

# GREEN FUTURE FOOD HYDROCOLLOID MARINE SCIENCE COMPANY LIMITED

## 綠新親水膠體海洋科技有限公司

*Incorporated in the Cayman Islands with limited liability*

Stock Code: 01084



# 2019 ANNUAL REPORT



# VISION MISSION CORE VALUES



## Vision

Being a global leader in the technical development and manufacturing of all-natural performance materials



## Mission

Keeping pace with the times and meeting the evolving application needs of customers with quality and innovation

## Core values

Innovation, growth, and re-innovation





# CONTENTS

## CORPORATE INFORMATION

- 2 Corporate Overview
- 2 Our Philosophy
- 3 Key Milestones For the Development of the Group
- 3 Awards and Honours
- 4 Financial Highlights

## CORPORATE REVIEW

- 5 Chairman's Statement
- 7 Management's Discussion And Analysis

## CORPORATE GOVERNANCE

- 14 Directors' Profile
- 18 Directors' Report
- 31 Corporate Governance Report
- 40 Environmental, Social and Governance Report

## FINANCIAL INFORMATION

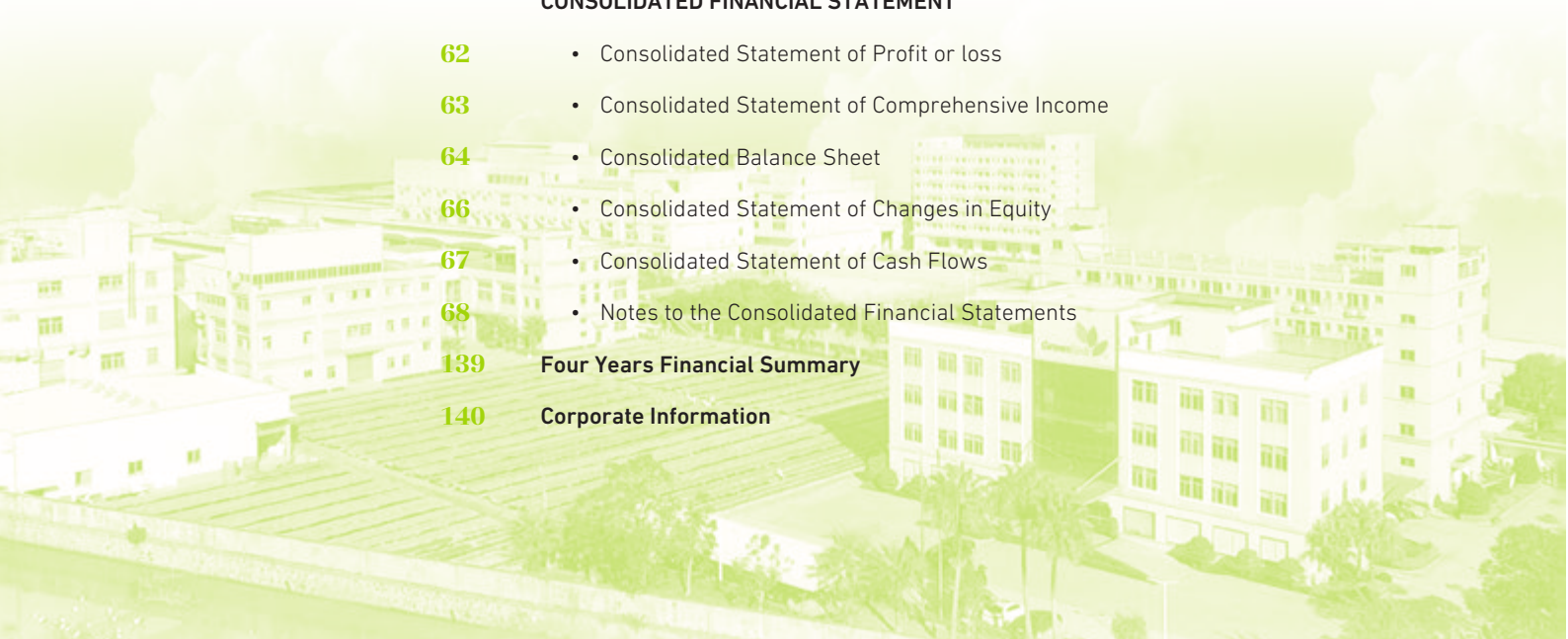
- 57 Independent Auditor's Report

## CONSOLIDATED FINANCIAL STATEMENT

- 62 • Consolidated Statement of Profit or loss
- 63 • Consolidated Statement of Comprehensive Income
- 64 • Consolidated Balance Sheet
- 66 • Consolidated Statement of Changes in Equity
- 67 • Consolidated Statement of Cash Flows
- 68 • Notes to the Consolidated Financial Statements

139 **Four Years Financial Summary**

140 **Corporate Information**



# CORPORATE INFORMATION

## CORPORATE OVERVIEW

Green Future Food Hydrocolloid Marine Science Company Limited (stock code on the Stock Exchange of Hong Kong Limited: 1084.HK) is a global leader in the technical development and manufacturing of all-natural performance materials. The current main products of the Group include agar-agar and carrageenan products made from naturally breeding seaweed, konjac gum products made from naturally breeding konjac, blended products with extended functions through blending different colloids and gums and professional solutions thereof. The hydrocolloid products developed and manufactured by the Group are mainly applied in processed food such as processed meat, confectioneries, dairy products, sauces, bakery products and pet foods. Additionally, along with the development of functional applications, our products are widely used in beauty and household products such as face masks and air fresheners. Agarose and agarophyte products manufactured through more complex processes are also primary materials of laboratory culture medium and medium for electrophoresis in genetic sequencing.

We ranked first amongst the agar-agar producers, both in the PRC and the global market, in terms of the sales value \*, and we ranked second amongst the carrageenan producers in the PRC \*, with a leading scale compared with peers. As an enterprise engaged in the technical development and manufacture of performance materials, the scale is the premise of steady supply and cost advantage, and a competitive edge of the Group.

As of 31 December 2019, the total annual design production capacity of Green Fresh (Fujian) Production Base Phase I and Phase II and Lvqi (Fujian) Production Base Phase I and Phase II in Zhangzhou, Fujian, and Lvbao (Quanzhou) Production Base in Quanzhou, Fujian: 5,519 tons (2018: 4,565 tons) of agar-agar products, 10,207 tons (2018: 10,175 tons) of carrageenan products, 3,300 tons of blended products (2018: 3,300 tons); the annual design production capacity of Shiyanghaiyi Production Base: 660 tons of konjac gum products (2018: 660 tons). The total design production capacity was 19,686 tons (2018: 18,700 tons).

As of 31 December 2019: the number of product technical development personnel: 57 (2018: 57).

## OUR PHILOSOPHY

Taking human needs for health food as a source of our life and innovation.

\* Pursuant to the Frost & Sullivan Report in 2018



## CORPORATE INFORMATION

### KEY MILESTONES FOR THE DEVELOPMENT OF THE GROUP:

- 1999: Lvbao (Quanzhou) Biochemistry Company Ltd. was incorporated, started producing carrageenan products in 2001, and produced blended products as well thereafter.
- 2007: Green Fresh (Fujian) Foodstuff Co., Ltd. was incorporated, mainly engaged in the manufacturing of carrageenan products.
- 2012: Shiyanhaiyi Konjac Products Company Ltd. was incorporated, commencing commercial production of konjac products.
- 2012: Green Fresh (Fujian) Foodstuff Co., Ltd. and Fujian Province Lvqi Food Colloid Company Limited were merged, further expanding the production line scope where carrageenan, agar-agar and blended products were covered.
- 2017: The design production capacity of newly added carrageenan and agar-agar products was 5,775 tons per year, representing an increase of 44.7%.
- 2018: Lvqi Trading (Shanghai) Company Limited was incorporated, energetically strengthening the marketing and sales of quick-dissolve agar-agar, a deep-processing product.
- 2019: The Company was successfully listed on the main board of the Stock Exchange of Hong Kong Limited. The design production capacity of newly added quick-dissolve agar-agar and konjac gum was 1,500 tons per year.
- 2020: Shengxi Biology Technology (Shanghai) Co., Ltd. was established, with business focus on technical development, marketing and sales of dairy, meal replacement and other specialty products.

### AWARDS AND HONOURS:

#### 2016:

Green Fresh (Fujian) Foodstuff Co., Ltd. was invited to participate in the drafting of the National Food Safety Standards on Agar-Agar, A Food Additive (GB1886.239-2016) and the National Food Safety Standards on Carrageenan, A Food Additive (GB1886.169-2016). The relevant national standards were respectively implemented in 2016 and 2017.

Fujian Province Lvqi Food Colloid Company Limited obtained the international Food Safety System Certification (FSSC 22000).

#### 2017:

Green Fresh (Fujian) Foodstuff Co., Ltd. and Fujian Province Lvqi Food Colloid Company Limited were respectively awarded "Leading Enterprise of Carrageenan Production in Fujian Province (2016-2019)" and "Leading Enterprise of Agar-Agar Production in Fujian Province (2016-2019)" by Fujian Food Industry Association.

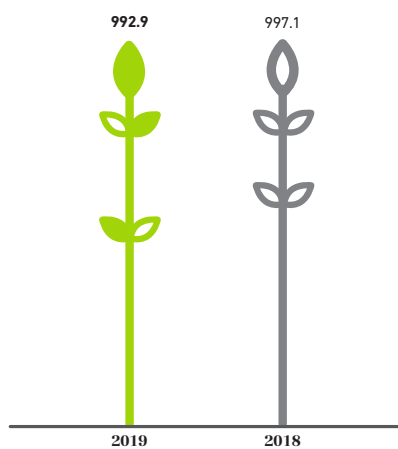
#### 2018:

The research project on the processing technology of red edible seaweed jointly initiated by Green Fresh (Fujian) Foodstuff Co., Ltd., Fujian Province Lvqi Food Colloid Company Limited and Jimei University was accepted by the Ministry of Agricultural and Rural Affairs of the PRC to be added to the list of national-standard agricultural product processing technology research and development centres in the PRC.

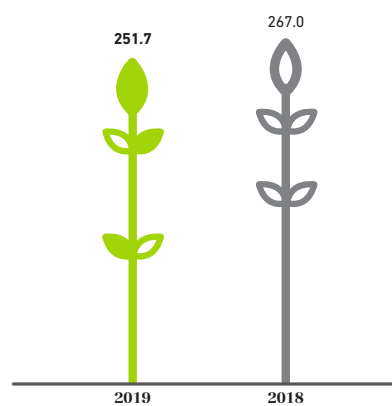
## CORPORATE INFORMATION

## FINANCIAL HIGHLIGHT

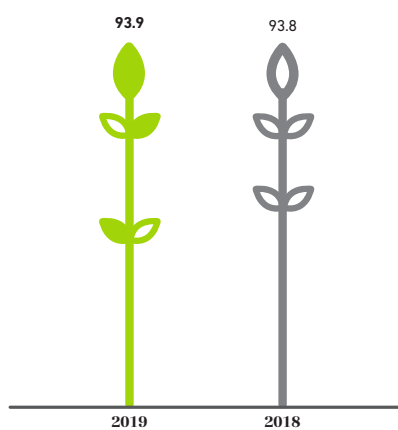
Revenue (HK\$' million)



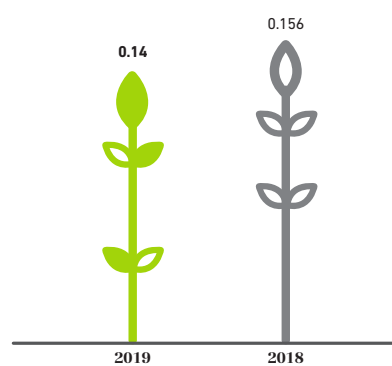
Gross Profit (HK\$' million)



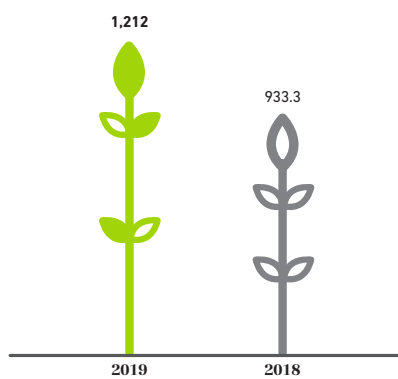
Profit for the year (HK\$' million)



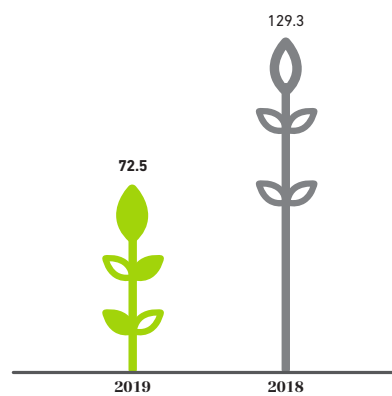
Diluted Earnings Per Share (HK\$)



Total Assets (HK\$' million)



Total Liabilities to Equity Ratio (%)





# CHAIRMAN'S STATEMENT

Dear Shareholders

It is my great honor to present the first annual results of the Group following the share offer and the listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 October 2019 (the "**Listing Date**").

## BUSINESS STRATEGY

The Group is a leading producer of seaweed-based and plant-based hydrocolloid products in the PRC and the global market. Our products, including mainly agar-agar, carrageenan and konjac gum, provide functional properties such as thickening, water-retention and stabilising functions for various end products, and make up the main contents of many health foods for their rich soluble dietary fibres. In addition, we can extend product functions through blending different colloids and gums. For example, konjac gum blended products enable plant-based artificial meat to offer the mouthfeel resembling that of real meat.

Distinguished from other conventional manufacturers, we are primarily a long-term partner of our customers in both the supply of raw materials and product development for certain of our customers, which is significant in enhancing customer loyalty. Moreover, through product research and development, we can support and facilitate the development of new applications and end products for the customers, thereby helping us to obtain customer orders and is a source of profit contribution, which is also a long-term business development strategy of the Group. Details of our newly launched quick-dissolve agar-agar, a deep-processing product of agar-agar, which increased the contribution to the overall gross profit of agar-agar products of the Group is set out in the paragraphs under "Management Discussion and Analysis" of this announcement.

## BUSINESS OVERVIEW FOR 2019

For enterprises with production facilities based in China, the year 2019 witnessed the coexistence of challenges and opportunities. Challenges mainly lied in the significant slowdown in domestic economic growth this year and the Sino-US trade friction since 2018, which was further aggravated by the extra tariffs imposed by both sides in 2019, resulting in additional cost pressure on domestic enterprises. With regard to opportunities, more business development opportunities would be offered to companies that survive and are strong, showcasing their long-term investment value.

In 2019, the total sales revenue of the Group was HK\$992.9 million (2018: HK\$997.1 million), representing a slight decrease of 0.4% as compared to that of the previous year, mainly due to the economic downturn of individual major markets and the depreciation in the average exchange rate of RMB against HK dollar during the year, which lowered the revenue growth expressed in HK dollar. The net profit of the Group for the year ended 31 December 2019 remained broadly unchanged at HK\$93.9 million (2018: HK\$93.8 million), attributable to the decrease in administrative expenses of the year which was offset by the decrease of gross margin, primarily due to the fact that the price of eucheuma, one of our major seaweed types, continued to rise but the selling price of carrageenan products failed to catch up at the same pace.

Despite the challenging business environment in 2019, the Group has maintained its income and net profit at virtually the same level as compared to that of the last year. This demonstrated the competitiveness and resilience of the Group as an industry leader. Amidst the relatively uncertain operating environment in the near future, we will strive to maintain and continue to improve our performance and investment returns leveraging our strengths in our business scale and technical expertise.

## CHAIRMAN'S STATEMENT

### 2019 FINAL CASH DIVIDEND

In order to share the operating results of the Company with our shareholders, the Directors propose a final cash dividend of HK5.0 cents per Share for the year ended 31 December 2019, which included the target dividend payout each year and an additional return to Shareholders after considering the available resources, amounting to a total of HK\$40 million. Dividends will be paid in cash.

### SUBSEQUENT EVENTS

With the outbreak of coronavirus disease ("COVID-19") in China and the related control measures, the Group's production plants in Zhangzhou in Fujian Province resumed production on 10 February 2020, a week later than the original intended date of work resumption after the Chinese New Year holiday while the production plants in Shiyan, Hubei Province resumed production on 16 March 2020, the Group's production and business has been impacted accordingly. However, as the Group had sufficient stock of raw materials and finished products at the end of January 2020, the Group managed to meet the recent sales and production needs. In addition, as the new production line of konjac products with a designed capacity of 1,500 tonnes per year in Zhangzhou, Fujian Province will commence production in mid-2020, which we believe can make up for the loss of capacity for the konjac production lines in Shiyan, Hubei Province in the first quarter of 2020. Furthermore, as the production lines of the Group cover the entire production process without relying on any third party to provide key components, we believe we can gradually increase our capacity utilisation rate with the gradual resumption of the inter-provincial transportation. The Company will closely monitor the situation and evaluate its impact on the financial position and operating results of the Company.

On 12 March 2020, the Company has repaid the rest of the convertible bond, amounting to HK\$30.2 million and the interest payable up to that date.

### PROSPECTS

In spite of the temporary impact caused by the current outbreak of COVID-19, the end products markets for hydrocolloid products are expected to remain stable as the key applications of hydrocolloid products are basic consumer goods including food and household products. We believe that with the launch of new end products, including pet foods and gourmet chocolates and other new applications, the prospect of hydrocolloid products is promising. We will continue to support and facilitate the development of end products and new applications for customers and further expand our market with our core values of "innovation, growth, and re-innovation".

### APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere gratitude to all the shareholders, customers, suppliers and business partners for their unwavering support. In the meantime, I would like to express my heartfelt thanks to the Directors, management and all the staff for their unremitting efforts and contributions over the years.

**CHAN Kam Chung**

*Chairman*

Hong Kong, 30 March 2020





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Emerging Market with Numerous Opportunities

In 2019, the domestic and global demands for our hydrocolloid products varied in different regions but were stable on the whole. As a result of the economic slowdown in the relevant markets and the depreciation in the exchange rate of Renminbi, the Chinese and European markets saw a decrease of 7.7% and 8.1%, respectively, in sales revenue as compared to that of 2018. In contrast, benefited from our initiative to expand into the Asian markets, there was a remarkable increase in the revenue attributable to the Korean and Indonesian markets, resulting in an increase of 44.7% in revenue in the Asian markets (excluding China) for the year ended 31 December 2019. In 2019, the sales in the PRC and the overseas accounted for 44.2% and 55.8% of our annual sales, respectively (2018: 47.7% and 52.3%), which is in line with our business strategy to gradually increase the proportion of the overseas sales.

### Product Development and Innovation for Increasing Income

We succeeded in expanding the market for quick-dissolve agar-agar products for use in dairy products in 2019 through strengthening our product research and development capability and marketing efforts. The sales revenue of quick-dissolve agar-agar products recorded an increase of 253.7% for the year ended 31 December 2019 as compared to 2018 and quick-dissolve agar-agar products became one of our products offering the highest gross profit margin in 2019, driving up the overall gross profit margin of agar-agar products for 2019. Our Directors believe that with a stable and growing demand for dairy products, the quick-dissolve agar-agar products are of great business value. In addition to the traditional processed foods, we have also expanded the use of our products in the application of pet foods this year. It is expected that the market for pet foods in China will have a great development potential in the foreseeable future. Furthermore, konjac gum has become a key ingredient of various health food for its rich soluble dietary fibers, and its development is gaining momentum. With regard to daily necessities, the markets for gel-type air fresheners and beauty products such as face masks were further developed this year. We expect that the diversity of end products and applications will be key areas for our future expansion.

### Complementary Strategies for Product and Market

The sales volume and sales revenue of carrageenan and agar-agar products, contributing to approximately 90% of our sales revenue for the year ended 31 December 2019, decreased by 2.4% and increased by 0.4%, respectively, as compared to 2018. The sales volume and sales revenue of konjac products increased by 12.5% and 19.7%, respectively, for the year ended 31 December 2019, as compared to 2018, while the sales volume and sales revenue of blended products decreased at 14.4% and 17.0%, respectively, as compared to 2018, due to the short-term fall in the revenue of the domestic sales in the PRC market as a result of our sales strategy to balance the product pricing between the domestic market and overseas markets and further expand the Asian markets (excluding China).

Despite the extensive challenges to the business environment in 2019, our revenue and after-tax net profit could still remain broadly flat as compared to 2018, which was a good indication of our competitiveness and resilience as an industry leader.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### PROSPECTS

We are prudently optimistic about the prospects in 2020. Currently, the outbreak of COVID-19 and the relevant containment measures to contain the spread of COVID-19 affect both China and the rest of the world, leaving high degree of uncertainty to the global economy. As our hydrocolloid products are mainly used in the applications of foods and daily necessities, our Directors expect the demand will remain stable even with the slowdown of the global economy, which may affect the consumption growth in certain regions. Further, our Directors believe that with the launch of new end products to the market, the prospect of hydrocolloid products is promising. In addition, as our customers are not overly focusing on a particular geographical region, our Directors expect that the economic downturn in any region would not materially affect our business.

Our development strategy is to continue to increase our investment in product research and development, optimise our product portfolio and develop new markets. During the first quarter of 2020, we established a subsidiary in Shanghai dedicated to the research and development, marketing and sales of dairy, meal replacement and other specialty products, in order to accelerate the expansion of our market share. Further, we have also increased our business promotion efforts in Asian courtiers (excluding China) in 2019, leading to a significant improvement in revenue generation from such markets. In order to accelerate our business development, we will put more resources to expand into the Southeast Asian markets which we believe have great development potential with its large population.

### FINANCIAL REVIEW

#### Revenue

For the year ended 31 December 2019, the Group's sales revenue was HK\$992.9 million (2018: HK\$997.1 million), representing a slight decrease of 0.4% as compared to the previous year. For the year ended 2019, the sales revenue of carrageenan and konjac products increased by 2.6% and 19.7%, respectively, while that of agar-agar and blended products decreased by 3% and 17%, respectively. The total sales revenue of carrageenan and agar-agar products, contributing to approximately 90% of the sales revenue of the Group, remained broadly flat for the year ended 31 December 2019 as compared to 2018. Such situation was primarily due to the fact that, the markets were still at the consolidation phase in 2019 as the Group gave a huge boost to enhance our productivity in 2018, while the demand for end products weakened due to the slowdown of economic growth in China and Europe in 2019. Further, our sales revenue was also affected by the depreciation in the average exchange rate of RMB against HK dollar during the period and the short-term fall in the revenue of blended products in the PRC market as previously explained.

#### Cost of Sales

For the year ended 31 December 2019, the cost of sales of the Group was HK\$741.2 million (2018: HK\$730.1 million), representing an increase of 1.5%. Our cost of sales basically consisted of the cost of raw materials (seaweed and konjac) and ancillary materials which accounted for 83.9% (2018: 83.9%) of the cost of sales in 2019. The rise in the cost of sales for the year ended 31 December 2019 was mainly because of the price of eucheuma, one of our major raw material of seaweed, continued to increase during the year.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Gross Profit and Gross Profit Margin

For the year ended 31 December 2019, the gross profit of the Group was HK\$251.7 million (2018: HK\$267.0 million), representing a decrease of 5.7%. The overall gross profit margin was 25.4% in 2019, representing a decrease of 1.4 percentage point as compared to 2018. The gross profit margin of agar-agar and blended products was up 0.6 percentage point and 1 percentage point, respectively, in 2019 whilst that of carrageenan and konjac products was down 2.2 percentage point and 1.7 percentage point, respectively, during the same year. For instance, the price of eucheuma, one of our major seaweed material, continued to increase in 2019, while the price of carrageenan products failed to increase with the same pace, the gross profit margin of the relevant products decreased by 2.2 percentage point in 2019 as compared to 2018.

### Selling and Distribution Expenses

In 2019, the selling and distribution expenses of the Group were HK\$17.7 million (2018: HK\$16.1 million), representing an increase of 9.8%, which was primarily attributable to the moderate increase in the marketing expenses and travelling expenses for the year. On the whole, the ratio of selling and distribution expenses to revenue remained stable in 2019 as compared to 2018.

### Administrative Expenses

In 2019, the administrative expenses of the Group were HK\$85.6 million (2018: HK\$98.6 million), representing a decrease of 13.1%, mainly due to the decrease in listing expenses and share-based payment expenses.

### Finance Costs

In 2019, the finance income and costs of the Group were HK\$0.3 million and HK\$27.6 million (2018: HK\$45,000 and HK\$27.3 million), representing an increase of 635.5% and 1.0%, respectively. The rise in finance income was mainly generated from the interest income on deposits of the proceeds from listing of the Company. The increase in finance costs was in line with the increase in the average bank working capital loans and trade loans. On the other hand, the Group used its free cash to repay part of the outstanding balance during the year before the maturity of convertible bonds, effectively reducing the relevant interest expenses for the year.

### Income Tax Expense

In 2019, income tax expenses of the Group were HK\$34.7 million (2018: HK\$36.0 million), representing a decrease of HK\$1.3 million or 3.65%, mainly due to the corresponding decrease in taxable profit for the year.

	Year ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
Current income tax	34,058	36,347
Deferred income tax	623	(350)
Income tax expense	34,681	35,997

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Profit Attributable to Owners of the Company

In 2019, profit attributable to owners of the Company were HK\$93.3 million (2018: HK\$93.6 million), which remained virtually the same as that of the previous year.

### Liquidity and Financial Resources

As at 31 December 2019, the Group's cash and cash equivalents and restricted cash amounted to HK\$186.2 million, representing an increase of HK\$130.3 million from 31 December 2018. The financial ratios of the Group as at 31 December 2019 were as follows:

	As at 31 December 2019	As at 31 December 2018
Current ratio	1.74	1.19
Gearing ratio <sup>1</sup>	72.5%	129.3%

*Note 1:* Gearing ratio is calculated as total liabilities divided by total equity

### Net Current Assets

As at 31 December 2019, our net current assets were HK\$308.9 million, representing an increase of HK\$237.4 million from HK\$71.6 million as at 31 December 2018, primarily due to the increase in inventories as at 31 December 2019 and the significant increase in the cash resulting from the proceeds from the listing of the Company. The balance of short-term bank borrowings of the Group has also increased due to the need for business development. In addition, as the convertible bond will mature on 15 July 2020, the remaining outstanding balance was classified as a short-term liability at the end of this year.

### Borrowings

As at 31 December 2019, the total bank borrowings of the Group amounted to HK\$344.2 million, of which HK\$284.9 million shall be repaid within one year and HK\$59.3 million shall be repaid after one year. The carrying amounts of bank borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi.

On 20 November 2017, the Group issued a convertible bond for HK\$60 million to an independent third party (hereinafter referred to as the "convertible bond holder") with annual interest rates of 5% and 10%, respectively, chargeable in different phases. On 28 February 2018, the convertible bond holder exercised all conversion rights under the agreement and acquired 2.0% equity in the Company at the consideration of HK\$4.8 million. Thereafter, the maturity date of the convertible bonds was extended from the original date of 20 November 2019 to 15 July 2020 with applicable interest rate of 13% in accordance with the amended agreement between the Company and the convertible bond holder dated 28 December 2018. On 21 November 2019, the Company used its own free funds to early redeem the convertible bond of HK\$25 million. The remaining carrying amount of the convertible bond as at 31 December 2019 was HK\$29.5 million.

The Group did not use any financial instruments for hedging purposes and did not have any net foreign currency investments hedged against existing borrowings and/or other hedging instruments. As at 31 December 2019, the weighted average interest rate on bank borrowings (per annum) was 5.51%.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Interest Rate Risk

The interest rate risk of the Group arises from short-term interest-bearing deposits and bank borrowings. The Group is exposed to the interest rate risk of cash flow on short-term deposits and bank borrowings at the variable rate. Bank borrowings and the convertible bond obtained at fixed interest rates expose the Group to fair value interest rate risk.

The Group does not have any significant interest-bearing assets other than short-term interest-bearing deposits. The Directors do not expect any material impact on interest-bearing assets from interest rate movement, as interest rates on short-term deposits are not expected to fluctuate substantially.

### Pledge of Assets

As at 31 December 2019, the Group had pledged its buildings, land use rights and bank deposits with a carrying value of HK\$150.1 million (2018: HK\$98.5 million) as security for its borrowings. As at 31 December 2019, the amount of secured bank borrowings was HK\$131.6 million (2018: HK\$149.3 million).

### Future Plans for Material Investments or Capital Assets

Save as disclosed in the Company's Prospectus dated 30 September 2019 issued for the Share Offer, the Group did not have other future plans for material investments or capital assets.

### Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition or disposal of subsidiaries during the year ended 31 December 2019.

### Treasury Policies and Exposure to Fluctuation in Exchange Rates

The Group adopts a conservative approach for cash management and investment on funds. The net proceeds from the listing have mainly been placed on short-term bank deposits with reputable banks in Hong Kong and the PRC. The Group's receipts and payments were denominated in Renminbi and US dollars with limited foreign exchange risk exposure in the latter. Besides, as the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government, the directors of the Company consider that there is no significant exposure on Renminbi-denominated assets. The Group will closely monitor foreign exchange exposure and will consider hedging should the need arises.

### Employees and Remuneration Policy

As at 31 December 2019, the Group had 1,014 full-time employees of whom 1,005 were based in Mainland China and 9 were based in Hong Kong and other countries. The total staff costs, including the emoluments of the Directors, amounted to HK\$93.9 million for the year ended 31 December 2019 (year ended 31 December 2018: HK\$93.3 million).

The management of the Group maintains good working relationship with its employees and provides training to keep the employees abreast of the latest developments of its products and production processes. Remuneration packages offered to the Group's employees are generally competitive and consistent with the prevailing levels in the market and are reviewed on a regular basis. Apart from basic remuneration and statutory retirement benefit scheme, discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and the performance of the individual employee.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Prior to the listing, the Group adopted the Pre-IPO Share Option Scheme on 5 August 2018 to recognize the important contributions of related employees and individuals. As at 31 December 2019, the Company granted share options for 34,120,000 Ordinary Shares of the Company upon exercise.

#### Use of Net Proceeds from the Share Offer

The Company was listed on the Stock Exchange on 17 October 2019, the amount of the net proceeds raised from the shares offer (the "Share Offer") amounted to HK\$183.7 million which are the same as the announcement of the Company dated 16 October 2019 (the "Announcement"). The net proceeds have been utilised in accordance with the plan set out in the Announcement (see table below) and for net proceeds not yet utilised are deposited with banks in Hong Kong and the PRC.

	Planned use of net proceeds from the Share Offer (As disclosed in the announcement of the Company dated 16 October 2019) HK\$'000	Net proceeds from the Share Offer utilised as at 31 December 2019 HK\$'000
Partial financing of the construction of a new production plant adjacent to the location of production plant operated and owned by Lvqi (Fujian) and purchase of machinery, with a designed annual capacity of 180 tonnes of refined iota carrageenan products, 1,500 tonnes of konjac gum products and 1,500 tonnes of quick-dissolve agar-agar products	20,200	20,200
Construction of a new production plant in Longhai city, Zhangzhou City, Fujian Province and purchase of machinery, with a designed annual capacity of 50 tonnes of agarose, 10 tonnes of agar microspheres and 200 tonnes of agarophyte <sup>(1)</sup>	62,100	—
Construction of a production plant in Indonesia and purchase of machinery, with a designed annual capacity of 3,000 tonnes of semi-refined carrageenan <sup>(2)</sup>	21,100	—
Construction of a new production plant in Zhangzhou city, Fujian Province and purchase of machinery, with a designed annual capacity of 1,000 tonnes of agar-agar products <sup>(3)</sup>	62,800	—
General working capital	17,500	17,500
<b>Total</b>	<b>183,700</b>	<b>37,700</b>

#### Notes:

- (1) Due to the current market condition, the project timetable has been extended to the second half of 2020. Our Directors expect that the construction will commence and we will start using the net proceeds from the second half of 2020.
- (2) The investment structure is under review, and we will start using the net proceeds from the second half of 2020.
- (3) Our Directors expect that the construction will commence and we will start using the net proceeds from the second half of 2020.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Expenditures

Our capital expenditures primarily comprise cash expenditures for plant, equipment and land use rights. Our capital expenditures for the years ended 31 December 2019 and 2018 were HK\$43.4 million and HK\$57.6 million, respectively.

### Commitments

(1) The Group's capital commitments in respect of those that have been contracted for as at 31 December 2019 and 2018 amounted to HK\$1.9 million and HK\$23.2 million, respectively.

(2) Operating leases commitments

The Group leases certain office buildings, vehicles and land use rights under non-cancellable operating lease agreements. The lease terms for office buildings are negotiated for terms ranging from one to ten years, and those for land use rights are under terms of 30 to 50 years.

The aggregate future minimum lease payments under non-cancellable operating leases of the Group are as follows:

	2019 HK\$'000	2018 HK\$'000
Less than 1 year	1,594	2,069
Over 1 year and less than 5 years	2,891	4,295
Over 5 years	265	551
	<b>4,750</b>	<b>6,915</b>

In accordance with HKFRS 16, the above operating lease commitments, except for those relating to low-value or short-term leases, have been accrued for as lease liabilities (excluding future finance charges) in the financial statements of the Group.

### Contingent Liabilities

The Group did not have any material contingent liabilities as of 31 December 2019.

### Events After the end of Reporting Period

The outbreak of COVID-19 in China caused production halt in our Group's production plants in China, and production volume was reduced in February and March 2020, which has impacted but not to a great extent the Group's production and business. Meanwhile, management has adopted all measures to safeguard the health of employees and will resume normal production as soon as practicable to satisfy the demand for goods from customers. The impact from COVID-19 outbreak is considered as a non-adjusting subsequent event and will only be taken into account in the Group's financial statements subsequent to 31 December 2019.

On 12 March 2020, the Company has repaid the rest of the convertible bond, amounting to HK\$30.2 million and the interest payable up to that date.

## DIRECTORS' PROFILE

### Executive Directors

**Mr. CHAN Kam Chung (陳金淙先生)** (formerly known as 陳金鐘), aged 49, is our executive Director, Chairman, and Chief Executive Officer. Mr. CHAN is also the chairman of the nomination committee and a member of remuneration committee. Mr. CHAN is responsible for formulating our overall strategic planning and business strategies and implementing major development policies and initiatives for the business development of our Group as a whole. Mr. CHAN joined us in May 2003.

In addition to his working experience in the food industry, Mr. CHAN completed a number of courses of food preservation technology (食品保鮮技術), food technology (食品工藝) from Zhangzhou Institute of Technology (漳州職業技術學院) in May 2013 on part-time basis. Mr. CHAN also attended the seminar of "Executive Training Programme for Fujian Entrepreneurs (常青藤創新總裁班)" organised by HKU School of Professional and Continuing Education in December 2016. Mr. CHAN has more than 20 years' experience in processed food and hydrocolloid production, corporate planning, and financial and marketing management. Prior to joining us, Mr. CHAN was a director and deputy general manager of Guangda (Fujian) Foodstuff Co., Ltd. (光大(福建)食品有限公司) from the period of 1998 to 2001.

Mr. CHAN was appointed as the honorary president of the first session of China Algae Industry Association Carrageenan Branch (中國藻業協會紅藻膠分會) in March 2019.

Mr. CHAN is the younger brother of Mr. CHAN Shui Yip, our executive Director, and the brother-in-law of Mr. SHE Xiaoying, our executive Director.

**Mr. GUO Dongxu (郭東旭先生)**, aged 52, is our executive Director, Vice Chairman, and Vice President. Mr. GUO oversees our project development, quality control, and external business affairs. Mr. GUO was the executive director and legal representative of South Fujian Agar Co., Ltd (福建省石獅市閩南瓊膠有限公司) from October 1995 to August 2018. Mr. GUO joined us in March 2009 and his first position with us was the supervisor of Lvqi (Fujian). Since December 2012, Mr. Guo has been the executive director and general manager of Lvqi (Fujian). Mr. GUO was subsequently reassigned as the Vice President and General Manager of Greenfresh (Fujian). Mr. GUO has 24 years of experience in seaweed processing and corporate management.

Mr. GUO completed the courses on food preservation, food technology, and organic chemistry (食品保鮮技術、食品工藝、有機化學) from Zhangzhou Institute of Technology (漳州職業技術學院) in May 2013 on a part-time basis.

Mr. GUO was appointed as the deputy chairman of China Seaweed Association (中國藻業協會), Fujian Food Association (福建食品工業協會) and managing vice chairman of the third session of Fujian Province Food Additive Association (福建省食品添加劑和配料工業協會) in April 2012, March 2017 and February 2016. Mr. GUO was also appointed as an executive committee member (執行委員) of the Industrial and Commerce Association of Longhai City (龍海市工商業聯合會(總商會)委員). In March 2018, Mr. GUO was awarded as an outstanding entrepreneur of the seventeenth session of the outstanding entrepreneur of Fujian city (福建省優秀企業家). Mr. GUO has been appointed as the president of the first session of China Algae Industry Association Carrageenan Branch (中國藻業協會紅藻膠分會) in March 2019.



## DIRECTORS' PROFILE

**Mr. CHAN Shui Yip (陳垂燁先生)** (formerly known as CHAN Kam Ku (陳金鼓), aged 58, is our executive Director. Vice Chairman, and Vice President. Mr. CHAN oversees the product management, sourcing, human resources, and general administration of our Group. Mr. CHAN has more than 11 years' experience in business management and more than 16 years' experience in food industry. Mr. CHAN was the deputy manager of Jinjiang Xinyi Leather and Plastic Enterprise Co., Ltd. (晉江市新毅皮塑企業有限公司) from July 1988 to March 1999 and was responsible for production management. Mr. CHAN joined our Group in March 1999.

Mr. CHAN completed the courses of food preservation, food technology, and organic chemistry from Zhangzhou Institute of Technology (漳州職業技術學院) in May 2013 on a part-time basis. Mr. CHAN also completed a part-time advanced business administration course held by the Peking University Shenzhen Graduate School (北京大學深圳研究院) in June 2017. Mr. CHAN completed a part-time president financial training course (金融高管高級研修班) in Renmin University of China (中國人民大學) in September 2018.

Mr. CHAN was awarded as one of the "Talented People of Zhangzhou City" (漳州市優秀人才) by the CPC Zhangzhou Municipal Committee (中國共產黨漳州市委員會) and the People's Government of Zhangzhou (漳州市人民政府) in November 2015. Mr. CHAN was named as the Honourable Chairman of the thirteen session of the Longhai City Commercial and Industrial Association (General Chamber of Commerce) (龍海市工商業聯合會(總商會)) in December 2016 and the vice chairman of the twentieth session of Fukien Athletic Club (香港福建體育會) in March 2017.

Mr. CHAN is the elder brother of Mr. CHAN Kam Chung, our executive Director, and the brother-in-law of Mr. SHE Xiaoying, our executive Director.

**Mr. SHE Xiaoying (佘小迎先生)**, aged 58, is our executive Director. Mr. SHE oversees the sales of our hydrocolloid products. Mr. SHE has more than 11 years' experience in food industry. Mr. SHE was the production manager of Jinjiang Xinyi Leather and Plastic Enterprise Co., Ltd. (晉江市新毅皮塑企業有限公司) from December 1988 to April 2003 and was responsible for production management. Mr. SHE joined us in May 2003 and has held a number of positions in our Group. From May 2003 to November 2011, Mr. SHE was the director and deputy manager of Lvbao (Quanzhou). From November 2007 to January 2013, Mr. SHE was the legal representative and general manager of Greenfresh (Fujian). Currently, Mr. SHE is a director of Greenfresh (Fujian) and the deputy general manager of Lvbao (Quanzhou).

Mr. SHE is a brother-in-law of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip, both are executive Directors.

### Non-executive Director

**Mr. GUO Songsen (郭松森先生)**, aged 32, is our non-executive Director. Mr. GUO joined us in December 2011. Mr. GUO graduated in June 2010 from Beijing Geely University (北京吉利學院) with a bachelor's degree in international trade. Mr. GUO has more than six years' experience in quality management.

Mr. GUO Songsen is the son of Mr. GUO Wentong, one of the founders of Lvqi (Fujian).

## DIRECTORS' PROFILE

### Independent non-executive Directors

**Mr. Ho Kwai Ching Mark**, aged 58, is our independent non-executive Director. He is also the chairman of the audit committee and a member of the nomination committee and remuneration committee.

Mr. Ho received a Bachelor Degree in Social Sciences from the University of Hong Kong in 1984 and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Ho has extensive experience in the securities and futures industry. He was the Chief Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He is currently a consultant in the securities and futures industry and an independent non-executive director of Lee Kee Holdings Limited (stock code 0637) and Hengan International Group Company Limited (stock code 1044).

**Mr. NG Man Kung (吳文拱先生)**, aged 68, is our independent non-executive Director. Mr. NG is providing independent advice to the Board. He is also the chairman of the remuneration committee and a member of the audit committee and nomination committee.

Mr. NG completed an extension course in banking at the Hong Kong Polytechnic University in September 1982. Mr. NG was an honorary president of the 37th Hong Kong Chinese Bankers Club, a member of the Council of Hong Kong Polytechnic University from April 1999 to March 2002, and a member of the 5th Fujian Province Committee of the Chinese People's Political Consultative Conference.

Mr. NG had over 40 years of experience in banking and finance. Mr. NG worked at Chiyu Banking Corporation Ltd. from July 1969 to December 2012 and was a chief executive during the period from 1992 to 2012. Mr. NG retired from Chiyu Banking Corporation Limited in 2012. Mr. NG served as a business consultant of China Orient Asset Management (International) Holdings Limited from January 2014 to April 2015 and a non-executive director of Roma Group Limited (stock code: 8072) from 24 August 2017 to 18 December 2017. Mr. NG is currently appointed as the chairman of the supervisory board of Well Link Bank in Macau. Mr. NG is also an independent non-executive director of Fujian Holdings Limited (stock code: 181.HK), Ell Environmental Holdings Limited (stock code: 1395.HK), Guoan International Limited (stock code: 143.HK), HKBridge Financial Holdings Limited (stock code: 2323.HK), and Shanghai Zendai Property Limited (stock code: 755.HK), all of which are listed on the Main Board.



## DIRECTORS' PROFILE

**Mr. HU Guohua (胡國華先生)**, aged 46, is our independent non-executive Director. Mr. HU is providing independent advice to the Board. He is also a member of the audit committee.

Mr. HU obtained a bachelor's degree in food chemistry and a master's degree in food engineering from Nanchang University (南昌大學) in 1995 and 1998, respectively. Mr. HU subsequently obtained a doctorate degree in engineering from the East China University of Science and Technology (華東理工大學) in 2006.

Mr. HU is experienced in hydrocolloid production and processed food. In addition to his academic qualifications, Mr. HU was named as one of the leading talents in science and technology (科技領軍人才) by Suzhou Industrial Park (蘇州工業園區) in 2010. Mr. HU is the Secretary General of the Professional Committee of Sweet Flavouring (甜味劑專業委員會), which is one of the Professional Committees of China Food Additives & Ingredients Association (中國食品添加劑和配料協會). Mr. HU is an independent non-executive director of Anhui JinHe Industrial Co. Ltd (SHE: 002597), a company listed on the Shenzhen Stock Exchange and Zhejiang Shengda Bio-pharm Co., Ltd (SHA:603079), a company listed on the Shanghai Stock Exchange.

Each of our independent non-executive Directors has confirmed that he meets the independence criteria as set forth in Rule 3.13 of the Listing Rules.

# DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 34 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2019 is set out in the "Chairman's Statement", and Management Discussion and Analysis" on pages 5 to 6 and pages 7 to 13 respectively of the annual report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the Group's consolidated balance sheet at 31 December 2019 are set out in the consolidated financial statements on pages 62 to 65.

The Board has recommended a final dividend of HK\$5.0 cents per share, totalling HK\$40 million for the year ended to 31 December 2019 payable on or around 26 June 2020 to the shareholders of the company whose names appear on the register of members of the Company on 10 June 2020 (2018: nil). The recommendation of the final dividend is subject to the shareholders' approval in the forthcoming annual general meeting.

## FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last four financial years is set out on page 139 of this annual report.

## SHARE CAPITAL

Details of movements of the share capital of the Company for the year ended 31 December 2019 are set out in note 22 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to approximately HK\$158.1million.

## EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.



## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group's top five largest customers accounted for 32.0% (2018: 38.7%) of our revenues and the single largest customer accounted for 13.7%. (2018: 15.9%) of our revenues. The Group's top five suppliers accounted for 55.4% (2018: 65.0%) of our total purchases and the single largest supplier accounted for 21.7% (2018: 26.5%) of our total purchases.

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

### RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package attract and motivate the employees. The Group regularly reviews the remuneration package of employees and make necessary adjustments to conform to the market standard.

The Group also understands that it is important to maintain good relationship with its customers and suppliers to fulfill its immediate and long-term goals. To maintain its competitiveness, the Group aims at delivering quality services to its customers. During the year, there was no material and significant dispute between the Group and its customers and suppliers.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

For the year ended 31 December 2019, no environmental exceedances were recorded and there was no non-compliance in relation to environmental and social aspects. Given the business nature, the Group recognizes its daily operation has an impact to the environment. The Group is highly committed to make continuous efforts on efficient use of natural resources, promotion of energy conservation in its business and office premises, as well as minimization of its overall emissions on the environment. Engagement with stakeholders has resulted in raised concerns on key material issues, which include: Employment, Occupational Health and Safety, Development and Training, Consumer Data Protection and Customer Service. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing environmental, social and governance management.

## DIRECTORS' REPORT

### DIRECTORS

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

Executive Directors:

Mr. Chan Kam Chung (Chairman and Chief Executive Director)

Mr. Guo Dongxu (Vice-Chairman and Vice President)

Mr. Chan Shui Yip (Vice-Chairman and Vice President)

Mr. She Xiaoying

Non-Executive Director

Mr. Guo Songsen

Independent non-executive Directors

Mr. Ho Kwai Ching, Mark

Mr. Ng Man Kung

Mr. Hu Guohua

All Directors including Mr. Chan Kam Chung, Mr. Guo Dongxu, Mr. Chan Shui Yip, Mr. She Xiaoying, Mr. Guo Songsen, Mr. Ho Kwai Ching, Mark, Mr. Ng Man Kung and Mr. Hu Guohua shall retire from office as Directors and being eligible, offer themselves for re-election at the forthcoming AGM in accordance with the Article 83(3) of the Articles of Association.

The Company has received annual confirmations of independence from all Independent non-executive Directors, and as at the date of this report still considers them to be independent.

### DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 14 to 17 of this report.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing on the Listing Date which may be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors and the non-executive Director has signed a letter of appointment with the Company for a term of three years with effect from the Listing Date, which may be terminated before the expiration of the term by not less than two months' notice in writing served by either party on the other.

The appointments of Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Save as disclosed above, none of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation).

## DIRECTORS' REPORT

### SHARE OPTION SCHEME

#### a) Pre-IPO Share Option Scheme

On 5 August 2018 the Company approved a pre-IPO share option scheme which is considered to be a modification of the previous share transfer scheme adopted on 26 February 2018. The pre-IPO share option scheme is for the purpose of recognizing the contribution of certain parties in respect of the Company's successful listing on the Main Board and providing opportunity to them to enjoy the growth of the Group. All options under the pre-IPO share option scheme had been granted. Details of the pre-IPO share option scheme disclosed in accordance to Rules 17.08 and 17.09 of the Listing Rule are set out in note 23 to the consolidated financial statements. The following table and information disclose further details of the share options under the pre-IPO share option scheme as at 31 December 2019 pursuant to Rule 17.07 of the Listing Rules:

	Date of grant	Number of share options granted	Vesting period and maximum % of exercisable share options	Exercise period	Exercise price
Type A	9 August 2018	22,160,000	20% each year starting from 17 October 2019	17 October 2019 to 16 October 2024. All unexercised share options after the relevant exercise periods or upon resignation will lapse.	HK\$0.01
Type B	9 August 2018	11,960,000	100% from 17 April 2020	17 April 2020 to 16 April 2025	HK\$0.01

## DIRECTORS' REPORT

Category/name of grantee	Date of grant	Exercise price per share	Closing price of the share immediately before the date of grant	Number of share options granted at 1 January 2019	Increased by capitalisation issue and the initial public offering of the Company during the year	Exercised during the year	Cancelled during the year	Number of share options granted as at 31 December 2019	Weighted average closing price of the share immediately before the exercise date	Exercise period
Employees in aggregate	9 August 2018	HK\$0.01	N/A	20,440	22,139,560	—	—	22,160,000	N/A	Type A
Other participants	9 August 2018	HK\$0.01	N/A	10,920	11,949,080	—	—	11,960,000	N/A	Type B
Total				31,360	34,088,640	—	—	34,120,000		

#### b) Post-IPO Share Option Scheme

The Company adopted a post-IPO share option scheme pursuant to the resolutions passed by the shareholders of the Company on 25 September 2019 and subject to the approval of the shareholders of the Company at the forthcoming extraordinary general meeting of the Company.

During the financial year, no option had been granted or agreed to be granted under the post-IPO share option scheme.

A summary of the post-IPO share option scheme is set out below:

1. Purpose
 

As incentive or rewards to Eligible Participants for their contribution or potential contribution to the Group
2. Participants
  - (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group
  - (b) a director or proposed director (including independent non-executive director) of any member of the Group
  - (c) a direct or indirect shareholder of any member of the Group
  - (d) a supplier of goods or services to any member of the Group
  - (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group
  - (f) an associate of any of the persons referred to in paragraphs (a) to (c) above

(the persons referred above are the "Eligible Participant")



**DIRECTORS' REPORT**

- |    |   |   |
|----|---|---|
| 3. | Total number of securities available for issue under the post-IPO share option scheme together with the percentage of the issued shares that it represents as at the date of this annual report | A maximum of 80,000,000 Shares to be allotted and issued  |
| 4. | Maximum entitlement of each participant   | 1% of our Shares in issue from time to time   |
| 5. | Period within which the securities must be taken up under an option   | 30 days from the Offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Post-IPO Option Scheme   |
| 6. | Minimum period, if any, for which an option must be held before it can be exercised   | To be determined at time of offering the grant of an Option   |
| 7. | Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid                  | HK\$1.0 on acceptance   |
| 8. | Basis of determining the exercise price   | At the discretion of the Company's Board at the time of grant of the Option but the subscription price shall not be less than whichever the highest of:<br>(a) The nominal value of a Share<br>(b) The closing price of a Share in the Stock Exchange's daily quotation sheet on the date of grant; and<br>(c) The average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the date of grant |
| 9. | The remaining life of the post-IPO share option scheme  | 10 years from the date on which it becomes unconditional  |

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

At 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on Stock Exchange ("Listing Rules"), were as follows:

#### (i) Interests in our Company

Name of Directors	Nature of interest and capacity	Number of Shares or underlying Shares held <sup>(6)</sup>	Approximate percentage of shareholding
Mr. CHAN Kam Chung	Interest in controlled corporation <sup>(1)</sup>	161,700,000	20.21%
	Interest under the Concert Party Agreement <sup>(2)</sup>	588,000,000	73.5%
Mr. CHAN Shui Yip	Interest in controlled corporation <sup>(3)</sup>	161,700,000	20.21%
	Interest under the Concert Party Agreement <sup>(2)</sup>	588,000,000	73.5%
Mr. GUO Songsen	Interest in controlled corporation <sup>(4)</sup>	92,603,571	11.58%
	Interest under the Concert Party Agreement <sup>(2)</sup>	588,000,000	73.5%
Mr. GUO Dongxu	Interest in controlled corporation <sup>(5)</sup>	66,150,000	8.27%
	Interest under the Concert Party Agreement <sup>(2)</sup>	588,000,000	73.5%

#### Notes:

- (1) Mr. CHAN Kam Chung held all issued share in COS Kreation Investment Development Company Limited ("COS Kreation"). Therefore, Mr. CHAN Kam Chung is deemed to be interested in all the Shares held by COS Kreation for the purpose of the SFO. Mr. CHAN Kam Chung is the sole director of COS Kreation.
- (2) All Shareholders are Controlling Shareholders and concert parties by virtue of the Concert Party Agreement, a summary of which is set forth in the section headed "Controlling Shareholders and Substantial Shareholders — Summary of terms of the Concert Party Agreement" in the Prospectus of the Company dated 30 September 2019.
- (3) Mr. CHAN Shui Yip held all issued share in Epoch Investment Development Co., Limited ("Epoch"). Therefore, Mr. CHAN Shui Yip is deemed to be interested in all the Shares held by Epoch for the purpose of the SFO. Mr. CHAN Shui Yip is the sole director of Epoch.
- (4) Mr. GUO Songsen held all issued share in Green Forest (BVI) Investment Company Limited ("Green Forest"). Therefore, Mr. GUO Songsen is deemed to be interested in all the Shares held by Green Forest for the purpose of the SFO. Mr. GUO Songsen is the sole director of Green Forest.
- (5) Mr. GUO Dongxu held all issued share in Strong Achievement (BVI) Investment Company Limited ("Strong Achievement"). Therefore, Mr. GUO Dongxu is deemed to be interested in all the Shares held by Strong Achievement for the purpose of the SFO. Mr. GUO Dongxu is the sole director of Strong Achievement.
- (6) All the interests disclosed represent long position in the Shares and underlying Shares.

## DIRECTORS' REPORT

### (ii) Interests in associated corporation

Name of Directors	Name of associated corporation	Nature of interest and capacity	Number of shares	Percentage of shareholding
Mr. CHAN Kam Chung	COS Kreation	Beneficial owner	One	100%
Mr. CHAN Shui Yip	Epoch	Beneficial owner	One	100%
Mr. GUO Songsen Forest	Green Forest	Beneficial owner	One	100%

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO or which are required to be notified to the company and Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors or their respective spouse or minor children; or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

### RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, no transactions of significance with parties regarded as "Related Parties" were entered into by the Group. Further details are set out in note 32 to the consolidated financial statements.

## DIRECTORS' REPORT

## INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES HELD BY THE SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the following persons had an interest or short position in the Shares or underlying Shares of the Company recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Nature of interest and capacity	Number of Shares held <sup>(8)</sup>	Approximate percentage of shareholding
COS Kreation	Beneficial owner	161,700,000	20.21%
Mr. CHAN Kam Chung	Interest in controlled corporation <sup>(1)(2)</sup>	161,700,000	20.21%
	Interest under the Concert Party Agreement <sup>(1)</sup>	588,000,000	73.5%
Epoch	Beneficial owner	161,700,000	20.21%
Mr. CHAN Shui Yip	Interest in controlled corporation <sup>(3)</sup>	161,700,000	20.21%
	Interest under the Concert Party Agreement <sup>(1)</sup>	588,000,000	73.5%
Green Forest	Beneficial owner	92,603,571	11.58%
Mr. GUO Songsen	Interest in controlled corporation <sup>(4)</sup>	92,603,571	11.58%
	Interest under the Concert Party Agreement <sup>(1)</sup>	588,000,000	73.5%
Strong Achievement	Beneficial owner	66,150,000	8.27%
Mr. GUO Dongxu	Interest in controlled corporation <sup>(5)</sup>	66,150,000	8.27%
	Interest under the Concert Party Agreement <sup>(1)</sup>	588,000,000	73.5%
Winning Path	Beneficial owner	66,150,000	8.27%
Mr. GUO Yuansuo	Interest in controlled corporation <sup>(6)</sup>	66,150,000	8.27%
	Interest under the Concert Party Agreement <sup>(1)</sup>	588,000,000	73.5%
East Prosperity	Beneficial owner	39,696,429	4.96%
Mr. GUO Donghuang	Interest in controlled corporation <sup>(7)</sup>	39,696,429	4.96%
	Interest under the Concert Party Agreement <sup>(1)</sup>	588,000,000	73.5%

## Notes:

- All Shareholders are Controlling Shareholders and concerted parties by virtue of the Concert Party Agreement, a summary of which is set forth in the section headed "Controlling Shareholders and Substantial Shareholders — Summary of terms of the Concert Party Agreement" in the Prospectus of the Company dated 30 September 2019.
- Mr. CHAN Kam Chung held all issued shares in COS Kreation. Therefore, Mr. CHAN Kam Chung is deemed to be interested in all the Shares held by COS Kreation for the purpose of the SFO. Mr. CHAN Kam Chung is the sole director of COS Kreation.
- Mr. CHAN Shui Yip held all issued shares in Epoch. Therefore, Mr. CHAN Shui Yip is deemed to be interested in all the Shares held by Epoch for the purpose of the SFO. Mr. CHAN Shui Yip is the sole director of Epoch.



## DIRECTORS' REPORT

4. Mr. GUO Songsen held all issued shares in Green Forest. Therefore, Mr. GUO Songsen is deemed to be interested in all the Shares held by Green Forest for the purpose of the SFO. Mr. GUO Songsen is the sole director of Green Forest.
5. Mr. GUO Dongxu held all issued shares in Strong Achievement. Therefore, Mr. GUO Dongxu is deemed to be interested in all the Shares held by Strong Achievement for the purpose of the SFO. Mr. GUO Dongxu is the sole director of Strong Achievement.
6. Mr. GUO Yuansuo held all issued shares in Winning Path. Therefore, Mr. GUO Yuansuo is deemed to be interested in all the Shares held by Winning Path for the purpose of the SFO. Mr. GUO Yuansuo is the sole director of Winning Path.
7. Mr. GUO Donghuang held all issued shares in East Prosperity. Therefore, Mr. GUO Donghuang is deemed to be interested in all the Shares held by East Prosperity for the purpose of the SFO. Mr. GUO Donghuang is the sole director of East Prosperity.
8. All the interests disclosed represent long position in the Shares and underlying Shares.

Save as disclosed above, as at 31 December 2019, there were no other persons who had an interest or short position in the Shares, or underlying Shares which were recorded in the register required to be kept under section 336 of the SFO.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, none of the Directors is interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

## DEED OF NON-COMPETITION

Mr. Chan Kam Chung, Mr. GUO Dongxu, Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Yuansuo and Mr. GUO Donghuang, and their controlled corporations, namely COS Kreation, Strong Achievement, Epoch, Green Forest, Winning Path and East Prosperity (collectively, the "Controlling Shareholders") entered into a deed of non-competition dated 25 September 2019 with the Company (the "Deed of Non-competition"). Pursuant to the Deed of Non-competition, neither of our Controlling Shareholders, our Directors and their respective associates has interest in any business, apart from the business operated by members of our Group, which competes or is likely to compete, directly or indirectly, with our business and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Details of the Deed of Non-competition are set out in the section headed "Relationship with Controlling Shareholders — Deed of Non-Competition" of the prospectus of the Company dated 30 September 2019. The Company has received declarations from the Controlling Shareholders of their compliance with the Deed of Non-competition for the year ended 31 December 2019 (the "Declarations"). The independent non-executive directors of the Company have been provided with all necessary information and have reviewed the Declarations and are satisfied that the Deed of Non-competition was complied with and was effectively enforced during the year ended 31 December 2019.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the parent company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019.

## DIRECTORS' REPORT

### PERMITTED INDEMNITY PROVISION

Pursuant to Article 164 of the Articles of Association, every Director, Auditor, Secretary and other officer at any time of the Company shall be entitled to be indemnified out of assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or to be incurred by him in relation to any of the affairs of the Company. The Company has arranged appropriate Directors' and Officers' liability insurance coverage for the Directors and officers of the Group.

### EMOLUMENT POLICY

The emolument policy of the Group is set on the basis of the employees' performance, qualifications and competence. The emoluments of the Directors and senior management are reviewed by the remuneration committee, with consideration to the Group's operation results and individual performance. The Company has adopted a pre-IPO share option scheme to the eligible persons as an incentives or rewards for their contribution to the Group, details of which are set out in the paragraph headed "Pre-IPO Share Option Scheme" of this annual report.

### MANAGEMENT CONTRACTS

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

### CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Saved as disclosed in the Company's Prospectus dated 30 September 2019 for the Share Offer, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### SIGNIFICANT INVESTMENTS

During the year ended 31 December 2019, the Group did not have any significant investment plan.

### MATERIAL ACQUISITIONS OR DISPOSALS

During the year ended 31 December 2019, the Group has no material acquisitions or disposals of business.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.



## DIRECTORS' REPORT

### CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51(B)(1), of the Listing Rules, the change in information of Director is as follows:

Mr. Hu Guohua was appointed independent non-executive director of Zhejiang Shengda Bio-pharm Co., Ltd., a company listed on the Shanghai Stock Exchange (Company Code: 603079) on 18 December 2019.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Island, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$11,300 (2018: approximately HK\$130,394)

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 27 May 2020 to Monday, 1 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Tuesday, 26 June 2020.

For the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 8 June 2020 to Wednesday, 10 June 2020, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30p.m. on Friday, 5 June 2020.

### EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (COVID-19) in Mainland China caused production halt of some additional weeks in our Group's plants in Mainland China, and production volume was reduced in February and March 2020, this will bring challenges to the Group's production and business. Meanwhile, management has adopted all measures to safeguard the health of employees and resume normal production as soon as practicable to satisfy the demand for goods from customers.

On 12 March 2020, the Company has repaid the rest of the convertible bond amounting to HK\$30.2 million and the interest payable up to that date.

## DIRECTORS' REPORT

### INTERESTS OF THE COMPLIANCE ADVISER

As notified by Essence Corporate Finance (Hong Kong) Limited ("Essence"), the Company's compliance adviser, save for the compliance adviser agreement entered into between the Company and Essence dated 26 September 2019 in connection with the Listing, none of Essence or its directors, employees or close associates (as defined in the Listing Rules) had any interest in the Group as at 31 December 2019, which is required to be notified to the Company pursuant to Rule 3A.19 of the Listing Rules.

### AUDIT COMMITTEE

The Company established the Audit Committee pursuant to a resolution of Directors passed on 25 September 2019 in compliance with Rule 3.12 of the Listing Rules. The Audit Committee has set up the written terms of reference on 25 September 2019. The primary responsibilities of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting at least at half-year intervals, and oversee the risk management policies and internal control procedures of the Group constantly. The Audit Committee consists of three independent non-executive directors, namely Mr. HO Kwai Ching, Mark, Mr. NG Man Kung and Mr. HU Guohua. Mr. HO Kwai Ching, Mark is currently serves as the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference which are in line with the applicable code provisions in the CG Code. The Audit Committee has reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2019.

### AUDITORS

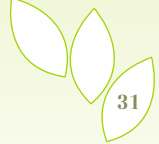
The consolidated financial statements have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting ("AGM"). A resolution will be submitted to the forthcoming AGM for the re-appointment of PricewaterhouseCoopers as auditor of the Company.

### On behalf of the Board

Chan Kam Chung  
Chairman and Chief Executive Officer

Hong Kong, 30 March 2020





# CORPORATE GOVERNANCE REPORT

The board of directors of the Company ("**Board**") is committed to uphold a high standard of corporate governance practices appropriate to the conduct and growth in its business in accordance with all applicable rules and regulations. The Board believes that good corporate governance is important in balancing the interests of shareholders, customers and employees and the success of business.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and code provisions set out in the Corporate Governance Code and Corporate Governance Report ("**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). During the year, the Company has complied with the CG Code except for deviations from code provisions A.2.1. The deviation from code provision A.2.1 of the CG Code is explained in the paragraph headed "Chairman and Chief Executive" of this annual report.

## THE BOARD

### Responsibilities

The Board is mainly responsible for formulating the Group's long term strategy and development plan, deciding major financial and capital project and reviewing internal control and risks.

The Board delegates aspects of its management and administration functions to the management for implementing day-to-day operation. The rights and duties of the Board and the Management are designed to guarantee an adequate balance and restriction mechanism for the excellent governance and internal control of the Company and the Board admits that it is the common responsibility of all the Directors to perform the duty of corporate governance.

## BOARD OF DIRECTORS

### Composition of the Board

As at the date of this Annual report, the Board consists of eight (8) Directors comprising four (4) executive Directors, one (1) non-executive Director and three (3) independent non-executive Directors.

### **Executive Directors**

Mr. Chan Kam Chung (*Chairman and Chief Executive Officer*)

Mr. Guo Dongxu (*Vice-Chairman and Vice President*)

Mr. Chan Shui Yip (*Vice-Chairman and Vice President*)

Mr. She Xiaoying

### **Non-executive Director**

Mr. Guo Songsen

### **Independent Non-executive Director**

Mr. Ho Kwai Ching, Mark

Mr. Ng Man Kung

Mr. Hu Guohua

The biographical details of the Directors are set out on pages 14 to 17 of this annual report.

## CORPORATE GOVERNANCE REPORT

Throughout the year and up to the date of this Annual report, the Board has complied with the requirement of the Listing Rules on appointment of at least three (3) INEDs, who shall jointly account for at least one third of members of the Board and at least one of whom must have appropriate professional qualifications or accounting or relevant financial management expertise. The qualifications of the three (3) INEDs of the Company fully comply with requirements of the Listing Rules.

None of the INEDs of the Company has any business or financial interests in the Company and its subsidiaries, nor do they hold any executive positions in the Company, which effectively guaranteed their independence. The Company has received from each of the INEDs an annual confirmation of their independence. As at the date of this Annual report, the Company is of the opinion that all the INEDs are independent in accordance with Rule 3.13 of the Listing Rules.

### Directors' Appointment and Re-election

Pursuant to the Article 83(3) of the articles of association of the Company (the "**Articles of Association**"), any Director to who is appointed by the Board to fill the casual vacancy shall hold office until the next following annual general meeting (the "**AGM**") of the Company and shall be eligible for re-election.

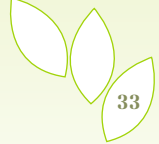
Pursuant to the Article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each AGM of the Company and every Director shall be subject to retirement at an annual general meeting at least once every three years. However, a retiring Director shall be eligible for re-election.

As such, all Directors including Mr. Chan Kam Chung, Mr. Guo Dongxu, Mr. Chan Shui Yip, Mr. She Xiaoying, Mr. Guo Songsen, Mr. Ho Kwai Ching, Mark, Mr. Ng Man Kung and Mr. Hu Guohua shall retire from office as Directors and being eligible, offer themselves for re-election at the forthcoming AGM in accordance with the Article 83(3) of the Articles of Association.

Formal service agreements or appointment letters have been entered into with the Executive Directors, Non-executive Director and the INEDs. Each of the Executive Directors has entered into a service contract with the Company for a fixed term of three (3) years, which may be terminated before the expiration of the term by not less than three (3) months' notice in writing served by either party on the other. Each of the INEDs has signed an appointment letter with the Company for a term of three (3) years, which may be terminated before the expiration of the term by not less than two (2) months' notice in writing served by either party on the other. The Non-executive Director has signed an appointment letter with the Company for a term of three (3) years, which may be terminated before the expiration of the terms by not less than two (2) months' notice in writing served by either party on the other.

### Chairman and Chief Executive

Under the provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Chan Kam Chung ("**Mr. Chan**") is our Group's chairman and chief executive officer. Mr. Chan is responsible for formulating our overall strategic planning and business strategies and implementing major development policies and initiatives for the business development of our Group as a whole. Mr. Chan's vision and leadership have played a pivotal role in our Group's success and achievements to date, and therefore our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. Our long-serving and outstanding senior management team and our Board, which comprise experienced and high-caliber individuals, provide a check on balance of power and authority. Our Board comprises four executive Directors (including Mr. Chan); one non-executive Director; and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.



## CORPORATE GOVERNANCE REPORT

### Board Diversity Policy

The Board has adopted the Board Diversity Policy. The Nomination Committee shall review, at its discretion, the Board Diversity Policy of the Company. For designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointment will be based on merit, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, race and educational background, professional experience, knowledge and skills.

### Board Meetings

The Board shall hold Board meetings regularly, at least four (4) meetings in each year on quarterly basis, involving active participating, either in person or through electronic means of communication, of a majority of Directors. A notice of a regular Board meeting shall be delivered to all the Directors at least fourteen (14) days in advance for them to arrange the attendance for the meeting, with the matters to be discussed specified in agenda of the meeting. Board papers together with all appropriate, complete and reliable information are delivered to all Directors at least three (3) days before the regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

During the financial year ended 31 December 2019 and up to the date of this report, nine Board meetings were held. The attendance of individual director to the Board meetings and other meetings is set out below:

Name of Directors	Number of meetings attended/Number of meetings held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General* Meeting
<i>Executive Directors:</i>					
Mr. Chan Kam Chung ( <i>Chairman and Chief Executive Officer</i> )	9/9	N/A	1/1	1/1	N/A
Mr. Guo Dongxu ( <i>Vice-Chairman and Vice President</i> )	9/9	N/A	N/A	N/A	N/A
Mr. Chan Shui Yip ( <i>Vice-Chairman and Vice President</i> )	9/9	N/A	N/A	N/A	N/A
Mr. She Xiaoying	9/9	N/A	N/A	N/A	N/A
<i>Non-executive Director:</i>					
Mr. Guo Songsen	9/9	N/A	N/A	N/A	N/A
<i>Independent Non-executive Directors:</i>					
Mr. Ho Kwai Ching, Mark	5/5	1/1	1/1	1/1	N/A
Mr. Ng Man Kung	5/5	1/1	1/1	1/1	N/A
Mr. Hu Guohua	5/5	1/1	N/A	N/A	N/A

\* The Company has not held any general meeting from the Listing Date to 31 December 2019.

## CORPORATE GOVERNANCE REPORT

### Nomination Policy

The Nomination Committee ("**Nomination Committee**") shall identify candidates who are qualified/suitable to become a member of the Company's Board and make recommendations to the Board on the selection of candidates nominated for directorships with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as Company's need, reputation for integrity, experience in principal business of the Company, balance of skills, knowledge and experience on the Board, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of INEDs, the independence requirements set out in the Listing Rules (as amended from time to time), and take into account various aspects set out in the Board Diversity Policy of the Company, number of directorship in other listed/public companies and in case of INED, number of years he/she has already served.

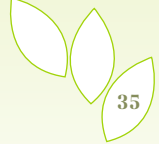
### Directors' Continuous Professional Development

The Company has arranged relevant training for all Directors to ensure that they obtain the needed additional skills and comprehensive information to contribute to the Board. A summary of their records of continuous development training during the year ended 31 December 2019 is as follows:

Name of Directors	Attending trainings/ briefings/seminars/ conference/reading regulatory updates relevant to corporate governance
<i>Executive Directors:</i>	
Mr. Chan Kam Chung ( <i>Chairman and Chief Executive Office</i> )	V
Mr. Guo Dongxu ( <i>Vice-Chairman and vice-president</i> )	V
Mr. Chan Shui Yip ( <i>Vice-Chairman and vice-president</i> )	V
Mr. She Xiaoying	V
<i>Non-executive Director:</i>	
Mr. Guo Songsen	V
<i>Independent Non-executive Directors:</i>	
Mr. Ho Kwai Ching, Mark	V
Mr. Ng Man Kung	V
Mr. Hu Guohua	V

### Directors' Insurance

The Company has arranged appropriate directors' and officers' insurance cover in respect of legal litigation against its Directors and senior officers.



## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

There are three (3) committees under the Board including Audit Committee (“**Audit Committee**”), Nomination Committee and Remuneration Committee (“**Remuneration Committee**”).

#### **Audit Committee**

The Audit Committee was established pursuant to a resolution of the Board passed on 25 September 2019 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee include (i) making recommendations to the Board on the appointment and removal of external auditors; (ii) reviewing and supervising the financial statements and material advice in respect of financial reporting; (iii) overseeing internal control procedures and corporate governance of the Company; (iv) supervising internal control systems of the Group; and (v) monitoring continuing connected transactions (*if any*).

The Audit Committee currently consists of all three (3) of the INEDs. The members of the Audit Committee are currently Mr. Ho Kwai Ching, Mark, Mr. Ng Man Kung and Mr. Hu Guohua and the chairman of the Audit Committee is Mr. Ho Kwai Ching, Mark.

The following tasks have been taken up by the Audit Committee during the year ended 31 December 2019 and up to the date of this annual report:

- (a) reviewed the consolidated financial statements of the Group for the year ended 31 December 2019 including the audit findings from external auditors, annual results announcement and Annual Report;
- (b) directed and supervised the Company’s internal audit department, reviewed the internal audit report, review adequacy and effectiveness of Group’s internal controls including financial, operational and compliance controls and risk management; and
- (c) considered the re-appointment of the external auditors.

#### **Nomination Committee**

The Nomination Committee was established pursuant to a resolution of the Board passed on 25 September 2019 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size, composition and diversity of the Board on a regular basis; (ii) identify individuals suitably qualified to become Board members; (iii) assess the independence of INEDs; (iv) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors; and (v) make recommendations to the Board regarding the candidates to fill vacancies on the Board.

Nomination Committee held one meeting during the year. During the meeting, Nomination Committee (i) reviewed the structure, size, composition and diversity of the Board; (ii) reviewed the independence of INEDs; (iii) made recommendations to the Board on the proposed re-election of the retiring Directors at the forthcoming annual general meeting; and (iv) made recommendation to the Board on the appointment of Director.

The Nomination Committee currently consists of one (1) executive Director, Mr. Chan Kam Chung, and two (2) INEDs, namely Mr. Ho Kwai Ching, Mark and Mr. Ng Man Kung and is currently chaired by Mr. Chan Kam Chung.

## CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The Remuneration Committee was established pursuant to a resolution of the Board Directors passed on 25 September 2019 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee include (i) reviewing and making recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; (ii) reviewing other remuneration-related matters, including benefits-in-kind and other compensation payable to the Directors and senior management; and (iii) reviewing performance-based remunerations and establishing a formal and transparent procedure for developing policy in relation to remuneration.

Remuneration Committee held one meeting during the year. During the meeting, Remuneration Committee reviewed and made recommendations on the remuneration packages of the Directors and senior management.

The Remuneration Committee currently consists of one (1) executive Director, Mr. Chan Kam Chung, and two INEDs, namely Mr. Ng Man Kung and Mr. Ho Kwai Ching, Mark. It is currently chaired by Mr. Ng Man Kung.

### DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of consolidated financial statements of the Group in accordance with the Hong Kong Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. The Directors confirm that suitable accounting policies have been used and applied consistently. The Board is responsible for submitting a well-defined assessment on interim and annual reports, share price sensitive information, and other matters that need to be disclosed according to the Listing Rules and other regulatory provisions. The Management has provided relevant and necessary explanation and information to the Board so that the Board could make informed assessment on the financial data and position of the Company for examination and approval.

The Board does not have any material uncertainty in any areas likely to give rise to the significant doubt of the Company's capability of sustained operations.

The responsibilities of the Company's external auditor, with respect to their audit of the consolidated financial statements of the Company for the year ended 31 December 2019 are set out in the section headed "Independent Auditor's Report" in this Annual Report.

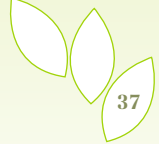
### RISK MANAGEMENT AND INTERNAL CONTROL

#### Responsibility of the Board

The Board acknowledges its responsibility to establish, maintain, and review the effectiveness of the Group's risk management and internal control systems, where management is responsible for the design and implementation of the risk management and internal control systems to manage risk. A sound and effective system of risk management and internal control is designed to achieve the Group's strategic objectives and safeguard shareholder investments and the Group's assets.

#### Risk Management and Internal Control Framework

The Board has the overall responsibilities of the risk management and internal control systems of the Group. With the support from the Audit Committee, the Board monitors the Group's risk exposures, oversees the actions of management and monitors the overall effectiveness of the risk management and internal control systems on an ongoing basis.



## CORPORATE GOVERNANCE REPORT

### Internal Audit Function

The internal audit department is led by the internal audit manager, who reports directly to the chairman of the Board with the support of the Audit Committee. The internal audit department is primarily responsible for conducting internal audit reviews on operational, financial and compliance controls of the operating entities to ensure their compliance with the Group's risk management and internal control policies and procedures. Internal audit department is independent from operation management and has full access to data required in performing internal audit reviews. Internal audits are conducted according to the three-year internal audit plan approved by the Audit Committee to review our major operational, financial, compliance and risk management controls. In 2019, Internal audit department performed audits on the key operating entities located in China. During the process of the internal audits, the internal audit department identified internal control deficiencies and weaknesses and proposed recommendations for improvements. Internal audit findings and control deficiencies are communicated to the management, who is responsible for ensuring the deficiencies are rectified within a reasonable period. A follow-up review is also performed to ensure the remedial actions are implemented.

### Review of Risk Management and Internal Control Systems

During the year, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group and considered the risk management and internal control systems effective and adequate. In addition, the Board has reviewed and is satisfied with the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions, and their training programs and budget.

## PROCEDURES AND CONTROLS OVER HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company is aware of its obligation under relevant sections of the Securities and Futures Ordinance and Listing Rules. An Inside Information Disclosure Policy of the Company ("Inside Information Disclosure Policy") has been established to lay down practical guidelines on definition and the scope of inside information; disclosure and management framework; exemptions for disclosure; receiving, reporting and disclosing of inside information; confidentiality and records of such information. Pursuant to the Inside Information Disclosure Policy, staff who have access to inside information are required to follow the Inside Information Disclosure Policy to keep the unpublished inside information strictly confidential until such inside information has been officially announced to the public in accordance with the requirements of the Listing Rules. The Board will review and approve the inside information to be disclosed and the Company Secretary has the responsibility to monitor and communicate with professional parties such as our external lawyer and auditor during the process of inside information discussion and announcement preparation.

## REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

Particulars of the Directors' remuneration for the year ended 31 December 2019 are set out in note 33 to the consolidated financial statements of this Annual Report. The remuneration of the members of the senior management (other than the Directors) for the year ended 31 December 2019 by remuneration band is as follows:

Remuneration Band in HK\$	Number of individuals
HK\$1 million - HK\$2 million	1
HK\$2 million - HK\$3 million	1
HK\$3 million - HK\$4 million	1

## CORPORATE GOVERNANCE REPORT

### AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could give rise to any actual or potential material adverse effect on the Company. During the year ended 31 December 2019, the remuneration paid or payable to the external auditors for audit and non-audit services by the Group are set out as follows:

Services rendered	Fees paid/payable HK\$
Annual audit services of the Company's auditor	1,931,000
Listing services of the Company's auditor (majority of which was charged to profit or loss and the remaining portion was debited to the share premium account upon Listing of the Company)	3,749,000
Non-audit services of the Company's auditor for their assistance in connection with the Company's ESG reporting and annual results announcement	205,000
Statutory audit services of subsidiaries' auditors	315,000

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors since the Listing Date. All Directors confirmed their compliance with the required standard set out in the Model Code during period from the Listing Date to the date of this report.

### COMPANY SECRETARY

The Company Secretary reports to the Board on corporate governance matters and is responsible for ensuring that Board procedures and all applicable law, rules and regulations are followed. All Board members have access to the advice and services of Company Secretary. During the year, the Company Secretary has taken no less than 15 hours of relevant professional training to update his skills and knowledge under the Rules 3.29 of the Listing Rules.

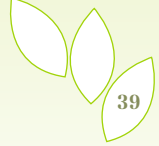
### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company releases its announcements, financial data and other relevant data on its website [www.greenfreshfood.com](http://www.greenfreshfood.com), which serves as a channel facilitating effective communication. Shareholders of the Company ("Shareholders") may send any inquiry in writing to the Company's principal place of business in Hong Kong. The Company will properly handle all inquiries in due course.

The Board welcomes suggestions from Shareholders, and encourages Shareholders to attend general meetings to directly raise any issues that they may have to the Board and the Management. Under the Rules E.1.2 of Appendix 14 of the Listing Rules, the chairman of the Board and the chairman of respective committees would attend AGM to answer questions put forward by Shareholders.

Detailed voting procedures and all resolutions voted on shall be set out in circulars to shareholders.





## CORPORATE GOVERNANCE REPORT

### DIVIDEND POLICY

The Company endeavours to maintain a balance between meeting shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company adopts a dividend policy, which is based on the profit attributable to owners of the Company, and the distribution amount on annual basis of no less than 20% of the distributable net profit attributable to the owners of the Company but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

### SHAREHOLDERS' RIGHT

#### Shareholders' Right to Requisite a Meeting

As one of the measures to safeguard Shareholders' interest and rights, it is proposed that separate resolutions can be tabled at Shareholders' meetings on each substantial issue, including the election of individual directors. The voting results will be posted on the websites of the Stock Exchange and the Company after the Shareholder's meeting.

#### Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the Articles of Association, general meetings shall be convened on the written requisition of any one or more members of the Company deposited to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

#### Putting Forward Enquiries to the Board

For put forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company, details are as follow:

Hong Kong Address: Unit A, 16/F, Lee&Man Commercial Center, 169 Electric Road, North Point, Hong Kong

### CONSTITUTIONAL DOCUMENTS

The Company has not made any changes to its Articles of Association since the Listing Date.

### DEED OF NON-COMPETITION BY THE CONTROLLING SHAREHOLDERS

Details of the Deed of Non-competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus of the Company dated 30 September 2019 and there is no change thereon up to the date of this report. The INEDs have reviewed the status of compliance by each of the controlling shareholders with the undertakings and as far as the INEDs can ascertain, there is no breach of any of the undertakings in the Deed of Non-competition.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE REPORT

Green Future Food Hydrocolloid Marine Science Company Limited (“the Company”, stock code: 1084) hereby issues the 2019 Environmental, Social and Governance Report (“ESG Report” or “the Report”) of the Company and its subsidiaries (collectively “the Group”, or “we”) to demonstrate the Group’s policies, practices, measures and performance regarding environmental and social areas to its stakeholders. The Report is our first ESG report.

For information on corporate governance, please refer to the “Corporate Governance Report” of the year.

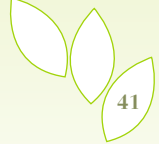
## REPORTING SCOPE

The Report covers the information on the Group’s four production plants located in Fujian Province and Hubei Province in China, namely Green Fresh (Fujian) Production Base, Lvqi (Fujian) Production Base, Lvbao (Quanzhou) Production Base and Shiyanhaiyi Production Base for the period from 1 January 2019 to 31 December 2019 (“the reporting period”).

## REPORTING STANDARDS AND PRINCIPLES

The Report is prepared in compliance with the Appendix 27 Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) to the Main Board Listing Rules (the “Listing Rules”) of Hong Kong Exchanges and Clearing Limited (“HKEX”). The Report is prepared in accordance with the following reporting principles:

- ✓ “Materiality”: The Group identifies material ESG issues by stakeholder engagement and materiality assessment, which is disclosed in the Report;
- ✓ “Quantitative”: Information on the standards, methodologies and source of conversion factors used for the reporting of emission and energy consumption is disclosed in this report;
- ✓ “Consistency”: The Report is the Group’s first ESG report. The method and key environmental performance indicators used in subsequent years will be consistent with those used by the Report.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### DEFINITIONS

Green Fresh (Fujian) Production Base	the production plant owned and operated by Green Fresh (Fujian) Foodstuff Co., Ltd., a company established under the laws of the People's Republic of China with limited liability on 8 November 2007 and a wholly-owned subsidiary of the Company, for the production and sales of carrageenan products, agar-agar products and blended products.
Lvqi (Fujian) Production Base	the production plant owned and operated by Fujian Province Lvqi Food Colloid Co., Ltd., a company established under the laws of the People's Republic of China with limited liability on 18 March 2009 and a wholly-owned subsidiary of the Company, for the production and sales of agar-agar products, carrageenan products, and blended products.
Lvbao (Quanzhou) Production Base	the production plant owned and operated by Lvbao (Quanzhou) Biochemistry Co., Ltd., a company established under the laws of the People's Republic of China with limited liability on 14 May 1999 and a wholly-owned subsidiary of the Company, for the production and sales of carrageenan products and blended products.
Shiyanghaiyi Production Base	the production plant owned and operated by Shiyanghaiyi Konjac Products Company Limited, a company established under the laws of the People's Republic of China with limited liability on 7 September 2012 and a wholly-owned subsidiary of the Company, for the production and sales of konjac products.

### GOVERNANCE

#### ESG Management

The Group incorporated ESG-related risks and opportunities in its business strategy, and established an ESG management structure with clear responsibilities to guide daily operation. The Board of Directors of the Group ("the Board") is the highest decision-making entity of ESG management in the Group. The Board oversees the Group's ESG issues and takes full responsibility for the Group's ESG strategy and reporting. The Board develops ESG management approach and strategy, including evaluating, prioritizing, and managing material ESG-related issues and their risks to the Group's business. The Board regularly reviews the Group's ESG performance, and examines and approves the Group's annual ESG report.

The management of the Group arranges work of ESG working group based on the ESG management approach and strategy established by the Board. The management reports ESG-related risks and opportunities to the Board, and provides the Board with the annual ESG performance and annual ESG report.

The Group established the ESG working group to carry out ESG work. The ESG working group involves the head of each department, and designated staff to carry out daily ESG work and prepare annual ESG report. The ESG working group reports to the management on the daily ESG performance and the progress of annual ESG report.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Stakeholder Engagement

We identify key stakeholders, including government and regulators, shareholders, customers, employees, suppliers, communities and environment, based on their impact and dependence on the Company. The Group actively communicates with all core stakeholders through multiple and smooth communication channels, so as to understand the expectations of stakeholders on the Group and give positive response.

Stakeholders	Expectations and needs	Communication channels
<b>Government and regulators</b>	<ul style="list-style-type: none"> <li>• Compliance with laws</li> <li>• Pay tax according to law</li> <li>• Support local development</li> </ul>	<ul style="list-style-type: none"> <li>• Daily communication</li> <li>• Monitoring and assessment</li> <li>• Government and enterprise cooperation</li> <li>• Work meeting</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>• Return on investment</li> <li>• Investor relations</li> <li>• Corporate governance</li> <li>• Risk management and control</li> </ul>	<ul style="list-style-type: none"> <li>• General meeting of shareholders</li> <li>• Annual reports, interim reports and announcements</li> <li>• Activities promoting investor relations</li> <li>• Company website</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• High-quality products</li> <li>• Satisfactory services</li> </ul>	<ul style="list-style-type: none"> <li>• Quality management and control</li> <li>• Service hotline</li> <li>• E-mail address</li> <li>• Network platforms</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Compensation and benefits</li> <li>• Healthy and safe working environment</li> <li>• Fair opportunity for promotion and development</li> </ul>	<ul style="list-style-type: none"> <li>• Recruitment in accordance with the laws</li> <li>• Training and exchange</li> <li>• Welfare activities</li> <li>• Drills related to health and safety</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>• Fulfilment of promises</li> <li>• Win-win development</li> <li>• Equal, open and fair procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Regular review</li> <li>• Interview and negotiation</li> <li>• Daily business communication</li> <li>• Open tendering and bidding</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>• Promotion of local employment</li> <li>• Promotion of community harmony</li> <li>• Enhancement of public benefit awareness</li> </ul>	<ul style="list-style-type: none"> <li>• Community activities</li> <li>• Charitable activities</li> <li>• Cooperation in community projects</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Environment protection</li> <li>• Improvement of energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Pay attention to environment protection</li> <li>• Energy conservation and emission reduction</li> </ul>



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Materiality Assessment

In accordance with the ESG Reporting Guide, we continue to improve ESG management of the Company. We select ESG issues that are important to the Group and stakeholders based on industry characteristics and current situation. The following materiality assessment results were formed through internal interviews, questionnaires, discussion and analysis, etc., which served as the basis for the information disclosed in the Report.

	Environment	Employees	Operation
<b>Important issues</b>	<ul style="list-style-type: none"> <li>Waste water and exhaust gas</li> <li>Greenhouse gases</li> <li>Wastes</li> <li>Energy and water conservation</li> <li>Packaging materials</li> </ul>	<ul style="list-style-type: none"> <li>Development and training</li> <li>Safety and health</li> <li>Employment management</li> </ul>	<ul style="list-style-type: none"> <li>Product quality</li> <li>Customer relationship</li> <li>Anti-corruption</li> </ul>
<b>Related issues</b>	<ul style="list-style-type: none"> <li>Environment and natural resources</li> </ul>	<ul style="list-style-type: none"> <li>Labour standards</li> </ul>	<ul style="list-style-type: none"> <li>Supply chain management</li> <li>Community investment</li> </ul>

### Anti-corruption

The Group strictly complies with relevant laws and regulations, including but not limited to the *Company Law of the People’s Republic of China*, the *Anti-Unfair Competition Law of the People’s Republic of China*, the *Interim Provisions on Banning Commercial Bribery and the Anti-Money Laundering Law of the People’s Republic of China*, etc. The Group formulated the *Code of Discipline* requiring each employee, including senior directors, to sign a *Declaration of Potential Conflicts of Interest* to avoid conflicts of interest, while strictly prohibiting illegal acts such as bribery, extortion, fraud and money laundering.

The Company formulated a *Whistle-blowing Policy* applicable to the Company and its subsidiaries, and established an internal monitoring mechanism for irregularities and frauds within the Group, so as to provide employees with whistle-blowing channels and guidelines. Employees can report any fraud and violation of discipline in real names or anonymously through channels such as whistle-blowing mailboxes, emails, and hotlines. The Group handles the contents and information provided by the whistle-blowers in a prudent manner. The personal identity or any information of the whistle-blowers is kept confidential to prevent them from being harmed.

In order to eradicate commercial bribery and corruption, the Group and its business partners sign the *Anti-commercial Bribery Agreement* which defines specific commercial bribes, and stipulates the responsibilities of the two parties for whistle-blowing, investigation and punishment in case of bribes, so that both parties can jointly abide by commitment to integrity.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ENVIRONMENT

#### Emission Management and Control

The Group consistently implements the principle of environmental protection in production and development. The Group adheres to the policy of "Giving priority to prevention while combining prevention with treatment", so as to incorporate environmental management into the overall management of the Group.

The Group strictly complies with relevant laws and regulations, including but not limited to the *Law of the People's Republic of China on Prevention and Control of Water Pollution*, the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*, the *Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise*, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, the *Law of the People's Republic of China on Environmental Impact Assessment*, and the *Regulations on the Administration of Construction Project Environmental Protection*, etc. The Group formulated internal environmental policies and regulations, such as the *Environmental Protection Management Policy* and the *Environmental Management Regulations on Waste Water, Waste Gas and Factory Boundary Noise*, and takes effective preventive measures to strengthen internal management, so as to ensure that the pollutants are discharged in accordance with standards and meet the requirements of total emission control.

The Group established the Environmental Protection Committee and set the Environmental Protection Team as the working body of the Environmental Protection Committee. The Environmental Protection Team is responsible for leading and coordinating the environmental protection work of the Group, and formulating the Company's environmental protection plan, goals and annual work plan. Each unit establishes a responsibility system for environmental protection target, and formulates their respective annual environmental protection work plans and annual pollution source treatment plans. They assign specific personnel to carry out environmental protection tasks, implement environmental protection measures, and strengthen environmental supervision and management.

#### Waste Water and Exhaust Gas

The Group's four production plants built sewage treatment stations and set up water purification posts, sewage posts and desliming posts to handle various processes related to sewage treatment. Testing rooms were constructed in each sewage treatment station for on-line or manual monitoring of the emission data. The production waste water is discharged when relevant indicators meet requirements after being treated, monitored and tested. Taking the Lvqi (Fujian) Production Base as an example, the sewage can be finally discharged into the municipal pipe network only when meeting the Third-level sewage discharge standard after treatment. And a qualified third-party testing organisation is employed to conduct sewage testing on a semi-annual basis.

The Group monitors, manages and maintains all kinds of environmental protection facilities to ensure normal operation of facilities, and up-to-standard discharge of various pollutants. The Group actively introduced advanced purification equipment and treatment technology to seal up the sewage treatment unit producing odorous gas and treat it intensively, so as to reduce the impact on the environment.

Exhaust gases produced by the Group mainly include sulfur dioxide, smoke and nitrogen oxides produced in the production process. All exhaust gases are discharged in accordance with standards after treatment. The Group carries out real-time monitoring of exhaust gas emissions. For example, Lvqi (Fujian) Production Base performs on-line monitoring of flue gas, and a real-time warning will be sent in case of emissions exceeding the specific standard. And a qualified third-party testing organisation is invited to monitor the fugitive emission of flue gas on a semi-annual basis. In 2019, the Group introduced a mature process combining acid washing and alkali washing to treat ammonia gas and other exhaust gas so as to reduce emissions.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the types of emissions and respective emissions data of the Group are shown as below:

A1.1 Emissions		2019
Waste water	Wastewater discharge (tonnes)	4,697,537.00
	Chemical Oxygen Demand (COD) (tonnes)	601.40
	Ammonia nitrogen (tonnes)	28.11
Exhaust gas	Smoke (tonnes)	6.86
	Sulphur dioxide (tonnes)	33.77
	Nitrogen oxides (tonnes)	24.84

Note: Data on emissions is derived from the on-line monitoring system.

### Greenhouse gases

The Group's greenhouse gas emissions mainly include:

- Scope 1 - direct emissions: Emissions from coal combustion during production;
- Scope 2 - energy indirect emissions: Emissions from purchased electricity.

Based on the *Specifications on Management of Energy (Resources) Consumption and Greenhouse Gases*, the Group actively promotes energy conservation management to reduce energy consumption and greenhouse gas emission.

During the reporting period, the Group's greenhouse gas emissions in total and intensity are shown as below:

A1.2 Greenhouse gases		2019
Scope 1: Direct emissions (tCO <sub>2</sub> e)		34,382.72
Scope 2: Energy indirect emissions (tCO <sub>2</sub> e)		30,572.48
Total emissions (tCO <sub>2</sub> e)		64,955.20
Emission intensity (tCO <sub>2</sub> e/tonne output)		5.02

Note: The greenhouse gas emissions are presented by carbon dioxide equivalent, and the accounting methods and conversion factors are derived from the *Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions from Food, Tobacco and Wine, Beverage and Refined Tea Enterprises (Trial)* issued by the National Development and Reform Commission.

### Wastes

The hazardous wastes produced by the Group mainly include waste hydraulic oil generated in the production process. In order to achieve the goal of reduction, recycling and hazard-free treatment of the wastes, the Group constantly strengthens the management of hazardous wastes and formulated the *Hazardous Waste Management Plan, Management Policy on Hazardous Chemicals*, etc. according to the *Directory of National Hazardous Wastes* and other relevant laws, regulations and standards. The Group properly manages hazardous waste and hands hydraulic oil over to a qualified oil refinery for reuse. During the reporting period, no hazardous waste was discharged.

In terms of daily management, the Group carries out regular maintenance of hazardous waste collection, transportation facilities and storage sites. If any damage is found, timely measures will be taken to deal with it. The Group sets up signs at conspicuous locations in front of hazardous waste storage sites and strictly implements a hazardous waste warehousing policies.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's non-hazardous wastes mainly include seaweed residue, soil residue and household garbage. In order to reduce wastes from the source, the Group takes a series of measures, such as recycling of packaging materials and used work clothes as equipment wipes, double-sided use of office papers, and recycling of shredded papers. In addition, we purchase recyclable pads, paper woven bags and wrapping straps in a unified way to reduce wastes generated from storage and transportation. In terms of terminal treatment, the Group adopts the following measures for proper disposal or recycling of different non-hazardous wastes:

- Selling the waste papers and scrap metals to recyclers for reuse;
- Requesting the environmental sanitation department to clear, transport and dispose of the collected household wastes;
- Recycling all collected wastes as much as possible;
- Contacting a qualified third party via contractor to store and ferment the kitchen wastes so as to decompose the wastes into sanitary and odorless humus;
- Providing the farmers with the crushed organic wastes, such as raw seaweed residue (gracilaria residue, eucheuma residue, etc.), which are used as organic fertiliser for their vegetable and fruit tree planting bases.

During the reporting period, the Group's total non-hazardous wastes produced and intensity are shown as below:

A1.4 Non-hazardous waste emission	2019
Total non-hazardous wastes produced (tonnes)	26,857.25
Non-hazardous wastes intensity (tonnes/tonne output)	2.08

Note: Data on non-hazardous wastes is from daily monitoring.

## USE OF RESOURCES

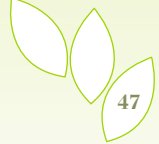
### Energy and water conservation

The energy used by the Group mainly includes coal and purchased electricity, and the water used by the Group is supplied by municipal water system. According to the *Energy Conservation Law of the People's Republic of China*, the *Water Law of the People's Republic of China*, the *Circular Economy Promotion Law of the People's Republic of China* and other laws and regulations, we formulated the *Energy Management System Manual*, the *Specifications on Management of Energy (Resources) Consumption and Greenhouse Gases*, etc., to facilitate unified management on energy and water conservation.

The Group established the energy management system and set up the energy conservation leading team to provide guidance on energy management. The Group formulated energy policies, targets and energy management plans by analysing and evaluating the current situation of energy utilisation. In order to achieve the targets, the Group requires all production workshops to align with the annual energy consumption quota according to the quota assessment system. Moreover, each workshop formulates the corresponding energy-conservation targets and management measures, and arranges different teams to complete the workshop assessment indicators. The Group also developed an energy conservation target evaluation scheme to comprehensively evaluate the achievement of energy-conservation targets for each system.

The Group advocates green office. Thus, we formulated the *Management Regulations on Use of Office Air Conditioners*, assigning specific person to control the use of air conditioners, which stipulates that the air conditioners shall not be enabled on rainy days, or unless the outdoor temperature reaches 30°C or above, and the setting temperature for refrigeration shall not be lower than 26°C. Besides, the Group also encourages employees to commute by bus, bicycle or carpooling, or go on business travels in an environmentally-friendly way, so as to reduce energy consumption and greenhouse gas emissions.





## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the Group's energy consumption in total and intensity, and water consumption in total and intensity are shown as below:

A2.1&A2.2 Energy and water consumption	2019
Total direct energy consumption (MWh)	109,064.89
Total indirect energy consumption (MWh)	43,654.61
Total energy consumption (MWh)	152,719.50
Energy consumption intensity (MWh/tonne output)	11.80
Total water consumption (tonne)	1,587,106.00
Water consumption intensity (tonne/tonne output)	122.65

Note:

1. The total energy consumption is presented by MWh (kWh in 000's), and the conversion factors are derived from the *Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions from Food, Tobacco and Wine, Beverage and Refined Tea Enterprises (Trial)* issued by the National Development and Reform Commission.
2. The consumption of coal, electricity and water comes from the corresponding bills.

### Packaging materials

The packaging materials used by the Group mainly include woven bags, inside bags, iron boxes, cartons and paper bags. The Group has a preference for procurement of recyclable packaging materials and signs a packaging bag recycling agreement with the customers. If the customers return packaging materials such as pads, paper or woven bags used in storage and transportation, they will obtain rebate accounting for 10% of the cost of packaging materials, thereby increasing the utilisation rate of packaging materials and reducing the amount used.

During the reporting period, the Group's total packaging materials used for finished products were 134.09 tonnes, and the packing materials used per tonne output were 0.0104 tonnes.

### Environment and Natural Resources

The products of the Group are extracted from natural seaweed. The environmental impact of product use is negligible. The products themselves can also be naturally degraded if they are not used after expiration, or they can be supplied to the feed enterprises as raw materials after passing the test according to the relevant feed laws and regulations within 12 months after expiration. In addition, the packaging bags of the products are non-toxic, harmless, and can be used for packaging other articles with no harm to the environment.

Noise of the Group mainly comes from the crushing process. The Group strives to reduce the impact of noise on surrounding areas in strict compliance with relevant laws, regulations and standards, including but not limited to the *Law of the People's Republic of China on Prevention and Control of Noise Pollution* and the *Emission Standard for Community Noise*. For the purpose of meeting standards for production, the Group adopts high-efficiency stainless steel sound-absorbing material and modern multi-layer silencing technology to effectively reduce the sound decibels generated by the equipment. In addition, the Group tests the factory boundary noise every half year to ensure that the noise meet relevant standard.

The Group is concerned about biodiversity. So we continuously improve our knowledge of biodiversity, refuse to process, sell and consume key national protected species, and achieving the "Three simultaneity" of biodiversity, that is, "The facilities for pollution prevention and control used in construction projects must be designed, constructed and put into use simultaneously with the main works", as stipulated in Article 26 of the *Environmental Protection Law of the People's Republic of China*. While avoiding the impact of our own operations on biodiversity, the Group also actively participates in public welfare publicity and appeals to the public to protect biodiversity.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## EMPLOYEES

## Development and Training

The Group cultivates talents efficiently and creates an excellent atmosphere of learning to achieve mutual development of employees and the company. The Group established *Training Management Policy*, formulated annual training plans and monthly training plans, and provided training for our employees through a combination of external training and internal training. The Group's Administration Centre established and operated Green Future Cottage training system which consists of business clubs, leadership clubs, project clubs, etc. We also conducted internal trainer selection, training, certification and management to maximize the sharing of knowledge, skills and best practices. As of the end of 2019, a total of 19 trainees were certified as internal trainers.



*Green Future Cottage – Train the Trainers in September 2019*



*Green Future Cottage - New Joiners Training in September 2019*



*Green Future Cottage - "Excellence in Execution" course in November 2019*



*Green Future Cottage - "SMART principles-how to better set work goals" training course in November 2019*



*Green Future Cottage training course on food laws, regulations and standards in December 2019*

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Safety and Health

The Group strictly complies with relevant laws and regulations, including but not limited to the *Labour Law of the People's Republic of China*, the *Work Safety Law of the People's Republic of China* and the *Interim Provisions on the Investigation and Handling of Safety Accidents and Hidden Dangers*, etc. We formulated and implemented the *Regulations of Work Safety Management at the Base (Trial)*, the *Emergency Rescue Plan for Steam Boiler Accidents*, and the *Special Emergency Plan for Hazardous Chemicals Leakage Accidents*, etc., and passed the certification of Work Safety Standardisation Level 3 Enterprise Certificate (Light Industrial Food Production).

In order to regulate the management of employees' occupational health, the Group strictly complies with relevant laws and regulations, including but not limited to the *Labour Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, etc., and formulated the *Distribution Standards and Management Measures for Labour Protection Appliance* to reasonably distribute and use labour protection appliance. The Group posts up the occupational hazards billboard at conspicuous places to remind and inform employees of the hazards. In addition, the Group organizes annual physical examination for employees, and provides them with the analysis report of physical examination results issued by the hospital to protect their health.

The Group has been making efforts to improve safety management system. In April 2019, we issued the *Regulations on Work Safety at the Production Plant*, including a series of management policies, and fully ensure production safety through multiple measures:

- Safety education: Based on the *Management Policy on Safety Education*, we implement three-level safety education for new employees. We provide professional safety education for special operation personnel, designate personnel to help during the apprenticeship, and require them to obtain operating certificates before they can operate independently. We carry out secondary safety education for personnel who change their job type. We lay a solid foundation for the development of work safety through above measures.
- Electrical safety: Based on the *Management Policy on Electricity Work Safety*, we ensure electricity safety through electrical technical documentations management, safe operation of electrical equipment and electrical equipment safety inspection.
- Investigation and rectification of hidden dangers: Based on the *Management Policy on Investigation and Rectification of Hidden Dangers*, we conduct factory-level inspection, employee self-inspection, seasonal inspection and professional inspection. If hidden danger was found, rectification would be carried out within a definite period, and relevant leaders would be punished as appropriate.
- Hazardous chemicals safety: Based on the *Management Policy on Hazardous Chemicals*, we conduct safety management of hazardous chemicals, including storing inflammables and explosives in designated safe places, regularly checking storage and transportation facilities and equipment carrying inflammable and explosive materials, designing grades of fire and explosion prevention in hazardous areas and maintaining and managing fire facilities, in order to prevent fire, explosion, poisoning and leakage accidents.
- Fire safety: Based on the *Management Policy on Fire Safety*, we safeguard the company's properties and employees through various aspects including fire inspections, safety evacuation facilities and fire equipment maintenance, fire control room duty, fire hazards rectification, and fire safety education and training.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Operational safety in limited space: Based on the *Management Policy on Operational Safety in Limited Space*, we have designated the head of operations and supervisors of operations, and equipped them with safety facilities for hazardous operation in limited spaces, provided personal labour protection appliance that meet national or industry standards for operators to guarantee the safety and health of operators in limited spaces.
- Aloft work safety: Based on the *Management Policy on Aloft Work Safety*, we have conducted training, approval and various protective measures for aloft work.
- Outsourcing project safety: We sign the *Outsourcing Project Safety Agreement* with the contractor to clarify the safety responsibilities of both parties and ensure the safety of personnel, equipment, electricity and the environment during the entire construction process.

The Group established a production safety management structure supervised by production centre and assisted by various production plants. Production centre is responsible for the Group's production safety and conduct production safety management through plan deployment, training, inspection, irregular audit, drill, tracking and rectification, measure verification, system improvement, effect assessment and operational evaluation to ensure the production safety performance of safety management organizations at all levels. Under the supervision of the production centre, all production plants implement safety laws, regulations, guidelines and policies, formulate and update safety production guidelines, work objectives and management principles, follow up and implement safety control measures, and continuously improve production safety management performance.

The Group takes the "Continuous improvement of production safety technology and management, the pursuit of minimising the occurrence of accidents, no harm to human health, and no damage to the environment" as long-term work goal of production safety, and refines the annual work goal of production safety:

- Zero major safety accident and zero casualty accident;
- Preventing fires, environmental pollution, casualty accident;
- Zero vehicle & mechanical accident and zero traffic accident;
- Hidden danger rectification rate is 95%;
- The qualification rate of safety education and training for all employees is 100%.

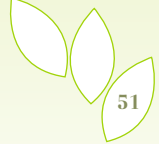
In 2019, the Group improved safety production level through production safety training and drills, pasting safety signs, and inviting third-party agencies to evaluate our expansion project production workshops in terms of hidden dangers.

*Fire emergency rescue drill in January 2019*



*Environmental accidents emergency rescue drill in August 2019*





## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### EMPLOYMENT MANAGEMENT

The Group strictly complies with relevant laws and regulations, including but not limited to the *Labour Law of the People's Republic of China* and the *Labour Contract Law of the People's Republic of China*, etc., and formulated a series of talent management policies to fully standardise our employment management.

#### Compensation and dismissal

The employees' compensation consists of basic salary, performance bonus and duty allowance. The basic salary is not less than the local minimum wage. The Group formulated the *Management of On-board Process for New Employees*, which determines the salary of new employees according to their education background, years of experience in the same position, potential, post difficulty factor and culture alignment. The Group determines the annual salary adjustment budget in line with the performance of the Group and each subsidiary, and adjusts the salary according to the employees' performance, ability and performance ranking in the previous year.

The Group signs the *Labour Contract* with employees, which incorporates the conditions for termination of labour contract, and standardizes the conditions and procedures for employee resignation through the *Resignation Policies and Procedures*. Arbitrary dismissal is not allowed.

#### Recruitment and promotion

The Group formulated the *Policies and Procedures on Internal and External Recruitment* and other policies. Based on the principle of "Capacity matching and merit-based recruitment", we adopt OPR (Organizational Talent Review) process, internal recommendation, external recommendation and other channels to recruit employees suitable for work needs.

The Group established a complete rank system and formulated the *Regulations on Post Change* and other policies. We promote talent development and talents team construction through OPR. OPR evaluates employees from four "As" dimensions, which are Achievement, Ability, Ambitions and Align culture. The OPR results will be used for employee promotion and potential personnel training, etc.

#### Working hours, rest periods, other benefits and welfare.

The Group formulated the *Attendance Policy*, and implements standard working hour system, comprehensive working hour system and flexible working hour system based on various posts. We require each subsidiary and each department to coordinate production and work, and try to avoid arranging overtime. If employees have to work overtime or at weekends due to work needs, we will firstly arrange employees to take shift leaves, otherwise an overtime pay will be given to them. If employees need to work overtime on national holidays, they are entitled to obtain overtime pay in accordance with relevant regulations.

The Group complies with relevant laws and regulations, including but not limited to the *Social Insurance Law of the People's Republic of China*, and formulated the *Welfare Management Policy* to provide employees with statutory benefits such as social insurance and housing funds. The Group's employees are entitled to New Year's Day, Spring Festival, Tomb-sweeping day, Labour Day, Dragon Boat Festival, Mid-Autumn festival, National Day, annual leave and other holidays according to the laws. In addition, The Group formulated the *Masters Selection and Reward Policy*, regularly holds masters selections, and provides incentives and rewards to selected outstanding employees.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Equal opportunity, diversity and anti-discrimination**

The Group recruits talents according to the principles of fairness, impartiality and openness and selects the outstanding ones under the same conditions. In strict compliance with national and local laws and regulations, we have no tolerance in any discrimination against any employee due to personal characteristics such as race, gender, colour, age, family background, national tradition, religion, physical attribute or original nationality, ensuring that they have equal opportunities in compensation and dismissal, recruitment and promotion, working hours, holidays, and other benefits and welfare.

**Employee caring**

The Group actively held various recreational and sports activities to enrich employees' spare time life:



*Series of recreational and sports activities on May Day*



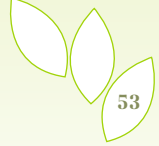
*Employee birthday party*



*Outdoor development activities*



*Team building activities*



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Labour standards

We comply with relevant laws and regulations, including but not limited to the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and the *Provisions on the Prohibition of Using Child Labour*, etc. We respect the legitimate rights and interests of our employees, and prohibit forced labour. Besides, we expressly stipulate to prohibit child labour in the *Policies and Procedures on Internal and External Recruitment*.

### Employee overview

As of 31 December 2019, the Group's total workforce was 1,014. Total workforce by gender, employment type, age group and geographical region are shown as below:

Type	Number of employees	
By gender	Male	668
	Female	346
By employment type	Full-time	1,014
	Part-time	0
By age group	Under 30	145
	30-50	683
	Over 50	186
Employees' residing locations by geographical region	Mainland China	1,005
	HKSAR	7
	Others	2

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OPERATION

## Product Responsibility

## Quality and safety

The Group strictly complies with relevant national laws and regulations, including but not limited to the *Product Quality Law of the People's Republic of China*, the *Food Safety Law of the People's Republic of China*, the *Agricultural Product Quality Safety Law of the People's Republic of China*, the *Measures for the Administration of Food Production Licence* and the *Measures for the Administration of the Routine Supervision and Inspection of Food Production and Operation*, etc. The Group legally obtained licences to engage in food production and operation activities, and accepted routine supervision and inspection of food production and operation implemented by local food safety supervision and administration authorities.

The Group prepared a series of related policies and procedures such as the Quality Manual, and established quality management system in accordance with GB/T 19001 Quality Management System - Requirements (equivalent to implement ISO 9001:2015), BRC8.0 Global Standard for Food Safety, GB 14881 -2013 National Food Safety Standard-General Hygienic Regulation for Food Production, to strictly manage and control each and every procedure of production. In addition, the Group established and implemented the integrity management system that complies with GB/T 33300-2016 Food Industry Enterprises Integrity Management System to guarantee food quality and fulfil its quality and safety responsibilities.

The Group implements quality standards and requirements from quality inspection of raw materials to testing of semi-finished products and finished products, conducts risk assessment on each raw material or raw material group and record assessment results to identify potential risks to product safety, legality and quality:

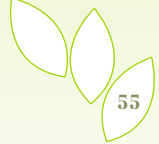
- Raw materials: The Group established and implemented raw material quality control system. Each batch of raw materials delivered to the production plants is sampled for physical and chemical attributes such as appearance, hygienic standard and chemical composition. The Group strictly controls the storage conditions of raw materials, including storage temperature, ventilation and humidity. In addition, the Group's production facilities adopt designated hygiene and safety standards, which are followed by all employees in the production process.

- Semi-finished products and finished products: the Group's quality departments conducts testing and analysis in accordance with relevant internal inspection standards, including the *Semi-finished Carrageenan Product Inspection Standards*, the *Finished Carrageenan Product Inspection Standards* and the *Konjac Finished Product Inspection Standards*, etc. The testing content includes product safety, legality, integrity and quality. If a product fails to meet the requirements after inspection, it shall be controlled in accordance with the *Procedures for Controlling Nonconforming Products*.



Quality management system certification





## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group believes in the importance of product innovation, actively follows up the latest market trends and consumers' demand, and continues to invest in the development of new products. The Group established a product innovation team to work closely with the production team to optimize production processes, improve product quality, product formulation, processing technologies and production efficiency. The Group established a product research centre in Xiamen, Fujian Province, China, and dispatched R&D technicians to each production plant. In addition, the Group cooperates with universities and institutions such as Fujian Agriculture and Forestry University and Jimei University to improve product quality, optimize production and processing technologies through their combined efforts in production, teaching and research.

### Intellectual property, labels and advertising

The Group strictly complies with the laws and regulations related to intellectual properties, including but not limited to the *Patent Law of the People's Republic of China* and the *Trademark Law of the People's Republic of China*, etc. The Group formulated the *Regulations on Patent Application, Project Application and Scientific Progress Award*, and actively develops hydrocolloid products and promotes the characteristics and advantages of different functions for different applications. The Group encourages our employees to actively participate in technological innovation and project application, and gives certain bonuses to the winning team or individual. The Group obtained a number of patents in China for the development and improvement of processing technologies for agar and carrageenan and the extraction of carrageenan.

The Group strictly complies with the laws, regulations and standards on food labelling, including but not limited to the *Administrative Measures on Food Labelling*, etc. Information are specified on the products, including food name, place of origin, producer information, scope of use and method, storage condition, production date, shelf life, food production license number, etc., which meets requirements of national standards on food labelling and food nutrition labelling. The Group has not placed advertisements until now, and the provisions on advertisements in the B6 Product Responsibility of the ESG Reporting Guide are not applicable to the Group.

### Customer relationship

The Group established a specialised sales service hotline and email address to respond to the inquiries and complaints from customers, which promptly and properly handle customers' complaints based on the *Procedures for Customers' Complaint Handling*. After receiving any inquiries and complaints, customer service staff responds immediately and reports to the relevant internal departments. The relevant internal departments take corresponding remedial measures and properly handles the customers' complaints. The Group conducts annual statistics on the customers' complaints, learns from experience, puts forward improvement plans and constantly improves the business management and business operation process so as to improve the quality and level of customer service and decrease complaint rate.

The Group formulated the *Returns Management Procedure* to standardize return process. On the one hand, we reduce unnecessary product returns; on the other hand, we adopt different treatments according to product quality, logistics, business and other reasons to make products return traceable and prevent the confusion of returned products.

The Group attaches great importance to public health and life safety. For all products that have been sold but do not meet the company or customer requirements, or do not comply with regulations, the Group will evaluate the need to recall the products. Once the Group determines that it is necessary to recall products, we will execute the corresponding product recall process in the *Product Recall and Withdrawal Procedure*. The Group's general manager, quality control department, marketing centre, storage and transportation department and production department jointly participate in the entire process, perform their own responsibilities, make efforts to reduce and avoid the hazards of unsafe products so as to minimize the harm of potentially unsafe products to consumer safety.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group formulated the *Policy on Protection of Consumers' Privacy* to prevent the leakage of customer information, maintain the legitimate rights and interests of customers, and respect the privacy of customers through comprehensive customer information management.

### Supply Chain Management

The Group established cooperative partnership with suppliers who have good conditions on quality, price, delivery date, service and goodwill. We also continuously strengthen communication with suppliers on quality, environment, and society. The Group formulated the *Measures for Supplier Management* and the *Process and Procedures on Procurement Management*, to seek suppliers that match requirements of production and operation through customer or peer introduction, business information inquiry, network query and on-the-spot investigation. We adopt strict procedures to give weighting and scoring on suppliers' qualifications, upstream supplier management, quality system situation, raw materials and auxiliary materials management, workshop production management, product control, finished products, transportation and service, and select suppliers that meet the review standards and include them in the qualified supplier directory. The Group also concerns about the environmental and social risks of suppliers, and requires that the materials provided by suppliers comply with national laws and meet requirements of safety and environment conservations.

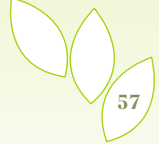
The Group's quality centre, procurement centre and technical centre form an evaluation team to evaluate suppliers in two ways: off-site evaluation and on-site evaluation. The Group also monitors the performance of suppliers through sample testing and on-site inspection, checks the validity of the suppliers' quality system certification once a year and coaches suppliers to improve their quality control system. In addition, the Group built a supplier communication platform to encourage suppliers to share information so as to achieve win-win cooperation. In December 2019, the Group's procurement centre invited suppliers of large workshop machine and equipment to the site to exchange information on the strengths and drawbacks of machine design so as to promote mutual technical reference, jointly improve production quality and technical level.

### Community Welfare

The Group formulated the *Regulations on Charity and Public Welfare Activities* and carries out social welfare activities based on its own business characteristics.

In December 2019, in response to the national development theme of environmental protection and health, the Group launched an environmental protection activity with the theme of "Beautiful China, Green Future in action", organized employees to go on a hike and pick up wastes along the way, demonstrating our sense of corporate social responsibility and the positive spirit of our employees.





# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

**To the Shareholders of Green Future Food Hydrocolloid Marine Science Company Limited**  
(incorporated in the Cayman Islands with limited liability)

## OPINION

### *What we have audited*

The consolidated financial statements of Green Future Food Hydrocolloid Marine Science Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 138, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 ("HKSA") issued by the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

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.

.....  
*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*  
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## INDEPENDENT AUDITOR'S REPORT



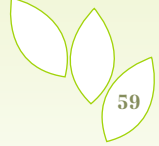
羅兵咸永道

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

A key audit matter related to revenue recognition on sales of goods is identified in our audit as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Revenue recognition — sales of goods</b></p> <p>Refer to notes 2.23 and 5 to the consolidated financial statements.</p> <p>The Group's revenue from sales of goods for the year ended 31 December 2019 amounted to approximately HK\$992.9 million.</p> <p>Revenue from the sales of goods is recognised when control of the goods have been transferred to the customer, which is usually at the date when the Group has delivered the products to the customer and the customer has accepted the products.</p> <p>We focused on this area due to the significance of the revenue amount and the large volume of sales transactions generated from numerous kinds of products sold to customers at different locations including The People's Republic of China and overseas.</p>	<p>We understood, evaluated and tested on a sample basis, management's key controls over revenue recognition in respect of the Group's sales transactions, from approval of customer orders, all the way to settlement of trade receivables.</p> <p>We conducted testing of sales transactions on a sample basis by examining the relevant supporting documents including customers' contracts and orders, sales invoices, goods delivery notes, Customs declaration documents for export sales and goods receipt evidence for domestic sales. In addition, we circularised confirmations on a sample basis on trade receivable balances as at the balance sheet date together with the confirmations of the sales transactions with selected customers during the year.</p> <p>Furthermore, we tested sales transactions that took place before and after the balance sheet date to assess whether the transactions were recognised in the appropriate reporting period based on the supporting documents obtained.</p> <p>Based on the work performed, we found the sales transactions tested were supported by the evidence obtained.</p>



## INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the Company's 2019 Annual Report other than 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 THE AUDIT COMMITTEE 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 HKFRSs issued by the HKICPA 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

## 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. We report our opinion solely to you, as a body, 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 HKSA's 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.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism 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.



## INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

We also provide the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Dou Wang, Angel.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 30 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

	Note	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
Revenue	5	992,935	997,056
Cost of sales	8	(741,200)	(730,081)
<b>Gross profit</b>		<b>251,735</b>	266,975
Change in fair value of biological assets		—	(27)
Other income	6	9,124	7,649
Other losses – net	7	(2,662)	(2,151)
Net impairment gains/(losses) on financial assets	20	992	(668)
Selling and distribution expenses	8	(17,700)	(16,126)
Administrative expenses	8	(85,616)	(98,578)
<b>Operating profit</b>		<b>155,873</b>	157,074
Finance income	10	331	45
Finance costs	10	(27,633)	(27,346)
<b>Finance costs – net</b>	10	<b>(27,302)</b>	(27,301)
<b>Profit before income tax</b>		<b>128,571</b>	129,773
Income tax expense	11	(34,681)	(35,997)
<b>Profit for the year</b>		<b>93,890</b>	93,776
<b>Profit for the year attributable to:</b>			
Owners of the Company		93,309	93,597
Non-controlling interests		581	179
		<b>93,890</b>	93,776
<b>Earnings per share for profit attributable to owners of the Company</b>			
Basic earnings per share (HK\$)	12	0.146	0.156
Diluted earnings per share (HK\$)	12	0.140	0.156

The notes on pages 68 to 138 are an integral part of the consolidated financial statements.





# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

	Year ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
<b>Profit for the year</b>	<b>93,890</b>	93,776
<b>Other comprehensive income/(loss)</b>		
Items that may be reclassified subsequently to profit or loss		
– Currency translation differences	(11,625)	(25,626)
<b>Total comprehensive income for the year</b>	<b>82,265</b>	68,150
<b>Total comprehensive income for the year is attributable to:</b>		
Owners of the Company	81,684	67,971
Non-controlling interests	581	179
	<b>82,265</b>	68,150

The notes on pages 68 to 138 are an integral part of the consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

	Note	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	14	60,615	53,972
Property, plant and equipment	15	361,234	354,298
Intangible assets	16	52,520	60,030
Prepayments for non-current assets	17	1,823	11,608
Deferred income tax assets	28	9,915	11,177
		<b>486,107</b>	491,085
<b>Current assets</b>			
Inventories	19	322,428	193,212
Trade and other receivables	20	217,299	193,098
Cash and bank balances	21	186,172	55,855
		<b>725,899</b>	442,165
<b>Total assets</b>		<b>1,212,006</b>	933,250
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	22	8,000	6
Other reserves	24	366,791	162,386
Retained earnings		326,983	244,467
		<b>701,774</b>	406,859
<b>Non-controlling interests</b>		<b>669</b>	179
<b>Total equity</b>		<b>702,443</b>	407,038

**CONSOLIDATED BALANCE SHEET**

AS AT 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

	Note	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	26	59,276	63,580
Convertible bond	26	—	52,644
Lease liabilities	26	2,741	4,148
Deferred income	27	28,799	32,861
Deferred income tax liabilities	28	1,793	2,406
		<b>92,609</b>	155,639
<b>Current liabilities</b>			
Trade and other payables	25	84,247	93,790
Convertible bond	26	29,547	—
Bank borrowings	26	284,879	253,370
Lease liabilities	26	1,427	1,848
Current income tax liabilities		16,854	21,565
		<b>416,954</b>	370,573
<b>Total liabilities</b>		<b>509,563</b>	526,212
<b>Total equity and liabilities</b>		<b>1,212,006</b>	933,250

The notes on pages 68 to 138 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 62 to 138 were approved by the board of directors of the Company on 30 March 2020 and were signed on its behalf by:

**CHAN Kam Chung**  
*Director*

**CHAN Shui Yip**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

	Equity attributable to owners of the Company						
	Note	Share	Other	Retained	Total	Non-	Total
		capital	reserves	earnings		controlling	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	interests	HK\$'000
<b>Balance at 1 January 2019</b>		6	162,386	244,467	406,859	179	407,038
<b>Comprehensive income</b>							
Profit for the year		—	—	93,309	93,309	581	93,890
Other comprehensive income/(loss)							
– Currency translation differences		—	(11,625)	—	(11,625)	—	(11,625)
<b>Total comprehensive income</b>		—	(11,625)	93,309	81,684	581	82,265
<b>Transactions with owners</b>							
Equity-settled share-based							
payment	23	—	4,146	—	4,146	—	4,146
Capitalisation issue of shares		5,994	(5,994)	—	—	—	—
Issuance of shares by initial							
public offering, net of attributable							
transaction costs		2,000	206,994	—	208,994	—	208,994
Profit appropriation to statutory							
reserves		—	10,884	(10,793)	91	(91)	—
<b>Total transactions with owners</b>		7,994	216,030	(10,793)	213,231	(91)	213,140
<b>Balance at 31 December 2019</b>		8,000	366,791	326,983	701,774	669	702,443
<b>Balance at 1 January 2018</b>		—	147,254	159,570	306,824	—	306,824
<b>Comprehensive income</b>							
Profit for the year		—	—	93,597	93,597	179	93,776
Other comprehensive income/(loss)							
– Currency translation differences		—	(25,626)	—	(25,626)	—	(25,626)
<b>Total comprehensive income</b>		—	(25,626)	93,597	67,971	179	68,150
<b>Transactions with owners</b>							
Equity-settled share-based							
payment	23	—	17,567	—	17,567	—	17,567
Share allotment to Controlling							
Shareholders		5	—	—	5	—	5
Conversion of the convertible bond	26(a)	1	14,491	—	14,492	—	14,492
Profit appropriation to statutory							
reserves		—	8,700	(8,700)	—	—	—
<b>Total transactions with owners</b>		6	40,758	(8,700)	32,064	—	32,064
<b>Balance at 31 December 2018</b>		6	162,386	244,467	406,859	179	407,038

The notes on pages 68 to 138 are an integral part of the consolidated financial statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

	Note	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	19,027	73,855
Income tax paid		(39,571)	(34,750)
Net cash (used in)/generated from operating activities		(20,544)	39,105
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(40,216)	(56,487)
Purchases of land use rights		(3,173)	(1,078)
Purchases of intangible assets		(171)	(682)
Proceeds from disposal of property, plant and equipment		20	—
Net cash used in investing activities		(43,540)	(58,247)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		576,358	509,811
Amounts received from related parties		—	480
Repayments of borrowings		(544,901)	(429,551)
Repayment of convertible bond		(25,000)	—
Amounts repaid to related parties		(102)	(12,963)
Interest paid		(24,350)	(19,147)
Settlements of lease liabilities		(2,064)	(2,360)
Proceeds from share issuance upon listing		232,000	—
Initial public offering costs		(15,548)	(3,516)
Restricted cash pledged for bank borrowings		(65,000)	—
Share allotment to Controlling Shareholders		—	5
Net cash generated from financing activities		131,393	42,759
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		55,855	33,123
Effect of foreign exchange rates changes		(1,992)	(885)
<b>Cash and cash equivalents at end of year</b>	21	<b>121,172</b>	<b>55,855</b>

The notes on pages 68 to 138 are an integral part of the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 1 GENERAL INFORMATION OF THE GROUP

Green Future Food Hydrocolloid Marine Science Company Limited (the "Company") was incorporated on 3 July 2015 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are in the business of manufacturing and sales of food manufacturing hydrocolloid products including carrageenan products, agar-agar products, blended products and konjac products in the People's Republic of China (the "PRC") and overseas.

The ultimate controlling parties of the Group are Mr. Chan Kam Chung, Mr. Chan Shui Yip, Mr. Guo Songsen, Mr. Guo Dongxu, Mr. Guo Yuansuo and Mr. Guo Donghuang who act in concert under a contractual agreement (the "Controlling Shareholders").

To prepare for the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has undertaken a reorganisation (the "Reorganisation") pursuant to which the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 30 September 2019.

The Company's shares began to list on the Stock Exchange on 17 October 2019.

These consolidated financial statements are presented in Hong Kong Dollar ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

These consolidated financial statements have been approved for issue by the board of directors of the Company on 30 March 2020.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements which are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622 are set out below. The consolidated financial statements have been prepared on a historical cost basis, except for certain biological assets which are measured at fair value less cost to sell and embedded derivatives of the convertible bond which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation** (Continued)**2.1.1 Changes in accounting policies****(i) New standards, amendments and interpretations of HKFRSs adopted by the Group**

All new standards, amendments to existing standards and interpretations, including HKFRS 16, "Leases", which are effective for the first time for the financial year beginning on or before 1 January 2019 have been consistently applied to the Group's consolidated financial statements for the track record period from 1 January 2016 to 31 March 2019 in connection with the initial public offering of the Company and for the year ended 31 December 2019.

**(ii) New standard and amendments of HKFRSs not yet adopted by the Group**

Certain new standard and amendments as set out below have been published but are not mandatory for the year beginning on 1 January 2019 and have not been early adopted by the Group.

Standard and amendments	Effective for accounting periods beginning on or after
Amendments to HKFRS 10 and HKAS 28 regarding sale or contribution of assets between an investor and its associate or joint venture'	To be determined
Amendment to HKAS 1 and HKAS 8 regarding the definition of material	1 January 2020
Conceptual framework for financial reporting 2018 (the Framework)	1 January 2020
Amendments to HKFRS 3 regarding definition of a business	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 regarding interest rate benchmark reform	1 January 2020
HKFRS 17 "Insurance Contracts"	1 January 2021 (likely to be extended)

Management is currently assessing the effects of applying these new standard and amendments on the Group's consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not expect to adopt these new standard and amendments until their respective effective dates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Principles of consolidation

##### (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group except for those business combinations under common control (note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, comprehensive income and changes in equity, and consolidated balance sheet respectively.

##### (ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

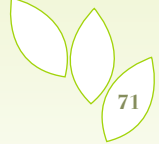
#### 2.3 Business combinations

##### (i) Business combinations under common control

The Group applies the predecessor values accounting to account for business combination of entities or businesses under common control. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve. Transaction-related costs are expensed as incurred.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.3 Business combinations (Continued)

##### (ii) Business combinations under non-common control

The acquisition method of accounting is used to account for all business combinations under non-common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Impairment testing of the investments in subsidiaries is also required in accordance with note 2.10.

#### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker assesses the financial performance and financial position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive directors, the chief executive officer, the chief financial officer and the manager for corporate planning.

#### 2.6 Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Majority of the subsidiaries of the Group are operating in the PRC and their functional currency is Renminbi (the "RMB"). The consolidated financial statements are presented in HK\$, which is the Company's functional and the Group's presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.6 Foreign currency translation (Continued)

##### (iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

#### 2.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such right are treated as right-of-use assets (note 2.25) and recorded as land use rights, which are amortised over the lease periods of 30 to 50 years using the straight-line method. The land use rights are stated at historical cost less accumulated amortisation and impairment.

#### 2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.8 Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives as follows:

Buildings	20 years
Production machineries	10 years
Factory devices and equipment	3-5 years
Vehicles, office furniture and fixtures	5 years
Leasehold improvements	Shorter of estimated useful lives and remaining lease terms

The right-of-use assets (note 2.25), other than land use rights are presented under property, plant and equipment. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

#### 2.9 Intangible assets

##### (i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 5).

Impairment testing of goodwill is described in note 2.10.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.9 Intangible assets (Continued)

##### (ii) Trademarks and licences, patents and relationship with customers

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences, patents and relationship with customers acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

##### (iii) Sea use rights

The Group acquired the rights to use certain sea area. The sea use rights are stated at historical cost less accumulated amortisation.

##### (iv) Discharge rights

The Group acquired the rights to discharge pollutions within authorised amounts. The discharge rights are stated at historical cost less accumulated amortisation.

##### (v) Amortisation methods and periods

The Group amortises intangible assets with limited useful lives using the straight-line method over the following periods:

Trademarks and licences	3-10 years
Patents	10-20 years
Relationship with customers	15 years
Sea use rights	5 years
Discharge rights	5 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.9 Intangible assets (Continued)

##### (vi) Research and development expenditure

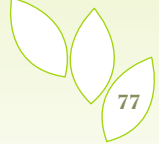
An intangible asset arising from development shall be recognised if, and only if, the Group can demonstrate all of the following:

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

Research expenditure and development expenditure that do not meet the criteria for capitalisation are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### 2.10 Impairment of non-financial assets

Goodwill is not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.11 Financial assets

##### (i) Classification

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- a) The asset is held within a business model whose objective is to collect the contractual cash flows; and
- b) The contractual terms give rise to cash flows that are solely payments of principal and interest.

Management determines the classification of its financial assets at initial recognition. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Company's and the Group's financial assets comprise of trade and other receivables, amounts due from subsidiaries and cash and bank balances.

##### (ii) Recognition and derecognition

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.11 Financial assets (Continued)

##### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default or bankruptcy of the relevant company or the counterparty.

##### (v) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Impairment of trade receivables is described in note 20.

#### 2.12 Inventories

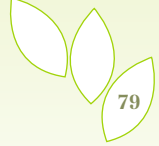
Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### 2.13 Biological assets

Biological assets are measured at fair value less cost to sell. Costs to sell include the incremental selling costs, including estimated costs of transport to the market but excludes finance costs and income taxes.

Seaweeds planted in the sea are classified as immature until they are ready for harvest. Seaweeds are classified as current assets if they are to be sold within one year. Until the point of harvest, harvested seaweeds are transferred to inventory at fair value less costs to sell when harvested. Changes in fair value of unharvested seaweeds are recognised in the statement of profit or loss. Farming costs such as material costs, labour costs and sea area maintenance are capitalised as part of biological assets.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 30 to 180 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.11 for a description of the Group's impairment policies.

#### 2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

#### 2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### 2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

#### 2.20 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bond that can be converted to share capital at the option of the holder, and the number of shares to be issued may vary. Therefore, the components of the convertible bond are accounted for separately as host liability component and compound embedded derivatives component. The host liability component and compound embedded derivatives component are initially recognised at fair value.

Subsequent to initial recognition, the host liability component is measured at amortised cost using the effective interest method while the compound embedded derivatives component is carried at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

If the convertible bond is converted, the conversion option derivative component, together with the carrying amount of the liability component being converted at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued.

A substantial modification of the terms of the bond should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the present value of the cash flows discounted using the original effective interest rate under the new terms, including any fees paid net of any fees received is at least 10 percent different from the present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, the original financial liability is derecognised and any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the present value of the revised cash flows discounted at the original effective interest rate. Any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

##### Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.22 Employee benefits

##### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

##### (ii) Post-employment obligations

The Group operates post-employment schemes via defined contribution pension plans.

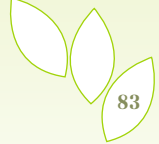
For defined contribution plans, the Group pays contributions to publicly administered pension insurance plans on a mandatory or voluntary basis in the PRC and Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

##### (iii) Share-based compensation

The Group operates an equity-settled share-based payment plan (note 23). The fair value of the employee services received in exchange for the transfer of shares from controlling shareholders of the Company is recognised as an expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares transferred, excluding the impact of any non-market vesting conditions (e.g. profitability and sales growth targets).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

A grant of equity instruments, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.23 Revenue recognition

**Timing of recognition:** The Group manufactures and sells carrageenan, agar-agar, konjac products and blended products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. A contract liability is recorded as advances from customers for the cash received from the customers before the delivery of goods.

**Measurement of revenue:** Revenue from sales is based on the price specified in the sales contracts and is shown net of value-added tax and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term up to 180 days. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### 2.24 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below. Any other interest income is included in other income.

#### 2.25 Leases

The Group leases various land, properties, equipment and vehicles. Rental contracts for properties, equipment and vehicles are typically made for fixed periods of 1 to 10 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.25 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

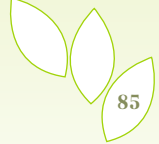
Extension and termination options are included in a number of property leases across the Group. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

The right-of-use assets are presented under land use rights in note 14 and property, plant and equipment in note 15. The lease liabilities are presented separately on the consolidated balance sheet.

#### 2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

##### (a) Market risk

###### (i) Foreign exchange risk

The Group mainly operates in mainland China and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars (the "USD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hedge against any fluctuation in foreign currency.

At 31 December 2019, if USD had weakened/strengthened by 10% against the RMB with all other variables held constant, post-tax profit for the year would have been HK\$4,291,000 lower/higher (2018: HK\$4,111,000 lower/higher) mainly as a result of foreign exchange losses/gains on translation of USD denominated trade and other payables, borrowings, trade and other receivables, and cash and cash equivalents.

###### (ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings and the convertible bond obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

During the year ended 31 December 2019, if interest rate on borrowings had been higher by 100 basis points of current interest rate, with other variables held constant, post-tax profit for the year would have been approximately HK\$1,062,000 lower (2018: HK\$442,000 lower).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. See note 20 for further information about the Group's credit risk analysis for trade receivables.

For other receivables, as they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

##### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. The Group also considers converting short-term borrowings into long-term borrowings to improve the Group's liquidity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2019</b>					
Bank borrowings	284,879	56,262	3,014	—	344,155
Interest payable on borrowings	11,555	3,768	112	—	15,435
Convertible bond	30,179	—	—	—	30,179
Interest payable on convertible bond	2,118	—	—	—	2,118
Lease liabilities	1,594	1,089	1,802	265	4,750
Trade and other payables (excluding non-financial liabilities)	70,606	—	—	—	70,606
	<b>400,931</b>	<b>61,119</b>	<b>4,928</b>	<b>265</b>	<b>467,243</b>
<b>At 31 December 2018</b>					
Bank borrowings	253,370	6,058	57,522	—	316,950
Interest payable on borrowings	15,089	4,379	3,750	—	23,218
Convertible bond	—	55,179	—	—	55,179
Interest payable on convertible bond	5,704	3,872	—	—	9,576
Lease liabilities	2,069	1,618	2,677	551	6,915
Trade and other payables (excluding non-financial liabilities)	76,692	—	—	—	76,692
	<b>352,924</b>	<b>71,106</b>	<b>63,949</b>	<b>551</b>	<b>488,530</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.2 Capital management

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total of bank borrowings, convertible bond and lease liabilities less cash and cash equivalents and restricted cash. Total capital is calculated as total of net debt and 'equity' as shown in the consolidated balance sheet.

The gearing ratio as at 31 December 2019 was as follows:

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Total of bank borrowings, lease liabilities and convertible bond (note 26)	377,870	375,590
Less: Cash and cash equivalents (note 21)	(121,172)	(55,855)
Restricted cash (note 21)	(65,000)	—
Net debt	191,698	319,735
Equity	702,443	407,038
Total capital	894,141	726,773
<b>Gearing ratio</b>	<b>21%</b>	<b>44%</b>

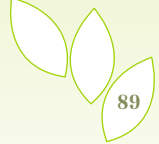
The decrease in gearing ratio from 2018 to 2019 is resulted from the increase in cash and bank balances due to the receipt of gross proceeds amounting to HK\$232 million from the initial public offering of the Company's shares on 17 October 2019.

#### 3.3 Fair value estimation

The Group adopts the amendment to HKFRS 13 for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group does not have financial instruments except for the embedded derivative portion of the convertible bond as at 31 December 2017 which was classified within level 3. The convertible option of the convertible bond was exercised by the bond holder and converted to ordinary shares of the Company on 28 February 2018 (note 22).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

#### (a) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently 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. It could change significantly as a result of technical innovations and competitors action in response to sever industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

#### (b) Impairment of trade and other receivables

The impairment provisions for financial assets disclosed in note 20 are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note 20 below.

#### (c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

#### (d) Estimated impairment of goodwill with indefinite useful life

The Group tests annually whether goodwill with indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in note 2.10. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 16).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

#### (e) Income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed. Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

### 5 REVENUE AND SEGMENT INFORMATION

The Company's executive directors, the chief executive officer, the chief financial officer and the manager for corporate planning are regarded as the Group's chief operating decision maker. The chief operating decision maker examines the Group's performance from a product perspective and has identified four operating segments of its business as follows:

- (i) Manufacturing and sales of agar-agar;
- (ii) Manufacturing and sales of carrageenan;
- (iii) Manufacturing and sales of konjac products; and
- (iv) Manufacturing and sales of blended products.

The amounts provided to the chief operating decision maker with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. The chief operating decision maker reviews the total assets, total liabilities and capital expenditure at Group level, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**5 REVENUE AND SEGMENT INFORMATION (CONTINUED)****(a) Segment information**

The segment information of the Group during the year is set out as follows:

	Year ended 31 December 2019				Total HK\$'000
	Sales of agar-agar HK\$'000	Sales of carrageenan HK\$'000	Sales of konjac products HK\$'000	Sales of blended products HK\$'000	
Revenue recognised at a point-in-time:					
Sales to customers	336,235	548,745	38,903	69,052	992,935
Cost of sales	(205,180)	(458,667)	(33,691)	(43,662)	(741,200)
Segment results	131,055	90,078	5,212	25,390	251,735

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	251,735
Change in fair value of biological assets	—
Other income	9,124
Other losses – net	(2,662)
Net impairment gains on financial assets	992
Selling and distribution expenses	(17,700)
Administrative expenses	(85,616)
Finance income	331
Finance costs	(27,633)
Profit before income tax	128,571
Income tax expense	(34,681)
Profit for the year	93,890

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

## (a) Segment information (Continued)

	Year ended 31 December 2018				
	Sales of	Sales of	Sales of	Sales of	Total
	agar-agar	carrageenan	konjac	blended	
HK\$'000	HK\$'000	products	products	HK\$'000	
Revenue recognised at a point-in-time:					
Sales to customers	346,493	534,851	32,506	83,206	997,056
Cost of sales	(213,590)	(435,508)	(27,590)	(53,393)	(730,081)
Segment results	132,903	99,343	4,916	29,813	266,975

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	266,975
Change in fair value of biological assets	(27)
Other income	7,649
Other losses – net	(2,151)
Net impairment losses on financial assets	(668)
Selling and distribution expenses	(16,126)
Administrative expenses	(98,578)
Finance income	45
Finance costs	(27,346)
Profit before income tax	129,773
Income tax expense	(35,997)
Profit for the year	93,776

Revenue from external customers by country/region, based on the destination of the shipment, is as follows:

	2019	2018
	HK\$'000	HK\$'000
China	439,097	475,838
Europe	317,882	345,986
Asia (excluding China)	156,175	107,947
South America	41,055	26,981
North America	34,839	33,500
Africa	3,887	6,804
Total	992,935	997,056

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**5 REVENUE AND SEGMENT INFORMATION (CONTINUED)****(a) Segment information** (Continued)

External customers that have contributed over 10% of total revenue of the Group for the year ended 31 December 2019 are as follows:

	2019 HK\$'000	2018 HK\$'000
Company A	136,514	158,468

Non-current assets, other than financial assets and deferred income tax assets, by country/region is as follows:

	2019 HK\$'000	2018 HK\$'000
China	468,802	472,803
Hong Kong	559	178
Indonesia	6,831	6,927
Total	476,192	479,908

**(b) Liabilities related to contracts with customers**

The Group has recognised the following liabilities related to contracts with customers at the balance sheet date:

	2019 HK\$'000	2018 HK\$'000
Advance receipts from customers (note 25)	2,461	1,436

Revenue recognised during the year in relation to advances from customers was as below:

	2019 HK\$'000	2018 HK\$'000
Revenue recognised during the year that was included in the advance receipts from customers at the beginning of the year	1,436	8,746

For unsatisfied performance obligations, the Group selected to choose a practical expedient and omitted disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 6 OTHER INCOME

	2019	2018
	HK\$'000	HK\$'000
Government grants		
– Received and recognised during the year	5,702	3,773
– Recognised from deferred income (note 27)	3,401	3,553
Others	21	323
	<b>9,124</b>	<b>7,649</b>

## 7 OTHER LOSSES – NET

	2019	2018
	HK\$'000	HK\$'000
Net foreign exchange losses from operating activities	2,436	1,883
Losses on disposal of property, plant and equipment - net	3	36
Gains from sales of raw materials	(4)	—
Others	227	232
	<b>2,662</b>	<b>2,151</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 8 EXPENSES BY NATURE

The expenses charged to cost of sales, selling and distribution expenses and administrative expenses are analysed below:

	2019 HK\$'000	2018 HK\$'000
Raw materials and consumables used	699,332	684,855
Changes in inventories of finished goods and work in progress	(72,435)	(66,018)
Employee benefit expenses (note 9)	93,858	93,347
Amortisation of land use rights (note 14)	1,538	1,148
Depreciation of property, plant and equipment (note 15)	33,517	32,848
Amortisation of intangible assets (notes 16)	6,091	5,735
Utility expenses	31,363	33,266
Other taxes and levies	5,481	4,859
Transportation costs	5,284	6,025
Auditors' remuneration		
- annual audit services of the Company's auditor	1,931	—
- non-audit services of the Company's auditor	205	—
- statutory audit services of subsidiaries' auditors	315	204
Equity-settled share-based payment expenses for non-employees (note 23)	—	11,264
Listing expenses	12,727	16,716
Others	25,309	20,536
<b>Total</b>	<b>844,516</b>	<b>844,785</b>

Research and development expenses incurred during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Employee benefit expenses	5,334	5,961
Raw materials and consumables used	3,216	5,021
Depreciation charges	960	1,050
Others	2,172	2,019
<b>Total</b>	<b>11,682</b>	<b>14,051</b>

The Group had incurred total amount of HK\$ 3,749,000 in 2019 (2018: HK\$ 4,410,000) for listing services of the Company's auditor. A majority of the amounts incurred in 2019 and 2018 was charged to listing expenses in profit or loss and the remaining portion deducted from share premium account upon listing of the Company in October 2019.

Non-audit service fees totalling HK\$ 205,000 was incurred for assistance provided by the Company's auditor in connection with the Company's annual results announcement and the Company's environmental, social and governance report carried out by separate non-audit team of the Company's auditor (2018: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 9 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2019	2018
	HK\$'000	HK\$'000
Salaries, wages and bonuses	82,970	79,661
Pension, housing fund, medical insurance and other social insurance	6,618	7,083
Equity-settled share-based payment expenses (note 23)	4,146	6,303
Others	124	300
Total employee benefit expenses	93,858	93,347

## Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 include one director (2018: one), whose emoluments are disclosed in the note 33. The emoluments payable to the remaining four (2018: four) individuals during the year were as follows:

	2019	2018
	HK\$'000	HK\$'000
Salaries and bonus	4,036	3,902
Pension, housing fund, medical insurance and other benefits	57	52
Equity settled share-based payment expenses	4,146	6,303
	8,239	10,257

The emoluments of the non-director highest paid employees fell within the following bands:

	2019	2018
Within HK\$1,000,000	1	—
HK\$1,000,000 - HK\$2,000,000	1	2
HK\$2,000,000 - HK\$3,000,000	1	—
HK\$3,000,000 - HK\$4,000,000	1	2
	4	4

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**10 FINANCE COSTS - NET**

	2019 HK\$'000	2018 HK\$'000
<b>Finance income</b>		
Interest income on bank deposits	331	45
<b>Finance costs</b>		
Interest and finance charges on bank borrowings	(21,658)	(17,834)
Interest on convertible bond	(7,256)	(9,417)
Finance charges on lease liabilities	(323)	(379)
Net foreign exchange losses on financing activities	(1,056)	(1,201)
	(30,293)	(28,831)
Amounts capitalised in qualifying assets (note 15)	2,660	1,485
	(27,633)	(27,346)
<b>Finance costs - net</b>	(27,302)	(27,301)

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the interest rate applicable to the Group's borrowings for construction in process during the year ended 31 December 2019 was 6.69% (2018: 6.69%).

**11 INCOME TAX EXPENSE**

This note provides an analysis of the Group's income tax expense and shows how the income tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	2019 HK\$'000	2018 HK\$'000
Current income tax	34,058	36,347
Deferred income tax (note 28)	623	(350)
Income tax expense	34,681	35,997

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 11 INCOME TAX EXPENSE (CONTINUED)

The Group's income tax comprises:

**(i) Cayman Islands profits tax**

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands on its Cayman Islands or non-Cayman Islands income.

**(ii) BVI profits tax**

The Group's subsidiaries that are incorporated in the BVI are exempted companies and are not liable for taxation in the BVI on their BVI or non-BVI income.

**(iii) Hong Kong profits tax**

Hong Kong profits tax has been provided for at the rate of 16.5% in 2019 and 2018 on the estimated assessable profits for the year with the following concession.

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2018/19 onwards, the first HK\$2 million of assessable profits of one of the Group's companies incorporated in Hong Kong under Hong Kong profits tax during the year ended 31 December 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK\$2 million will continue to be subject to a tax rate of 16.5%.

**(iv) PRC corporate income tax ('CIT')**

Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to CIT at the rate of 25% for 2019 and 2018, except for Fujian Province Lvqi Food Colloid Company Ltd. ("Lvqi (Fujian)") which is subject to CIT at the preferential rate of 15%, and Longhai City Donghaiwan Seaweed Breeding Comprehensive Development Company Limited ("Donghaiwan") which is subject to CIT at the preferential rate of 12.5% during 2019 and 2018.

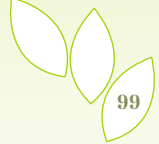
Lvqi (Fujian) obtained the qualification of certified high and new technology enterprises in 2015 and registered in the local tax bureau to apply the preferential CIT rate of 15% from 2016 to 2020.

Donghaiwan is subject to a CIT reduction of 50% granted by the local tax bureau, and the CIT rate is 12.5%, as Donghaiwan is qualified as an agricultural products enterprise during 2019 and 2018.

**(v) PRC withholding income tax**

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During 2019 and 2018, the direct holding companies of the Group's subsidiaries in the PRC are Hong Kong incorporated companies and are subject to a withholding tax rate of 5%.

The Group has undistributed earnings of HK\$366,618,000 as at 31 December 2019 (2018: HK\$259,320,000), which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the foreseeable future.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**11 INCOME TAX EXPENSE (CONTINUED)****(vi) Indonesia profits tax**

The Indonesia profits tax has been provided for at the rate of 25% (2018: 25%) on the estimated assessable profit during the year.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before income tax	128,571	129,773
Tax calculated at the applicable statutory tax rates in the respective regions	37,471	37,881
Adjustment for tax effect of:		
– Expenses not deductible for tax purpose	800	433
– Additional deduction of research and development expenses	(842)	—
– Overprovision of previous year	(951)	(305)
– Impact of preferential income tax	(2,334)	(2,591)
– Tax losses for which no deferred income tax asset was recognised	537	579
Tax charge	34,681	35,997

The weighted average applicable statutory tax rate for the year ended 31 December 2019 was 29% (2018: 29%). The effective tax rate for the year ended 31 December 2019 was 27% (2018: 28%).

Cumulative deductible losses that are not recognised as deferred income tax assets will expire as follows:

	2019 HK\$'000	2018 HK\$'000
2022	973	973
2023	2,809	2,809
2024	2,505	—
	6,287	3,782

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 12 EARNINGS PER SHARE

## (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, by the weighted average number of ordinary shares outstanding during the financial period.

	2019 HK\$	2018 HK\$
Basic earnings per share attributable to the ordinary equity holders of the Company	0.146	0.156

## (b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2019 HK\$	2018 HK\$
Diluted earnings per share attributable to the ordinary equity holders of the Company	0.140	0.156

## (c) Reconciliations of earnings used in calculating earnings per share

	2019 HK\$'000	2018 HK\$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company	93,309	93,597
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	93,309	93,597
Add: interest savings on convertible bond	—	101
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	93,309	93,698

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**12 EARNINGS PER SHARE (CONTINUED)****(d) Weighted average number of shares used as the denominator**

	2019	2018
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (i)	641,095,890	600,000,000
Adjustments for calculation of diluted earnings per share:		
Share options	25,195,962	—
Convertible bond	—	2,000,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	666,291,852	602,000,000

- (i) The weighted average number of ordinary shares has been retrospectively adjusted for the effects of capitalisation issue on 17 October 2019 (note 22).

**(e) Information concerning the classification of securities**

The conversion option of the convertible bond was exercised on 28 February 2018. For the year ended 31 December 2018, the convertible bond has been included in the determination of diluted earnings per share from the beginning of the year to the date of conversion. From the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share. Details relating to the bond are set out in note 26.

**13 DIVIDENDS**

	2019	2018
	HK\$'000	HK\$'000
Proposed final dividend of HK 5.0 cents (2018: nil) per ordinary share	40,000	—

A final dividend in respect of the year ended 31 December 2019 of HK 5.0 cents per share, amounting to a total of HK\$40,000,000, was proposed by the board of directors of the Company on 30 March 2020 and is subject to approval by the Company's shareholders in the forthcoming annual general meeting of the Company. The proposed dividend will be distributed out of the share premium account of the Company. These financial statements do not reflect this as dividend payable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 14 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid lease payments for the land of the Group in the PRC and Indonesia and their movements in net book values are analysed as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	53,972	50,475
Additions	9,087	6,927
Amortisation	(1,538)	(1,148)
Currency translation differences	(906)	(2,282)
At 31 December	60,615	53,972

The Group's land use rights are held under medium-term leases with lease term of 30 to 50 years. The land lots are situated in Quanzhou and Zhangzhou in Fujian Province and Shiyan in Hubei Province, the PRC, and Klatakan Regency of Situbondo Province of East Java, Indonesia.

As at 31 December 2019, land use rights of the Group with a total net book value of HK\$33,842,000 (2018: HK\$42,502,000), were pledged to secure borrowings of the Group as disclosed in notes 26 and 31.

### 15 PROPERTY, PLANT AND EQUIPMENT

	2019 HK\$'000	2018 HK\$'000
Property, plant and equipment (excluding right-of-use assets)	357,304	348,376
Right-of-use assets	3,930	5,922
	361,234	354,298



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### (a) Property, plant and equipment (excluding right-of-use assets)

	Buildings	Production machineries	Factory devices and equipment	Vehicles, office furniture and fixtures	Construction in progress	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2019</b>							
Cost	218,327	165,411	23,934	8,217	36,821	464	453,174
Accumulated depreciation	(40,943)	(45,986)	(12,356)	(5,351)	—	(162)	(104,798)
<b>Net book amount</b>	<b>177,384</b>	<b>119,425</b>	<b>11,578</b>	<b>2,866</b>	<b>36,821</b>	<b>302</b>	<b>348,376</b>
<b>Year ended 31 December 2019</b>							
Opening net book amount	177,384	119,425	11,578	2,866	36,821	302	348,376
Currency translation differences	(4,357)	(2,681)	(222)	(63)	(167)	(4)	(7,494)
Additions	16	5,297	719	494	41,526	—	48,052
Transfers upon completion	36,792	25,547	482	—	(62,821)	—	—
Disposals	—	—	—	(23)	—	—	(23)
Depreciation charge	(10,750)	(16,401)	(2,971)	(1,378)	—	(107)	(31,607)
<b>Closing net book amount</b>	<b>199,085</b>	<b>131,187</b>	<b>9,586</b>	<b>1,896</b>	<b>15,359</b>	<b>191</b>	<b>357,304</b>
<b>At 31 December 2019</b>							
Cost	249,711	193,443	24,591	9,187	15,359	459	492,750
Accumulated depreciation	(50,626)	(62,256)	(15,005)	(7,291)	—	(268)	(135,446)
<b>Net book amount</b>	<b>199,085</b>	<b>131,187</b>	<b>9,586</b>	<b>1,896</b>	<b>15,359</b>	<b>191</b>	<b>357,304</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## (a) Property, plant and equipment (excluding right-of-use assets) (Continued)

	Buildings	Production machineries	Factory devices and equipment	Vehicles, office furniture and fixtures	Construction in progress	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2018</b>							
Cost	221,749	162,343	23,618	8,433	6,981	477	423,601
Accumulated depreciation	(32,045)	(32,615)	(9,779)	(4,353)	—	(57)	(78,849)
<b>Net book amount</b>	<b>189,704</b>	<b>129,728</b>	<b>13,839</b>	<b>4,080</b>	<b>6,981</b>	<b>420</b>	<b>344,752</b>
<b>Year ended 31 December 2018</b>							
Opening net book amount	189,704	129,728	13,839	4,080	6,981	420	344,752
Currency translation differences	(8,627)	(5,798)	(282)	(450)	(1,487)	(9)	(16,653)
Additions	865	3,846	1,327	345	44,922	—	51,305
Transfers upon completion	6,170	7,168	212	45	(13,595)	—	—
Disposals	—	(91)	(49)	(150)	—	—	(290)
Depreciation charge	(10,728)	(15,428)	(3,469)	(1,004)	—	(109)	(30,738)
<b>Closing net book amount</b>	<b>177,384</b>	<b>119,425</b>	<b>11,578</b>	<b>2,866</b>	<b>36,821</b>	<b>302</b>	<b>348,376</b>
<b>At 31 December 2018</b>							
Cost	218,327	165,411	23,934	8,217	36,821	464	453,174
Accumulated depreciation	(40,943)	(45,986)	(12,356)	(5,351)	—	(162)	(104,798)
<b>Net book amount</b>	<b>177,384</b>	<b>119,425</b>	<b>11,578</b>	<b>2,866</b>	<b>36,821</b>	<b>302</b>	<b>348,376</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### (b) Right-of-use assets

	Buildings HK\$'000	Vehicles HK\$'000	Total HK\$'000
<b>At 1 January 2019</b>			
Cost	9,105	—	9,105
Accumulated depreciation	(3,183)	—	(3,183)
Net book amount	5,922	—	5,922
<b>Year ended 31 December 2019</b>			
Opening net book amount	5,922	—	5,922
Currency translation differences	(82)	—	(82)
Depreciation charge	(1,910)	—	(1,910)
<b>Closing net book amount</b>	<b>3,930</b>	<b>—</b>	<b>3,930</b>
<b>At 31 December 2019</b>			
Cost	8,967	—	8,967
Accumulated depreciation	(5,037)	—	(5,037)
Net book amount	3,930	—	3,930
<b>At 1 January 2018</b>			
Cost	7,092	769	7,861
Accumulated depreciation	(1,383)	(534)	(1,917)
Net book amount	5,709	235	5,944
<b>Year ended 31 December 2018</b>			
Opening net book amount	5,709	235	5,944
Currency translation differences	(205)	(2)	(207)
Additions	2,295	—	2,295
Depreciation charge	(1,877)	(233)	(2,110)
<b>Closing net book amount</b>	<b>5,922</b>	<b>—</b>	<b>5,922</b>
<b>At 31 December 2018</b>			
Cost	9,105	734	9,839
Accumulated depreciation	(3,183)	(734)	(3,917)
Net book amount	5,922	—	5,922

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## (c) Other disclosures

- (i) As at 31 December 2019, property, plant and machinery of the Group, including those held under leases (note 26), with a total net book value of HK\$51,225,000 (2018: HK\$55,985,000), were pledged as security for borrowings of the Group as disclosed in notes 26 and 31.
- (ii) During the year, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses and administrative expenses are as follows:

	2019 HK\$'000	2018 HK\$'000
Depreciation of property, plant and equipment (including right-of-use assets)		
– Cost of sales	27,309	26,517
– Selling and distribution expenses	24	21
– Administrative expenses	6,184	6,310
	<b>33,517</b>	32,848

- (iii) During the year ended 31 December 2019, the Group capitalised interest on borrowings amounting to approximately HK\$2,660,000 (2018: HK\$1,485,000) on qualifying assets (note 10). Borrowing costs were capitalised at the weighted average rate of 6.69% per annum for the year ended 31 December 2019 (2018: 6.69%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 16 INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademarks and licences HK\$'000	Patents HK\$'000	Relationship with customers HK\$'000	Sea use rights HK\$'000	Discharge rights HK\$'000	Total HK\$'000
<b>At 1 January 2019</b>							
Cost	26,806	1,142	12,255	14,655	411	17,098	72,367
Accumulated amortisation	—	(609)	(3,329)	(4,718)	(261)	(3,420)	(12,337)
<b>Net book amount</b>	<b>26,806</b>	<b>533</b>	<b>8,926</b>	<b>9,937</b>	<b>150</b>	<b>13,678</b>	<b>60,030</b>
<b>Year ended 31 December 2019</b>							
Opening net book amount	26,806	533	8,926	9,937	150	13,678	60,030
Currency translation differences	(587)	(11)	(257)	(322)	(2)	(240)	(1,419)
Amortisation charge (note 8)	—	(66)	(1,424)	(1,138)	(59)	(3,404)	(6,091)
<b>Closing net book amount</b>	<b>26,219</b>	<b>456</b>	<b>7,245</b>	<b>8,477</b>	<b>89</b>	<b>10,034</b>	<b>52,520</b>
<b>At 31 December 2019</b>							
Cost	26,219	1,118	11,987	14,334	383	16,723	70,764
Accumulated amortisation	—	(662)	(4,742)	(5,857)	(294)	(6,689)	(18,244)
<b>Net book amount</b>	<b>26,219</b>	<b>456</b>	<b>7,245</b>	<b>8,477</b>	<b>89</b>	<b>10,034</b>	<b>52,520</b>
<b>At 1 January 2018</b>							
Cost	28,095	1,124	12,711	15,129	423	—	57,482
Accumulated amortisation	—	(384)	(2,127)	(3,672)	(163)	—	(6,346)
<b>Net book amount</b>	<b>28,095</b>	<b>740</b>	<b>10,584</b>	<b>11,457</b>	<b>260</b>	<b>—</b>	<b>51,136</b>
<b>Year ended 31 December 2018</b>							
Opening net book amount	28,095	740	10,584	11,457	260	—	51,136
Currency translation differences	(1,289)	(30)	(598)	(759)	(29)	(528)	(3,233)
Additions	—	104	—	—	—	17,758	17,862
Amortisation charge (note 8)	—	(281)	(1,060)	(761)	(81)	(3,552)	(5,735)
<b>Closing net book amount</b>	<b>26,806</b>	<b>533</b>	<b>8,926</b>	<b>9,937</b>	<b>150</b>	<b>13,678</b>	<b>60,030</b>
<b>At 31 December 2018</b>							
Cost	26,806	1,142	12,255	14,655	411	17,098	72,367
Accumulated amortisation	—	(609)	(3,329)	(4,718)	(261)	(3,420)	(12,337)
<b>Net book amount</b>	<b>26,806</b>	<b>533</b>	<b>8,926</b>	<b>9,937</b>	<b>150</b>	<b>13,678</b>	<b>60,030</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 16 INTANGIBLE ASSETS (CONTINUED)

During the year ended 31 December 2019, the amounts of amortisation expenses charged to cost of sales and administrative expenses are as follows:

	2019 HK\$'000	2018 HK\$'000
Amortisation of intangible assets		
– Cost of sales	3,419	3,286
– Administrative expenses	2,672	2,449
	<b>6,091</b>	5,735

## (a) Trademarks and licences, patents and relationship with customers

The intangible assets of trademarks and licences, patents and relationship with customers were recognised upon the acquisition of Lvqi (Fujian) as part of the business combination of the Controlling Shareholders back in November 2012. The intangible assets were recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis over the respective useful lives of the assets.

## (b) Impairment test for goodwill

Goodwill was derived from the acquisition of Lvqi (Fujian) in November 2012.

The Company has performed an impairment review of the carrying amount of goodwill as at 31 December 2019 and 2018 and have concluded that no provision for impairment is required.

For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified, which is Lvqi (Fujian) in the segment of manufacturing and sales of agar-agar. The recoverable amount of the CGU is determined based on value-in-use calculations. The calculation of recoverable amount of the CGU uses cash flow projections based on the financial estimates made by the Company, with reference to the prevailing market conditions, covering a period of five years and based on the following key assumptions.

	2019	2018
Revenue annual growth rate		
– average of the forecast period	6.5%	11.2%
Average gross profit margins	31.6%	32.2%
Annual average capex expenditure (RMB'M)	0.8	4.5
Long term annual growth rate	3.0%	3%
Pre-tax discount rate	14.8%	17.6%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 17 PREPAYMENTS FOR NON-CURRENT ASSETS

The Group made prepayments for purchase of land use rights, property, plant and equipment and intangible assets. The prepayments will be transferred to the relevant assets when the relevant title documents are obtained or when the assets are in use, whichever is the earlier.

### 18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	2019 HK\$'000	2018 HK\$'000
(i) Financial assets at amortised cost		
Trade and other receivables excluding prepayments, deferred listing expenses, deductible value-added tax and export tax rebate receivable (note 20)	186,690	173,388
Cash and bank balances (note 21)	186,172	55,855
	<b>372,862</b>	229,243
(ii) Financial liabilities at amortised cost		
Convertible bond - host debt component (note 26(a))	29,547	52,644
Bank borrowings (note 26(b))	344,155	316,950
Lease liabilities (note 26(c))	4,168	5,996
Trade and other payables excluding non-financial liabilities (note 25)	70,606	76,692
	<b>448,476</b>	452,282

### 19 INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	105,595	58,344
Finished goods	216,833	134,868
	<b>322,428</b>	193,212

The costs of individual items of inventories are determined using weighted average costs at the end of the month. See note 2.12 for the Group's accounting policies for inventories.

During the year ended 31 December 2019, the cost of inventories recognised as expense and included in 'cost of sales', 'selling and distribution expenses' and 'administrative expenses' amounted to HK\$626,897,000 (2018: HK\$618,837,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 20 TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	183,806	173,917
Loss allowance provision	(617)	(1,616)
	<b>183,189</b>	172,301
Prepayments	17,644	6,320
Export tax rebates receivable and deductible value-added tax	12,965	6,222
Other receivables	3,501	1,087
Deferred listing expenses	—	7,168
	<b>34,110</b>	20,797
Total trade and other receivables	<b>217,299</b>	193,098

## (i) Ageing analysis of trade receivables

The ageing analysis of the trade receivables as at the 31 December 2019 based on invoice date was as follows:

	2019 HK\$'000	2018 HK\$'000
Up to 30 days	142,678	105,588
31 to 90 days	33,304	50,437
91 to 180 days	3,259	16,236
181 to 360 days	2,179	1,348
Over one year	2,386	308
	<b>183,806</b>	173,917



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**20 TRADE AND OTHER RECEIVABLES (CONTINUED)****(ii) Impairment of trade receivables**

For trade receivables, the Group applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the consumer price index of China in which it sells its goods and services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The loss allowance provision of trade receivables as at 31 December 2019 is as follows:

	Settled in 3 months HK\$'000	Settled in 4-6 months HK\$'000	Settled in 7-9 months HK\$'000	Settled in 10-12 months HK\$'000	Settled over 1 year HK\$'000	Total HK\$'000
<b>At 31 December 2019</b>						
Expected loss rate	0.01%	0.04%	4.48%	8.37%	9.56%	
Gross carrying amount excluding individually impaired receivables and notes receivables	168,515	2,533	1,772	407	2,101	175,328
Loss allowance provision	17	1	79	34	201	332
Individually impaired receivables						285
Total provision						617
<b>At 31 December 2018</b>						
Expected loss rate	0.21%	0.54%	65.28%	100.00%	100.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables	154,029	16,236	1,302	46	17	171,630
Loss allowance provision	323	88	850	46	17	1,324
Individually impaired receivables						292
Total provision						1,616

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 20 TRADE AND OTHER RECEIVABLES (CONTINUED)

## (ii) Impairment of trade receivables (Continued)

The significant decrease in expected loss rate in 2019 was due to the decrease in corresponding historical credit losses experienced within the 36 months before balance sheet date.

Impairment losses are recognised in profit or loss within net impairment (losses)/gains on financial assets. Receivables for which an impairment provision was recognised are written off against the provision when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 36 months.

As at 31 December 2019, the loss allowance provision for trade receivables are reconciled to the opening loss allowance for that provision as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	(1,616)	(3,796)
Reversal of/(increase in) loss allowance recognised in profit or loss during the year	992	(668)
Written-off of uncollectible receivables	—	2,874
Currency translation differences	7	(26)
At 31 December	(617)	(1,616)

During the year ended 31 December 2019, the following gains/(losses) were recognised in profit or loss in relation to impaired receivables.

	2019 HK\$'000	2018 HK\$'000
Individually impaired receivables	—	(339)
Reversal of provision/(provision) for impairment according to the expected credit losses matrix	992	(329)
Net impairment gains/(losses)	992	(668)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**20 TRADE AND OTHER RECEIVABLES (CONTINUED)****(iii) Impairment of other financial assets at amortised cost**

Other financial assets at amortised cost include deposits receivable and other receivables.

All of these financial assets are considered to have a low risk of default and each of the counterparties has a strong capacity to meet its contractual cash flow obligations in the near term, hence the Group considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

The Group has assessed that the expected credit losses for these financial assets are not material under the 12 months expected losses method. Thus, no loss allowance provision was recognised during the year (2018: nil). The Group does not hold any collateral in relation to these other receivables.

**(iv) Fair values of trade and other receivables**

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

The carrying amounts of the Group's trade and other receivables (including prepayments) are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
USD	76,850	48,961
RMB	139,942	143,093
HK\$	507	—
Other currencies	—	1,044
	<b>217,299</b>	<b>193,098</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 21 CASH AND BANK BALANCES

	2019 HK\$'000	2018 HK\$'000
Cash and cash equivalents		
– Cash on hand	191	133
– Cash in banks	120,981	55,722
Restricted cash - Cash in banks	65,000	—
Total of cash and bank balances	186,172	55,855

The restricted cash are deposits held at bank as deposit for letter of guarantee and pledged for bank borrowings of the Group.

The cash and cash equivalents are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
RMB	27,429	20,975
USD	22,128	33,448
HK\$	135,612	1,428
EUR and others	1,003	4
	186,172	55,855

The restricted cash are denominated in HK\$.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**22 SHARE CAPITAL**

	Number of shares	Share capital HK\$'000
<b>Authorised:</b>		
At January 2018	3,900,000	390
Share split on 5 August 2018	35,100,000	—
At 31 December 2018	39,000,000	390
Increase on 25 September 2019	49,961,000,000	499,610
At 31 December 2019	50,000,000,000	500,000
<b>Issued:</b>		
At 1 January 2018	400	—
Issue of shares to Controlling Shareholders	54,480	5
Exercise of convertible option of convertible bond	1,120	1
Share split on 5 August 2018	504,000	—
At 31 December 2018	560,000	6
Capitalisation issue	599,440,000	5,994
New shares issued pursuant to the initial public offering	200,000,000	2,000
At 31 December 2019	800,000,000	8,000

**Authorised share capital**

The Company was incorporated on 3 July 2015 in the Cayman Islands with an initial authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On 5 August 2018, each share of the Company was divided into 10 shares and the par value became HK\$0.01. On 25 September 2019, the authorised share capital of the Company was increased to HK\$500,000,000 divided into 50,000,000,000 shares of HK\$0.01 par value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 22 SHARE CAPITAL (CONTINUED)

#### Issued share capital

From the date of incorporation on 3 July 2015 to 1 January 2018, the share capital of the Company was HK\$40 divided into 400 shares of HK\$0.10 each.

On 26 February 2018, the Company allotted and issued an aggregate of 54,480 shares at par value to the Controlling Shareholders.

On 28 February 2018, the convertible bond holder converted a portion of the bond to ordinary shares of 1,120 shares at par value of HK\$0.10 each.

On 5 August 2018, each share of the Company was divided into 10 shares and the par value became HK\$0.01.

On 17 October 2019, the Company capitalised an amount of HK\$5,994,000 standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par a total of 599,440,000 shares for allotment and issue to the Controlling Shareholders and other persons whose names appear on the register of members of the Company on 25 September 2019 in proportion to their then shareholdings.

On 17 October 2019, the Company issued a total of 200,000,000 ordinary shares of HK\$0.01 par value at HK\$1.16 each pursuant to the initial public offering of the Company's shares for listing on the Hong Kong Stocks Exchange, of which HK\$2,000,000 was credited to share capital of the Company and the remaining proceeds, net of attributable transaction costs, amounted to HK\$206,994,000 was credited to share premium account of the Company.

### 23 EQUITY-SETTLED SHARE-BASED PAYMENT

On 26 February 2018, the Controlling Shareholders of the Company transferred 2,044, 364 and 728, totalling 3,136 of their shares in the Company to (i) three employees of the Group, (ii) a former non-controlling shareholder of a subsidiary of the Group (the "former NCI") and (iii) their personal consultant (the "consultant"), respectively. For the three employees, the vesting period begins from the issuance date and ends 5 years from the earlier of the Listing Date or 1 January 2019. No vesting period was required for shares transferred to the former NCI and the consultant. On 4 August 2018, the three employees, the former NCI, and the consultant transferred all the 3,136 shares that were granted to them on 26 February 2018 back to the Controlling Shareholders for the purpose of participating in a pre-IPO share option scheme.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 23 EQUITY-SETTLED SHARE-BASED PAYMENT (CONTINUED)

On 5 August 2018, the then sole director of the Company approved a pre-IPO share option scheme. On 9 August 2018, the Company granted pre-IPO share options to the three employees, the former NCI and the consultant. The total percentage of shareholding entitled by the share options granted remained majority the same as the total shareholding of the shares transferred by the Controlling Shareholders to the five individuals on 26 February 2018 (the "February Share Transfers"), and the vesting period requirements for the pre-IPO share options remain fairly the same as those for the February Share Transfers, with the vesting period for employees adjusted to begin with the Listing Date and lasts for 5 years which is not materially different from the vesting period requirement in the February Share Transfer. The grant of these pre-IPO share options was regarded as a modification of the February Share Transfers and there was no material changes in fair value of the options granted and the fair value of the February Share Transfer.

The total amounts of the fair value of shares transferred, and subsequently the share options granted, to the three employees are expensed over the vesting period of 5 years and recorded in 'employee benefit expenses', and those to the former NCI and the consultant are expensed to 'administrative expenses', in the consolidated statement of profit or loss. The equity-settled share-based payment expenses charged to the consolidated statement of profit or loss are as follows:

	2019 HK\$'000	2018 HK\$'000
Employee benefit expenses (note 9)	4,146	6,303
Administrative expenses (note 8)	—	11,264
	<b>4,146</b>	<b>17,567</b>

As at 31 December 2019, the remaining unamortised fair value of shares/options transferred to the three employees amounted to approximately HK\$10,635,000 which will be charged to the consolidated statement of profit or loss in the future.

The following assumptions were used to calculate the fair values of the shares transferred by using income approach – expected cash flow discount method:

	26 February 2018
Long term annual growth rate	3%
Weighted-average cost of capital	18%

Weighted-average cost of capital is determined with reference to a set of comparable companies in the industry.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 23 EQUITY-SETTLED SHARE-BASED PAYMENT (CONTINUED)

Movements in the number of the options outstanding are as follows:

	2019	2018
As at 1 January	31,360	—
Granted during the year	—	31,360
Increase due to capitalisation issue and the initial public offering of the Company	34,088,640	—
	<b>34,120,000</b>	31,360

Share options outstanding at the end of the year have the following exercise period and exercise prices:

	Date of grant	Number of share options granted		Vesting period and maximum % of exercisable share options	Exercise period	Exercise price
		2019	2018			
Options granted to the three employees	9 August 2018	22,160,000	20,440	20% each year starting from 17 October 2019	17 October 2019 to 16 October 2024. All unexercised share options after the relevant exercise periods or upon resignation will lapse.	HK\$0.01
Options granted to the former NCI and the consultant	9 August 2018	11,960,000	10,920	100% from 17 April 2020	17 April 2020 to 16 April 2025	HK\$0.01
		<b>34,120,000</b>	31,360			



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 24 OTHER RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Currency translation differences HK\$'000	Total HK\$'000
<b>At 1 January 2019</b>	<b>130,030</b>	<b>(39,509)</b>	<b>56,572</b>	<b>27,287</b>	<b>(11,994)</b>	<b>162,386</b>
Currency translation differences	—	—	—	—	(11,625)	(11,625)
Capitalisation of shares (note 22)	(5,994)	—	—	—	—	(5,994)
New shares issued pursuant to initial public offering (note 22)	<b>206,994</b>	—	—	—	—	<b>206,994</b>
Equity-settled share-based payment (note 23)	—	—	<b>4,146</b>	—	—	<b>4,146</b>
Profit appropriation to statutory reserves	—	—	—	<b>10,884</b>	—	<b>10,884</b>
<b>At 31 December 2019</b>	<b>331,030</b>	<b>(39,509)</b>	<b>60,718</b>	<b>38,171</b>	<b>(23,619)</b>	<b>366,791</b>
<b>At 1 January 2018</b>	<b>115,539</b>	<b>(39,509)</b>	<b>39,005</b>	<b>18,587</b>	<b>13,632</b>	<b>147,254</b>
Currency translation differences	—	—	—	—	(25,626)	(25,626)
Conversion of the convertible bond (note 26(a))	14,491	—	—	—	—	14,491
Equity-settled share-based payment (note 23)	—	—	<b>17,567</b>	—	—	<b>17,567</b>
Profit appropriation to statutory reserves	—	—	—	<b>8,700</b>	—	<b>8,700</b>
<b>At 31 December 2018</b>	<b>130,030</b>	<b>(39,509)</b>	<b>56,572</b>	<b>27,287</b>	<b>(11,994)</b>	<b>162,386</b>

#### Statutory reserves

Pursuant to the Company Law of the PRC and the articles of association of PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous years' losses) to statutory surplus reserve until the fund aggregates to 50% of their respective registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the respective company. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of the registered capital.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 25 TRADE AND OTHER PAYABLES

	2019	2018
	HK\$'000	HK\$'000
Trade payables	48,947	60,128
Payables for property, plant and equipment	10,717	6,837
Employee benefit payables	9,270	12,604
Payables for listing expenses	4,888	7,768
Advance receipts from customers	2,461	1,436
Other taxes payable	1,910	3,058
Amounts due to related parties (note 32)	99	102
Others	5,955	1,857
	<b>84,247</b>	<b>93,790</b>

Trade payables are usually paid within 90 days of recognition.

The ageing analysis of trade payables as at 31 December 2019 based on invoice date was follows:

	2019	2018
	HK\$'000	HK\$'000
0-90 days	48,637	59,343
91-180 days	310	781
181-360 days	—	4
	<b>48,947</b>	<b>60,128</b>

The carrying amounts of trade and other payables are considered to be the same as their fair values due to their short-term nature.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2019	2018
	HK\$'000	HK\$'000
RMB	39,478	43,712
USD	42,869	49,818
HK\$	1,900	260
	<b>84,247</b>	<b>93,790</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 26 CONVERTIBLE BOND, BANK BORROWINGS AND LEASE LIABILITIES

	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond, unsecured (a)						
– host debt component	29,547	—	29,547	—	52,644	52,644
Bank borrowings (b)						
– secured	72,336	59,276	131,612	86,739	62,543	149,282
– unsecured	212,543	—	212,543	166,631	1,037	167,668
	284,879	59,276	344,155	253,370	63,580	316,950
Lease liabilities (c)						
– unsecured	1,427	2,741	4,168	1,848	4,148	5,996
Total borrowings	315,853	62,017	377,870	255,218	120,372	375,590
Total secured borrowings	72,336	59,276	131,612	86,739	62,543	149,282
Total unsecured borrowings	243,517	2,741	246,258	168,479	57,829	226,308
Total borrowings	315,853	62,017	377,870	255,218	120,372	375,590

#### (a) Convertible bond

The Company issued a convertible bond for HK\$60 million on 20 November 2017. The bond is convertible into ordinary shares of the Company for a maximum of 2% shareholding of the Company at the conversion price as agreed, at the option of the holder, and the remaining balance will be repayable on 20 November 2019. The conversion price shall be calculated based on the unaudited consolidated net tangible assets of the Company as at 30 June 2017, divided by the number of total issued shares as at the date of the subscription or such other date as agreed by the Company and the convertible bond holder. At 28 February 2018, the convertible bondholder converted a portion of the bond amounting to HK\$4,821,000 for 1,120 ordinary shares of the Company at par value of HK\$0.10, representing 2% shareholding of the Company at the date of conversion. The conversion option had been fully exercised on 28 February 2018.

On 28 December 2018, the Company signed an amendment agreement with the convertible bondholder to extend the expiry date of the repayment of the remaining bond balance to 15 July 2020 and the interest rate was adjusted to 13% per annum for the period from 21 November 2019 to 15 July 2020.

On 21 November 2019, the Company repaid HK\$25 million of the bond.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 26 CONVERTIBLE BOND, BANK BORROWINGS AND LEASE LIABILITIES (CONTINUED)

## (a) Convertible bond (Continued)

The movements of the convertible bond for the year are set out below:

	2019 HK\$'000	2018 HK\$'000
<i>Host debt component:</i>		
At 1 January	52,644	50,080
Conversion of the convertible bond	—	(4,055)
Repayment of convertible bond	(25,000)	—
Interest expense	7,256	9,417
Interest payment	(5,353)	(2,798)
At 31 December	29,547	52,644
<i>Derivative component:</i>		
At 1 January	—	10,437
Conversion of the convertible bond	—	(10,437)
At 31 December	—	—

## (b) Bank borrowings

The bank borrowings of the Group as at 31 December 2019 and 2018 were secured by the pledge of the Group's land use rights, buildings and restricted cash (note 31). The bank borrowings of the Group as at 31 December 2019 and 2018 were also supported by the guarantees from related parties (note 32(a)(iii)).

For the year ended 31 December 2019, the weighted average effective interest rates on bank borrowings were 5.51% (2018: 5.41%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**26 CONVERTIBLE BOND, BANK BORROWINGS AND LEASE LIABILITIES (CONTINUED)****(c) Lease liabilities**

Lease liabilities of the Group were related to buildings and vehicles of the Group.

	2019 HK\$'000	2018 HK\$'000
Minimum lease payments:		
Within one year	1,594	2,069
Later than 1 year and no later than 5 years	2,891	4,295
Over 5 years	265	551
	4,750	6,915
Future finance charges	(582)	(919)
<b>Total lease liabilities</b>	<b>4,168</b>	5,996
Payable:		
Within one year	1,427	1,848
Over one year	2,741	4,148
<b>Total lease liabilities</b>	<b>4,168</b>	5,996

**(d) Other disclosures****(i) Fair value**

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The fair value of the host debt portion of the convertible bond approximated its carrying amount as at 31 December 2019.

**(ii) Risk exposures**

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 26 CONVERTIBLE BOND, BANK BORROWINGS AND LEASE LIABILITIES (CONTINUED)

## (d) Other disclosures (Continued)

## (iii) Repayment periods

At 31 December 2019, the Group's convertible bond, bank borrowings and lease liabilities were repayable as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 year	315,853	255,218
Between 1 and 2 years	57,099	60,063
Between 2 and 5 years	4,662	59,796
Over 5 years	256	513
	<b>377,870</b>	375,590

## (iv) Denomination currency

The carrying amounts of the Group's convertible bond, bank borrowings and lease liabilities were denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
USD	93,359	76,304
RMB	249,489	240,124
HK\$	35,022	59,162
	<b>377,870</b>	375,590

## (v) Undrawn borrowing facilities

The Group had the following undrawn borrowing facilities:

	2019 HK\$'000	2018 HK\$'000
Bank borrowings, at floating rates		
– Expiring within one year	164,054	75,816

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**27 DEFERRED INCOME**

	2019 HK\$'000	2018 HK\$'000
Deferred income on government grants	28,799	32,861

Government grants were received from the local government as subsidies to the Group's purchase of property, plant and equipment. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above deferred income during the year were as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	32,861	38,030
Released to other income (note 6)	(3,401)	(3,553)
Currency translation differences	(661)	(1,616)
At 31 December	28,799	32,861

**28 DEFERRED INCOME TAX**

	2019 HK\$'000	2018 HK\$'000
Deferred income tax assets	9,915	11,177
Deferred income tax liabilities	(1,793)	(2,406)
	8,122	8,771

**(a) Deferred income tax assets**

	2019 HK\$'000	2018 HK\$'000
The balance comprises temporary differences attributable to:		
Deferred income (note 27)	5,868	6,700
Share-based payment expenses	1,927	1,187
Provision of loss allowance (note 20)	1,041	978
Accrued employee benefits	600	1,384
Unrealised profit of intra-group sales	479	928
	9,915	11,177

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 28 DEFERRED INCOME TAX (CONTINUED)

## (a) Deferred income tax assets (Continued)

The movements in deferred income tax assets are as follows:

	Deferred income HK\$'000	Share- based payment expenses HK\$'000	Provision of loss allowance HK\$'000	Accrued employee benefits HK\$'000	Unrealised profit HK\$'000	Total HK\$'000
At 1 January 2019	6,700	1,187	978	1,384	928	11,177
Credited/(charged) to the statement of profit or loss	(697)	740	83	(767)	(449)	(1,090)
Currency translation differences	(135)	—	(20)	(17)	—	(172)
At 31 December 2019	5,868	1,927	1,041	600	479	9,915
At 1 January 2018	7,758	—	951	1,744	875	11,328
Credited/(charged) to the statement of profit or loss	(728)	1,187	76	(291)	(166)	78
Currency translation differences	(330)	—	(49)	(69)	219	(229)
At 31 December 2018	6,700	1,187	978	1,384	928	11,177

## (b) Deferred income tax liabilities

	2019 HK\$'000	2018 HK\$'000
The balance comprises temporary differences attributable to:		
Land use rights	(66)	(71)
Property, plant and equipment	(141)	(226)
Intangible assets	(1,586)	(2,109)
	(1,793)	(2,406)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 28 DEFERRED INCOME TAX (CONTINUED)

#### (b) Deferred income tax liabilities (Continued)

The movements in deferred income tax liabilities are as follows:

	Land use rights HK\$'000	Property, plant and equipment HK\$'000	Intangible Assets HK\$'000	Total HK\$'000
At 1 January 2019	(71)	(226)	(2,109)	(2,406)
Credited to the statement of profit or loss	2	69	396	467
Currency translation differences	3	16	127	146
At 31 December 2019	(66)	(141)	(1,586)	(1,793)
At 1 January 2018	(83)	(360)	(2,714)	(3,157)
Credited to the statement of profit or loss	2	90	180	272
Currency translation differences	11	44	424	479
At 31 December 2018	(71)	(226)	(2,109)	(2,406)

### 29 CASH FLOW INFORMATION

#### (a) Cash generated from operations

	2019 HK\$'000	2018 HK\$'000
Profit before income tax	128,571	129,773
Adjustments for		
– Amortisation of land use rights (note 14)	1,538	1,148
– Depreciation of property, plant and equipment (note 15)	33,517	32,848
– Amortisation of intangible assets (note 16)	6,091	5,735
– (Reversal of provision)/provision of loss allowance (note 20)	(992)	668
– Equity-settled share-based payment expenses (notes 8 and 9)	4,146	17,567
– Finance costs - net	18,112	14,729
– Amortisation of deferred income (note 6)	(3,401)	(3,553)
– Foreign exchange gains on operating activities	(2,831)	(4,350)
– Losses on disposal of property, plant and equipment	3	36
Changes in working capital:		
– Inventories	(129,216)	(34,556)
– Trade and other receivables	(23,208)	(64,946)
– Trade and other payables	(13,303)	(21,244)
Cash generated from operations	19,027	73,855

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 29 CASH FLOW INFORMATION (CONTINUED)

## (b) Non-cash financing activities

	2019 HK\$'000	2018 HK\$'000
Capitalisation of shares	5,994	—
Conversion of the convertible bond	—	14,492

## (c) Total debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2019 HK\$'000	2018 HK\$'000
<b>Net debt</b>		
Convertible bond	(29,547)	(52,644)
Bank borrowings – repayable within one year	(284,879)	(253,370)
Bank borrowings – repayable after one year	(59,276)	(63,580)
Lease liabilities – repayable within one year	(1,427)	(1,848)
Lease liabilities – repayable after one year	(2,741)	(4,148)
Amounts due to related parties	—	(102)
Total debt	(377,870)	(375,692)
Cash and bank balances	186,172	55,855
Net debt	(191,698)	(319,837)
Gross debt – fixed interest rates	(137,530)	(63,061)
Gross debt – variable interest rates	(210,793)	(259,885)
Convertible bond	(29,547)	(52,644)
Amounts due to related parties	—	(102)
Total debt	(377,870)	(375,692)
Cash and bank balances	186,172	55,855
Net debt	(191,698)	(319,837)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 29 CASH FLOW INFORMATION (CONTINUED)

#### (c) Total debt reconciliation (Continued)

##### Liabilities from financing activities

	Convertible bond due after 1 year HK\$'000	Bank borrowings due within 1 year HK\$'000	Bank borrowings due after 1 year HK\$'000	Lease liabilities due within 1 year HK\$'000	Lease liabilities due after 1 year HK\$'000	Amounts due to related parties HK\$'000	Total HK\$'000
Total debt as at 1 January 2019	(52,644)	(253,370)	(63,580)	(1,848)	(4,148)	(102)	(375,692)
Cash flows - principal	25,000	(34,425)	2,968	2,064	—	102	(4,291)
Cash flows - interest	5,353	—	—	—	—	—	5,353
Foreign exchange adjustments	—	8,142	(3,890)	21	66	—	4,339
Other non-cash movements	(7,256)	(5,226)	5,226	(1,664)	1,341	—	(7,579)
Total debt as at 31 December 2019	(29,547)	(284,879)	(59,276)	(1,427)	(2,741)	—	(377,870)
Total debt as at 1 January 2018	(60,517)	(193,898)	(53,834)	(1,654)	(4,250)	(12,273)	(326,426)
Cash flows - principal	—	(5,002)	(75,258)	2,360	—	12,483	(65,417)
Cash flows - interest	2,798	—	—	—	—	—	2,798
Foreign exchange adjustments	—	9,083	1,959	33	167	111	11,353
Other non-cash movements	5,075	(63,553)	63,553	(2,587)	(65)	(423)	2,000
Total debt as at 31 December 2018	(52,644)	(253,370)	(63,580)	(1,848)	(4,148)	(102)	(375,692)

### 30 COMMITMENTS

#### Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is set out below:

	2019 HK\$'000	2018 HK\$'000
Contracted but not recognised as liabilities:		
Property, plant and equipment	1,861	23,226

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 31 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for borrowings are:

	2019 HK\$'000	2018 HK\$'000
Land use rights (note 14)	33,842	42,502
Buildings (note 15)	51,225	55,985
Restricted cash (note 21)	65,000	—
<b>Total assets pledged as security</b>	<b>150,067</b>	<b>98,487</b>

### 32 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and significant balances arising from related party transactions as at the end of the reporting period.

#### (a) Transactions with related parties

	2019 HK\$'000	2018 HK\$'000
(i) Rental expenses		
– Mr. Guo Dongxu	398	423

On 15 December 2017, the Group's subsidiaries in PRC entered into lease agreements to lease office premises from Mr. Guo Dongxu during 1 January 2018 to 31 December 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 32 RELATED PARTY TRANSACTIONS (CONTINUED)

#### (a) Transactions with related parties (Continued)

	2019 HK\$'000	2018 HK\$'000
(ii) Amounts received from and repaid to related parties		
<i>Received from:</i>		
–Mr. Chan Kam Chung	—	457
–Mr. Guo Dongxu	—	23
Total	—	480
<i>Repaid to:</i>		
–Mr. Chan Kam Chung	—	8,807
–Mr. Chan Shui Yip	—	2,779
–Mr. Guo Dongxu	398	1,377
Total	398	12,963
Net repaid	(398)	(12,483)
(iii) Guarantees provided by related parties to the Group's bank borrowings		
–Mr. Chan Kam Chung	63,000	140,082
–Mr. Chan Shui Yip	—	77,082
The bank borrowings of the Group as at 31 December 2019 amounting to HK\$10.9 million (2018: HK\$81.4 million) (note 26) were covered by guarantees provided by the above related parties.		
(iv) Key management compensation		
Salaries and bonus	7,819	7,914
Other benefits	134	211
Share-based payment expenses	4,146	6,303
	12,099	14,428

Key management includes directors (executive and non-executive), executive officers and the Company Secretary. The above were compensations paid or payable to key management for employee services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

## (b) Balances with related parties

	2019 HK\$'000	2018 HK\$'000
Amounts due to related parties:		
– Mr. Guo Dongxu	99	102

The amounts due to related parties were unsecured, non-interest bearing and repayable on demand.

## 33 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of each director of the Company paid/payable by the Group for the year ended 31 December 2019 is set out as follows:

Name of directors	Other				Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Bonus HK\$'000	benefits HK\$'000	
Year ended 31 December 2019					
Chairman:					
Mr. Chan Kam Chung	—	1,000	—	18	1,018
Executive directors:					
Mr. Chan Shui Yip	—	799	—	18	817
Mr. Guo Dongxu	—	750	—	10	760
Mr. She Xiaoying	—	156	—	11	167
Non-executive directors:					
Mr. Hu Guohua	—	180	—	—	180
Mr. Ho Kwai Ching, Mark	—	180	—	—	180
Mr. Ng Man Kung	—	180	—	—	180
Mr. Guo Songsen	—	141	—	—	141
	—	3,386	—	57	3,443

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

**33 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)**

Name of directors	Fees	Salaries	Bonus	Other	Total
	HK\$'000	HK\$'000	HK\$'000	benefits HK\$'000	HK\$'000
Year ended 31 December 2018					
Chairman:					
Mr. Chan Kam Chung	—	1,000	—	18	1,018
Executive directors:					
Mr. Chan Shui Yip	—	799	—	18	817
Mr. Guo Dongxu	—	872	—	23	895
Mr. She Xiaoying	—	197	—	24	221
Non-executive directors:					
Mr. Guo Songsen	—	208	—	4	212
Mr. Ho Kwai Ching, Mark	—	13	—	—	13
Mr. Ng Man Kung	—	13	—	—	13
Mr. Hu Guohua	—	13	—	—	13
	—	3,115	—	87	3,202

There were no retirement benefits paid or payable to any director during the year or at any time during the year (2018: nil).

There were no termination benefits paid or payable to any director during the year or at any time during the year (2018: nil).

During the year, the Company provided no consideration to third parties for making available director's services (2018: nil).

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at 31 December 2019 or at any time during the year (2018: nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2019 or at any time during the year (2018: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 34 SUBSIDIARIES

(i) Subsidiaries of the Group as at 31 December 2019 are as follows:

Company name	Country/Place of incorporation and date of incorporation	Issued/ registered capital	Effective interest held		Principal activities
			2019	2018	
<b>Directly held:</b>					
Green Source Limited 綠源有限公司	BVI, 20 July 2015	USD 1	100%	100%	Investment holding
Keen Field Limited 啟泰有限公司	BVI, 22 July 2015	USD 1	100%	100%	Investment holding
Wealth Creation Limited 恒宇有限公司	BVI, 22 July 2015	USD 1	100%	100%	Investment holding
<b>Indirectly held:</b>					
Green Fresh (H.K) International Co., Limited. 綠新(香港)國際 有限公司	Hong Kong, 19 June 2013	HK\$10,000	100%	100%	Investment holding
Lubao Technology Development Limited 綠寶科技發展有限公司	Hong Kong, 11 August 2015	HK\$1	100%	100%	Investment holding
Green Brilliant Limited 綠晟有限公司	Hong Kong, 28 November 2019	HK\$10,000	100%	N/A	Investment holding



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 34 SUBSIDIARIES (CONTINUED)

(i) Subsidiaries of the Group as at 31 December 2019 are as follows: (Continued)

Company name	Country/Place of incorporation and date of incorporation	Issued/ registered capital	Effective interest held		Principal activities
			2019	2018	
Greenwich (China) Technology Development Limited 格林(中國)科技發展有限公司	Hong Kong, 3 September 2007	HK\$10,000	100%	100%	Investment holding and trading company
Green Fresh (Fujian) Foodstuff Co., Ltd. 綠新(福建)食品有限公司	PRC 8 November 2007*	USD 25,380,000	100%	100%	Manufacturing and sales of carrageenan, agar-agar and blended products
Fujian Province Lvqi Food Colloid Company Ltd. 福建省綠麒食品膠體有限公司	PRC, 18 March 2009#	RMB 50,000,000	100%	100%	Manufacturing and sales of agar-agar and blended products
Lvbao (Quanzhou) Biochemistry Company Ltd. 綠寶(泉州)生化有限公司	PRC, 14 May 1999'	HK\$26,880,000	100%	100%	Manufacturing and sales of carrageenan and blended products
Shiyanghaiyi Konjac Products Company Ltd. 十堰海乙魔芋製品有限公司	PRC, 7 September 2012#	RMB 20,000,000	100%	100%	Manufacturing and sales of konjac products

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 34 SUBSIDIARIES (CONTINUED)

(i) Subsidiaries of the Group as at 31 December 2019 are as follows: (Continued)

Company name	Country/Place of incorporation and date of incorporation	Issued/registered capital	Effective interest held		Principal activities
			2019	2018	
Longhai City Donghaiwan Seaweed Breeding Comprehensive Development Company Limited 龍海市東海灣海藻養殖綜合開發有限公司	PRC, 16 July 2012 <sup>#</sup>	RMB 10,000,000	100%	100%	Manufacturing and sales of seaweed
Lvqi (Xiamen) Marine Biotechnology Company Ltd. 綠麒(廈門)海洋生物科技有限公司	PRC, 4 June 2013 <sup>#</sup>	RMB 5,000,000	100%	100%	Research and development center
PT. Greenfresh Biotechnology Indonesia	Indonesia, 12 August 2016	USD 1,200,000	100%	100%	Investment holding
Lvqi Trading (Shanghai) Company Ltd. 綠麒商貿(上海)有限公司	PRC, 9 February 2018 <sup>⊗</sup>	RMB 10,000,000	61%	61%	Trading company

\* Registered as a wholly foreign owned enterprise under PRC law with limited liability.

<sup>#</sup> Wholly owned subsidiary and registered as domestic enterprise under PRC law with limited liability.<sup>⊗</sup> Non-wholly owned subsidiary and registered as domestic enterprise under PRC law with limited liability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

### 35 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

(a) Balance sheet of the Company

	Note	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries		125,003	120,858
<b>Current assets</b>			
Amounts due from subsidiaries		113,393	81,987
Other receivables		78	5,181
Cash and bank balances		135,475	39
		248,946	87,207
<b>Total assets</b>		<b>373,949</b>	<b>208,065</b>
<b>Equity</b>			
Share capital	22	8,000	6
Other reserves		390,959	185,813
Accumulated losses		(57,439)	(35,753)
<b>Total equity</b>		<b>341,520</b>	<b>150,066</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible bond		—	52,644
<b>Current liabilities</b>			
Convertible bond		29,547	—
Other payables		2,882	5,355
		32,429	5,355
<b>Total liabilities</b>		<b>32,429</b>	<b>57,999</b>
<b>Total equity and liabilities</b>		<b>373,949</b>	<b>208,065</b>

The balance sheet of the Company was approved by the board of directors of the Company on 30 March 2020 and was signed on its behalf by:

CHAN Kam Chung  
Director

CHAN Shui Yip  
Director

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(ALL AMOUNTS EXPRESSED IN HK\$ THOUSANDS UNLESS OTHERWISE STATED)

## 35 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (CONTINUED)

## (b) Reserve movements of the Company

	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Accumulated Total losses HK\$'000	
<b>At 1 January 2019</b>	14,491	115,539	55,783	185,813	(35,753)
Capitalisation of shares	(5,994)	—	—	(5,994)	—
New shares issued pursuant to initial public offering	206,994	—	—	206,994	—
Equity-settled share-based payment	—	—	4,146	4,146	—
Losses for the year	—	—	—	—	(21,686)
<b>At 31 December 2019</b>	215,491	115,539	59,929	390,959	(57,439)
<b>At 1 January 2018</b>	—	115,539	39,200	154,739	(4,661)
Conversion of the convertible bond	14,491	—	—	14,491	—
Equity-settled share-based payment	—	—	16,583	16,583	—
Losses for the year	—	—	—	—	(31,092)
<b>At 31 December 2018</b>	14,491	115,539	55,783	185,813	(35,753)

## 36 CONTINGENCIES

As at 31 December 2019, there were no significant contingencies for the Group and the Company.

## 37 EVENTS AFTER THE BALANCE SHEET DATE

Since January 2020, the PRC has encountered an outbreak of corona virus ("COVID-19"), as a result of which, certain measures were undertaken by the PRC government including but not limited to implementation of travel restrictions and extension of national holidays. Pending development including the duration of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated at the date of issue of these financial statements.

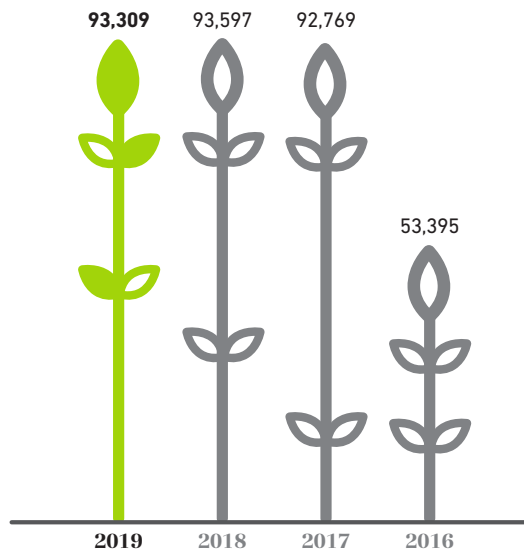
On 12 March 2020, the Company has repaid the rest of the convertible bond, amounting to HK\$30,179,000 and the interest payable up to that date.



# FOUR YEARS FINANCIAL SUMMARY

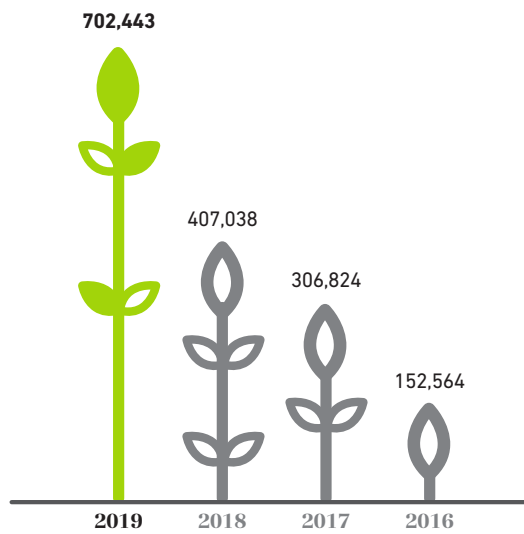
## RESULTS (YEAR ENDED 31 DECEMBER)

Profit for the year attributable to owners of the Company (HK\$'000)



## NET ASSETS (AS AT 31 DECEMBER)

Net assets (HK\$'000)



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. CHAN Kam Chung  
(Chairman and Chief Executive Officer)

Mr. GUO Dongxu  
(Vice Chairman and Vice President)

Mr. CHAN Shui Yip  
(Vice Chairman and Vice President)

Mr. SHE Xiaoying

#### Non-executive Director

Mr. GUO Songsen

#### Independent non-executive Directors

Mr. HO Kwai Ching, Mark

Mr. NG Man Kung

Mr. HU Guohua

### COMPANY SECRETARY

Mr. SO Chi Man

### AUTHORISED REPRESENTATIVES

Mr. CHAN Kam Chung  
Flat 1908, Block 32, Hang Fa Chuen, Hong Kong

Mr. SO Chi Man  
Flat A, 58th Floor, Block 7, Banyan Garden, Lai Chi Kok Road,  
Kowloon, Hong Kong

### AUDIT COMMITTEE

Mr. HO Kwai Ching, Mark (Chairman)

Mr. NG Man Kung

Mr. HU Guohua

### REMUNERATION COMMITTEE

Mr. NG Man Kung (Chairman)

Mr. HO Kwai Ching, Mark

Mr. CHAN Kam Chung

### NOMINATION COMMITTEE

Mr. CHAN Kam Chung (Chairman)

Mr. HO Kwai Ching, Mark

Mr. NG Man Kung

### AUDITOR

PricewaterhouseCoopers

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

### LEGAL ADVISER

Squire Patton Boggs

### COMPLIANCE ADVISER

Essence Corporate Finance (Hong Kong) Limited

39/F, One Exchange Square

Central

Hong Kong

### PRINCIPAL BANKERS

In Hong Kong

Bank of China (Hong Kong) Limited

29-31 Lee Chung Street,

Chai Wan,

Hong Kong

In the PRC

Industrial Bank Co., Ltd.

Block 3, Jiaxin Garden,

Zi Guang Road,

Shima Town,

Longhai City,

Zhangzhou,

Fujian Province,

China



## CORPORATE INFORMATION

### REGISTERED OFFICE

Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat A, 16th Floor,  
169 Electric Road,  
North Point,  
Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

Anshan Industrial Park,  
Zini Town,  
Longhai, Zhangzhou City,  
Fujian Province,  
PRC

### HONG KONG SHARE REGISTRAR

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

### COMPANY'S WEBSITE

<http://www.greenfreshfood.com>

### STOCK CODE

01084