leases	296	—
Rental expense under operating lease in respect of land and buildings	—	4,543

14. 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:

	2019 RMB'000	2018 RMB'000
Salaries and allowances	3,080	2,928
Discretionary bonus	—	309
Contributions to retirement benefits scheme	7	11
Share-based compensations	—	140
	3,087	3,388

Year ended December 31, 2019

	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)*	159	948	–	1	–	1,108
Mr. Tan Chaojun 譚朝均 *(Vice chairman and chief executive officer)*	159	692	–	4	–	855
Mr. Chen Minghui 陳明輝 (Resigned on June 30, 2019)	80	218	–	2	–	300
Mr. Chen Songhuan 陳松浣 (Appointed on July 1, 2019)	80	267	–	–	–	347
Non-executive Director						
Mr. Lin Xiao 林曉	–	–	–	–	–	–
Independent Non-executive Directors (Note b)						
Mr. Kam Robert 甘廷仲	159	–	–	–	–	159
Ms. Ho Man Kay 何文琪	159	–	–	–	–	159
Mr. Ma Xiao Qiang 馬曉強	159	–	–	–	–	159
	955	2,125	–	7	–	3,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

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

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 Directors (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

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.

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 years ended December 31, 2019 and 2018 were determined by the management having regard to the performance of the directors of the Company and the Group's results from operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

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

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, 2019 and 2018, none of the directors of the Company has waived or agreed to waive any emoluments.

Employees' remuneration

The five highest paid individuals included three (2018: three) directors for the year ended December 31, 2019. The emoluments of the remaining two (2018: two) individuals for the year ended December 31, 2019, are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and allowances	**1,010**	1,174
Contributions to retirement benefits scheme	**10**	10
Share-based compensations	**—**	56
	1,020	1,240

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	
	2019	2018
Nil to HK$1,000,000 (equivalent to Nil to RMB859,000)	**4**	4
HK$1,000,001 to HK$1,500,000 (equivalent to RMB859,000 to RMB1,288,000)	**1**	1

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

15. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Final — HK5 cents (2018: 2017 final dividend of HK15 cents) per share	18,181	52,035
2019 Interim — HK5 cents (2018: Nil) per share	18,181	—
	36,362	52,035

Subsequent to the end of the reporting period, final dividend of HK5 cents (2018: HK5 cents) per share, amounting to approximately HK$20,750,000 (equivalent to approximately RMB18,588,000) (2018: approximately HK$20,750,000 (equivalent to approximately RMB18,181,000)), has been proposed by the directors and is subject to the approval by the shareholders at the forthcoming Annual General Meeting of the Company.

16. 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:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	109,584	86,479

	2019 '000	2018 '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)	26.41	20.84

Note: The computation of diluted earnings per share for the years ended December 31, 2019 and 2018 does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
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
Additions	550	–	7,375	636	3,226	34,156	45,943
Transfer	–	347	36,006	497	1,828	(38,678)	–
Disposals	–	–	(937)	(289)	(452)	–	(1,678)
At December 31, 2019	270,194	31,383	296,077	37,154	18,466	5,031	658,305
ACCUMULATED DEPRECIATION							
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
Provided for the year	14,595	5,035	16,964	4,951	2,897	–	44,442
Eliminated on disposals	–	–	(667)	(285)	(419)	–	(1,371)
At December 31, 2019	54,732	7,495	100,068	26,600	10,049	–	198,944
CARRYING VALUES							
At December 31, 2019	215,462	23,888	196,009	10,554	8,417	5,031	459,361
At December 31, 2018	229,507	28,576	169,862	14,376	6,293	9,553	458,167

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

18. RIGHT-OF-USE ASSETS

	Land use right RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	**74,926**	**10,126**	**85,052**
As at 31 December 2019	**92,357**	**6,083**	**98,440**
Carrying amount			
For the year ended 31 December 2019			
Depreciation charge	**2,008**	**4,043**	**6,051**
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16			**296**
Total cash outflow for leases			**4,908**
Additions to right-of-use assets			**19,439**

For both years, the Group leases various offices premises and motor vehicle for its operation. Lease contracts are entered into for fixed term of 1 year to 3 years with fixed payment. The Group does not have the option to purchase the leased properties for a nominal amount at the end of the relevant lease terms or any extension/termination options which are solely at the Group's discretion. The Group's obligations are secured by the rental deposits for such leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applied the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for printers and other office equipment. As at December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short term leases to which the short-term lease expense disclosed in note 13.

Details of the lease maturity analysis of lease liabilities are set out in notes 40 and 44(b).

19. PREPAID LEASE PAYMENTS

Analysed for reporting purposes as:

	2018 RMB'000
Current asset	1,698
Non-current asset	73,228
	74,926

20. 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
Increase in fair value recognised in profit or loss	300
Disposals through disposal of a subsidiary (note 46(c))	(9,900)
At December 31, 2019	—

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.

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.

On November 30, 2019, the Group disposed of the investment property through the disposal of its non-wholly owned subsidiary, 錦泰鴻(深圳)貿易有限公司 ("Kamtaihong"), at a consideration of RMB4,200,000, by transferring its 60% equity interest to the non-controlling shareholder of Kamtaihong. Details of the disposal of Kamtaihong are set out in the note 46(c).

20. INVESTMENT PROPERTY *(continued)*

The fair value of the Group's investment property as at November 30, 2019 has been arrived at on the basis of a valuation carried by Roma Appraisals Limited ("Roma Appraisal"), an independent qualified professional valuer not connected with the Group. Roma 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 November 30, 2019, 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 RMB4,000 to RMB4,500 (December 31, 2018: 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% (December 31, 2018: 5.61%) and market unit rate of RMB4,220 sqm (December 31, 2018: 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, 2019. In estimating the fair value of the property, the highest and best use of the property is their current use. The fair value of investment property has been adjusted to exclude prepaid or accrued operating lease income to avoid double counting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

21. INTANGIBLE ASSETS

	Trademarks RMB'000
COST	
At January 1, 2018	5,000
Acquired through acquisition of a subsidiary	50,558
At December 31, 2018 and December 31, 2019	55,558
AMORTISATION	
At January 1, 2018	5,000
Charge for the year	3,841
At December 31, 2018	8,841
Charge for the year	5,067
At December 31, 2019	13,908
CARRYING VALUES	
At December 31, 2019	41,650
At December 31, 2018	46,717

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

22. GOODWILL

The goodwill acquired in business combination during the year and December 31, 2018 was arising from acquisition of two subsidiaries (details set out in note 45) 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 14.16% (2018: 11.57%), with reference to the valuation report prepared by an independent qualified professional valuer, Asset Appraisal, using the Capital Assets Pricing Model, for the CGU. The cash flows beyond the 5-year period are extrapolated using a steady 2% (2018: 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, 2019 and 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.

23. INTERESTS IN ASSOCIATES

	2019 **RMB'000**	2018 RMB'000
Cost of investments in associates — unlisted	**6,282**	1,282
Share of post-acquisition results of associates	**(2,697)**	(162)
Exchange adjustments	**28**	—
	3,613	1,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

23. INTERESTS IN ASSOCIATES *(continued)*

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

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
		2019	2018	**2019**	2018	
Hong Kong Ruishiyue (International) Food Co., Limited* ("Hong Kong Ruishiyue") 香港瑞士樂(國際)食品有限公司 (Note a)	Hong Kong	**5%**	5%	**50%**	50%	Investment holding and manufacture and sale of 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%**	45%	**45%**	45%	Inactive

* English name for identification purpose only.

Notes:

(a) During the year ended December 31, 2017, a subsidiary of the Company had incorporated an associate with two independent third parties. Pursuant to the articles of association, the registered capital is US dollar ("US$") 3.7 million (approximately RMB25.2 million), among which, US$187,500 (approximately RMB1.3 million) to be contributed by a subsidiary of the Group. During the year ended December 31, 2018, a subsidiary of the Company has invested for its 5% equity interest amounting to US$187,500 (approximately RMB1.28 million). The board composition of the associate comprised of 4 directors, in which 2 of the directors were appointed by the Company 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 Company 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 Company. 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 two non-wholly owned subsidiaries in the PRC, 1) 廣東全成大健康飲品有限公司, which is principally engaged in manufacturing and selling healthy drinks, and 2) 晉江嘉士柏食品貿易有限公司("晉江嘉士柏") which is principally engaged in trading of food products. During the year ended December 31, 2019, a subsidiary of the Company has injected RMB5 million of investment capital into the associate. On December 23, 2019, the Group entered into equity transfer agreement with Kaiping Jialung Trading Company Limited ("Kaiping Jialung") to transfer its equity interest in 晉江嘉士柏 with no consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

23. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates

Summarised financial information in respect of the Group's material associates 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

	2019 **RMB'000**	2018 RMB'000
Current assets	**82,320**	54,117
Non-current assets	**3,386**	3,791
Current liabilities	**(60,700)**	(35,508)
Revenue	**29,269**	13,136
Profit (loss) for the year	**2,300**	(2,228)
Other comprehensive expense for the year	**(257)**	(10)
Profit (loss) and total comprehensive income (expense) for the year	**2,043**	(2,238)

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:

	2019 **RMB'000**	2018 RMB'000
Net assets of Hong Kong Ruishiyue Group	**25,006**	22,400
Proportion of the Group's ownership interest in Hong Kong Ruishiyue Group	**5%**	5%
Carrying amount of the Group's interest in Hong Kong Ruishiyue Group	**1,250**	1,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

23. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Kaiping Jiarun Group

	2019 RMB'000	2018 RMB'000
Current assets	**15,255**	—
Non-current assets	**15,206**	—
Current liabilities	**(10,821)**	—
Revenue	**71,479**	—
Loss and total comprehensive expense for the year	**(11,060)**	—
Loss and total comprehensive expense for the year attributable to:		
Owners of Kaiping Jiarun Group	**(5,862)**	—
Non-controlling interests of Kaiping Jiarun Group	**(5,198)**	—
	(11,060)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

23. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Kaiping Jiarun Group *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Kaiping Jiarun Group recognised in the consolidated financial statements:

	2019 **RMB'000**	2018 RMB'000
Net assets of Kaiping Jiarun Group	**19,640**	—
Non-controlling interest of Kaiping Jiarun's subsidiary (Note a)	**498**	—
	20,138	—
Proportion of the Group's ownership interest in Kaiping Jiarun Group	**45%**	45%
The Group's share of net assets of Kaiping Jiarun	**9,063**	—
Adjustment for paid-in-capital (Note b)	**(6,700)**	—
Carrying amount of the Group's interest in Kaiping Jiarun Group	**2,363**	—

Notes:

(a) The amount represents the non-controlling interest of the net liabilities of Kaiping Jiarun's subsidiary as at December 31, 2019.

(b) As at December 31, 2019, the total paid-in-capital of Kaiping Jiarun amounted to RMB26,000,000, out of which only RMB5,000,000 was contributed by the Group. The amount represents the adjustment for the difference between the paid-in-capital contributed by the Group and the proportion of the Group's ownership interest in Kaiping Jiarun Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

24. INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Cost of investments in joint ventures	–	35,000
Share of post-acquisition results of a joint venture	–	(11,150)
	–	23,850

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

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
		2019	2018	2019	2018	
深圳前海星旻利股權投資合夥企業(有限合夥) ("前海星旻利") (Note a)	The PRC	0%	89.1%	0%	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	0%	34.98%	0%	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 前海星旻利 and accounted for its interest in 前海星旻利 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 49. On July 25, 2019, the Group entered into equity transfer agreement with 濟南財金復星惟實股權投資合夥企業(有限合夥) to transfer its 89.1% of equity interest in the joint venture 前海星旻利 at a consideration receivable of RMB1. Details of disposal of this joint venture are set out in note 46(b).

(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. On December 23, 2019, the Group entered into equity transfer agreement with Kaiping Jialung Trading Company Limited ("Kaiping Jialung") to transfer its 34.98% of equity interests in the joint venture 江門建粵利嘉 together with its subsidiary 嘉士柏 at a cash consideration of RMB36,000,000. Details of disposal of the joint venture are set out in note 46(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

24. 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

	2019 RMB'000	2018 RMB'000
Current assets	–	76,599
Non-current assets	–	83,992
Current liabilities	–	(70,006)

	January 1, 2019 to December 23, 2019 RMB'000	2018 RMB'000
Revenue	**17,375**	102,204
Loss and total comprehensive expense for the period/year	**(7,382)**	(55,675)
Loss and total comprehensive expense for the period/year attributable to:		
Owners of 江門建粵利嘉 Group	**(4,060)**	(31,850)
Non-controlling interests of 江門建粵利嘉 Group	**(3,322)**	(23,825)
	(7,382)	(55,675)

24. INTERESTS IN JOINT VENTURES *(continued)*

Summarised financial information of a material joint venture *(continued)*

江門建粵利嘉Group *(continued)*

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
Net assets of 江門建粵利嘉 Group	90,585
Non-controlling interests of 江門建粵利嘉 Group	(22,403)
	68,182
Proportion of the Group's ownership interest in 江門建粵利嘉 Group	34.98%
Carrying amount of the Group's interest in 江門建粵利嘉 Group	23,850

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On June 26, 2019, an indirect wholly-owned subsidiary of the Group had entered into the limited partnership agreement for setting up an unlisted equity investment fund, 青島嘉匯股權投資基金合夥企業(有限合夥), with three independent third parties. Pursuant to the limited partnership agreement, RMB103.5 million is to be contributed by an indirect wholly-owned subsidiary of the Company as a limited partner. As at December 31, 2019, the unlisted equity investment fund is classified as non-current asset which consists of three years term to maturity with two extension options for additional one year term each. Management of the limited partnership joint venture shall be vested exclusively in the general partner. Limited partners shall have the exclusive authority to monitor and oversight the behavior of general partner and they did not manage daily operation of the limited partnership joint venture and are not allowed to act on behalf of the limited partnership joint venture externally. The unlisted equity investment fund is accounted for as financial assets at FVTPL. As at December 31, 2019, the unlisted equity investment fund is amounting to RMB101,037,000 with fair value loss recognised in profit or loss of RMB2,463,000. Details of the establishment of an unlisted equity investment fund are set out in the Company's announcement dated June 26, 2019.

The fair value of the Group's unlisted equity investment fund at December 31, 2019 has been arrived at on the basis of valuation carried out by Asset Appraisal Limited ("Asset Appraisal"), an independent qualified professional valuer not connected with the Group. Asset Appraisal is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience.

Details of the valuation techniques and key inputs adopted for their fair value measurements are disclosed in note 44(c).

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For the year ended December 31, 2019

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

	2019 RMB'000	2018 RMB'000
Trade receivables	**24,983**	43,778
Less: Allowance for doubtful debts	**(2,414)**	(236)
Trade receivables, net	**22,569**	43,542
Bills receivables	**4,439**	1,287
Total trade and bills receivables	**27,008**	44,829
Prepayments for purchase of raw materials (Note a)	**99,115**	58,282
Other receivables (Note b)	**10,057**	9,886
Other prepayments (Note c)	**53,361**	11,120
Rental and utility deposits	**1,992**	1,300
	191,533	125,417
Less: Amount shown under current assets	**(189,541)**	(123,344)
Amount shown under non-current assets as other receivables and deposits (Note d)	**1,992**	2,073

Trade and bills receivables

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

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

The trade and bills receivables balances at the end of 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

Trade and bills receivables *(continued)*

	2019 RMB'000	2018 RMB'000
Within 2 months	11,605	35,694
Over 2 months but within 3 months	326	4,578
Over 3 months but within 6 months	6,938	3,270
Over 6 months but within 1 year	3,700	—
	22,569	43,542

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

	2019 RMB'000	2018 RMB'000
Over 1 month but within 3 months	2,540	1,287
Over 3 months but within 6 months	1,899	—
	4,439	1,287

As at December 31, 2019, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

Prepayments, other receivables and deposits

Notes:

(a) Prepayments for purchase of raw materials mainly comprised prepayments for sugar, flour and oil, net of impairment of RMB77,381,000 (2018: RMB2,740,000).

(b) Other receivables represent advances to staff, interest receivables and prepaid expenses, which are unsecured, non-interest bearing and amounts of RMB692,000 (2018: RMB773,000) from advances to staff are repayable after one year and therefore classified as non-current.

The fair value of advances to staff are determined based on the present value of the estimated future cash flows and discounted using the prevailing market rate on initial recognition. The imputed interest income on the advances to staff is RMB76,000 (2018: RMB109,000). The effective interest rate is 4.75% to 4.9% (2018: 4.75% to 4.9%) per annum.

(c) Other prepayments represent prepaid logistic fee to logistics companies to maintain a long term cooperation relationship and enjoy preferential price offered by the suppliers.

(d) The amount represents i) rental and utility deposits due after one year, and ii) advances to staff due after one year are classified as non-current.

Details of impairment assessment of trade, bills and other receivables for the year ended December 31, 2019 and 2018 are set out in note 44(b).

27. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials and packing materials	52,042	54,770
Work-in-progress	345	485
Finished goods	20,328	34,314
	72,715	89,569

28. LOAN RECEIVABLES

The amounts represent loans advanced to independent third parties with aggregated principal value of RMB105,740,000 (2018: RMB156,043,000). The amounts are unsecured, interest bearing at a rate ranging from 6.5% to 24% (2018: 6% to 17%) per annum. Based on the loans agreements, the amounts are repayable within one year.

As at December 31, 2019, the Group recognised an impairment allowance of RMB8,459,000 (2018: RMB14,761,000) on loan receivables. During the current year, a net reversal of impairment losses of RMB6,302,000 (2018: net impairment losses of RMB11,450,000) was recognised in the profit or loss. Details of impairment assessment of loan receivables for the year ended December 31, 2019 and 2018 are set out in note 44(b).

29. AMOUNTS DUE FROM ASSOCIATES

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

30. AMOUNTS DUE FROM A NON-CONTROLLING SHAREHOLDER OF A FORMER SUBSIDIARY/A SUBSIDIARY/A JOINT VENTURE/A RELATED PARTY

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

31. LOAN TO A RELATED PARTY

As at December 31, 2018, the amount represented loan 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 was unsecured, interest bearing at 6% and repayable within one year. During the year ended December 31, 2019, the amount has been fully settled.

As at December 31, 2018, the Group recognised an impairment allowance of RMB946,000 on loan to a related party. During the year ended December 31, 2019, the reversal of impairment loss of RMB946,000 (2018: impairment loss recognised of RMB946,000) was recognised in the profit or loss.

32. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposit of RMB52,005,000 (2018: RMB31,728,000) carry fixed interest rates ranged from 0.35% to 2.1% (2018: 0.35% to 1.15%) per annum.

Bank balances of RMB432,113,000 (2018: RMB379,142,000) carry interest at floating interest rates per annum as follows:

	Bank balances
At December 31, 2019	**0.01%–3.80%**
At December 31, 2018	0.01%–3.00%

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

	2019 RMB'000	2018 RMB'000
RMB	**476,296**	403,172
Hong Kong Dollars ("HK$")	**6,949**	5,618
US Dollars ("US$")	**873**	2,195
	484,118	410,985

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For the year ended December 31, 2019

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

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.

33. TRADE, BILLS AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	137,119	105,396
Bills payables	24,000	10,000
Total trade and bills payables	161,119	115,396
Accrued expenses	27,145	27,043
Transportation fee payables	19,081	25,111
Payroll and welfare payables	28,825	27,586
Construction costs payables	3,318	5,579
Receipts in advance (Note)	5,283	—
Other payables	2,363	4,539
Output value-added-tax and other tax payables	13,118	14,995
	260,252	220,249

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:

	2019 RMB'000	2018 RMB'000
Within 3 months	136,651	104,839
Over 3 months but within 6 months	249	—
Over 6 months but within 1 year	55	557
Over 1 year	164	—
	137,119	105,396

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

Trade and bills payables *(continued)*

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

	2019 RMB'000	2018 RMB'000
Over 3 months but within 6 months	24,000	10,000

The bills payables are secured by pledged bank deposits as disclosed in note 32.

Note: On August 2, 2019, the Group has entered into a memorandum of understanding with Guangdong Huasheng Yanshi Group Co., Ltd.* (廣東華盛裀氏集團有限公司) ("Guangdong Huasheng"), an independent third party, and received an advance payment of RMB5,283,000 for a property development cooperative project. The advance payment is unsecured, non-interest bearing and has no fixed repayment terms. Pursuant to the memorandum of understanding, the Group agreed to contribute the land located in Yunan held by Guangdong Jiashili Huangpi Industry (廣東嘉士利黃皮產業發展有限公司), a non-wholly owned subsidiary of the Group, and Guangdong Huasheng agreed to contribute cash to the cooperative project company. The percentage of the equity interest in the cooperative project company is based on the value of the land contributed by the Group and the cash consideration injected by Guangdong Huasheng.

The cooperative project company is not yet established and the finalised agreement has not been completed as at the date of this report.

34. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Sales of biscuits products	82,733	80,788

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.

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	80,788	75,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

34. CONTRACT LIABILITIES *(continued)*

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.

35. BANK BORROWINGS

	2019 **RMB'000**	2018 RMB'000
Bank borrowings — unsecured	**378,699**	360,471
The carrying amounts of the above bank borrowings are repayable within one year*	**319,699**	186,327
The carrying amounts of the above bank borrowings are repayable over one year but less than two years*	**59,000**	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
	378,699	360,471
Less: non-current portion	**(59,000)**	(96,720)
Current portion	**319,699**	263,751

* 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:

	2019 **RMB'000**	2018 RMB'000
Fixed-rate bank borrowings	**209,699**	186,327
Variable-rate bank borrowings	**169,000**	174,144
	378,699	360,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

35. 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 2019	Year ended 2018
Effective interest rate:		
Fixed-rate bank borrowings	**0.75% to 4.44%**	3.35% to 4.44%
Variable-rate bank borrowings	**3.47% to 4.75%**	3.27% to 5.51%

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	**EUR** RMB'000
As at December 31, 2019	**—**	**29,699**
As at December 31, 2018	77,424	—

36. 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 of RMB6,800,000 for the acquisition of subsidiaries as set out in note 45 and the remaining balance RMB4,701,000 being advances made during the year ended December 31, 2019. The consideration payable of RMB6,800,000 was fully settled subsequently in January 2020.

37. AMOUNT DUE TO A RELATED PARTY

The amount is unsecured, non-interest bearing which represent payable for the purchase of finished goods as set out in note 51.

38. DEFERRED INCOME

Amounts credited to profit or loss during the year:

	2019 **RMB'000**	2018 RMB'000
Incentive subsidies (Note a)	**19,156**	10,934
Released from asset-related government subsidies (Note b)	**1,636**	1,993
	20,792	12,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

38. DEFERRED INCOME *(continued)*

The movement of deferred income is as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**42,297**	11,163
Receipts of subsidies related to property, plant and equipment and right-of-use assets/prepaid lease payment (Note b)	**48,325**	3,947
Release to profit or loss during the year (Note b)	**(1,636)**	(1,993)
Arising through acquisition of a subsidiary (Note c)	**—**	29,180
At end of year	**88,986**	42,297
Analysed for reporting purpose:		
Current liabilities	**1,805**	2,371
Non-current liabilities	**87,181**	39,926
	88,986	42,297

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 and right-of-use assets/prepaid lease payment 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 right-of-use assets/prepaid lease payment which are deferred and amortised to profit or loss over its estimated useful life of the right-of-use assets/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.

39. 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, 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 and January 1, 2019	12,174	2,271	14,445
Released upon declaration of dividend by Guangdong Jiashili	—	(2,271)	(2,271)
(Credit) charge to profit or loss	(1,708)	1,979	271
At December 31, 2019	**10,466**	**1,979**	**12,445**

As at December 31, 2019, the Group has unrecognised deferred tax liability in relation to the PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries of RMB131,894,000 (2018: RMB151,389,000), 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, 2019 is 5% (2018: 5%).

At December 31, 2019, the Group has unused tax losses of RMB16,408,000 (2018: RMB12,974,000) 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, 2019, the Group has deductible temporary differences of RMB65,744,000 (2018: RMB18,184,000). 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.

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For the year ended December 31, 2019

40. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	3,835
Within a period of more than one year but not more than two years	2,298
	6,133
Less: amount due for settlement with 12 months shown under current liabilities	(3,835)
Amount due for settlement after 12 months shown under non-current liabilities	2,298

All lease obligations are denominated in the functional currencies of the relevant group entities.

41. 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, 2018, December 31, 2018 and December 31, 2019		
— Ordinary shares of HK$0.01 each	8,000,000,000	80,000,000
Issued and fully paid:		
At January 1, 2018, December 31, 2018 and December 31, 2019		
— Ordinary shares of HK$0.01 each	415,000,000	4,150,000

	At December 31, 2019 and 2018 RMB'000
Presented in the consolidated financial statements	3,285

42. 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.

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, 2019:

For the year ended December 31, 2019

				Number of share options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2019	Granted during the year	Exercised during the year	Lapsed during the year	At 12.31.2019
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								–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

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
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

The fair value of these options at date of grant was RMB15,607,000, of which Nil were charged to the profit or loss for the year ended December 31, 2019 (2018: RMB759,000).

The fair value of share options are measured by Binominal 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

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For the year ended December 31, 2019

42. SHARE OPTION SCHEME *(continued)*

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.

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, 2019:

For the year ended December 31, 2019

				Number of share options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2019	Granted during the year	Exercised during the year	Lapsed during the year	At 12.31.2019
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								2,000,000

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42. SHARE OPTION SCHEME *(continued)*

Share Option Scheme *(continued)*

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

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.

The fair value of the option granted on June 12, 2015 was RMB2,408,000, of which RMB66,000 for a former director of the Company was charged to the profit or loss for the year ended December 31, 2019 (2018: RMB227,000).

The fair value of share options are measured by Binominal 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

43. 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 35 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.

44. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 **RMB'000**	2018 RMB'000
Financial assets		
Financial assets at amortised cost	**670,132**	636,714
Financial asset mandatorily measured at FVTPL	**101,037**	—
Financial liabilities		
Amortised cost	**613,067**	545,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, loan receivables, amounts due from associates, a non-controlling shareholder of a former subsidiary/subsidiary, a joint venture and a related party, loan to a related party, pledged bank deposits, bank balances and cash, trade, bills and other payables, bank borrowings, amounts due to a non-controlling shareholder of subsidiaries and a related party and financial asset at FVTPL. The risks associated with these financial instruments include market risk (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.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency which expose the Group to foreign currency risk. Approximately 0.13% of the Group's sales is denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 99.87% 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.

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:

	Liabilities		Assets	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
The Group				
US$	**—**	—	**873**	2,502
EUR	**29,699**	—	**—**	—
HK$	**1,558**	78,970	**6,949**	5,691
Inter-group balance				
HK$	**574,969**	599,646	**582,950**	672,013

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Currency risk *(continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in the functional currency of the Group against the relevant foreign currencies. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates. The sensitivity analysis also includes intra-group balances. A positive number below indicates an increase in post-tax profit and other equity where functional currency strengthen 5% (2018: 5%) against the relevant currency. For a 5% (2018: 5%) weakening of functional currency against the relevant currency, there would be an equal and opposite impact on the profit and other comprehensive income and the amounts below would be negative.

	US$ Impact (i)		EUR Impact (ii)		HK$ Impact (iii)	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Increase (decrease) in profit	**33**	94	**(1,114)**	–	**202**	(2,748)

(i) This is mainly attributable to the exposure on bank balances denominated in US$ at the end of reporting period.

(ii) This is mainly attributable to the exposure on a bank borrowing denominated in EUR at the end of reporting period.

(iii) This is mainly attributable to the exposure on bank balances, bank borrowings and an inter-group balance denominated in HK$ at the end of reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the relevant years.

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For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(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 fair value interest rate risk in relation to fixed-rate bank borrowings (see note 35 for details), fixed-rate loan receivables (see note 28 for details) and lease liabilities (see note 40 for details). The Group is also exposed to cash flow interest rate risk in relation to variables rate bank balances (see note 32 for details) and variable-rate bank borrowings (see note 35 for details). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and variable-rate bank borrowings. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2019	2018
	RMB'000	RMB'000
Other income		
Financial assets at amortised cost	**23,081**	15,131
Interest expense on financial liabilities not measured at FVTPL:		
Financial liabilities		
Financial liabilities at amortised cost	**19,663**	16,619

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, 2019 would increase/decrease by approximately RMB263,000 (2018: RMB205,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, bills receivables, other receivables, amounts due from associates, a related party, a non-controlling shareholder of a former subsidiary/subsidiary, a joint venture, loan receivables, loan to a related party, pledge bank deposits and bank balances.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals and to determine any debt recovery action on those delinquent accounts receivable arising from contracts with customers. Before granting credit to these customers, the Group reviews the credit quality and defines credit limits by these customers. Limits attributed to these customers are reviewed once a year and each customer has a maximum credit limit. The Group maintains a defined credit policy to assess the credit quality of these customers and seeks to maintain strict control over its outstanding receivables so as to minimise credit risk. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The trade receivables balance 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 38% (2018: 45%) of the Group's total trade receivables as at December 31, 2019, 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 on trade balances based on provision matrix. Trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Impairment of RMB2,414,000 (2018: RMB236,000 is recognised during the year. Details of the quantitative disclosures are set out below in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Credit risk and impairment assessment *(continued)*

Loan receivables and loan to a related party

Before accepting any new borrowers, the Group conducted credit check to assess the borrowers' credit quality and periodically review borrowers' financial statement in order to mitigate the credit risk of loan receivable. For the non-pledged loan receivables and loan to a related party, the directors of the Company estimate the estimated loss rates based on historical credit loss experience of the debtors in view of their financial position and the market data. For the loan receivables with collaterals, the directors of the Company will estimate the estimated loss rate based on historical credit loss experience of the debtors as well as the fair value of the collaterals pledged by the borrowers. Based on assessment by the directors of the Company, the borrowers has a medium risk of default in view of the realised amount of the collaterals and estimated financial position of borrowers on their ability to repay the loan receivables upon the due date.

During the year ended December 31, 2019, the Group received the settlement of loan receivables of RMB102,043,000 and the settlement of loan to a related party of RMB10,000,000. A reversal of impairment loss on loan receivable of RMB6,302,000 and a reversal of impairment loss on loan to a related party RMB946,000 (2018: impairment loss recognised of RMB11,450,000 on loan receivable and RMB946,000 on loan to related party) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

Pledged bank deposits and bank balances

Credit risk on pledged bank deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by credit agencies. The Group assessed 12-month ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12-month ECL on bank balances is considered to be insignificant.

Bills and other receivables, amounts due from associates, a non-controlling shareholder of a former subsidiary/subsidiary, a joint venture and a related party

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

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Credit risk and impairment assessment *(continued)*

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/ 12-month ECL	12-month ECL
Watch list	Debtor frequently repays after due date but usually settle in full	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	The counterparty has a medium risk of default 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(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:

	Notes	Internal credit rating	12-month or lifetime ECL	**2019 Gross carrying amount RMB'000**	2018 Gross carrying amount RMB'000
Financial assets at amortised cost					
Trade receivables	26	(Note 2)	Lifetime ECL — Provision matrix	**24,983**	43,778
Bills receivables	26	Low risk (Note 1)	12-month ECL	**4,439**	1,287
Other receivables	26	Low risk (Note 1)	12-month ECL	**10,057**	9,886
Loan receivables (Note 3)	28	Doubtful (Note 1)	Lifetime ECL (not credit-impaired)	**105,740**	156,043
Amounts due from associates	29	Low risk (Note 1)	12-month ECL	**47,459**	19,445
Amount due from a non-controlling shareholder of a former subsidiary/subsidiary	30	Low risk (Note 1)	12-month ECL	**4,200**	1,133
Amount due from a joint venture	30	Low risk (Note 1)	12-month ECL	**–**	100
Amount due from a related party	30	Low risk (Note 1)	12-month ECL	**9**	–
Loan to a related party (Note 3)	31	Doubtful (Note 1)	Lifetime ECL (not credit-impaired)	**–**	10,000
Pledged bank deposits	32	Low risk	12-month ECL	**52,005**	31,728
Bank balances	32	Low risk	12-month ECL	**432,113**	379,142
				681,005	652,542

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Credit risk and impairment assessment *(continued)*

Notes:

(1) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at December 31, 2019, the balances of bill receivables, other receivables, amount due from a related party, amount due from a non-controlling shareholder of a former subsidiary/subsidiary, associates and a joint venture are not past due and the internal credit rating of these balances are considered as low risk. As at December 31, 2019, the balances of loan receivables and loan to a related party are not past due but the internal credit rating of these balances are considered as doubtful based on internal assessment and external resources.

(2) 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 trade receivables which are assessed based on provision matrix as at December 31, 2019 within lifetime ECL (not credit-impaired).

Gross carrying amount

Internal credit rating	**2019** Average loss rate	**2019** Trade receivables RMB'000	2018 Average loss rate	2018 Trade receivables RMB'000
Low risk	**0.2%**	**11,940**	0.2%	40,386
Watch list	**1%**	**10,740**	1%	3,275
Loss	**100%**	**2,303**	100%	117
		24,983		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 December 31, 2019, the Group provided RMB2,414,000 (2018: RMB236,000) impairment allowance for trade receivables, based on the provision matrix.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Credit risk and impairment assessment *(continued)*

Notes: *(continued)*

(2) *(continued)*

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

	Lifetime ECL — simplified approach (not credit-impaired) RMB'000	Lifetime ECL — individual assessment (credit-impaired) RMB'000	Total RMB'000
As at January 1, 2018	—	228	228
Changes due to financial instruments recognised as at January 1,2018:			
— Impairment losses reversed	—	(228)	(228)
Impairment loss recognised	119	117	236
As at December 31, 2018	119	117	236
Changes due to financial instruments recognised as at January 1, 2019:			
— Transfer to credit-impaired	(40)	40	—
— Write-offs	—	(40)	(40)
Impairment loss recognised	—	2,218	2,218
As at December 31, 2019	79	2,335	2,414

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 trade receivable are over two years past due, whichever occurs earlier.

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Credit risk and impairment assessment *(continued)*

Notes: *(continued)*

(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 8.00% (2018: 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 January 1, 2018	3,311
Changes due to financial instruments recognised as at January 1, 2018:	
— impairment losses reversed	(3,311)
Impairment losses recognised	15,707
As at December 31, 2018	15,707
Changes due to financial instruments recognised as at January 1, 2019:	
— impairment losses reversed	(11,387)
Impairment losses recognised	4,139
As at December 31, 2019	8,459

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, 2019, the Group has available unutilised bank facilities of RMB361,620,000 (2018: RMB287,483,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Liquidity risk *(continued)*

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at December 31, 2019. 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 RMB'000	3–6 months RMB'000	6 months to 1 year RMB'000	1 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2019							
Trade, bills and other payables	–	214,997	5,000	–	–	219,997	219,997
Amount due to a non-controlling shareholder of a former subsidiary	–	11,501	–	–	–	11,501	11,501
Amount due to a related party	–	2,870	–	–	–	2,870	2,870
Bank borrowings	4.10	118,141	2,892	208,857	60,589	390,479	378,699
Lease liabilities	4.75	1,038	1,312	2,311	2,318	6,979	6,133
		348,547	9,204	211,168	62,907	631,826	619,200
At December 31, 2018							
Trade, bills and other payables	–	168,211	10,000	–	–	178,211	178,211
Amount due to a non-controlling shareholder of a subsidiary	–	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

44. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(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, 2019, the aggregate undiscounted principal amounts of these bank loans amounted to Nil (2018: RMB78,933,000). 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, 2019	–	–	–
As at December 31, 2018	78,933	78,933	77,424

(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 and financial liabilities 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 and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at December 31, 2019	Fair value as at December 31, 2018	Fair value hierarchy	Valuation techniques and key inputs	Relationship of unobservable inputs to fair value
Financial assets at FVTPL	Unlisted equity investment funds in the PRC: RMB101,037,000	–	Level 3	Asset based approach. The net asset value is identified by subtracting the total liabilities of these investments from total assets.	The higher the net asset value, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value *(continued)*

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(continued)*

There were no transfers amongst Level 1, 2 and 3 during both years.

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL — unlisted equity fund RMB'000
As at January 1, 2018 and December 31, 2018	—
Purchases	103,500
Fair value change recognised in profit or loss	(2,463)
As at December 31, 2019	101,037

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

45. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

45. 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

45. ACQUISITION OF SUBSIDIARIES *(continued)*

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 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.

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.

46. DISPOSAL AND DEREGISTRATION OF JOINT VENTURES AND SUBSIDIARIES

(a) Disposal of a joint venture 江門建粵利嘉

On December 23, 2019, the Group entered into equity transfer agreement with Kaiping Jialung Trading Company Limited ("Kaiping Jialung") to transfer its 34.98% of equity interests in the joint venture 江門建粵利嘉 together with its subsidiary 嘉士柏 at a cash consideration of RMB36,000,000.

The disposal was completed on December 31, 2019. The net assets of the joint venture 江門建粵利嘉 at the date of disposal were as follows:

Consideration received:

	RMB'000
Total consideration received in cash	36,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

46. DISPOSAL AND DEREGISTRATION OF JOINT VENTURES AND SUBSIDIARIES *(continued)*

(a) Disposal of a joint venture 江門建粵利嘉 *(continued)*

Analysis of assets and liabilities over which joint control was lost:

	12/31/2019 RMB'000
Property, plant and equipment	70,025
Right-of-use assets	9,196
Trade and other receivables	57,322
Bank balances and cash	1,441
Other payables and accrual	(53,628)
Contract liability	(1,152)
Net assets disposed of	83,204

Analysis of gain on disposal of a joint venture:

	RMB'000
Consideration received	36,000
Net assets disposed of with 34.98% equity interest	(29,105)
Non-controlling interests	6,675
Net gain on disposal of a joint venture included in other gains and losses	13,570
Net cash inflow arising on disposal of a joint venture	36,000

(b) Disposal of a joint venture 前海星旻利

On July 25, 2019, the Group entered into equity transfer agreement with 濟南財金複星惟實股權投資合夥企業(有限合夥) to transfer its 89.1% of equity interest in the joint venture 前海星旻利 at a consideration of RMB1. The disposal was completed in July with no gain or loss recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

46. DISPOSAL AND DEREGISTRATION OF JOINT VENTURES AND SUBSIDIARIES

(continued)

(c) Disposal of a subsidiary

On November 20, 2019, the Group entered into equity transfer agreement, with the non-controlling shareholder of Kamtaihong, to transfer its 60% equity interest of Kamtaihong at a consideration of RMB4,200,000. The disposal of Kamtaihong was completed as at November 30, 2019 in which the Group lost control of Kamtaihong.

Consideration received:

	RMB'000
Deferred cash consideration	4,200

Analysis of assets over which control was lost:

	11/30/2019 RMB'000
Investment property disposal of	9,900
Analysis of loss on disposal of a subsidiary:	
Consideration receivable	4,200
Asset disposed of	(9,900)
Net loss on disposal of a subsidiary included in other gains and losses	(5,700)

The deferred consideration included in amount due from a non-controlling shareholder of a subsidiary will be settled by the purchaser on or before April 2020.

(d) Deregistration of subsidiaries

In November 2019, the Group had deregistered both 廣州中致利嘉投資合夥企業(有限合夥) (Guangzhou Zhongzhi Lijia Partnership (Limited Partnership)*) and 晉江友昌食品有限公司 (Jinjiang Youchang Food Company Limited*) with no gain or loss recognised.

* The English names are for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	77,237	77,237
Amounts due from subsidiaries	238,257	276,934
	315,494	354,171
CURRENT ASSETS		
Prepayment	–	307
Bank balances	52	665
	52	972
CURRENT LIABILITY		
Accruals and other payable	1,557	1,546
NET CURRENT LIABILITIES	(1,505)	(574)
NET ASSETS	313,989	353,597
CAPITAL AND RESERVES		
Share capital	3,285	3,285
Reserves	310,704	350,312
TOTAL EQUITY	313,989	353,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(continued)

Movement in the Company's share capital and reserves

	Share capital RMB'000	Share premium RMB'000	Share options reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At January 1, 2018	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 15)	–	(52,035)	–	–	(52,035)
Share-based compensations	–	–	986	–	986
At December 31, 2018	3,285	304,096	20,121	26,095	353,597
Loss and total comprehensive expense for the year	–	–	–	(3,312)	(3,312)
Dividends declared (note 15)	–	(36,362)	–	–	(36,362)
Share-based compensations	–	–	(17,713)	17,779	66
At December 31, 2019	3,285	267,734	2,408	40,562	313,989

48. OPERATING LEASE

The Group as lessee

Minimum lease payments under operating lease were approximately RMB4,493,000, 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 with fixed rental.

The Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2018 RMB'000
Within one year	4,638
In the second to fifth year inclusive	6,650
	11,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

48. OPERATING LEASE *(continued)*

The Group as lessor

Property rental income earned during the year was RMB738,000 (2018: RMB738,000) from the sub-lease of the properties under operating lease where the Group is the lessee.

The minimum lease payments receivable on leases are as follows:

	2019 **RMB'000**
Within one year	**554**

The Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB'000
Within one year	738
In the second to fifth year inclusive	554
	1,292

49. CAPITAL COMMITMENTS

	2019 **RMB'000**	2018 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**21,604**	36,176
Capital expenditure in respect of the establishment of an associate contracted for but not provided in the consolidated financial statements (Note a)	**25,600**	30,600
Capital expenditure in respect of the establishment of an investment fund contracted for but not provided in the consolidated financial statements (Note b)	**–**	133,650
Capital expenditure in respect of the establishment of a joint venture contracted for but not provided in the consolidated financial statements (Note c)	**–**	133,650
Capital expenditure in respect of the capital injections to the unlisted equity investment fund but not provided in the consolidated financial statements (Note d)	**34,500**	–

Notes:

(a) 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. During the year ended December 31, 2019, a subsidiary of the Company has injected RMB5 millions of investment capital into the associate. Details of the investment in this associate are set out in note 23(b).

(b) 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. The establishment of the fund has been suspended in 2017 and the Agreement has been cancelled during the year ended December 31, 2019.

(c) 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 前海星旻利. During the year ended December 31, 2019, a subsidiary of the Group entered into equity transfer agreement with 濟南財金復星惟实股權投資合夥企業(有限合夥) to transfer its 89.1% of equity interest in the joint venture (see note 46(b)).

(d) On December 20, 2019, Kaiping Lijia entered into a capital increase agreement with three independent third parties. Pursuant to the capital increase agreement, the registered capital of the unlisted equity invest fund, 青島嘉匯股權投資基金合夥企業(有限合夥), shall be increased from RMB150,000,000 to RMB200,000,000 (the "Capital Increase"). Pursuant to the Capital Increase agreement, the further capital contribution that Kaiping agreed to make amounts to RMB34,500,000. Immediately after the completion of the Capital Increase, the total capital contribution to the unlisted equity invest fund by Kaiping Lijia amounts to RMB138,000,000, representing 69% of the enlarged registered capital of the unlisted equity invest fund, which remains unchanged from that prior to the Capital Increase. As at December 31, 2019, Kaiping Lijia has yet to pay the further capital contribution to the unlisted equity invest fund.

Details of the investment in the unlisted equity investment fund are set out in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

50. PLEDGED OF ASSETS

As at December 31, 2018, the Group has pledged its 85% of equity interests of Kamtai to secure a bank borrowing.

As at December 31, 2019 and 2018, the following items were used to secure banking facilities granted to the Group:

	2019 RMB'000	2018 RMB'000
Pledged bank deposits	52,005	31,728

51. RELATED PARTY DISCLOSURES

Related Party Transactions

	2019 RMB'000	2018 RMB'000
Sale of goods		
Zhongchen (Note a)	36	42
廣東瑞士樂食品有限公司("Guangdong Ruishiyue") (Note b)	1,350	1,652
Jiashibai Company Limited 嘉士柏 (Note b)	491	836
	1,877	2,530
Purchase of goods		
Guangdong Ruishiyue (Note b)	29,197	11,904
Jiashibai Company Limited 嘉士柏 (Note b)	3,039	1,410
Jinjiang Jiashibai Company Limited 晉江嘉士柏 (Note b)	11,701	—
Guangdong Kangli Food Company Limited 廣東康力食品有限公司 ("Kangli") (Note c)	4,588	—
	48,525	13,314
Service expense		
Aurec Capital Ltd. ("Aurec") (Note d)	—	3,372
Commission income		
Kangli (Note e)	2,427	—
Lease contract on motor vehicle		
Zhongchen (Note f)		
— Lease payment paid/rental expenditure	222	—

51. RELATED PARTY DISCLOSURES *(continued)*

Related Party Transactions *(continued)*

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 continuing connected transactions in relation to the master purchase agreement signed with Kangli for purchase of pasta. The transactions were entered into in the normal course of business of the Group at terms mutually agreed between the parties. Details of the continuing connected transactions are set out in the Company's announcement dated November 12, 2019.

(d) 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 Aurec which was included in other prepayments in note 26. Such prepayment has been fully utilised during the year ended December 31, 2018.

(e) The amount represents commission income of sales and purchase of pasta. The transactions were entered into in the normal course of business of the Group at terms mutually agreed between the parties.

(f) The Group entered into a lease agreement with Zhongchen with a lease term of 14 months from January 1, 2019 for the use of a motor vehicle. The Group is required to make fixed monthly payments. As at January 1, 2019, the Group recognised lease liabilities of RMB260,000 and right-of use assets of the same amount upon the adoption of IFRS 16. During the year ended December 31, 2019, RMB222,000 of lease payment has been made and the corresponding carrying amount of the lease liabilities is RMB38,000.

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.

Related party balances

Details of balances with the Group's related parties are set out in notes 29, 30, 36 and 37.

Key management personnel

The remuneration of key management personnel including the directors' remuneration during the year were as follows:

	2019 **RMB'000**	2018 RMB'000
Short-term benefits	**5,098**	5,708
Post-employment benefits	**25**	31
Share-based compensations	**—**	245
	5,123	5,984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

52. 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 RMB20,049,000 (2018: RMB19,396,000) represent contributions paid and payable to the retirement benefit scheme during the year ended December 31, 2019.

53. 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, 2019	2018	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

53. 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, 2019	2018	Principal activities
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 and paid-up capital 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
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(有限合伙)	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%**	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

53. 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, 2019	2018	Principal activities
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%	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%	100%	Investment holding
Guangdong Jiashili 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%	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%	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%	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 and deregistered during the year ended December 31, 2019.

b The subsidiary was established on December 4, 2018 and deregistered during the year ended December 31, 2019.

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 and disposed of during the year ended December 31, 2019.

54. 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 35) RMB'000	Loan advance included in other payable (note 33) RMB'000	Lease liabilities (note 40) RMB'000	Dividends payable (note 15) 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 55)	–	(9,819)	–	–	(9,819)
Dividends	–	–	–	52,035	52,035
At December 31, 2018	360,471	–	–	–	360,471
Adjustment upon application of IFRS 16	–	–	9,979	–	9,979
As at January 1, 2019 (restated)	**360,471**	**–**	**9,979**	**–**	**370,450**
Financing cash flows	**(2,221)**	**–**	**(4,229)**	**(36,362)**	**(42,812)**
Foreign exchange translations	**786**	**–**	**–**	**–**	**786**
Interests on bank borrowings	**19,663**	**–**	**–**	**–**	**19,663**
Finance costs	**–**	**–**	**383**	**–**	**383**
Dividends	**–**	**–**	**–**	**36,362**	**36,362**
At December 31, 2019	**378,699**	**–**	**6,133**	**–**	**384,832**

55. 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.

56. SUBSEQUENT EVENTS

An outbreak of respiratory illness caused by novel coronavirus (the "2019-nCOV") has been expanded across the PRC and globally. Since then, major cities in the PRC have taken emergency public health measures and draconian measures including travel restrictions in an effort to contain the coronavirus outbreak.

The Group have been directed by the local government to facilitate the prevention and control measures of the novel coronavirus pneumonia epidemic (the "Epidemic"), including expanding the Chinese New Year holidays, and adopted safety reparations for resuming operation under the guidance and approval of the local government.

Further, the Group have implemented prevention and control measures for the Epidemic, such as keep close track of the employees' health situation and the development of the Epidemic, to ensure the Group's continued capacity to operate its business.

The directors of the Company will continue to assess the impact of the Epidemic on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the Epidemic.

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				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,593,067**	1,449,288	1,174,977	1,105,771	1,006,228
Cost of sales	**(1,054,202)**	(987,323)	(818,574)	(726,382)	(653,953)
Gross profit	**538,865**	461,965	356,403	379,389	352,275
Other income	**48,322**	30,447	21,078	14,703	13,193
Selling and distribution expenses	**(219,046)**	(207,939)	(154,798)	(167,717)	(127,748)
Administrative expenses	**(75,844)**	(85,261)	(60,281)	(64,197)	(59,132)
Other expenses	**(56,193)**	(45,018)	(41,525)	—	—
Impairment losses reversed (recognised) under expected credit loss model, net	**5,030**	(12,404)	(93)	—	—
Other gains and losses	**(69,738)**	(3,190)	14,506	(47,084)	(42,345)
Share of results of associates	**(2,535)**	(162)	—	—	—
Share of results of a joint venture	**(1,420)**	(11,141)	(9)	—	—
Finance costs	**(20,046)**	(16,619)	(7,680)	—	—
Profit before tax	**147,395**	110,678	127,601	115,094	136,243
Income tax expense	**(38,856)**	(24,502)	(21,035)	(25,457)	(31,092)
Profit and total comprehensive income for the year	**108,539**	86,176	106,566	89,637	105,151
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
Profit and total comprehensive income for the year	**108,539**	86,176	106,566	87,248	107,540

FIVE-YEAR FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at December 31				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,633,754**	1,438,814	1,126,226	905,417	909,873
TOTAL LIABILITIES	**(858,930)**	(736,233)	(467,461)	(300,714)	(344,594)
	774,824	702,581	658,765	604,703	565,279