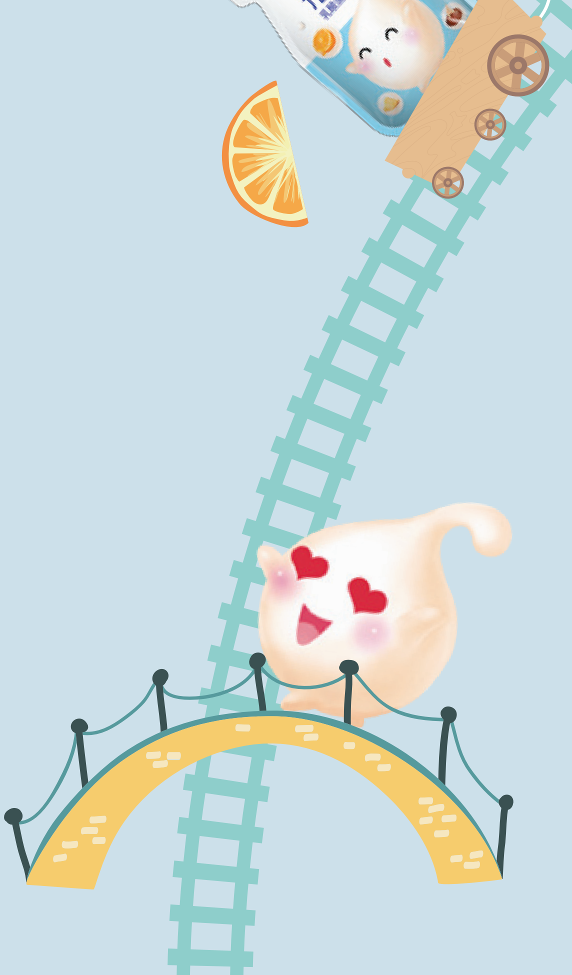
Labixiaoxin Snacks Group Limited
蠟筆小新休閒食品集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1262

ANNUAL REPORT
2019

Contents



Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Wuli Industrial Area
Jinjiang, Fujian
PRC

PLACE OF BUSINESS IN HONG KONG

7th Floor, AT Tower
180 Electric Road
North Point, Hong Kong

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock code: 1262

COMPANY WEBSITE

http://www.lbxxgroup.com
(information contained in this website does not form part of this annual report)

BOARD OF DIRECTORS

Executive Directors

Zheng Yu Huan *(Chairman)*
Zheng Yu Shuang *(Chief Executive Officer)*
Zheng Yu Long

Non-Executive Directors

Li Hung Kong *(Vice-Chairman)*
Ren Yunan

Independent Non-Executive Directors

Li Zhi Hai
Sun Kam Ching
Chung Yau Tong

COMPANY SECRETARY

Chan Yee Lok

AUTHORIZED REPRESENTATIVES

Zheng Yu Shuang
Chan Yee Lok

AUDIT COMMITTEE

Chung Yau Tong *(Chairman)*
Li Zhi Hai
Sun Kam Ching

REMUNERATION COMMITTEE

Sun Kam Ching *(Chairman)*
Zheng Yu Long
Chung Yau Tong

NOMINATION COMMITTEE

Li Zhi Hai *(Chairman)*
Zheng Yu Shuang
Chung Yau Tong

AUDITORS

HLB Hodgson Impey Cheng Limited
31st Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

LEGAL ADVISOR

Sidley Austin
Level 39,
Two International Finance Centre
8 Finance Street
Central,
Hong Kong

PRINCIPAL SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

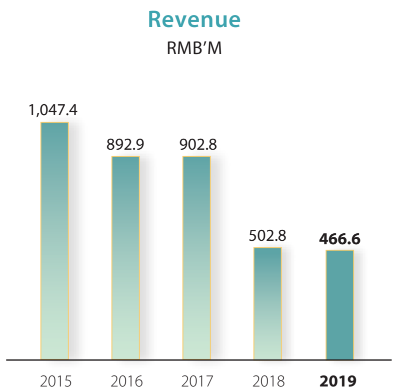
PRINCIPAL BANKERS

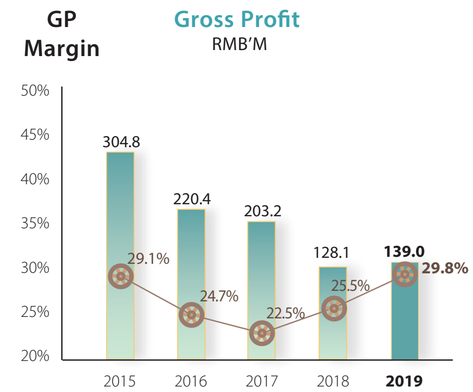
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

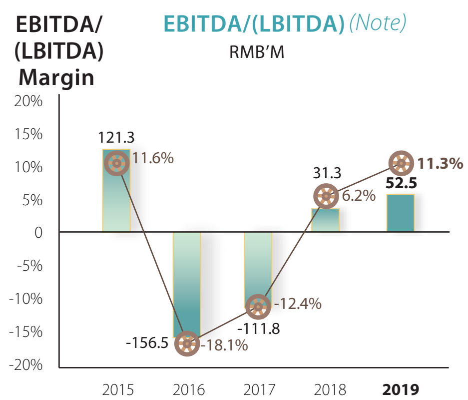
Ping An Bank Co., Ltd., Quanzhou Branch
1/F, Jun Yi Building, 311 Fengze Street
Quanzhou, Fujian
PRC

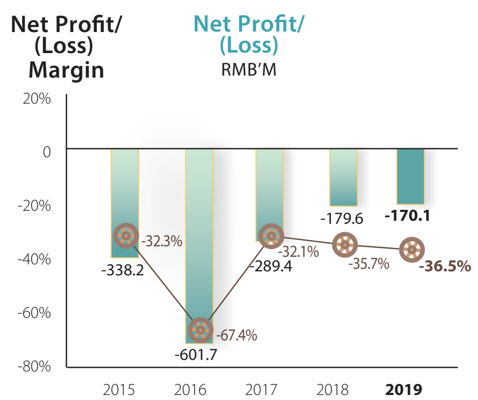
China CITIC Bank, Quanzhou Branch
1-2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

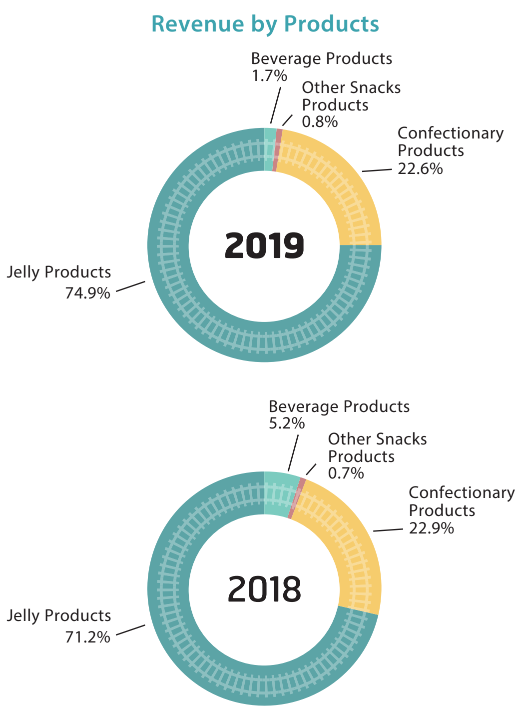
Financial Highlights

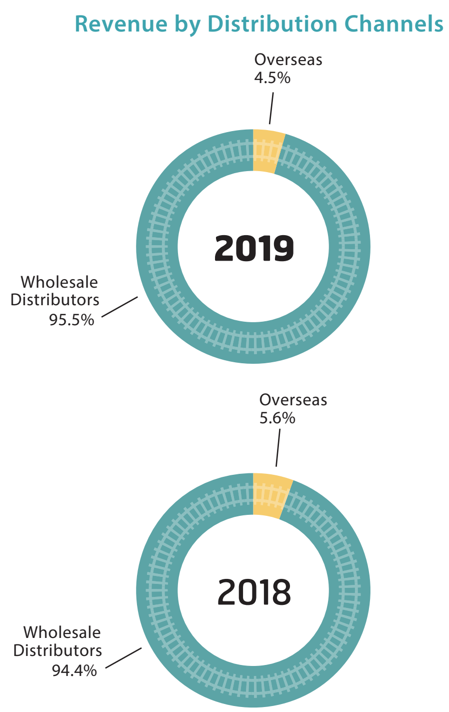












Note: EBITDA/(LBITDA) refers to profit/(loss) before interests, income tax, depreciation, amortisation, reversal of credit losses on trade receivables net, written-off of property, plant and equipment, reversal/(provision) of impairment losses on loan receivable and loss on the remeasurement of asset classified as held for sale.

Financial Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**466,570**	502,802	902,795	892,854	1,047,368
Gross profit	**139,005**	128,119	203,245	220,445	304,759
Loss before taxation	**(153,264)**	(191,901)	(327,892)	(635,630)	(328,662)
Taxation	**(16,846)**	12,307	38,487	33,964	(9,559)
Loss and total comprehensive loss for the year	**(170,110)**	(179,594)	(289,405)	(601,666)	(338,221)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**787,137**	1,169,947	1,250,131	1,362,192	1,510,210
Current assets	**698,719**	524,400	746,343	871,066	731,162
Total assets	**1,485,856**	1,694,347	1,996,474	2,233,258	2,241,372
Equity					
Total equity	**497,247**	667,357	850,266	1,139,671	1,616,278
Liabilities					
Non-current liabilities	**15,864**	19,233	231,540	231,540	31,429
Current liabilities	**972,745**	1,007,757	914,668	862,047	593,665
Total liabilities	**988,609**	1,026,990	1,146,208	1,093,587	625,094
Total equity and liabilities	**1,485,856**	1,694,347	1,996,474	2,233,258	2,241,372

Chairman's Statement

Dear shareholders,

I am pleased to present the annual report of Labixiaoxin Snacks Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2019 and extend my gratitude to all the shareholders on behalf of the board (the "**Board**") of directors (the "**Director(s)**") of the Company.

Year 2019 was a challenging year for us. The consumer sentiment in the People's Republic of China (the "**PRC**") was remained weak due to the slowdown in its GDP growth and the trade war between the PRC and the United States. During the year ended 31 December 2018, the Group was undergoing a restructure of its product mix to eliminate most of the low margin products so as to improve its profitability. This measure had improved the gross profit margin ratio of the Group for the year ended 31 December 2019. However, it had also imposed a negative pressure on the Group's revenue during the year under review as the sales performance of the higher margin products had not fully filled up the gap left by those low margin products. In addition, to make the Group's marketing and promotion efforts more focused and efficient, the Group had ceased to make advertisement through sponsoring popular TV programs since Year 2018 as the Directors considered that it was not the most cost effective way to promote the Group's products under current market situation. This strategy also had a negative impact on the Group's revenue during the year under review.

During the year ended 31 December 2019, sales of the Group's products was RMB466.6 million, representing a decrease of approximately 7.2% as compared to the year ended 31 December 2018 due to the reasons mentioned above. The gross profit margin of the Group for the year ended 31 December 2019 increased by approximately 4.3 percentage points, as compared to Year 2018 due to the Group having eliminated most of its low margin products. The Group's advertising and promotion expenses decreased by approximately 7.2% to RMB34.7 million during the year under review. For the year ended 31 December 2019, the Group recorded a net loss of RMB170.1 million, a decrease of 5.3% from the net loss of RMB179.6 million for the year ended 31 December 2018.

During the year ended 31 December 2019, the Group had spent RMB11.0 million in capital expenditures mainly for the upgrade of production lines in various production plants. In Year 2019, the Group had generated RMB35.0 million net operating cash inflow, representing a decrease of RMB53.9 million from that for the year ended 31 December 2018. As at 31 December 2019, the gearing ratio of the Group was 141.9%. The Group is committed to maintaining sufficient cash and available banking facilities for its working capital requirements and for capitalising on any potential investment opportunities in the future.

With a view to better utilizing our Group's production capacity and cut operational costs, our Group moved the production facilities in our Tianjin plant to our Fujian and Anhui plants during the second half of Year 2019. As a result, surplus machineries were disposed or written-off and a loss on written-off property, plant and equipment of RMB67.3 million was recorded for the year ended 31 December 2019. This restructuring of production capacity have no significant negative impact on our operations as the Group still have three production plants at Fujian, Anhui and Sichuan respectively which provide sufficient production capacity to meet the demands of our customers.

With the consumer sentiment in the PRC remaining weak, the market demand for the Group's snack products continued to decline during the year ended 31 December 2019. In addition, due to the outbreak of the Novel Coronavirus ("**COVID-19**") in the last quarter of Year 2019, the Group's production and sales were partially disrupted during the first quarter of Year 2020. The Directors considered that the outbreak of COVID-19 may have short-term pressure on the Group's business. However, it may also lead to an upgrade and consolidation opportunities of the food industry. As such, the Directors consider this is a good opportunity for the Group to expand its market share.

To build a solid foundation, the Group is formulating a mid-to-long term growth strategy. In year 2020, the Group has planned to expand its new retail, e-commerce, social media and society distribution channels. The Group will continue to adjust and upgrade its product portfolio, such as upgrading its pudding products and lifting its sales. In addition, the Company will also launch a series of new talent management strategies, including but not limited to putting forward new performance-based incentive schemes, to attract talents.

While the near-term outlook for the snacks products sector of the PRC remains challenging, the country's ongoing economic reforms and the continuous expansion of middle and upper class population will propel continuous growth in retail consumption in the long run. Therefore, the Directors are cautiously optimistic to the long term development of the Group's business.

The Group cannot overcome the difficulties without a strong and committed management team. Therefore I would like to take this opportunity to thank the Board and my best team of colleagues for providing me with unceasing support during this challenging year. I greatly appreciate your efforts, commitment and unstinting enthusiasm. I look forward to seeing your continuous involvement in our path ahead.

Yours sincerely

ZHENG YU HUAN
Chairman


蜡笔小新
Finest Selection
燕麦巧克力
CHOCOLATE
净含量/规格:280克
勇士筒
ANGRY BIRDS
可吸果冻
综合口味


魔仙筒
饼干麦片冰淇淋巧克力
嗒嗒小新
ANGRY BIRDS
麦丽素!
my likes chocolate products
净含量:80g 麦丽素巧克力

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2019, Labixiaoxin Snacks Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") has reported revenue of approximately RMB466.6 million, representing a decrease of approximately 7.2% as compared with the corresponding period of the year ended 31 December 2018 (the "**Year 2018**"). The decrease in the reported revenue was mainly due to poor consumer sentiment of snacks products in the People's Republic of China (the "**PRC**"). In addition, the decrease in revenue was also due to the Group having ceased the production of the majority of low margin products items since Year 2018 with a view to enhancing the Group's overall profitability. Although this measure had improved the gross profit margin ratio of the Group, it had also imposed a negative pressure on the Group's revenue during the year under review. The Group's gross profit margin for the year ended 31 December 2019 increased by approximately 4.3 percentage points as compared with Year 2018 due to the Group having ceased the production of the majority of low margin products items.

For the year ended 31 December 2019, the Group recorded a net loss of RMB170.1 million, a decrease of approximately 5.3% from the net loss of RMB179.6 million in last year.

REVENUE

Revenue of the Group decreased by approximately 7.2% to RMB466.6 million for the year ended 31 December 2019 when compared with the corresponding period in Year 2018. The Group having ceased the production of the majority of low margin products items since Year 2018 with a view to enhancing the Group's overall profitability. However, the sales performance of the higher margin products during the year under review had not fully fill up the gap left by those low margin products. In addition, sales of the Group's snacks products was also negatively affected by the poor consumer sentiment of snacks products in the PRC during the year under review. As at 31 December 2019, the Group had a total number of 544 distributors (As at 31 December 2018: 693).

Jelly products

Revenue of jelly products decreased by approximately 2.4% from RMB357.8 million for the Year 2018 to RMB349.2 million for the year ended 31 December 2019, primarily due to the Group having ceased the production of certain low margin jelly product items which has negative impact on sales of jelly products. However, the sales performance of the higher margin jelly products had not fully fill up the gap left by those low margin products. In addition, sales of jelly products was also negatively affected by the poor consumer sentiment of snacks products in the PRC during the year under review. During the year ended 31 December 2019, revenue attributable to jelly snacks increased by approximately 11.2% to RMB227.0 million while sales attributable to jelly beverages decreased by approximately 20.4% to RMB122.2 million.

Confectionary products

Confectionary products also recorded a decline in revenue during the year ended 31 December 2019. Sales of confectionary products decreased by approximately 8.4% from RMB115.4 million for the year ended 31 December 2018 to RMB105.7 million for the year ended 31 December 2019. The decrease was mainly due to a decrease of orders received from overseas customers during the year under review.

Beverage products

Revenue of beverages products of the Group decreased by approximately 69.9% to RMB7.8 million during the year ended 31 December 2019. The decrease was primarily due to the Group having ceased the production of the majority of low margin beverages product items.

Other snacks products

For the year ended 31 December 2019, revenue of other snacks products increased by approximately 8.3% to RMB3.9 million as compared to RMB3.6 million for Year 2018. Other snacks products includes cakes, breads, bean curd products, egg rolls etc.. Increase in sales of other snacks products was mainly due to increase in sales of bean curd products during the year ended 31 December 2019.

COST OF SALES AND GROSS PROFIT

Cost of sales decreased by approximately 12.6% to RMB327.6 million for the year ended 31 December 2019 as compared to RMB374.7 million for the Year 2018. The decrease in cost of sales was mainly attributable to the corresponding decrease in revenue due to the reasons mentioned above. Gross profit margin improved by approximately 4.3 percentage points to 29.8% from 25.5% for the year ended 31 December 2018 which was mainly due to the Group having ceased the production of the majority of low margin products items since Year 2018 with a view to enhancing the Group's overall profitability.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 13.6% to RMB74.6 million for the year ended 31 December 2019 primarily due to decrease in sales and tight costs control on advertising and promotion expenses during the year under review. Advertising and promotion expenses decreased by approximately 7.2% to RMB34.7 million during the year under review.

The general market demand for the Group's products has remained weak. In addition, the outbreak of the COVID-19 since the last quarter of 2019 is also expected to have negative impact on the Group's sales performance for the year ending 31 December 2020. While the Group will continue to exercise tight costs control on advertising and promotion expenses on the one hand, the Group will on another hand continue to enhance its media exposure and arrange on-site promotion for new or core products with an objective to bring positive message to its consumers and enhance brand recognition within the market in a long run.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by approximately 7.6% from RMB98.9 million for Year 2018 to RMB106.4 million for the year ended 31 December 2019, which was mainly due to expenses incurred for closure of the Tianjin plant.

WRITTEN-OFF OF PROPERTY, PLANT AND EQUIPMENT

With a view to better utilizing the Group's production capacity and reduce operational costs, the Group moved the production facilities in its Tianjin plant to its Fujian and Anhui plants during the second half of the year 2019. The surplus machineries were disposed or written-off and a loss on written-off of property, plant and equipment of RMB67.3 million was recorded for the year ended 31 December 2019. This restructuring of production capacity has no significant negative impact on the Group's operations as the Group still have three production plants at Fujian, Anhui and Sichuan respectively which provide sufficient production capacity to meet the demands of its customers.

INCOME TAX EXPENSE

The debit amount of the Group's income tax expense during the year under review was mainly due to the reversal of deferred tax assets recognized for the tax losses of the Group's subsidiaries in the PRC.

NET LOSS FOR THE YEAR

The Group recorded a net loss of RMB170.1 million for the year ended 31 December 2019 (2018: RMB179.6 million). The decrease in net loss was primarily attributable to improvement in gross profit margin of the Group's products due to the reasons stated above.

FINANCIAL REVIEW

Financial resources and liquidity

The Group mainly finances its operations and capital expenditures by cash and bank balances, operating cash flows, bank borrowings and loan from a director.

As at 31 December 2019, the cash and bank balances amounted to RMB24.8 million (As at 31 December 2018: RMB25.5 million). The decrease in cash and bank balances was mainly due to repayment of bank borrowings offset by net cash inflow from operations and loan receivable recovered during the year ended 31 December 2019. The bank borrowings of the Group decreased by RMB83.5 million during the year ended 31 December 2019.

As at 31 December 2019, the Group's gearing ratio (total borrowings divided by total equity) was 141.9% (As at 31 December 2018: 110.6%). The Group maintained sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash inflow from operating activities of RMB35.0 million for the year ended 31 December 2019 (2018: RMB88.9 million). The Group has spent RMB11.0 million in investing activities for the year ended 31 December 2019 mainly for the upgrade of production lines of the production plants. The Group has net cash outflow from financing activities of RMB72.3 million for the year ended 31 December 2019 which was mainly due to repayment of matured bank borrowings and payment of interest expenses.

Capital expenditure

During the year ended 31 December 2019, the Group incurred RMB11.0 million (2018: RMB14.7 million) in capital expenditure mainly for the upgrade of production lines of the production plants.

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2019, the balance decreased by RMB10.3 million from the beginning of the year. The inventories turnover days for the years ended 31 December 2019 and 2018 were 63 days and 65 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grant 180 days credit to most of the wholesale distributors. The balance increased by RMB18.3 million from the beginning of the year mainly due to increase in sales in the last quarter of 2019 than in the corresponding period of Year 2018. The increase in balance of trade receivables was mainly due to an increase in delivery of orders during the last quarter of 2019 in light of the Lunar Chinese New Year in January 2020 being earlier than most other years. The trade receivable turnover days for the years ended 31 December 2019 and 2018 were 168 days and 152 days, respectively. Subsequent to the year ended 31 December 2019 and up to the date of this report, approximately RMB105.6 million of the trade receivables were settled by the wholesale distributors.

Entrusted loan receivable

On 19 June 2015, a wholly-owned subsidiary of the Group ("**Lender**") entered into an entrusted loan agreement (the "**Entrusted Loan Agreement**") with a PRC bank, as the lending agent (the "**Lending Bank**"), and an independent PRC third party entity (the "**Borrower**"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250 million (the "**Entrusted Loan**") to the Borrower. At the time of granting the Entrusted Loan, it was the then objective of the Group to better utilize the surplus cash of the Group under a short-term arrangement to generate higher interest income.

The Entrusted Loan is secured by (i) a personal guarantee of RMB250 million provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228.8 million given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30.3 million, as security to the obligations of the Borrower under the Entrusted Loan Agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the "**Legal Proceeding**") with the Quanzhou Intermediate People's Court in the People's Republic of China ("**Quanzhou Court**") against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the "**Defendants**"). On 29 March 2018, the Quanzhou Court published a judgement to order the Borrower to (a) repay the principal amount of the Entrusted Loan in the amount of RMB220 million; (b) pay the interests (including penalty interests and compound interests) of RMB30.2 million; (c) pay the interests (including penalty interests and compound interests) to be accrued for the period from 14 November 2017 up till the date of actual repayment; and (d) legal fee of RMB500,000.

As the Borrower failed to fulfill the court order stated above, the Lending Bank had forced sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement and approximately RMB49,928,000 was recovered by the Group and a reversal of impairment loss of RMB28,528,000 was recognised during the year ended 31 December 2019.

For further details, please refer to the announcements of the Company dated 9 August 2016, 18 August 2016 and 10 March 2017.

Asset classified as held for sale

On 15 May 2019, an indirect wholly-owned subsidiary of the Company (the "**Vendor**") and an independent third party (the "**Purchaser**") entered into the transfer agreement (the "**Transfer Agreement**"), pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the land use right located in Jinjiang Food Industrial Park in Jinjiang City, Fujian Province, the PRC (the "**FJ Land Right**") for a consideration of RMB180,000,000. Pursuant to the Transfer Agreement, both the Vendor and the Purchaser will liaise with Fujian Jinjiang Industrial Park Construction and Development Company Limited (the "**Jinjiang Construction**"), a company controlled by Jinjiang City People's Government, regarding the transfer of the FJ Land Right. The Vendor will arrange for the termination of the FJ Land Right with Jinjiang Construction and the Purchaser will enter into an agreement with Jinjiang Construction regarding the new pre-registration contractual right to acquire the FJ Land Right. For more details, please refer to the announcement dated 15 May 2019. The loss on the remeasurement of asset classified as held for sale of RMB46,690,000 has been recognised during the year ended 31 December 2019.

Trade payables and bills payable

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days to 60 days to the Group. The Group also used bank bills to settle trade payables. As at 31 December 2019, bills payable of the Group amounting to RMB132.5 million were secured by pledged bank deposits of RMB70.3 million. As at 31 December 2019, the bills payable were with maturity period within 1 year.

Trade payables turnover days (including trade payables and bills payable) for the years ended 31 December 2019 and 2018 were 306 days and 304 days respectively.

Foreign exchange fluctuations

The Group earns revenue and incur costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the year ended 31 December 2019, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered the financial benefits of such forward contracts may not outweigh their costs. The Company will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charges on assets

As at 31 December 2019, land and building of the Group in Hong Kong with net book value of RMB6.4 million was pledged as security for mortgage loan (31 December 2018: RMB7.0 million). As at 31 December 2019, a loan from an independent third party of RMB41.8 million was secured by the equity of a PRC subsidiary of the Group.

Contingent liabilities

As at 31 December 2019, the Group had no contingent liabilities (31 December 2018: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 1,120 employees (including part-time employees) (2018: 1,490 employees) and the total remuneration expenses for the year ended 31 December 2019 amounted to RMB75.8 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

PROSPECTS

During the year under review, the market demand on the Group's products remained weak. The sales of the Group's products remained at a low level as compared to the previous years. In addition, due to the outbreak of the Novel Coronavirus ("**COVID-19**") in the last quarter of year 2019, the Group's production and sales were partially disrupted during the first quarter of year 2020. The Directors considered that the outbreak of COVID-19 may have short-term pressure on the Group's business. However, it may also lead to an upgrade and consolidation opportunities of the food industry. As such, the Directors consider this is a good opportunity for the Group to expand its market share.

To build a solid foundation, the Group is formulating a mid-to-long term growth strategy. In year 2020, the Group has planned to expand its new retail, e-commerce, social media and society distribution channels. The Group will continue to adjust and upgrade its product portfolio, such as upgrading its pudding products and lift its sales. In addition, the Company will also launch a series of new talent management strategies, including but not limited to putting forward new performance-based incentive schemes, to attract talents.

While the near-term outlook for the snacks products sector of the PRC remains challenging, the country's ongoing economic reforms and the continuous expansion of middle and upper class population will propel continuous growth in retail consumption in the long run. Therefore, the Directors are cautiously optimistic to the long term development of the Group's business.

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The snack food industry is subject to changes in consumer perception, preferences and tastes. The Group's business and financial performance depends on factors which may affect the level and pattern of consumer spending in the PRC. Such factors include consumer preferences and tastes, consumer confidence, consumer income and consumer perceptions of the safety and quality of the Group's products.

Industrial Risk

The snack food industry is subject to potential food safety and health issues with the raw materials and finished products. If the Group's raw materials or finished products are alleged or found to be spoiled, contaminated, tampered with, incorrectly labeled, unsafe or otherwise associated with food safety incidents, the Group could be subject to product liability claims, adverse publicity and regulatory investigation, intervention or penalties, product returns, any of which may result in increased costs as well as damage to the Group's brands and reputation. Food safety and health issues may arise with respect to the Group's products as a result of numerous factors, many of which may be outside of the Group's control, including as a result of actions by the suppliers, subcontracting manufacturers and distributors of the Group, as well as their sub-distributors.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. The Group recognises that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Key functions in the Group are guided by their operating procedures, limits of authority and reporting framework. The Group will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

Financial Risk

The financial risk management of the Group is set out in Note 4 to the consolidated financial statements.

Biographical Details of Directors and Senior Management

DIRECTORS

ZHENG YU HUAN — Chairman and Executive Director

Mr. Zheng Yu Huan, aged 49, is an executive Director. He was appointed as the chairman of the Board of Directors of the Company since 17 March 2015. He was appointed as a Director on 15 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the Group's overall management in particular on sales and marketing operations, including formulating the advertising and promotional programs. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of a number of the Group's subsidiaries including LBXX International and Timeluck. Mr. Zheng has over 21 years of experience in sales and marketing of snack food products. He joined the Group in 2000 as a deputy general manager of LBXX Fujian.

From 1996 to 2000, Mr. Zheng was a general manager of the sales and marketing department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration from Renmin University of China (中國人民大學) in 2006. Mr. Zheng graduated from an executive development program for senior management from Xiamen University (廈門大學) in December 2010. Mr. Zheng has also assumed several social positions, such as a representative of the Eleventh Jinjiang Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省晉江市委員會) since 2006, the vice president of the Sixth Fujian Provincial Youth Federation (第六屆福建省青年聯合會), and member of the Tenth Fujian Provincial Youth Federation (第十屆福建省青年聯合會). He was recognized as one of the China Industrial Economy Top 10 Outstanding Youth (中國工業經濟十大傑出青年) in December 2009 by China Industrial Forum (中國工業論壇). Mr. Zheng is the brother of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and the brother-in-law of Mr. Li Hung Kong.

ZHENG YU SHUANG — Chief Executive Officer and Executive Director

Mr. Zheng Yu Shuang, aged 51, is the chief executive officer of the Group and an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations of the Company. He is the head of the Group's production department and oversees the quality control department. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX International, LBXX Sichuan, LBXX Anhui, LBXX Fujian, LBXX Tianjin and Timeluck.

Mr. Zheng has over 23 years of experience in the manufacture of snack food products. He joined the Group in 2000 as the general manager of LBXX Fujian. From 1994 to 2000, Mr. Zheng was a general manager of the production and quality control department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration from Renmin University of China (中國人民大學) in May 2006. He received a certificate qualifying as a senior quality control inspector (高級質量(品質)管理師) from China Professional Development Centre (中國專業人才庫管理中心) in July 2009. Mr. Zheng has also assumed several social positions, such as the honorary chairman of Jinjiang Food Industry Association (晉江市食品行業協會) from 2007 to 2010, a member of the Tianjin Chinese People's Political Consultative Conference (天津市人民政治協商會議) from 2008 to 2012, and the vice-chairman of China National Confectionary Association (中國食協糖果專業委員會) from May 2010 to May 2013. Mr. Zheng is the brother of Mr. Zheng Yu Long and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

ZHENG YU LONG — Executive Director

Mr. Zheng Yu Long, aged 54, is an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations, strategic planning and business development of the Group. He is also actively involved in the marketing of the products and branding of the Group, and procurement of raw materials from suppliers. Mr. Zheng is a key contact person between the Group and its business partners. He is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiary, Timeluck. Mr. Zheng joined the Group in 2000 as a managing director of LBXX Fujian. Mr. Zheng has over 25 years of experience in the marketing and manufacturing of snack food products. Since joining the Group in 2000, Mr. Zheng has dedicated the past 19 years to expand and promote the Group's business from a manufacturer of jelly products to a recognized snack food brand in China. From 1991 to 2000, Mr. Zheng was the general manager of Jinjiang Weili Foods Co., Ltd. (晋江市味力食品有限公 司), where he was responsible for the daily operations, sales, production, procurement and business development of this company. Through such experiences, Mr. Zheng has developed extensive relationships with the industry partners and is able to keep abreast of the latest development of the snack food industry. Mr. Zheng Yu Long was brought up in the PRC. Mr. Zheng has never been a full time government official of any country, or a full time employee of any state or government-owned/operated entity for a substantial period of time. Mr. Zheng is the brother of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

LI HUNG KONG — Vice Chairman and Non-Executive Director

Mr. Li Hung Kong, aged 51, is the vice-chairman and non-executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as a non-executive Director on 23 September 2011. He is an experienced entrepreneur who has over 23 years of experience in investing and managing manufacturing business. He is also a director of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX Fujian and Timeluck. Mr. Li joined the Group in 2000 as a director of LBXX Fujian. Prior to joining the Group, Mr. Li founded the following companies in the 1990s, Jinjiang Xingtai Packing Wear Co., Ltd. (晉江市興泰包裝用品有限公司), Fujian Huatai Packing Co., Ltd. (福建華泰包裝用品有限公司), companies engaged in the paper packaging business, and Jen Yuon Trading Co. (晉融貿易公司), a company engaged in commercial trading, and has been as a director in each of these companies since their establishment. Mr. Li is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan.

REN YUNAN — Non-Executive Director

Mr. Ren Yunan, aged 45, is a non-executive Director. He was appointed as the non-executive Director on 3 February 2015. Mr. Ren is currently an independent non-executive director of Ronshine China Holdings Ltd., (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), stock code 3301) and an executive director, Chairman and Chief Executive Officer of OKG Technology Holdings Limited (formerly known as LEAP Holdings Group Limited) (a company listed on the Main Board of the Stock Exchange, stock code 1499). From May 2017 to July 2018, Mr. Ren has served as an independent non-executive director of International Entertainment Corporation (a company listed on the Main Board of the Stock Exchange, stock code 1009). From November 2017 to December 2017, Mr. Ren has served as a non-executive director and chairman of the board of directors of AVIC Joy Holdings (HK) Limited (a company listed on the Main Board of the Stock Exchange; stock code: 260). From February 2011 to April 2018, Mr. Ren has served as a non-executive director of Prosperous Future Holdings Limited (formerly known as China Childcare Corporation Limited) (a company listed on the Main Board of the Stock Exchange, stock code: 1259).

Mr. Ren graduated from Peking University with a bachelor's degree in Law in 1997 and received a master's degree in law from Harvard Law School in 1999.

LI ZHI HAI — Independent Non-Executive Director

Mr. Li Zhi Hai, aged 65, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Li served as distinguished professor and researcher. He has over 20 years of experience in the traditional Chinese medicine and health food industries and held key leadership positions in institutions and societies. Mr. Li was a Chinese People's Liberation Army before he became a national civil servant. Mr. Li currently serves as the secretary general of China Life Science Association of the Ministry of National Education and the director of its strategic development committee (國家教育部中國人生科學學會秘書長兼戰略發展委員會主任), expert adviser of health and science (人生健康科學諮詢專家), secretary general of Mental Health Education Expert Commission (心理健康教育專家委員會秘書長), professional adviser of Peking University, Beijing Normal University, Xinjiang University, cultural education project and youth development education project (北京大學、北京師範大學、新疆大學，文化教育課題項目、青少兒發展教育項目專家顧問) and the honorary dean and distinguished professor of College of Experience Industry of Anhui Polytechnic University (安徽工程大學體驗產業學院) for supervising master students. Mr. Li also serves at the NDRC, the SASAC of the State Council, the Development Research Center of the State Council, Ministry of Education, Ministry of Agriculture and other relevant ministries and commissions. He participates in as a professional adviser and hosts innovative programme research subjects on technology-enhanced agriculture, food nutrition and health, pastoral complex, ecological health industry, health care for the elderly, public service mode, mental health education, cultural inheritance and development and national ecological resource construction and industrial development, etc.

SUN KAM CHING — Independent Non-Executive Director

Ms. Sun Kam Ching, aged 47, is the independent non-executive Director. She was appointed as an independent non-executive Director on 23 September 2011. Ms. Sun has over 21 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group（晉江愛樂集團）("**Jinjiang Aile**") in 1996 and held various positions in Jinjiang Aile, including the head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd.（晉江愛樂鞋服公司）, a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel（晉江愛樂假日酒店）and Shishi Aile Holiday Hotel（石獅愛樂假日酒店）since 2000. Ms. Sun was an independent non-executive director of China Creative Home Group Limited (stock code: 1678 • HK) from 20 December 2013 to 5 September 2019. Ms. Sun received a bachelor's degree in business administration from the Huaqiao University（華僑大學）in 1994. She also attended the training courses for independent non-directors conducted by the Shenzhen Stock Exchange in 2008.

CHUNG YAU TONG — Independent Non-Executive Director

Mr. Chung Yau Tong, aged 48, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Chung has 24 years of experience in audit practice, financial management and compliance assurance of listed companies in Hong Kong. From 1994 to 2000, Mr. Chung was with PricewaterhouseCoopers, where he last held the position of a manager. Mr. Chung was with CITIC 21CN Company Limited (Stock code: 00241) from 2000 to 2005, where he last held the position as the group financial controller. He was a qualified accountant of Gome Electrical Appliances Holding Company Limited (Stock code: 00493) from 2005 to March 2007. Mr. Chung was the financial controller and company secretary of Vongroup Limited (Stock code: 00318) from March 2007 to December 2007. He currently serves as the financial controller and company secretary of Chaoyue Group Limited (a company listed on the Main Board of the Stock Exchange and now known as International Business Settlement Holdings Limited, stock code: 00147) since 2008. Mr. Chung received a bachelor's degree in business administration from The University of Hong Kong in 1994. He is a fellow of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Chan Yee Lok, aged 45, is our Chief Financial Officer and Company Secretary since November 2014. He is responsible for our accounting, finance and company secretarial matters. Prior to joining us in August 2014, Mr. Chan had worked in international accounting firms and companies listed on the Main Board of the Stock Exchange and possessed over 21 years of accounting, financing, auditing and company secretarial experience. Mr. Chan graduated from the City University of Hong Kong with a bachelor's degree with honours in accountancy in 1997. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Mr. Lian Xi, aged 57, is the head of our sales and marketing department. He is responsible for the overall sales and marketing of our products. He has over 20 years of experience in the food production industry. Mr. Lian joined us in 2002 as the production manager of LBXX Fujian. From 1984 to 1992, Mr. Lian worked at Fujian Pharmaceutical (福州製藥廠) where he last held the position of an assistant engineer. Prior to joining us in 2002, Mr. Lian was the manager of the marketing department and the deputy manager of the sales department of Fujian Lv De Biology Holding Ltd. (福建綠得生物股份有限公司). Mr. Lian received his bachelor's degree in light industrial machinery from Fuzhou University (福州大學) in 1984, his postgraduate certificate in business administration from the Open University of Hong Kong in 2001, and his master's degree in business administration from the Open University of Hong Kong in 2003.

Mr. Chen Jian Ming, aged 55, is the head of our procurement department. He is primarily responsible for the sourcing and procurement of raw materials for the Group. He has over 20 years of commercial and banking experience. Mr. Chen joined us in 2010. Prior to joining us, Mr. Chen served in various positions at China Construction Bank, Quanzhou branch (中國建設銀行泉州分行) between January 1990 and October 2010, including deputy branch manager, deputy manager and manager of the credit department. Mr. Chen received a bachelor's degree in finance from the Hunan University (湖南大學) through online courses in July 2005. He is also recognized as a qualified professional in economics (經濟師) by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人事部).

Save as otherwise disclosed, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board, and no information relating to the Directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51 B(1) of the Listing Rules.

Corporate Governance Report

The Board of is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting stringent corporate governance practices and procedures with a view to safeguarding the interests of shareholders as well as enhancing investor confidence and the Company's accountability and transparency. The Company set out its corporate governance practices with reference to the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2019, the Company has complied with all the code provisions set forth under the CG Code and there has been no deviation from the code provisions throughout the year ended 31 December 2019.

The Company continues to review its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objectives of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance. The Board has delegated to the chief executive officer of the Group (the "**Chief Executive Officer**"), of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. The Board directly, and indirectly through its Board committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Board Composition

As at the date of this Annual Report, the Board comprises eight members in total, with three executive directors, two non-executive directors and three independent non-executive directors.

The composition of the Board during the year ended 31 December 2019 and up to the date of this Annual Report is set out below:

Executive Directors
Mr. Zheng Yu Huan *(Chairman)*
Mr. Zheng Yu Shuang *(Chief Executive Officer)*
Mr. Zheng Yu Long

Non-Executive Directors
Mr. Li Hung Kong *(Vice-Chairman)*
Mr. Ren Yunan

Independent Non-Executive Directors
Mr. Li Zhi Hai
Ms. Sun Kam Ching
Mr. Chung Yau Tong

The biographical details of the current Board members are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 18 to 21 of this Annual Report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive Directors represented over one-third of the Board.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including non-executive Directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan are brothers and Mr. Li Hung Kong is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan. Save as disclosed, there is no other relationship among the members of the Board.

Chairman and Chief Executive Officer

During the year ended 31 December 2019, the roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Zheng Yu Huan, and the Chief Executive Officer is Mr. Zheng Yu Shuang. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and to maintain a balance of views and judgement. With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

Appointment and Re-election of Directors

Each of the executive and non-executive Directors has entered into a service agreement for a term of three years, and the appointment may be terminated by not less than three month's written notice; while each of the independent non-executive Directors has entered into a letter of appointment for a term of one year. The appointment may be terminated by not less than three months' written notice.

In accordance with the Company's Bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management, including Chief Executive Officer, Chief Financial Officer and Company Secretary, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to the Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Bye-laws contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Directors' Attendance Records

During the year ended 31 December 2019, five Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings and the 2019 annual general meeting (the "**2019 AGM**") during the year ended 31 December 2019 are set out below:

	Attendance/Number of Meetings	
Name of Director	**Board Meetings**	**2019 AGM**
Mr. Zheng Yu Huan	5/5	1/1
Mr. Zheng Yu Shuang	5/5	1/1
Mr. Zheng Yu Long	4/5	0/1
Mr. Li Hung Kong	3/5	1/1
Mr. Ren Yunan	2/5	1/1
Mr. Li Zhi Hai	4/5	0/1
Ms. Sun Kam Ching	4/5	1/1
Mr. Chung Yau Tong	4/5	1/1

Continuous Professional Development

Directors must keep abreast of their collective responsibilities and are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide to each newly appointed Director or alternative Director an induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's businesses and the statutory regulatory obligations of a director of a listed company as well as the Company's constitutional documents to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements. The Group also provided briefings and other training to develop and refresh the Directors' knowledge and skills from time to time. Further, the Company continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2019, some of the Directors attended external seminars and/or conferences to update their general business and economic knowledge or statutory requirements, Listing Rules and other relevant topics related to listed company. The Directors also read materials in relation to regular update to statutory requirements, the Listing Rules and other relevant topics related to listed company.

Name of Director	Types of training
Mr. Zheng Yu Huan	A,B
Mr. Zheng Yu Shuang	A,B
Mr. Zheng Yu Long	B
Mr. Li Hung Kong	B
Mr. Ren Yunan	A,B
Mr. Li Zhi Hai	A,B
Ms. Sun Kam Ching	A,B
Mr. Chung Yau Tong	A,B

A: attending in-house/external seminars and/or conferences

B: reading newspapers, journals and updates relating to the economy, general business, director's training and responsibilities etc.

During the year ended 31 December 2019, the Company Secretary has taken not less than 15 hours of relevant professional training.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules and devised its own code of conduct regarding directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2019.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2019.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference, which are available to shareholders on the Company's website. Each of the Nomination Committee, the Remuneration Committee and the Audit Committee is provided with sufficient resources to discharge its duties and, upon reasonable request, is able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Zheng Yu Shuang, Mr. Li Zhi Hai and Mr. Chung Yau Tong, the majority of which are independent non-executive Directors, with Mr. Li Zhi Hai acting as the chairman of the Nomination Committee. The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors.

During the year ended 31 December 2019, the Nomination Committee was primarily responsible for:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the Chief Executive Officer.

Nomination Policy

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies. When the Nomination Committee considers it appropriate, it invites nominations of candidates from Board members or any person and makes recommendations for the Board's consideration and approval.

In assessing the suitability of a proposed candidate, the Nomination Committee would consider factors including:

(a) reputation for integrity;

(b) experience in food and beverages industry and/or business strategy, management, legal and financial aspects;

(c) whether the proposed candidate is able to assist the Board in effective performance of its responsibilities;

(d) the perspectives and skills that the proposed candidate is expected to bring to the Board;

(e) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

(f) commitment in respect of available time and relevant interest; and

(g) in the case of selection for independent non-executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Board Diversity Policy

The Board adopted the board diversity policy (the "**Policy**") in accordance with the requirement set out in the CG Code. The Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the Policy, and reviews, as appropriate, the Policy to ensure the effectiveness of the Policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

The Nomination Committee will meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year ended 31 December 2019, details of attendance are set out below:

Nomination Committee Members	Attendance/ Number of Meeting
Mr. Li Zhi Hai *(Chairman of Nomination Committee)*	1/1
Mr. Zheng Yu Shuang	1/1
Mr. Chung Yau Tong	1/1

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Zheng Yu Long, Ms. Sun Kam Ching, and Mr. Chung Yau Tong, the majority of which are independent non-executive directors, with Ms. Sun Kam Ching acting as the chairman of the Remuneration Committee. The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits.

The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that level of their remuneration and compensation are reasonable. Their written terms of reference are in line with the provisions of the CG Code. Pursuant to Code Provision B.1.3 of the CG Code, the Remuneration Committee would make available its terms of reference, explaining its role and the authority delegated to it by the Board.

During the year ended 31 December 2019, the Remuneration Committee was primarily responsible for:

- making recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- reviewing and approving performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;
- reviewing and approving compensation payable to executive Directors and senior management members of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee held one meeting during the year ended 31 December 2019 and the details of attendance are set out below:

Remuneration Committee Members	**Attendance/ Number of Meeting**
Ms. Sun Kam Ching *(Chairman of Remuneration Committee)*	1/1
Mr. Zheng Yu Long	0/1
Mr. Chung Yau Tong	1/1

Audit Committee

The Audit Committee comprises three members, namely Mr. Li Zhi Hai, Ms. Sun Kam Ching, and Mr. Chung Yau Tong, all of which are independent non-executive directors, with Mr. Chung Yau Tong acting as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review the financial information and reporting process, risk management and internal control systems and to provide advice and comments to the Board.

During the year ended 31 December 2019, the Audit Committee was primarily responsible for:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- developing and implementing policy on the engagement of an external auditor to supply non-audit services;
- monitoring integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and reviewing significant financial reporting judgements contained in them;
- reviewing the Company's financial controls, internal control and risk management systems;
- discussing with management the risk management and internal control systems and ensuring that management has discharged its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the Group's connected transactions;
- reviewing the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response; and
- ensuring that the Board provides a timely response to the issues raised in the external auditor's management letter.

The Audit Committee held two meetings during the year ended 31 December 2019 and the details of attendance are set out below:

Audit Committee Members	**Attendance/ Number of Meeting**
Mr. Chung Yau Tong *(Chairman of Audit Committee)*	2/2
Mr. Li Zhi Hai	2/2
Ms. Sun Kam Ching	2/2

Corporate Governance Functions

During the year ended 31 December 2019, the Audit Committee is also responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

- developing and reviewing the Group's policies and practices on corporate governance and make recommendations;
- reviewing and monitoring the training and continuous professional development of the Directors and senior management;

- reviewing and monitoring the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and
- reviewing the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management of the Company has provided to the Board such explanation and information as necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Risk management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions. All departments conducted internal control assessment on a regular basis to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems during the year ended 31 December 2019.

The internal audit department of the Company is responsible for providing internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Company has also engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group including recommendations to enhance the overall internal control system for the year ended 31 December 2019.

The Board, as supported by the Audit Committee as well as the management report and the findings of the internal audit department and the external consulting firm, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, of the Company during the year ended 31 December 2019, and considered that such systems are effective and adequate.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed an inside information policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 45 to 49.

During the year ended 31 December 2019, the Group's external auditor provided the following services to the Group:

Type of Services	Service fees RMB'000
Statutory audit services	2,081
Non-audit services	357
Total	2,438

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders through face-to-face dialogue with the shareholders. The Chairman of the Board as well as the respective chairman of each of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The annual general meeting regarding the financial results for the year ended 31 December 2019 (the "**AGM**") will be held on Monday, 29 June 2020. The notice of the AGM will be sent to shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

Convening a special general meeting by shareholders

Procedures for shareholders to convene a special general meeting (including making proposals/moving a resolution at the special general meeting)

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at a special general meeting.

- Eligible Shareholders who wish to convene a special general meeting for the purpose of making proposals or moving a resolution at an extraordinary/a special general meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene a special general meeting, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the Eligible Shareholder(s) concerned.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene a special general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the bye-laws, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post to 7th Floor, AT Tower, 180 Electric Road, North Point, Hong Kong or by email to 1262 @lbxxgroup.com.

INVESTOR RELATIONS

Amendments to the bye-laws and adoption of new bye-laws of the Company

At the annual general meeting of the Company held on 31 May 2013, the shareholders approved the amendments to the bye-laws and adoption of new bye-laws of the Company. The details of the major amendments are set out in the circular of the Company dated 30 April 2013.

Investors Communication Policy

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. To promote effective communication, the Company maintains a website at http://www.lbxxgroup.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and available for public access.

During the year ended 31 December 2019, the Directors and senior management of the Company participated in numerous investor conferences/meetings. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Disclaimer

The contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only. The information does not represent and should not be regarded as legal or other professional advice from the Company to the shareholders. Shareholders should seek their own independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

Directors' Report

The Board of Directors (the "**Board**") is pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 33 to the consolidated financial statements.

The principal activities of the Group are the manufacturing and sale of jelly products, confectionary products, beverages products and other snack products in the PRC.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year ended 31 December 2019 and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2019 are provided in the section headed "Chairman's Statement" on pages 6 and 7 and the section headed "Management Discussion and Analysis" on pages 10 to 17 of this Annual Report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of the report of the Directors on pages 34 to 44 of this Annual Report.

An analysis of the Group's performance during the year ended 31 December 2019 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 17 of this Annual Report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" of the report of the Directors on pages 34 to 44 of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 50.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: Nil).

There is no arrangement under which a shareholder has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the shareholders who are entitled to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Tuesday, 23 June 2020 to Monday, 29 June 2020 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Monday, 22 June 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended 31 December 2019 are set out in Note 15 to the consolidated financial statements.

BORROWINGS

Particular of the borrowings of the Group as at 31 December 2019 is set out in Note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 27 to the consolidated financial statements.

RESERVES

The movements in the reserves of the Group during the year ended 31 December 2019 are set out on page 53 of the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 5 of the Annual Report.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors:

Mr. Zheng Yu Huan *(Chairman)*
Mr. Zheng Yu Shuang *(Chief Executive Officer)*
Mr. Zheng Yu Long

Non-Executive Directors:

Mr. Li Hung Kong *(Vice-Chairman)*
Mr. Ren Yunan

Independent Non-Executive Directors:

Mr. Li Zhi Hai
Ms. Sun Kam Ching
Mr. Chung Yau Tong

In accordance with bye-law 84 of the Company's Bye-law, Mr. Zheng Yu Shuang, Mr. Li Hung Kong and Ms. Sun Kam Ching shall retire from office as Directors by rotation at the forthcoming AGM. All retiring Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Biographical details of Directors are set out on pages 18 to 21 of this Annual Report.

DIRECTORS' EMOLUMENTS

The emoluments of the Directors had been determined with reference to the Director's duties, responsibilities, performance and the results of the Group. Details of the remuneration of the Directors are set out in Note 28 to the consolidated financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company is satisfied with the independent status and considered all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has an outstanding service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Company entered into the following connected transactions with a connected person of the Company:

(i) On 31 December 2019, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan facility of RMB50,000,000. As at 31 December 2019, the Company had drawn down RMB38,911,000. The amount is unsecured, repayable on 31 December 2020 and bears fixed interest at 2% per annum.

Under the Listing Rules, Mr. Zheng Yu Long is a connected person of the Company and the loan facilities above constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Since such transactions are conducted on normal commercial terms or better and are not secured by the assets of the Group, they are fully exempted from Shareholders' approval, annual review and announcement requirements according to Rule 14A.90 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted as at 31 December 2019 or at any time during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group.

PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Bye-laws.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the respective interests and short positions of the Directors and the chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set forth in Appendix 10 of the Listing Rules (the "**Model Code**"), were as follows:

(i) Long position in shares and underlying shares of the Company

Name of Director/ Chief Executive	Nature of interest	Number of shares interested	Approximate percentage of interest in the Company	Note
Zheng Yu Long	Interest of a controlled corporation	610,915,527	45.97%	*1*
	Beneficial owner	119,935,060	9.02%	*2*
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	45.97%	*1*
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	45.97%	*1*
Li Hung Kong	Interest of a controlled corporation	610,915,527	45.97%	*1*

Notes:

(1) The 610,915,527 Shares are beneficially owned by Alliance Food And Beverages (Holding) Company Limited ("**Alliance Holding**"), a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the shares held by Alliance Holding for the purpose of the SFO.

(2) In addition to the 610,915,527 Shares held through Alliance Holding, Zheng Yu Long is also personally and beneficially interested in 119,935,060 Shares.

(ii) Short position in shares and underlying shares of the Company

Name of Director/ Chief Executive	Nature of interest	Number of shares interested	Approximate percentage of interest in the Company	Note
Zheng Yu Long	Interest of a controlled corporation	610,915,527	45.97%	*1*
	Beneficial owner	119,935,060	9.02%	*1*
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	45.97%	*1*
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	45.97%	*1*
Li Hung Kong	Interest of a controlled corporation	610,915,527	45.97%	*1*

Note:

(1) 119,935,060 shares and 610,915,527 shares of the Company held by Mr. Zheng Yu Long and Alliance Holding, respectively, have been charged in favour of Mr. Zhang Yan.

(iii) Long position in shares and underlying shares of the associated corporation

Name of Director	Name of associated corporation	Total number of shares held in associated corporation	Approximate percentage of issued share capital of associated corporation
Zheng Yu Long	Alliance Holding	28	28%
Zheng Yu Shuang	Alliance Holding	28	28%
Zheng Yu Huan	Alliance Holding	28	28%
Li Hung Kong	Alliance Holding	16	16%

Save as disclosed above, as at 31 December 2019, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

On 23 September 2011, a share option scheme (the "**Share Option Scheme**") was conditionally adopted by the written resolutions of the shareholders of the Company.

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognise and acknowledge the contributions of the Eligible Participants (as defined in paragraph (b) below) to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to (i) motivating the Eligible Participants to optimize their performance efficiency to the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The Directors may, at their discretion, invite any Directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the Share Option Scheme.

Initially, the maximum number of shares which may be issued upon the exercise of all the options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate number of the shares in issue as at the date of the Listing, which was 112,560,000 shares, representing approximately 8.5% of the issued share capital of the Company as at the date of this Annual Report. The total number of shares which may be issued upon the exercise of all the options granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the aggregate number of the shares in issue from time to time.

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) under the Share Option Scheme or any other share option scheme adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) in any 12-month period must not exceed 1% of the shares in issue.

The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the share options shall expire no later than 10 years from the relevant date of grant. At the time of the grant of the options, the Company may specify any performance target(s) which must be achieved before the options can be exercised. The Share Option Scheme does not contain any performance targets.

The subscription price for the shares of the Company being the subject of the options shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant.

The amount payable by a grantee on the acceptance of a grant of options is HK$1.00.

The following are details of the options granted pursuant to the Share Options Scheme but not yet exercised during the year ended 31 December 2019:

Grantee and position	Date of grant of options	Exercise price	Number of options granted	Number of options granted during the year	Number of options exercised/ cancelled/ lapsed during the year	Number of options not yet exercised on 31 December 2019	Approximate percentage of shareholding upon the exercise of the options
Other employees	30 September 2014	HK$1.19	33,000,000	–	(33,000,000)	–	–
Other employees	10 July 2015	HK$0.89	30,000,000	–	–	30,000,000	2.26%
Other employees	14 November 2016	HK$0.47	30,000,000	–	–	30,000,000	2.26%
Total			93,000,000	–	(33,000,000)	60,000,000	4.52%

During the year ended 31 December 2019, no options were granted to a Director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

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 ended 31 December 2019.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2019, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholder	Beneficial owner	Interest of a controlled corporation	Investment manager	Total interests in shares *(Note 1)*	Approximate percentage shareholding	Note
Alliance Holding	610,915,527	–	–	610,915,527 (L)(S)	45.97%	*2, 3*
Zheng Yu Long	119,935,060	610,915,527	–	730,850,587 (L)(S)	54.99%	*2, 3*
Zheng Yu Shuang	–	610,915,527	–	610,915,527 (L)(S)	45.97%	*2, 3*
Zheng Yu Huan	–	610,915,527	–	610,915,527 (L)(S)	45.97%	*2, 3*
Li Hung Kong	–	610,915,527	–	610,915,527 (L)(S)	45.97%	*2, 3*
Zhang Yan	730,850,587	–	–	730,850,587 (L)	54.99%	*3*

Notes:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) The 610,915,527 Shares are beneficially owned by Alliance Holding, a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.

(3) 119,935,060 shares and 610,915,527 shares of the Company held by Mr. Zheng Yu Long and Alliance Holding, respectively, have been charged in favour of Mr. Zhang Yan.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2019.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2019 (2018: Nil). Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this Annual Report.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EMOLUMENT POLICY

As at 31 December 2019, the Group had approximately 1,120 employees. The Group recruited and promoted individual persons according to their strength and development potential. The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the market rates, workload and responsibilities and general economic situation.

LITIGATION AND ARBITRATION

As at the date of this Annual Report, there was no outstanding or pending litigation and arbitration for the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company had maintained a sufficient public float throughout the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group's largest customer and five largest customers accounted for approximately 3.7% (2018: 2.5%) and 14.5% (2018: 11.4%) of the Group's total turnover for the year, respectively.

During the year ended 31 December 2019, the Group's largest supplier and five largest suppliers accounted for approximately 23.5% (2018: 17.93%) and 36.2% (2018: 28.1%) of the Group's total purchases for the year, respectively.

None of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year ended 31 December 2019.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

The Group's business is built on a customer-oriented culture. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards and high quality products to its customers. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental Protection Environmental conservation remains a key focus for the Group. The conscientious use of resources and adoption of best practices across the Group's businesses underlie its commitment to safeguarding the environment. The Group encourages environmental protection and comply with environmental legislation and promote awareness towards environmental protection to the employees.

The Group puts great emphasis in environmental protection and sustainable development. Through the establishment of an ever-improving management system, enhancement on procedure monitoring, energy conversation and environment protection were strongly promoted, leading to the remarkable achievement of environmental management. Several measures have been implemented by the Group in order to promote environmental protection.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The audit committee of the Company is delegated by the Board to monitor the Group's practices on compliance with legal and regulatory requirements. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. The Group also establishes and implements policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organized charitable and staff-friendly activities for employees, such as outings, sport match and health talks to provide communication opportunities among staff, which are vital to promote staff relationship and physical fitness.

Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provides health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staff are entitled to medical insurance benefits as well as other health awareness programs.

Training and Development

The Group is committed to the professional and personal development and growth of all employees and considers training and development a continual process. Many on– and off-the-job training courses and programs are provided to help employees develop and maintain consistency, proficiency and professionalism. Structured training programmes including courses, seminars and workshops are offered to staff at all levels with the objective of grooming and unleashing their full potential, supporting, organizational development and facilitating team synergies. Employees are encouraged to take advantage of these programmes in order to equip themselves with the skills and knowledge for expanded career opportunities within the Group.

AUDITORS

The financial statements for the year ended 31 December 2019 have been audited by HLB Hodgson Impey Cheng Limited ("**HLB**"). A resolution will be proposed in the forthcoming AGM to re-appoint HLB as auditors of the Company.

On behalf of the Board
Labixiaoxin Snacks Group Limited

Zheng Yu Huan
Chairman
Hong Kong, 15 May 2020

HLB 國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
LABIXIAOXIN SNACKS GROUP LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Labixiaoxin Snacks Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 50 to 114, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB170,110,000 during the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB274,026,000. As stated in Note 2, these conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment	
Refer to Note 15 of the consolidated financial statements. As at 31 December 2019, the Group had property, plant and equipment of approximately RMB505,644,000, which mainly comprised land and buildings of approximately RMB309,953,000, plant and equipment of approximately RMB193,240,000. A recent history of losses of the subsidiaries of the Group is an indicator of impairment for property, plant and equipment and hence an impairment assessment is required. We focused on this area because the balance of property, plant and equipment was significant and these assessment process is complex and highly subjective which based on the selection of appropriate comparables and assumptions such as discount rate and future revenue. The Group engaged an external valuer to perform the valuation for the recoverable amount of the property, plant and equipment.	Our procedures in relation to management's impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by management for impairment assessment were supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on trade receivable	
Refer to Note 19 of the consolidated financial statement. The Group has trade receivables of approximately RMB244,549,000 (net of allowance for credit losses). Provision is made for lifetime expected credit losses on trade receivables. Management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced from the past 3 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.	Our procedures in relation to management's impairment assessment on trade receivables included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk; • Checking on a sample basis, the ageing profile of the trade receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records and other correspondence with the customers; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used for determining the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "**Other Information**").

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 the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 intends 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.

AUDITORS' RESPONSIBILITY 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with 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 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 auditors' 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 director on the audit resulting in this independent auditors' report is Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practising Certificate Number: P06901

Hong Kong, 15 May 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	6	**466,570**	502,802
Cost of sales		**(327,565)**	(374,683)
Gross profit		**139,005**	128,119
Other income	7	**16,819**	25,909
Other gain/(losses), net	8	**444**	(10,213)
Reversal/(provision) of impairment loss on loan receivable	21	**28,528**	(107,100)
Loss on the remeasurement of asset classified as held for sale	24	**(46,690)**	–
Written-off of property, plant and equipment	15	**(67,252)**	–
Selling and distribution expenses		**(74,637)**	(86,267)
Administrative expenses		**(106,383)**	(98,908)
Operating loss		**(110,166)**	(148,460)
Finance income		**676**	1,385
Finance costs		**(43,774)**	(44,826)
Finance costs, net	9	**(43,098)**	(43,441)
Loss before taxation	10	**(153,264)**	(191,901)
Taxation	11	**(16,846)**	12,307
Loss and total comprehensive loss for the year		**(170,110)**	(179,594)
Loss per share attributable to equity holders of the Company (RMB per share)	12		
– Basic		**(0.13)**	(0.14)
– Diluted		**(0.13)**	(0.14)

Details of dividends to equity holders of the Company are set out in Note 13.

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	*14*	**127,710**	–
Land use rights	*14*	**–**	131,026
Property, plant and equipment	*15*	**505,644**	865,994
Deposits for property, plant and equipment	*16*	**43,508**	42,437
Deferred income tax assets	*17*	**110,275**	130,490
		787,137	1,169,947
Current assets			
Inventories	*18*	**43,146**	53,463
Trade receivables	*19*	**244,549**	226,228
Prepayments and other receivables	*20*	**135,921**	132,843
Loan receivable	*21*	**–**	21,400
Pledged bank deposits	*22*	**70,270**	64,959
Cash and cash equivalents	*23*	**24,833**	25,507
		518,719	524,400
Asset classified as held for sale	*24*	**180,000**	–
		698,719	524,400
Total assets		**1,485,856**	1,694,347
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*27*	**470,030**	470,030
Reserves	*34*	**27,217**	197,327
Total equity		**497,247**	667,357

Consolidated Statement of Financial Position

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	*17*	**15,864**	19,233
		15,864	19,233
Current liabilities			
Trade and other payables	*25*	**347,855**	299,368
Bank borrowings	*26*	**624,890**	708,389
		972,745	1,007,757
Total liabilities		**988,609**	1,026,990
Total equity and liabilities		**1,485,856**	1,694,347
Net current liabilities		**(274,026)**	(483,357)
Total assets less current liabilities		**513,111**	686,590

Approved and authorised for issue by the board of directors on 15 May 2020:

Zheng Yu Huan	**Zheng Yu Shuang**
Director	*Director*

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 *(Note 34(a))*	Statutory reserves RMB'000 *(Note 34(b))*	Share option reserves RMB'000 *(Note 34(c))*	Currency translation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance as at 1 January 2018	470,030	615,656	(87,600)	170,995	17,914	(41)	858	(340,861)	846,951
Loss and total comprehensive loss for the year	–	–	–	–	–	–	–	(179,594)	(179,594)
Balance as at 31 December 2018 and 1 January 2019	**470,030**	**615,656**	**(87,600)**	**170,995**	**17,914**	**(41)**	**858**	**(520,455)**	**667,357**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(170,110)**	**(170,110)**
Lapse of share option *(Note 31)*	**–**	**–**	**–**	**–**	**(6,658)**	**–**	**–**	**6,658**	**–**
Lapse of unlisted warrant *(Note 28)*	**–**	**–**	**–**	**–**	**–**	**–**	**(858)**	**858**	**–**
Balance as at 31 December 2019	**470,030**	**615,656**	**(87,600)**	**170,995**	**11,256**	**(41)**	**–**	**(683,049)**	**497,247**

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Loss before taxation		**(153,264)**	(191,901)
Adjustments for:			
– Amortisation and depreciation		**77,664**	73,008
– (Reversal)/provision of impairment loss on loan receivable	*21*	**(28,528)**	107,100
– Reversal of credit losses on trade receivables, net		**(375)**	(390)
– Loss on the remeasurement of asset classified as held for sale		**46,690**	–
– Written-off of property, plant and equipment		**67,252**	–
– (Gain)/loss on disposal of property, plant and equipment		**(403)**	10,338
– Interest income on bank deposits		**(676)**	(1,385)
– Finance costs		**43,774**	44,826
Operating cash flow before working capital changes		**52,134**	41,596
– (Increase)/decrease in trade receivables, prepayments and other receivables		**(21,024)**	75,738
– Decrease in inventories		**10,317**	10,513
– Decrease in trade and other payable	*25*	**(6,456)**	(38,899)
Cash generated from operations		**34,971**	88,948
Income tax paid		**–**	–
Net cash generated from operating activities		**34,971**	88,948
Cash flows from investing activities			
Purchase of property, plant and equipment		**(8,808)**	(12,277)
Deposits paid for property, plant and equipment		**(2,236)**	(2,437)
Proceeds from disposal of property, plant and equipment		**2,436**	11,552
Increase in pledged bank deposits		**(5,311)**	(21,659)
Interest received on bank deposits		**676**	1,385
Proceed from loan receivable	*21*	**49,928**	–
Net cash generated from/(used in) investing activities		**36,685**	(23,436)
Cash flows from financing activities			
Proceeds from bank borrowings		**629,900**	556,100
Repayments of bank borrowings		**(713,399)**	(630,950)
Proceeds from loan from a director		**9,413**	6,861
Repayment of loan from a director		**–**	(23)
Proceeds from loan from an independent third party		**41,762**	–
Interest paid		**(40,006)**	(44,826)
Net cash used in financing activities		**(72,330)**	(112,838)
Net decrease in cash and cash equivalents		**(674)**	(47,326)
Cash and cash equivalents as at the beginning of the year		**25,507**	72,833
Cash and cash equivalents as at the end of the year		**24,833**	25,507

The notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Labixiaoxin Snacks Group Limited (the "**Company**") was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company's immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands (the "**BVI**"). The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Wuli Industrial Area, Jinjiang, Fujian, the People's Republic of China (the "**PRC**")（中國福建省晉江市五里工業園區）.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are manufacturing and sales of jelly products, confectionary products, beverages products and other snacks products.

The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The consolidated financial statements are presented in thousands of units of Renminbi ("**RMB'000**"), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 15 May 2020.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all International Accounting Standards ("**IAS**") and related interpretations, as issued by the International Accounting Standards Board (the "**IASB**").

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance (the "**CO**").

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 (since 1 January 2019) or IAS 17 (before the application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

2. BASIS OF PREPARATION (Continued)

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

* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

* Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

* Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated financial statements in conformity with IFRSs 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 5.

The Group incurred a net loss of approximately RMB170,110,000 (2018: approximately RMB179,594,000) for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB274,026,000 (2018: approximately RMB483,357,000).

The directors of the Company have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of twelve months from 31 December 2019. They are of the opinion that, taking into account the plans and measures as stated below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2019. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(1) Financial support from substantial shareholder

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB38,911,000 loan from a loan facility of RMB50,000,000 to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2019.

(2) Completion of the disposal of the land

The Group is in the process of completion of the disposal of the land located at Jinjian Food Industrial Park (晉江市食品產業園) with a total site area of approximately 126,981 square meters together with the buildings thereon with an aggregate site area of approximately 148,271 square meters. For further details, please refer to Note 24 and 38.

(3) Alternative sources of external funding

The Group will take steps to obtain external funding in order to improve the working capital and liquidity and cash flow position of the Group.

2. BASIS OF PREPARATION (Continued)

Application of new and amendments to international financial reporting standards ("IFRSs")

Application of new and amendments to IFRSs – effective on 1 January 2019

In the current year, the Group has applied, for the first time, the following new and amendments to the IFRSs (the "**new and amendments to IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"), which are effective for the Group's financial year beginning from 1 January 2019. A summary of the new and amendments to IFRSs applied by the Group is set out as follows:

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

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

The above new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

IFRS 16 Leases

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

Definition of a lease

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

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

As a lessor

The adoption of IFRS 16 did not have any impact on the Group's assets held as lessor under operating leases.

2. BASIS OF PREPARATION (Continued)

Application of new and amendments to international financial reporting standards ("IFRSs") (Continued)

As a lessee

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

As at 31 December 2018, the Group had no any non-cancellable operating lease commitments, therefore, the application of IFRS 16 would not have any impact on opening balance of equity at 1 January 2019, except for the following table summarises the impact of transition of IFRS 16 at 1 January 2019.

Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:	**Carrying amounts previously reported as at 31 December 2018**	**Reclassification**	**Carrying amounts under IFRS 16 as at 1 January 2019**
	RMB'000	RMB'000	RMB'000
Assets			
Land use rights	131,026	(131,026)	–
Right-of-use assets	–	131,026	131,026

2. BASIS OF PREPARATION (Continued)

Application of new and amendments to international financial reporting standards ("IFRSs") (Continued)

New and amendments to IFRSs that have been issued but are not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

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

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

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

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

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

The directors anticipate that the application of new and amendments to IFRSs will have no material impact on the Group's financial performance and financial position.

3. 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.

3.1 Basis of consolidation

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

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

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

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

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

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

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

3.2 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign currency translation

(a) 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**"). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within "other gain/(losses), net".

(c) Group companies

The results and financial position of all the group entities (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:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless the average 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 rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. 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 the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

	Useful lives
Leasehold land classified as finance lease	20 years
Buildings	20 years
Plant and equipment	5 – 10 years
Motor vehicles	5 years
Leasehold improvements	5 years

Construction in progress represents costs incurred in the construction of property, plant and equipment and other tangible assets. Costs comprise direct and indirect costs of construction, including borrowing costs incurred during the period of construction.

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are ready for its intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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 3.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gain/(losses), net" in the consolidated statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Leases

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

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

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

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

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The cost of right-of-use asset includes:

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

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

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

3.6 Land use rights (prior to adoption of IFRS 16 on 1 January 2019)

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, which continue to be measured in accordance with the accounting policies as set out in respective sections.

3.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments

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

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

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

Income is recognised on an effective interest basis for debt instruments.

3.10.1 Financial assets

(i) Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Continued)

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

Amortised cost and interest income

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Continued)

Financial assets at FVTPL

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

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

(ii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("**ECL**") on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposits, other receivables, loan receivable, pledged bank deposits and cash and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

(a) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(a) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(a) Significant increase in credit risk (Continued)

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition.

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

(b) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(c) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(d) Write-off policy

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

(e) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(e) Measurement and recognition of ECL (Continued)

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

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

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

(iii) Derecognition of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (Continued)

3.10.2 Financial liabilities

(i) Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

(ii) Derecognition of financial liabilities

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

3.11 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, less bank overdrafts and pledged deposits. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

3.12 Share capital

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

3.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss and other comprehensive income, 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company's subsidiaries, associated company and jointly controlled entity 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 relevant tax authorities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Current and deferred income tax (Continued)

Deferred income tax is recognised, 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a 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 substantively enacted by the end of 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 income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities is provided on taxable temporary differences arising on investments in subsidiaries and associated company, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Current and deferred income tax (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.14 Employee benefits

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as social security plans in the PRC, and the Group has no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. The Group's contributions to defined contribution plans are recognised in the financial year to which they relate.

3.15 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets and remaining employees of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. 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. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss and other comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to accumulated losses.

3.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue from contracts with customers

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

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

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue from contracts with customers (Continued)

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental Income

Rental income under operating leases (net of any incentives given to the lessees) is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

3.18 Dividend distribution

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

3.19 Related parties

(a) A person or entity that is preparing the consolidated financial statements of the Group.

(b) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group parent.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Related parties (Continued)

(c) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The directors of the Company are responsible for setting the objectives and underlying principles of financial risk management for the Group.

(a) Market risk

(i) Currency risk

The Group's dominant operations are in the PRC and most of the transactions are denominated in RMB. Entities in the Group sometimes transact in currencies other than RMB. The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar ("**HKD**") and the United States Dollar ("**USD**").

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management considers the Group's exposure to currency risk is insignificant.

(ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk arises mainly from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2019, if the interest rate on all borrowings had been 100 basis points higher lower with all other variables held constant, pre-tax loss for the year ended 31 December 2019 would have been approximately RMB2,640,000 lower/higher (2018 pre-tax loss: RMB3,070,000 lower/higher), mainly as a result of higher/lower interest expense on borrowings with floating interest rates. The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk

The credit risk of the Group mainly arises from bank balances, deposits, trade receivables, loan receivable, pledged bank deposits and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019 and 2018.

In respect of the deposits and other receivables, the credit quality has been assessed with reference to historical information about the counterparties default rate and financial position of the counterparties. The Group recognised the allowance for expected credit losses by assessing the credit risk characteristics of other receivables, discount rate and the likelihood of recovery and considering the prevailing economic conditions. The Directors consider that the credit risk of the deposits and other receivables are low and no provision of was made as of 31 December 2019 and 2018.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime ECLs provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2019 and 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

Majority of the Group's revenue is received from individual customers in relation to sales of jelly products, confectionery products and beverages products. The Group's trade receivables arise mainly from sales of jelly products, confectionery products and beverages product. As at the end of the year, the top five debtors and the largest debtor accounted for approximately 12.34% and 3.00% (2018: 11.72% and 2.98%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivables disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 180 days (2018: 180 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 2018:

At 31 December 2019	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Less than 30 days	0.14	52,340	75
31 to 90 days	0.92	56,403	519
Over 90 days	2.17	139,429	3,029
		248,172	3,623

At 31 December 2018	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Less than 30 days	0.76	70,086	534
31 to 90 days	0.87	49,192	428
Over 90 days	2.74	110,948	3,036
		230,226	3,998

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group's financial liabilities are all due within the next 12 to 36 months from the end of reporting period. The Group manage the liquidity risk by maintaining sufficient cash and banking facilities to enable them to meet their normal operating and capital commitments.

Based on the Group's history of its ability to obtain external financing and the continuing financial support by the substantial shareholders of the Company, its anticipated cash inflows from operations in the coming year and its expected future working capital requirements, the directors are of the opinion that there are sufficient financial resources available to the Group at least in the coming 12 months to meet its liabilities as and when they fall due.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date of the Group can be required to pay:

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019					
Trade payables	**–**	**19,593**	**–**	**19,593**	**19,593**
Accruals and other payables	**–**	**247,589**	**–**	**247,589**	**247,589**
Loan from a director	**2.00**	**39,689**	**–**	**39,689**	**38,911**
Loan from an independent third party	**12.00**	**45,103**	**–**	**45,103**	**41,762**
Bank borrowings	**7.14**	**639,535**	**–**	**639,535**	**624,890**
		991,509	**–**	**991,509**	**972,745**
As at 31 December 2018					
Trade payables	–	27,407	–	27,407	27,407
Accruals and other payables	–	242,463	–	242,463	242,463
Bank borrowings	5.51	730,001	–	730,001	708,389
Loan from a director	2.00	30,088	–	30,088	29,498
		1,029,959	–	1,029,959	1,007,757

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares or obtain new borrowings.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity as shown in the consolidated statement of financial position.

The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 **RMB'000**	2018 RMB'000
Total borrowings	**705,563**	737,887
Total equity	**497,247**	667,357
Gearing ratio	**141.9%**	110.6%

4.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, loan receivable and the Group's financial liabilities, including trade and other payables and bank borrowings, approximate their fair values due to their short maturities. The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group and the Company for similar financial instruments.

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the depreciation where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or assets that have been abandoned.

(b) Employee benefits – share-based payments

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to vest. Where the outcome of the number of options that are vested is different, such difference will impact the consolidated statement of profit or loss and other comprehensive income in the subsequent remaining vesting period of the relevant share options.

(c) Provision of allowance for credit losses for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 19.

(d) Current and deferred income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Impairment losses for property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are assessed at the end of each reporting period to identify indications that they may be impaired. If any such indication exists, the recoverable amounts of the property, plant and equipment and right-of-use assets are estimated. The recoverable amount of the property, plant and equipment and right-of-use assets is based on the higher of its value in use or its fair value less cost of disposal. These calculations of the value in use are determined based on cash flow projections with reasonable assumptions that represent management's best estimate of the range of economic condition over the remaining useful life of the assets. Changes in facts and circumstances may result in revisions to whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit of loss in future years. And the fair value less costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As at 31 December 2019 and 2018, the recoverable amounts of the property, plant and equipment and right-of-use assets are higher than the carrying amount. No impairment was provided during the years ended 31 December 2019 and 2018.

(f) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realizable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and raw material based primarily on the latest invoice prices and current market conditions.

In addition, the directors perform an inventory review on a product-by-product basis at the end of each reporting period and assess the need for write-off of inventories.

6. SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of jelly products, confectionary products, beverages products and other snacks products.

The chief operating decision-maker (the "**CODM**") has been identified as the executive directors of the Company. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business by products and assesses the performance of the following operating segments:

i. Jelly products
ii. Confectionary products
iii. Beverages products
iv. Other snacks products

The CODM assesses the performance of the operating segments based on measure of segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements. The Company's executive directors make decisions based on the operating results of each segment and review reports on the aging analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of operating segments. Therefore, only the segment revenue and segment results are presented.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

6. SEGMENT INFORMATION (Continued)

During the years ended 31 December 2019 and 2018, none of the individual customer accounted for 10% or more of the Group's external revenue. As at 31 December 2019 and 2018, majority of the Group's assets, liabilities and capital expenditure were located or utilised in the PRC.

Segment revenue and results

	Year ended 31 December 2019				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	**349,241**	**105,669**	**7,798**	**3,862**	**466,570**
Cost of sales	**(248,045)**	**(69,216)**	**(7,788)**	**(2,516)**	**(327,565)**
Gross profit	**101,196**	**36,453**	**10**	**1,346**	**139,005**
Results of reportable segments	**(22,278)**	**19,885**	**(1,256)**	**765**	**(2,884)**

Note: For sales to external customer, the revenue is recognised at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	2019 RMB'000
Results of reportable segments	**(2,884)**
Corporate income	**17,263**
Reversal of impairment loss on loan receivable	**28,528**
Loss on the remeasurement of asset classified as held for sale	**(46,690)**
Corporate expenses	**(106,383)**
Operating loss	**(110,166)**
Finance income	**676**
Finance costs	**(43,774)**
Loss before taxation	**(153,264)**
Taxation	**(16,846)**
Loss for the year	**(170,110)**

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2019				
	Jelly products RMB'000	**Confectionary products RMB'000**	**Beverages products RMB'000**	**Other snacks products RMB'000**	**Reportable segments total RMB'000**
Capital expenditure	**7,933**	**–**	**3,111**	**–**	**11,044**
Depreciation of right-of-use assets	**2,381**	**–**	**935**	**–**	**3,316**
Depreciation of property, plant and equipment	**69,145**	**–**	**5,116**	**87**	**74,348**
Gain on disposal of property, plant and equipment	**(403)**	**–**	**–**	**–**	**(403)**
Written-off of property, plant and equipment	**67,252**	**–**	**–**	**–**	**67,252**
Reversal of credit losses on trade receivables, net	**(368)**	**–**	**(7)**	**–**	**(375)**

	Year ended 31 December 2018				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	357,803	115,425	25,942	3,632	502,802
Cost of sales	(269,175)	(82,831)	(20,579)	(2,098)	(374,683)
Gross profit	88,628	32,594	5,363	1,534	128,119
Results of reportable segments	27,051	12,913	952	936	41,852

Note: For sales to external customer, the revenue is recognised at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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

	2018 RMB'000
Results of reportable segments	41,852
Corporate income	15,696
Impairment loss on loan receivable	(107,100)
Corporate expenses	(98,908)
Operating loss	(148,460)
Finance income	1,385
Finance costs	(44,826)
Loss before taxation	(191,901)
Taxation	12,307
Loss for the year	(179,594)

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2018				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Capital expenditure	13,752	–	962	–	14,714
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	50,709	–	18,197	786	69,692
Loss on disposal of property, plant and equipment	10,338	–	–	–	10,338
Reversal of credit losses on trade receivables, net	(313)	–	(77)	–	(390)

6. SEGMENT INFORMATION (Continued)

Geographic information

No geographic information has been presented as all of the Group's operating activities are carried out in PRC.

7. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Rental income	**8,465**	9,237
Sundry income	**2,653**	5,315
Gain on sales of raw materials and scrap materials	**5,701**	11,357
	16,819	25,909

8. OTHER GAIN/(LOSSES), NET

	2019 RMB'000	2018 RMB'000
Gain/(loss) on disposal of property, plant and equipment	**403**	(10,338)
Net exchange gain	**41**	125
	444	(10,213)

9. FINANCE COSTS, NET

	2019 RMB'000	2018 RMB'000
Finance costs:		
Interest expenses on bank borrowings	**(40,006)**	(44,332)
Interest expenses on loan from a director	**(692)**	(494)
Interest expenses on loan from an independent third party	**(3,076)**	–
Total finance cost	**(43,774)**	(44,826)
Finance income:		
Interest income on bank deposits	**676**	1,385
Total finance income	**676**	1,385
Finance costs, net	**(43,098)**	(43,441)

10. LOSS BEFORE TAXATION

	2019 RMB'000	2018 RMB'000
Auditors' remuneration		
– Audit service	**2,081**	1,989
– Non-audit service	**357**	357
Staff costs (including directors' remuneration)		
– Salaries and bonuses	**71,127**	85,962
– Employer's contribution to defined contribution plans *(Note 30)*	**4,635**	5,943
– Severance payments	**1,078**	–
Advertising and promotion expenses	**34,671**	37,399
Amortisation of land use rights *(Note 14)*	**–**	3,316
Depreciation of right-of-use assets *(Note 14)*	**3,316**	–
Depreciation of property, plant and equipment *(Note 15)*	**74,348**	69,692
(Gain)/loss on disposal of property, plant and equipment	**(403)**	10,338
(Reversal)/provision of impairment loss on loan receivable *(Note 21)*	**(28,528)**	107,100
Reversal of credit losses on trade receivables, net *(Note 4)*	**(375)**	(390)
Cost of inventory sold *(Note 18)*	**196,572**	228,556
Written-off of property, plant and equipment *(Note 15)*	**67,252**	–
Loss on the remeasurement of asset classified as held for sale *(Note 24)*	**46,690**	–
Freight and transportation expenses	**2,367**	1,169

11. TAXATION

	2019 RMB'000	2018 RMB'000
Current income tax – PRC Enterprise Income Tax	**–**	–
Deferred income tax, net *(Note 17)*	**16,846**	(12,307)
	16,846	(12,307)

Hong Kong Profits Tax, Bermuda and BVI Income Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

The Group considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision of Hong Kong Profits Tax, Bermuda and BVI Income Tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the year ended 31 December 2019 (2018: Nil).

11. TAXATION (Continued)

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at the rate of 25% (2018: 25%) on taxable profits of the Group's PRC subsidiaries during the year.

No provision of PRC Enterprise Income Tax has been made as the Group's PRC subsidiaries did not generated any assessable profit during the year ended 31 December 2019 (2018: Nil).

Reconciliation between loss before taxation and tax credit is as follows:

	2019 **RMB'000**	2018 RMB'000
Loss before taxation	**(153,264)**	(191,901)
Tax calculated at PRC applicable income tax rate of 25% (2018: 25%)	**(38,316)**	(47,975)
Effect of different tax rates of group companies operating in other jurisdictions	**1,081**	877
Tax effect of income not assessable for tax purpose	**–**	(455)
Tax effect of expenses not deductible for tax purpose	**2,272**	1,703
Tax effect of tax losses not recognised	**64,853**	34,997
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**(3,369)**	(12,307)
Tax effect of temporary difference not recognised	**(9,675)**	10,853
Tax charge/(credit) for the year	**16,846**	(12,307)

12. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the net loss attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Net loss attributable to the equity holders of the Company (RMB'000)	**(170,110)**	(179,594)
Weighted average number of ordinary shares in issue for basic loss per share ('000)	**1,328,977**	1,328,977
Basic loss per share (RMB per share)	**(0.13)**	(0.14)

(b) Diluted loss per share

The computation of diluted loss per share does not include the Company's outstanding share options and the outstanding warrants because the effect were anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

13. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

14. RIGHT-OF-USE ASSETS/LAND USE RIGHTS

Right-of-use assets:

	2019
	RMB'000
Cost:	
As at 1 January and 31 December *(Note 2)*	165,820
Accumulated depreciation:	
As at 1 January *(Note 2)*	34,794
Charge for the year	3,316
As at 31 December	38,110
Net Book Value:	
As at 31 December	127,710
As at 1 January	131,026

Land use rights:

	2018
	RMB'000
Cost:	
As at 1 January and 31 December	165,820
Accumulated amortisation:	
As at 1 January	31,478
Charge for the year	3,316
As at 31 December	34,794
Net book value:	
As at 31 December	131,026

The land use rights of the Group are located in the PRC which the leasehold periods were 50 years.

Upon initial application of IFRS 16, the land use rights were classified as right-of-use assets.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2018	1,208,980	964,982	15,635	820	–	2,190,417
Additions	120	13,327	–	–	–	13,447
Transfer	–	(28,728)	–	–	28,728	–
Disposals	–	(67,950)	–	–	–	(67,950)
As at 31 December 2018 and 1 January 2019	1,209,100	881,631	15,635	820	28,728	2,135,914
Additions	1,404	6,873	797	–	899	9,973
Transfer	–	29,375	–	–	(29,375)	–
Reclassified to asset held for sale	(226,690)	–	–	–	–	(226,690)
Written-off	–	(145,355)	(382)	–	–	(145,737)
Disposals	–	(5,330)	(1,961)	–	–	(7,291)
As at 31 December 2019	**983,814**	**767,194**	**14,089**	**820**	**252**	**1,766,169**
Accumulated depreciation and impairment:						
As at 1 January 2018	616,102	615,985	13,381	820	–	1,246,288
Depreciation charge	23,093	46,207	392	–	–	69,692
Disposals	–	(46,060)	–	–	–	(46,060)
As at 31 December 2018 and 1 January 2019	639,195	616,132	13,773	820	–	1,269,920
Depreciation charge	34,666	39,522	160	–	–	74,348
Written-off	–	(78,207)	(278)	–	–	(78,485)
Disposals	–	(3,493)	(1,765)	–	–	(5,258)
As at 31 December 2019	**673,861**	**573,954**	**11,890**	**820**	**–**	**1,260,525**
Net book value:						
As at 31 December 2019	**309,953**	**193,240**	**2,199**	**–**	**252**	**505,644**
As at 31 December 2018	569,905	265,499	1,862	–	28,728	865,994

(i) The land and buildings with carrying values of approximately RMB105,234,000 (2018: RMB6,955,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2019.

(ii) During the year ended 31 December 2019, the Group moved the production facilities in its Tianjin plant to its Fujian and Anhui plants. The surplus machineries were disposed or written-off and a loss on written-off of property, plant and equipment of RMB67,252,000 was recorded for the year ended 31 December 2019.

16. DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

The balance represents deposits paid for acquisition of machineries and equipment for manufacturing, and construction of production facilities and right-of-use assets/land use rights.

17. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax relate to the same fiscal authority.

The following are the major deferred tax assets/liabilities recognised and movement thereon during the current and prior reporting years:

Deferred income tax assets	**Accrued expenses**	**Tax losses**	**Total**
	RMB'000	RMB'000	RMB'000
As at 1 January 2018, 31 December 2018 and 1 January 2019	**11,655**	**118,835**	**130,490**
Debited to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	**(1,469)**	**(18,746)**	**(20,215)**
As at 31 December 2019	**10,186**	**100,089**	**110,275**

At the end of the reporting period, the Group has unused tax losses of RMB827,446,000 (2018: RMB718,002,000) available for offset against future profits that will fully expire in 2024. A deferred tax asset has been recognised in respect of RMB400,356,000 (2018: RMB475,340,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB427,090,000 (2018: RMB242,662,000) due to the unpredictability of future profit streams.

17. DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities	Withholding income tax RMB'000	Total RMB'000
As at 1 January 2018	(31,540)	(31,540)
Charged to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	12,307	12,307
As at 31 December 2018 and 1 January 2019	**(19,233)**	**(19,233)**
Charged to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	**3,369**	**3,369**
As at 31 December 2019	**(15,864)**	**(15,864)**

As at 31 December 2019, deferred income tax assets are recognised for accrued sales rebates and tax losses, to the extent that realisation of the related tax benefits through future taxable profits is probable which are calculated in full on temporary differences under the liability method using principal tax rates of 25% (2018: 25%).

Deferred income tax liabilities represented deferred tax effect on the withholding tax payable on the undistributed profits of certain PRC subsidiaries.

According to the relevant PRC tax rules and regulations, dividend distribution out of profit earned by foreign-invested enterprises in the PRC after 1 January 2008 is subject to PRC corporate withholding income tax. During the year, withholding income tax was provided for the dividend distributed and the portion of the retained profits which will be distributed in the foreseeable future for the Group's PRC subsidiaries at a tax rate of 5% to 10%.

As at 31 December 2019, there are temporary differences relating to the retained earnings of the Group's PRC subsidiaries amounted to approximately RMB583,573,000 (2018: RMB703,952,000). Deferred income tax liabilities of approximately RMB37,015,000 (2018: RMB44,876,000), have not been recognised in respect of the tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these PRC subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

18. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Raw materials	**26,049**	29,030
Finished goods	**17,097**	24,433
	43,146	53,463

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB196,572,000 (2018: RMB228,556,000).

19. TRADE RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables	**248,172**	230,226
Less: Allowance for credit losses *(Note 4)*	**(3,623)**	(3,998)
	244,549	226,228

For the year ended 31 December 2019, the Group's revenue are generally on credit term of 180 days (2018: 180 days). As at 31 December 2019, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	2019	2018
	RMB'000	RMB'000
Less than 30 days	**52,265**	69,552
31 days – 90 days	**55,884**	48,764
Over 90 days	**136,400**	107,912
	244,549	226,228

Details of impairment assessment of trade receivables for the years ended 31 December 2019 and 2018 are set out in Note 4.

Included in the above allowance for credit losses on trade receivables is RMB3,623,000 (2018: RMB3,998,000). The individually impaired trade receivable relate to consumers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The carrying amounts of trade receivables approximate their fair values.

20. PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments	**76,498**	69,299
Other receivables	**59,423**	63,544
	135,921	132,843

As at 31 December 2019, prepayments mainly comprise of deposit paid for purchase of raw material of approximately RMB76,498,000 (2018: RMB64,946,000).

As at 31 December 2019, other receivables mainly comprise of value-added tax receivables of approximately RMB52,359,000 (2018: RMB56,157,000).

21. LOAN RECEIVABLE

On 19 June 2015, a wholly-owned subsidiary of the Group ("**Lender**") entered into an entrusted loan agreement with a PRC bank, as the lending agent (the "**Lending Bank**"), and an independent PRC third party entity (the "**Borrower**"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250 million (the "**Entrusted Loan**") to the Borrower (the "**Entrusted Loan Agreement**"). The purpose of granting the Entrusted Loan by the Group was to better utilize the surplus cash of the Group under a short-term arrangement to generate higher interest income.

The Entrusted Loan is secured by (i) a personal guarantee of RMB250 million provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228.8 million given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30.3 million, as security to the obligations of the Borrower under the Entrusted Loan Agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the "**Legal Proceeding**") with the Quanzhou Intermediate People's Court in the People's Republic of China ("**Quanzhou Court**") against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the "**Defendants**"). On 29 March 2018, the Quanzhou Court published a judgement to order the Borrower to (a) repay the principal amount of the Entrusted Loan in the amount of RMB220 million; (b) pay the interests (including penalty interests and compound interests) of RMB30.2 million; (c) pay the interests (including penalty interests and compound interests) to be accrued for the period from 14 November 2017 up till the date of actual repayment; and (d) legal fee of RMB500,000.

As the Borrower failed to fulfill the court order stated above, the Lending Bank had forced sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) ("**Pledged Assets**") charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement. During the year ended 31 December 2019, a reversal of impairment of loan receivable of RMB28,528,000 was recognised due to those Pledged Assets were sold and the loan receivable was recovered of approximately RMB49,928,000.

For further details, please refer to the announcements of the Company dated 9 August 2016, 18 August 2016 and 10 March 2017.

22. PLEDGED BANK DEPOSITS

As at 31 December 2019, pledged bank deposits of the Group of approximately RMB70,270,000 (2018: RMB64,959,000) were with initial terms of over three months and pledged to banks as security for bills payable (Note 25).

The weighted average effective interest rate of these bank deposits as at 31 December 2019 was 0.77% per annum (2018: 0.89% per annum). The carrying amounts of pledged bank deposits approximate their fair values.

23. CASH AND CASH EQUIVALENTS

	2019 **RMB'000**	2018 RMB'000
Cash and bank balances	**24,833**	25,507

(a) The Group's cash and cash equivalents as at 31 December 2019 and 2018 are denominated in the following currencies:

	2019 **RMB'000**	2018 RMB'000
RMB	**23,511**	24,811
HKD	**1,319**	693
USD	**3**	3
	24,833	25,507

Cash and cash equivalents of the Group of approximately RMB23,511,000 (2018: RMB24,811,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23. CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flow were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

For the year ended 31 December 2019

	Bank Borrowings RMB'000 *(Note 26)*	Loan from a director RMB'000 *(Note 25)*	Loan from an independent third party RMB'000 *(Note 25)*	Total RMB'000
As at 1 January 2019	708,389	29,498	–	737,887
Changes from financing activities:				
Proceeds from bank borrowings	629,900	–	–	629,900
Repayment of bank borrowings	(713,399)	–	–	(713,399)
Proceeds from loan from a director	–	9,413	–	9,413
Proceeds from loan from an independent third party	–	–	41,762	41,762
Total changes from financing cash flows	(83,499)	9,413	41,762	(32,324)
As at 31 December 2019	**624,890**	**38,911**	**41,762**	**705,563**
Interest expenses	(40,006)	(692)	(3,076)	(43,774)

23. CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

For the year ended 31 December 2018

	Bank Borrowings RMB'000 *(Note 26)*	Loan from a director RMB'000 *(Note 25)*	Total RMB'000
As at 1 January 2018	783,239	22,660	805,899
Changes from financing activities:			
Proceeds from bank borrowings	556,100	–	556,100
Repayment of bank borrowings	(630,950)	–	(630,950)
Proceeds from loan from a director	–	6,861	6,861
Repayment of loan from a director	–	(23)	(23)
Total changes from financing cash flows	(74,850)	6,838	(68,012)
As at 31 December 2018	708,389	29,498	737,887
Interest paid	(44,332)	(494)	(44,826)

24. ASSET CLASSIFIED AS HELD FOR SALE

On 15 May 2019, an indirect wholly-owned subsidiary of the Company (the "Vendor") and an independent third party (the "Purchaser") entered into the transfer agreement (the "Transfer Agreement"), pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the land use right located in Jinjiang Food Industrial Park in Jinjiang City, Fujian Province, the PRC (the "FJ Land Right") for a consideration of RMB180,000,000. Pursuant to the Transfer Agreement, both the Vendor and the Purchaser will liaise with Fujian Jinjiang Industrial Park Construction and Development Company Limited (the "Jinjiang Construction"), a company controlled by Jinjiang City People's Government, regarding the transfer of the FJ Land Right. The Vendor will arrange for the termination of the FJ Land Right with Jinjiang Construction and the Purchaser will enter into an agreement with Jinjiang Construction regarding the new pre-registration contractual right to acquire the FJ Land Right. For more details, please refer to the announcement dated 15 May 2019. The loss on the remeasurement of asset classified as held for sale of RMB46,690,000 has been recognised during the year ended 31 December 2019.

25. TRADE AND OTHER PAYABLES

	2019 **RMB'000**	2018 RMB'000
Trade payables	**19,593**	27,407
Bills payable *(Note (i))*	**132,460**	149,910
Accrued sales rebates	**10,219**	10,398
Other accrued expenses	**6,188**	7,761
Directors' fees and emoluments payable	**13,680**	11,225
Loan from a director *(Note (ii))*	**38,911**	29,498
Loan from an independent third party *(Note (iii))*	**41,762**	–
Other payables and sundry creditors *(Note (iv))*	**85,042**	63,169
	347,855	299,368

Note:

(i) Bills payable amounting to approximately RMB84,460,000 (2018: RMB127,310,000) were secured by pledged bank deposits of approximately RMB70,270,000 (2018: RMB64,959,000).

The bills payable were with maturity period within 1 year.

(ii) As at 31 December 2019, the Company has drawn down an aggregate amount of approximately RMB38,911,000 (2018: RMB29,483,000) from a loan facility of RMB50,000,000 (2018: RMB40,000,000) entered with Mr. Zheng Yu Long, an executive director of the Company. The amount is unsecured, repayable within 12 months and bears fixed interest at 2% per annum.

(iii) On 21 May 2019, the Company entered into a loan agreement with an independent third party, the loan of approximately RMB41,762,000 was secured by the equity of a PRC subsidiary. The loan was repayable within 8 months and charged at fixed interest rate of 12.00%.

(iv) As at 31 December 2019, the Company received RMB10,000,000 deposit of the assets classified as held for sale from the Purchaser in accordance with the terms of the Transfer Agreement.

The credit periods granted by suppliers generally range from 30 to 60 days. The ageing analysis of trade payables based on invoice date is as follows:

	2019 **RMB'000**	2018 RMB'000
Less than 30 days	**15,023**	20,033
31 days – 90 days	**2,637**	6,636
Over 90 days	**1,933**	738
	19,593	27,407

The carrying amounts of trade and other payables approximate their fair values.

26. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured bank borrowings	**443,390**	469,289
Unsecured bank borrowings	**181,500**	239,100
Total bank borrowings	**624,890**	708,389
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	**624,890**	708,389
	624,890	708,389

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	**623,100**	706,100
HKD	**1,790**	2,289
	624,890	708,389

As at 31 December 2019, the bank borrowing of HKD2,150,000 (equivalent to approximately RMB1,790,000) (2018: HKD2,750,000 (equivalent to approximately RMB2,289,000)) was secured by the land and buildings of approximately RMB6,443,000 (2018: RMB6,955,000) and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

As at 31 December 2019, the short-term secured bank borrowings of approximately RMB150,000,000 (2018: RMB150,000,000) were secured by corporate guarantee by the Group's PRC subsidiaries. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.00% (2018: 5.00%) which was repricing every 12 months.

As at 31 December 2019, the short-term secured bank borrowings of approximately RMB80,000,000 (2018: RMB60,000,000) were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the wife of Mr. Zheng Yu Shuang. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.66% (2018: 5.66%) per annum.

26. BANK BORROWINGS (Continued)

As at 31 December 2019, the short-term unsecured bank borrowings of RMB181,500,000 (2018: RMB239,100,000) were repayable within 12 months and charged at fixed interest rates of 4.57% to 6.98% (2018: 5.70% to 6.09%) per annum.

As at 31 December 2019, the short-term secured bank borrowings of approximately RMB52,200,000 were secured by corporate guarantee by the Group's PRC subsidiaries and land and buildings in PRC of approximately RMB98,791,000. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.66% which was repricing every 3 months.

As at 31 December 2019, the short-term secured bank borrowings of approximately RMB148,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company and the supplier of the Company. The bank borrowings were repayable within 12 months and charged at 5.44% which was repricing every 3 months.

As at 31 December 2019, the short-term secured bank borrowings of approximately RMB11,400,000 were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the related company. The bank borrowings were repayable within 12 months and charged at fixed interest rates of 6.80% per annum.

As at 31 December 2018, the short-term secured bank borrowings of approximately RMB59,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.92% which was repricing every 3 months.

As at 31 December 2018, the short-term secured bank borrowings of approximately RMB198,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.44% which was repricing every 3 months.

27. SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital

As at 31 December 2019, the total authorised share capital of the Company was US$250,000,000 (2018: US$250,000,000).

Issued share capital

	Number of Shares	Amount		
	Issued share Capital	**Share capital**	**Share premium**	**Total share capital and share premium**
	'000	RMB'000	RMB'000	RMB'000
The Company				
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,328,977	470,030	615,656	1,085,686

28. DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS

The emolument of directors and chief executive for the year ended 31 December 2019, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of directors	Fee RMB'000	Salaries RMB'000	Other benefits RMB'000	Discretionary bonuses RMB'000	Pension Retirement scheme Plan contributions RMB'000	Total RMB'000
Executive directors						
Mr. Zheng Yu Huan	–	800	–	–	15	815
Mr. Zheng Yu Shuang *(Note (i))*	–	800	–	–	–	800
Mr. Zheng Yu Long	–	800	–	–	15	815
Non-executive directors						
Mr. Li Hung Kong	200	–	–	–	–	200
Mr. Ren Yunan	200	–	–	–	–	200
Independent non-executive directors						
Mr. Li Zhi Hai	200	–	–	–	–	200
Ms. Sun Kam Ching	200	–	–	–	–	200
Mr. Chung Yau Tong	200	–	–	–	–	200
	1,000	2,400	–	–	30	3,430

28. DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS (Continued)

The emolument of directors and chief executive for the year ended 31 December 2018, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of directors	Fee	Salaries	Other benefits	Discretionary bonuses	Retirement Plan Contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Zheng Yu Huan	–	800	–	–	15	815
Mr. Zheng Yu Shuang *(Note (i))*	–	800	–	–	–	800
Mr. Zheng Yu Long	–	800	–	–	15	815
Non-executive directors						
Mr. Li Hung Kong	200	–	–	–	–	200
Mr. Ren Yunan *(Note (ii))*	200	–	–	–	–	200
Independent non-executive directors						
Mr. Li Zhi Hai	200	–	–	–	–	200
Ms. Sun Kam Ching	200	–	–	–	–	200
Mr. Chung Yau Tong	200	–	–	–	–	200
	1,000	2,400	–	–	30	3,430

Notes:

(i) Mr. Zheng Yu Shuang is the Chief Executive Officer of the Group.

(ii) On 18 August 2014, the Company entered into subscription agreements with two parties (the "**Subscribers**"), pursuant to which, the Company agreed to issue in aggregate 110,000,000 unlisted warrants to the Subscribers at an issue price of HK$0.01 per warrant, totaling HK$1,100,000 (equivalent to RMB858,000). Each unlisted warrant entitles the holder to subscribe for one share of the Company at the subscription price of HK$1.93 per share. Mr. Ren Yunan is the beneficial owner of a subscriber who holds 100,000,000 unlisted warrants. All unlisted warrants were lapsed on 31 August 2019. The amount previously recognised in other reserve was reversed during the year ended 31 December 2019.

During the years ended 31 December 2019 and 2018, none of the directors and chief executive of the Company waived or agreed to waive any emoluments.

During the years ended 31 December 2019 and 2018, no emoluments have been paid to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

29. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2019 included 3 (2018: 3) directors, whose emoluments are set out in Note 28. Details of the emoluments payable to the remaining 2 (2018: 2) highest paid employees, who are neither a director nor chief executive of the Company, during the year are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, share options and bonuses	**1,814**	1,719
Employer's contribution to defined contribution plans	**22**	22
	1,836	1,741

The emoluments of the remaining 2 highest paid employees fell within the following bands:

	Number of individuals	
	2019	2018
Nil – HK$1,000,000 (equivalent to Nil – RMB900,000)	**1**	1
HK$1,000,001 – HK$2,000,000 (equivalent to RMB900,001 – RMB1,800,000)	**1**	1

During the years ended 31 December 2019 and 2018, none of the five highest paid employees waived or agreed to waive any emoluments.

During the years ended 31 December 2019 and 2018, no emoluments have been paid to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

30. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

In addition, the Group's subsidiaries in the PRC participate in a defined contribution retirement scheme organised by the PRC municipal government. These subsidiaries are required to make contributions to the scheme.

Save as disclosed above, the Group has no other obligations to make payments in respect of retirement benefits of the employees during the year.

For the year ended 31 December 2019, the Group's retirement plan contributions amounted to approximately RMB4,635,000 (2018: RMB5,943,000).

31. SHARE BASED PAYMENTS

The Company had the following outstanding share options granted to certain employees of the Group:

Share options granted on 30 September 2014 ("Share option 1")

On 30 September 2014, 33,000,000 share options were granted to certain employees of the Group with an exercisable period from 1 October 2014 to 30 September 2019 at an exercise price of HK$1.19 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB6,788,000, based on the Black-Scholes valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	30 September 2014
Exercise price:	HK$1.19 per Share
Expected life:	2.5 years
Risk-free rate:	1%
Expected volatility:	47%
Expected dividend yield:	2%

Note:

The Share option 1 was expired on 30 September 2019, the share option was not exercised and was lapsed on the same date. The amount previously recognised in share option reserve was reversed during the year ended 31 December 2019.

31. SHARE BASED PAYMENTS (Continued)

Share options granted on 10 July 2015 ("Share option 2")

On 10 July 2015, 30,000,000 share options were granted to certain employees of the Group with an exercisable period from 13 July 2015 to 12 July 2020 at an exercise price of HK$0.89 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB5,928,000, based on the Black-Scholes valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	10 July 2015
Exercise price:	HK$0.89 per Share
Expected life:	2.68 years
Risk-free rate:	0.97%
Expected volatility:	53.18%
Expected dividend yield:	1.55%

Share options granted on 14 November 2016 ("Share option 3")

On 14 November 2016, 30,000,000 share options were granted to certain employees of the Group with an exercisable period from 15 November 2016 to 14 November 2021 at an exercise price of HK$0.47 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB5,328,000, based on the Trinomial Option Pricing valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	14 November 2016
Exercise price:	HK$0.47 per Share
Expected life:	5 years
Risk-free rate:	1.16%
Expected volatility:	52.46%
Expected dividend yield:	0%

None of the options granted as stated above were granted to a director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them. Save as disclosed above, no other options have been granted during the year ended 31 December 2019.

31. SHARE BASED PAYMENTS (Continued)

Movement of the share options during the years ended 31 December 2019 and 2018 are as follows:

Number of ordinary shares subject to share options granted under the Share Option Scheme

Grantee	Date of grant		Vesting period	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Lapsed during the year ended 31 December 2019	Outstanding as at 31 December 2019
Employee	30 September 2014	Share Option 1	Immediately	1 October 2014 to 30 September 2019	**1.19**	**33,000,000**	**–**	**–**	**(33,000,000)**	**–**
Employee	10 July 2015	Share Option 2	Immediately	13 July 2015 to 12 July 2020	**0.89**	**30,000,000**	**–**	**–**	**–**	**30,000,000**
Employee	14 November 2016	Share Option 3	Immediately	15 November 2016 to 14 November 2021	**0.47**	**30,000,000**	**–**	**–**	**–**	**30,000,000**
				Total		**93,000,000**	**–**	**–**	**(33,000,000)**	**60,000,000**
				Exercisable at the end of the year						**60,000,000**
				Weighted average exercise price (HK$)		**0.68**	**N/A**	**N/A**	**N/A**	**0.68**

Number of ordinary shares subject to share options granted under the Share Option Scheme

Grantee	Date of grant		Vesting period	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Lapsed during the year ended 31 December 2018	Outstanding as at 31 December 2018
Employee	30 September 2014	Share Option 1	Immediately	1 October 2014 to 30 September 2019	1.19	33,000,000	–	–	–	33,000,000
Employee	10 July 2015	Share Option 2	Immediately	13 July 2015 to 12 July 2020	0.89	30,000,000	–	–	–	30,000,000
Employee	14 November 2016	Share Option 3	Immediately	15 November 2016 to 14 November 2021	0.47	30,000,000	–	–	–	30,000,000
				Total		93,000,000	–	–	–	93,000,000
				Exercisable at the end of the year						93,000,000
				Weighted average exercise price (HK$)		0.86	N/A	N/A	N/A	0.86

The total expense for share options granted to directors and employees are recognised as "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

Details of share option scheme is set out at "Share option" under the "Directors' Report".

As the fair value of services received could not be estimated reliability by the Group for the fair value of service received in return for share options granted is measured by reference to the fair value of share options granted.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**134,206**	134,206
Current assets		
Amounts due from subsidiaries	**147,099**	444,171
Prepayments and other receivables	**274**	274
Cash and cash equivalents	**1,255**	690
	148,628	445,135
Total assets	**282,834**	579,341
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**470,030**	470,030
Share premium	**615,656**	615,656
Reserves	**(867,163)**	(557,346)
Total equity	**218,523**	528,340
LIABILITIES		
Current liabilities		
Amount due to a subsidiary	**5,008**	5,008
Other payables	**59,303**	45,993
	64,311	51,001
Total liabilities	**64,311**	51,001
Total equity and liabilities	**282,834**	579,341
Net current assets	**84,317**	394,134
Total assets less current liabilities	**218,523**	528,340

The Company's statement of financial position was approved and authorised by the board of directors on 15 May 2020.

Zheng Yu Huan
Director

Zheng Yu Shuang
Director

33. PARTICULARS OF SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2019:

Name	Country of business/ incorporation	Principal activities	Equity holding
Directly held			
Timeluck International Limited	BVI	Investment holding	100%
La Bi Xiao Xin International Company Limited	BVI	Investment holding	100%
Labixiaoxin Holdings Company Limited	Hong Kong	Investment holding	100%
Labixiaoxin Investments Company Limited	Hong Kong	Investment holding	100%
Indirectly held			
Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
Labixiaoxin (Sichuan) Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
Labixiaoxin (Anhui) Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
Labixiaoxin (Tianjin) Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
Tianjin Huakunda Supply Chain Management Co., Ltd.	PRC#	Supply chain management, logistics, property lease and manufacture of food	100%

The companies are established as wholly foreign-owned enterprises in the PRC.

34. RESERVES

(a) Merger reserve

The Group was formed on 28 March 2005 pursuant to a group restructuring exercise. The subsidiaries acquired pursuant to the group restructuring exercise under common control have been consolidated using the pooling-of-interest method. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group's structure immediately after the group restructuring exercise has been in existence since the earliest financial year presented and the assets and liabilities are brought into the consolidated financial statements at their carrying amounts. The merger reserve of the Group represents the difference between the nominal amount of share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the group restructuring exercise.

(b) Statutory reserves

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, every year the subsidiaries are required to transfer 0-10% of the profit after taxation determined in accordance with PRC Accounting Standards to the statutory reserves until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(c) Share option reserves

The reserve represents the fair value of the actual or estimated number of unexercised share options grants to eligible persons, including any full-time and part-time employee, director, consultant or advisor of the Company and its subsidiaries or any associate of the Company, recognised in accordance with the share option scheme which are set out in the section headed "Share Option Schemes" in Report of the Directors of the annual report.

35. RESERVES OF THE COMPANY

	Other reserve	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2018	858	17,914	(568,548)	(549,776)
Loss for the year	–	–	(7,570)	(7,570)
Balance as at 31 December 2018 and 1 January 2019	858	17,914	(576,118)	(557,346)
Loss for the year	–	–	(309,817)	(309,817)
Lapse of share option	–	(6,788)	6,788	–
Lapse of unlisted warrant	(858)	–	858	–
Balance as at 31 December 2019	**–**	**11,126**	**(878,289)**	**(867,163)**

36. COMMITMENTS

Capital commitments

As at 31 December 2019, the Group had the following capital commitments in respect of right-of-use asset and land use right:

	2019 RMB'000	2018 RMB'000
Authorised but not contracted for		
– Right-of-use asset	50,000	–
– Land use right	–	50,000

37. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the consolidated financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Key management personnel compensation

	2019 RMB'000	2018 RMB'000
Directors' fee	1,000	1,000
Salaries and other employee benefits	5,048	4,953
	6,048	5,953

(b) Loan from a director

As at 31 December 2019, the Company has drawn down an aggregate amount of approximately RMB38,911,000 (2018: RMB29,483,000) from a loan facility of RMB50,000,000 (2018: RMB40,000,000) entered with Mr. Zheng Yu Long, an executive director of the Company. The amount is unsecured, repayable within 12 months and bears fixed interest at 2% per annum.

(c) Personal guarantee provided by director

Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, have provided personal guarantee to bank borrowings of the Group of approximately RMB239,400,000 (2018: RMB258,000,000) (Note 26). The bank borrowings are repayable within one year.

38. EVENTS AFTER THE REPORTING PERIOD

(a) Major transaction further extension of long stop date

On 15 May 2020, the Fujian Jinjiang Ou Dian Supply Chain Management Company Limited ("**Purchaser**") and the Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd., an indirect whollyowned subsidiary of the Company ("**Vendor**") entered into the third supplemental agreement (the "**Third Supplemental Agreement**") to the transfer agreement (as amended and supplemented by the first supplemental agreement and the second supplemental agreement), pursuant to which, (i) the Long Stop Date shall be further extended to 31 December 2020 (or such other date as may be agreed between the Purchaser and the Vendor in writing); (ii) in addition to the RMB40 million deposit paid by the Purchaser to the Vendor in accordance with the terms of the transfer agreement (as supplemented by the first supplemental agreement and the second supplemental agreement), the Purchaser shall pay an additional deposit in an amount of RMB30 million to the Vendor on or before 30 June 2020; and (iii) the amount payable by the Purchaser to the Vendor within seven (7) Business Days after the approval(s) having been obtained from the competent government authority(ies) in relation to the transfer of the FJ Land Right from the Vendor to the Purchaser shall be reduced from HK$60 million to HK$30 million. Save as disclosed above, all the other terms and conditions of the transfer agreement (as amended and supplemented by the first supplemental agreement and second supplemental agreement) remain unchanged and shall continue in full force and effect. For more details, please refer to the announcement date on 15 May 2020.

On 14 February 2020, the Purchaser and the Vendor entered into the second supplemental agreement (the "**Second Supplemental Agreement**") to the transfer agreement (as amended and supplemented by the first supplemental agreement), pursuant to which, (i) the long stop date shall be further extended to 15 May 2020 (or such other date as may be agreed between the Purchaser and the Vendor in writing); (ii) in addition to the RMB10 million deposit paid by the Purchaser to the Vendor in accordance with the terms of the transfer agreement, the Purchaser shall pay an additional deposit in an amount of RMB30 million to the Vendor on or before 15 March 2020; and (iii) the amount paid by the Purchaser to the Vendor within seven (7) Business Days after the approval(s) having been obtained from the competent government authority(ies) in relation to the transfer of the FJ Land Right from the Vendor to the Purchaser shall be reduced from RMB90 million to RMB60 million. Save as disclosed above, all the other terms and conditions of the transfer agreement remain unchanged and shall continue in full force and effect. For more details, please refer to the announcement date on 14 February 2020.

(b) Outbreak on Coronavirus Disease

Since January 2020, the outbreak on Coronavirus Disease ("**COVID-19**") has impacted the global business environment. Pending the development and spread of COVID-19 after the end of reporting date, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

39. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 15 May 2020.