



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



INTERIM REPORT
2020



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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 interim 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 (resigned on 7 August 2020)

Independent Non-Executive Directors

Li Zhi Hai (resigned on 7 August 2020)
Li Biao (appointed on 7 August 2020)
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 (resigned on 7 August 2020)
Li Biao (appointed on 7 August 2020)
Sun Kam Ching

REMUNERATION COMMITTEE

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

CORPORATE INFORMATION *(Continued)*

NOMINATION COMMITTEE

Li Zhi Hai (*Chairman*)(resigned on 7 August 2020)

Li Biao (*Chairman*)(appointed on 7 August 2020)

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

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

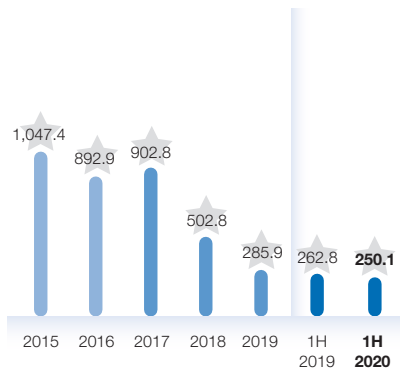
1-2/F, Renmin Yinhang Building, Quanzhou, Fujian,

PRC

FINANCIAL HIGHLIGHTS

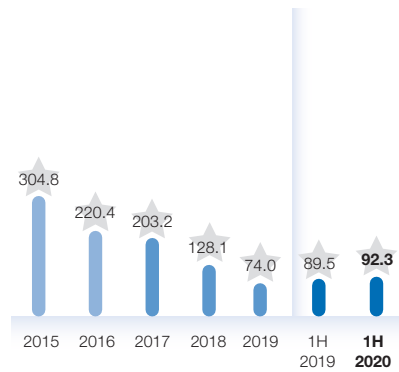
Revenue

RMB'M



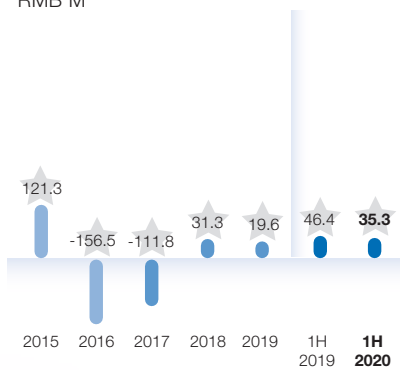
Gross Profit

RMB'M



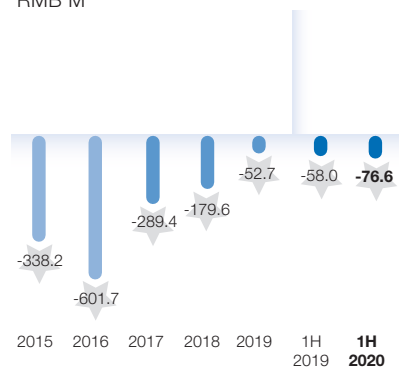
EBITDA/(LBITDA) (Note)

RMB'M



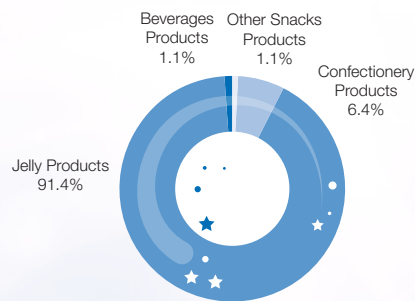
Net Profit/(Loss)

RMB'M

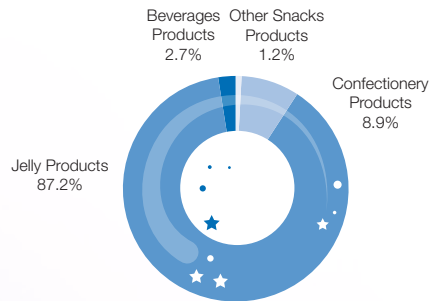


Revenue by Products

1H2020

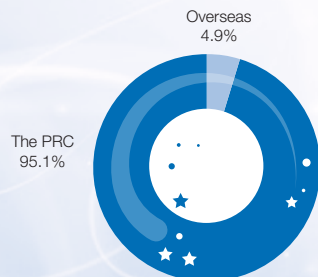


1H2019

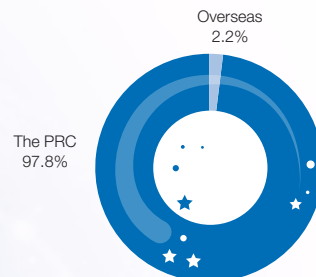


Revenue by Locations of End Customers

1H2020



1H2019



Note: EBITDA/(LBITDA) refers to earnings/(loss) before interests, income tax, depreciation, amortization, impairment loss of trade and other receivables, write-off of properties upon demolition, loss on remeasurement of asset classified as held for sales and non-cash share-based payments.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2020, the Group has reported revenue of RMB250.1 million, representing a decrease of approximately 4.8% as compared with the corresponding period of last year mainly due to decrease in sales of confectionary products and beverages products by 31.6% and 62.0% respectively. During the six months ended 30 June 2020, the consumer sentiment in the PRC was hit by the Novel Coronavirus (“COVID-19”) outbreak since the last quarter of year 2019. The Group’s production and sales were partially disrupted during the first quarter of year 2020 that the sales performance of the Group was negatively affected. The sales performance of the Group’s products has gradually picked up in the second quarter of year 2020 as the lock-down measures ended in most of the PRC cities. However, the sale of confectionary products and beverages products still recorded a remarkable decline.

For the six months ended 30 June 2020, the Group recorded a net loss of RMB76.6 million, as compared with the net loss of RMB58.0 million in the same period last year. The increase in the Group’s net loss during the six months ended 30 June 2020 was mainly due to the Group had written-off properties of approximately RMB65,980,000 upon demolishment of the properties during the period while there was a loss on the remeasurement of asset classified as held for sale of approximately RMB46,690,000 in the six months ended 30 June 2019.

Revenue

Revenue decreased by approximately 4.8% to RMB250.1 million in the first half of year 2020 when compared with the same period in year 2019. During the period under review, the Group’s sales performance has been negatively impacted by the weak consumer sentiments in the PRC as a result of COVID-19. However, the Group continued to exert immense efforts in developing its distribution network. As at 30 June 2020, the Group had a total number of 900 distributors (30 June 2019: 675).

Jelly products

Revenue of jelly products decreased by approximately 0.2% from RMB229.1 million in the first half of year 2019 to RMB228.6 million in the first half of year 2020. During the six months ended 30 June 2020, revenue attributable to jelly snacks decreased by approximately 3.9% to RMB139.8 million while sales attributable to jelly beverages increased by approximately 6.3% to RMB88.8 million.

Confectionary products

Confectionary products recorded a decrease in revenue during the six months ended 30 June 2020. Sales of confectionary products decreased by approximately 31.6% from RMB23.4 million in the first half of year 2019 to RMB16.0 million in the first half of year 2020. The decrease was mainly due to the outbreak of COVID-19 in the last quarter of year 2019 which severely affected the sales performance of the festive confectionary products during the Chinese Lunar New Year in year 2020.

Beverages products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue of beverages products of the Group decreased by approximately 62.0% to RMB2.7 million in the first half of year 2020 due to the outbreak of COVID-19 in the last quarter of year 2019 which severely affected the sales performance of the beverages products during the first quarter of year 2020.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Other snacks products

Revenue of other snacks products dropped by approximately 12.5% to RMB2.8 million, mainly due to the outbreak of COVID-19 in the last quarter of year 2019 which severely affected the sales performance of the other snacks products during the first quarter of year 2020.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 9.0% to RMB157.7 million in the first half of year 2020, mainly attributable to the corresponding decrease in sales. However, gross profit increased by approximately 3.1% to RMB92.3 million in the first half of year 2020, mainly due to the Group having ceased the production of the majority of low margin product items since year 2018 which enhanced the Group's overall profitability.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 28.4% to RMB36.6 million in the first half of year 2020 primarily due to increase in advertising and promotion expenses by approximately 89.4% to RMB17.8 million during the period under review to promote its new retail, e-commerce, social media and society distribution channels.

Administrative Expenses

Administrative expenses decreased by approximately 18.9% to RMB45.9 million in the first half of year 2020 as compared with the same period in year 2019. This was mainly due to closure of Tianjin plant in the second half of year 2019 that less administrative expenses incurred in Tianjin during the period under review.

Write-off of Properties Upon Demolition

During the period under review, a subsidiary of the Company in Tianjin has filed an application to the relevant local PRC government for redevelopment of its factory premises to cater for production and supply chain base for "New Retail" distribution channels. The subsidiary has applied for and obtained the construction planning permit for the construction of the new factory premises and commenced the demolishment of the original building structures of the factory premises (the "Demolition"). As at 30 June 2020, 10 out of 14 blocks of the original buildings have been demolished. As a result of the Demolition, the original buildings demolished with net book value of approximately RMB65,980,000 has been written-off during the period under review.

Income Tax Expense

During the six months ended 30 June 2020, the Group did not have any assessable income in Bermuda, BVI and Hong Kong. The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the period. The income tax expense during the period under review was primarily due to the movements in deferred tax assets.

Net Loss for the Period

Net loss for the period was RMB76.6 million as compared to the net loss of RMB58.0 million for the six months ended 30 June 2019. The increase in the Group's net loss during the six months ended 30 June 2020 was mainly due to the Group had written-off properties of approximately RMB65,980,000 upon demolishment of the properties during the period while there was a loss on the remeasurement of asset classified as held for sale of approximately RMB46,690,000 in the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 30 June 2020, the bank balances and bank deposits amounted to RMB54.4 million which is RMB29.6 million more than the balance as at 31 December 2019. The increase in bank balances and bank deposits was mainly due to the Group has received RMB60 million deposit of the assets classified as held for sale from the purchaser in accordance with the terms of the transfer agreement during the period under review.

As at 30 June 2020, the Group's gearing ratio (total borrowings divided by total equity) was 173.3% (As at 31 December 2019: 141.9%). As disclosed in the announcement of the Company dated 27 July 2020, Labixiaoxin (Tianjin) Co., Ltd. as the vendor, Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. as the vendor's guarantor, an independent third party as the purchaser, and Tianjin Huakunda Supply Chain Management Co., Ltd. as the target company entered into an equity transfer agreement, pursuant to which, the purchaser has conditionally agreed to acquire, the vendor has conditionally agreed to sell the entire equity interest in the target company at a consideration of approximately RMB288,428,000 (subject to adjustments), pursuant to the terms and conditions of the equity transfer agreement. The Company expected to generate a gain on disposal of approximately RMB109.8 million from this disposal and the expected net proceeds from this disposal of approximately RMB227.8 million will be applied to repay the borrowings of the Group, develop the Group's business in respect of product upgrades and expanding distribution channels, and use for the general working capital of the Group. The Company expects the net proceeds from this disposal will lower the gearing ratio and improve the liquidity of the Group.

The Group maintains 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 outflow from operating activities of RMB5.4 million in the first half of year 2020 (2019: net cash inflow of RMB82.3 million). This was mainly due to increase in sales during the second quarter of the period under review but not yet due for settlement by distributors. The Group has spent RMB3.9 million in investing activities in the first half of year 2020 mainly for the upgrade of production lines of the production plants. The Group has net cash inflow from financing activities of RMB2.8 million in the first half of year 2020 mainly due the Group increased its bank borrowings by approximately RMB18.0 million during the period.

Capital expenditure

During the six months ended 30 June 2020, the Group incurred RMB3.9 million in capital expenditure mainly for the upgrade of production lines of the production plants.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 30 June 2020, balance increased by RMB26.2 million from the beginning of the year. The inventories turnover days for the first half of year 2020 and year 2019 were 61 days and 49 days, respectively.

Trade and bills receivables

Trade and bills 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. Balance increased by RMB48.5 million from the beginning of the year. The trade receivables turnover days for the first half of year 2020 and year 2019 were 192 days and 167 days, respectively. Subsequent to the period end and up to the date of this report, approximately RMB70.6 million of the trade receivables were settled by the wholesale distributors.

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 six months ended 30 June 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 30 June 2020, bills payable of the Group amounting to RMB80.0 million were secured by pledged bank deposits of RMB35.0 million. As at 30 June 2020, the bills payable were with maturity period within 1 year.

Trade payables (including trade payables and bills payable) turnover days for the six months ended 30 June 2020 and 2019 were 39 days and 40 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 six months ended 30 June 2020, 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Charges on assets

As at 30 June 2020, land and building of the Group in Hong Kong with net book value of RMB6.2 million (31 December 2019: RMB6.4 million) was pledged as security for mortgage loan. As at 30 June 2020, land and buildings in the PRC of approximately RMB93.6 million (31 December 2019: RMB98.8 million) was pledged as security for short-term bank borrowings. As at 30 June 2020, a loan from an independent third party of RMB41.8 million (31 December 2019: RMB41.8 million) was secured by the equity of a PRC subsidiary of the Group.

Contingent liabilities

As at 30 June 2020, the Group had no contingent liabilities (31 December 2019: Nil).

DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

PROSPECT

During the period under review, the market demand on the Group's products remained weak due to the outbreak of COVID-19 in the last quarter of year 2019 in the PRC. The Group's production and sales were partially disrupted during the first quarter of year 2020. The sales performance of the Group has gradually picked up in the second quarter of year 2020 as the lock-down measures ended in most of the PRC cities. 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Unaudited	
		Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
Revenue	4	250,063	262,811
Cost of sales		(157,723)	(173,317)
Gross profit		92,340	89,494
Other income	5	2,361	6,821
Other (loss)/gain, net	6	(71)	124
Provision of impairment loss of trade and other receivable		(3,397)	(74)
Loss on the remeasurement of asset classified as held for sale	15	–	(46,690)
Write-off of properties upon demolition	7	(65,980)	–
Selling and distribution expenses		(36,565)	(28,490)
Administrative expenses		(45,900)	(56,563)
Operating loss		(57,212)	(35,378)
Finance income		858	425
Finance costs		(20,529)	(23,087)
Finance costs, net	8	(19,671)	(22,662)
Loss before taxation	9	(76,883)	(58,040)
Taxation	10	246	66
Loss and total comprehensive loss for the period		(76,637)	(57,974)
Loss per share attributable to equity holders of the Company			
(RMB per share)	11		
– Basic		(0.058)	(0.044)
– Diluted		(0.058)	(0.044)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	13	126,051	127,710
Property, plant and equipment	13	417,074	505,644
Deposits for property, plant and equipment		45,094	43,508
Deferred income tax assets		110,521	110,275
		698,740	787,137
Current assets			
Inventories		69,353	43,146
Trade and bills receivables	14	293,050	244,549
Prepayments and other receivables		152,359	135,921
Pledged bank deposits	15	34,990	70,270
Cash and cash equivalents		54,409	24,833
		604,161	518,719
Asset classified as held for sale	16	180,000	180,000
		784,161	698,719
Total assets		1,482,901	1,485,856

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2020

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		470,030	470,030
Reserves		(49,420)	27,217
Total equity		420,610	497,247
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		15,864	15,864
		15,864	15,864
Current liabilities			
Trade and other payables	17	403,515	347,855
Bank borrowings	18	642,912	624,890
		1,046,427	972,745
Total liabilities		1,062,291	988,609
Total equity and liabilities		1,482,901	1,485,856
Net current liabilities		(262,266)	(274,026)
Total assets less current liabilities		436,474	513,111

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Share option reserves RMB'000	Currency translation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance as at 1 January 2020	470,030	615,656	(87,600)	170,995	11,256	(41)	-	(683,049)	497,247
Loss and total comprehensive loss for the period	-	-	-	-	-	-	-	(76,637)	(76,637)
Balance as at 30 June 2020	470,030	615,656	(87,600)	170,995	11,256	(41)	-	(759,686)	420,610
Balance as at 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 period	-	-	-	-	-	-	-	(57,974)	(57,974)
Balance as at 30 June 2019	470,030	615,656	(87,600)	170,995	17,914	(41)	858	(578,429)	609,383

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	(5,388)	82,286
Income tax paid	-	-
Net cash (used in)/generated from operating activities	(5,388)	82,286
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,262)	(2,856)
Deposits paid for property, plant and equipment	(1,679)	(564)
Proceeds from disposal of property, plant and equipment	-	286
Decrease/(increase) in pledged bank deposits	35,279	(8,206)
Interest received	858	425
Net cash generated from/(used in) investing activities	32,196	(10,915)
Cash flows from financing activities		
Proceeds from shareholder's loan	5,275	4,579
Proceeds from borrowings	509,290	21,801
Repayments of borrowings	(491,268)	(88,800)
Interest paid	(20,529)	(23,087)
Net cash generated from/(used in) financing activities	2,768	(85,507)
Net increase/(decrease) in cash and cash equivalents	29,576	(14,136)
Cash and cash equivalents at the beginning of the period	24,833	25,507
Cash and cash equivalents at the end of the period	54,409	11,371

NOTES TO THE CONDENSED 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 (“**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 (“**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 sale of jelly products, confectionery 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 condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), unless otherwise stated. The condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

The Group incurred a net loss of approximately RMB76,637,000 (six months ended 30 June 2019: approximately RMB57,974,000) for the six months ended 30 June 2020. As at 30 June 2020, the Group’s current liabilities exceeded its current assets by approximately RMB262,266,000 (As at 31 December 2019: approximately RMB274,026,000).

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 30 June 2020. 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 30 June 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

Notwithstanding the above results, the condensed consolidated interim financial information 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:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2 BASIS OF PREPARATION *(Continued)*

(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 RMB44,186,000 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 30 June 2020.

(2) Completion of the disposal of the land

The Group is in the process of completion of the disposal of the land located at Jinjiang 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.

(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.

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2019.

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2019, except as mentioned below:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated interim financial information and/or disclosures set out in the condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

4 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 ("**CODM**") has been identified as the executive directors of the Company. 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.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)***4 SEGMENT INFORMATION** *(Continued)*

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 financial information.

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

During the six months ended 30 June 2020, none of the individual customer account for 10% or more of the Group's external revenue (2019: none). As at 30 June 2020 and 31 December 2019, majority of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

	Unaudited				
	Six months ended 30 June 2020				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	228,621	15,988	2,668	2,786	250,063
Cost of sales	(141,434)	(12,569)	(1,768)	(1,952)	(157,723)
Gross profit	87,187	3,419	900	834	92,340
Results of reportable segments	53,707	1,129	506	433	55,775

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 SEGMENT INFORMATION (Continued)

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

	Unaudited				Reportable segments total RMB'000
	Six months ended 30 June 2020				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Results of reportable segments					55,775
Corporate income					2,361
Write-off of properties upon demolition					(65,980)
Corporate expenses					(49,368)
Operating loss					(57,212)
Finance income					858
Finance costs					(20,529)
Loss before taxation					(76,883)
Taxation					246
Loss for the period					(76,637)
Amounts included in the measure of segment profit or loss:					
Amortisation of land use rights	1,191	-	468	-	1,659
Depreciation of property, plant and equipment	24,366	-	371	115	24,852

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 SEGMENT INFORMATION (Continued)

	Unaudited				Reportable segments total RMB'000
	Six months ended 30 June 2019				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Revenue					
Sales to external customers	229,066	23,412	7,145	3,188	262,811
Cost of sales	(147,310)	(16,615)	(7,208)	(2,184)	(173,317)
Gross profit	81,756	6,797	(63)	1,004	89,494
Results of reportable segments	56,877	4,297	(836)	666	61,004

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

	Unaudited				Reportable segments total RMB'000
	Six months ended 30 June 2019				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Results of reportable segments					61,004
Corporate income					6,945
Loss on the remeasurement of asset classified as held for sale					(46,690)
Corporate expenses					(56,637)
Operating loss					(35,378)
Finance income					425
Finance costs					(23,087)
Loss before taxation					(58,040)
Taxation					66
Loss for the period					(57,974)

Amounts included in the measure of
segment profit or loss:

Amortisation of land use rights	1,191	–	468	–	1,659
Depreciation of property, plant and equipment	32,358	–	869	34	33,261
Gain on disposal of property, plant and equipment	91	–	–	–	91

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Rental income	1,393	5,512
Sundry income	517	1,309
Gain on sale of scrap materials	451	–
	2,361	6,821

6 OTHER (LOSS)/GAIN, NET

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Gain on disposal of property, plant and equipment	–	91
Net exchange (loss)/gain	(71)	33
	(71)	124

7 WRITE-OFF OF PROPERTIES UPON DEMOLITION

During the period under review, Tianjin Huakunda Supply Chain Management Co., Ltd. (“**Huakunda**”), a subsidiary of the Company, has filed an application to the relevant local PRC government for redevelopment of its factory premises to cater for production and supply chain base for “New Retail” distribution channels. Huakunda has applied for and obtained the construction planning permit for the construction of the new factory premises and commenced the demolishment of the original building structures of the factory premises (the “**Demolition**”). As at 30 June 2020, certain of the original buildings have been demolished. As a result of the Demolition, the original buildings demolished with net book value of RMB65,980,000 has been written-off during the period under review.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 FINANCE COSTS, NET

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Finance costs:		
Interest expenses on bank borrowings	(20,118)	(22,756)
Interest expenses on loan from a director	(411)	(331)
Total finance costs	(20,529)	(23,087)
Finance income:		
Interest income on bank deposits	858	425
Total finance income	858	425
Finance costs, net	(19,671)	(22,662)

9 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cost of inventory sold	149,081	128,798
Advertising and promotion expenses	17,751	9,393
Freight and transportation expenses	992	659
Staff cost (including directors' remunerations)		
– Salaries and bonuses	39,268	37,330
– Employer's contribution to defined contribution plans	689	2,447
Depreciation of property, plant and equipment	24,852	33,261
Amortisation of land use rights	1,659	1,659
Provision for impairment loss of trade and other receivable	3,397	74
Written-off of properties upon demolition	65,980	–
Loss on the remeasurement of asset classified as held for sale	–	46,690

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 TAXATION

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current income tax – PRC Enterprise Income Tax	–	–
Deferred income tax, net	(246)	(66)
Income tax credited to profit or loss	(246)	(66)

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at rate of 25% (2019: 25%) on taxable profit of the Group's PRC subsidiaries during the six months ended 30 June 2020.

No provision has been made for Enterprise Income Tax in the PRC as the Group did not generate any taxable profit subject to PRC Enterprise Income Tax during the six months ended 30 June 2020 (2019: Nil).

Hong Kong Profits Tax, Bermuda and BVI income tax

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 six months ended 30 June 2020 (2019: Nil).

11 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 period.

	Unaudited	
	Six months ended 30 June	
	2020	2019
Net loss attributable to the equity holders of Company (RMB'000)	(76,637)	(57,974)
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)	(0.058)	(0.044)

(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 their effects were anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

13 CAPITAL EXPENDITURE

	Right-of-use assets RMB'000	Property, plant and equipment RMB'000	Total RMB'000
Six months ended 30 June 2020			
Cost			
As at 1 January 2020	165,820	1,766,169	1,931,989
Additions	–	2,262	2,262
Disposals	–	–	–
As at 30 June 2020	165,820	1,768,431	1,934,251
Accumulated amortisation/depreciation			
As at 1 January 2020	38,110	1,260,525	1,298,635
Amortisation/depreciation	1,659	24,852	26,511
Written-off	–	65,980	65,980
Disposals	–	–	–
As at 30 June 2020	39,769	1,351,357	1,391,126
Net book value			
As at 30 June 2020	126,051	417,074	543,125

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

As at 30 June 2020, land and building of the Group in Hong Kong with net book value of RMB6,187,000 was pledged as security for a mortgage loan (31 December 2019: RMB6,443,000).

As at 30 June 2020, buildings of the Group in the PRC with net book value of RMB51,108,000 (31 December 2019: RMB55,738,000) and right-of-use assets in the PRC of RMB42,496,000 (31 December 2019: RMB43,053,000) were pledged as security for short-term bank borrowings.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)***13 CAPITAL EXPENDITURE** *(Continued)*

	Right-of-use assets RMB'000	Property, plant and equipment RMB'000	Total RMB'000
Six months ended 30 June 2019			
Cost			
As at 1 January 2019	165,820	2,135,914	2,301,734
Additions	–	2,856	2,856
Transfer to asset classified as held for sale	–	(226,690)	(226,690)
Disposals	–	(1,914)	(1,914)
As at 30 June 2019	165,820	1,910,166	2,075,986
Accumulated amortisation/depreciation			
As at 1 January 2019	34,794	1,269,920	1,304,714
Amortisation/depreciation	1,659	33,261	34,920
Disposals	–	(1,719)	(1,719)
As at 30 June 2019	36,453	1,301,462	1,337,915
Net book value			
As at 30 June 2019	129,367	608,704	738,071

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade receivables	291,450	244,549
Bills receivable	1,600	–
	293,050	244,549

The Group's revenue are generally on credit term of 180 days (2019: 180 days). As at 30 June 2020, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Less than 30 days	50,810	52,265
31 days – 90 days	66,888	55,884
Over 90 days	173,752	136,400
	291,450	244,549

15 PLEDGED BANK DEPOSITS

As at 30 June 2020, pledged bank deposits of the Group of approximately RMB34,990,000 (31 December 2019: RMB70,270,000) were with initial terms of over three months and pledged to banks as security for bills payable.

The weighted average effective interest rate of these bank deposits as at 30 June 2020 was 0.77% per annum (31 December 2019: 0.77% per annum). The carrying amounts of pledged bank deposits approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 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 six months ended 30 June 2019.

17 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade payables	56,493	19,593
Bills payable (Note (i))	79,960	132,460
Accrued sales rebates	5,117	10,219
Other accrued expenses	11,681	6,188
Directors’ fees and emoluments payable	14,594	13,680
Loan from a director (Note (ii))	44,186	38,911
Loan from an independent third party (Note (iii))	41,762	41,762
Other payables and sundry creditors (Note (iv))	149,722	85,042
	403,515	347,855

Notes:

- (i) Bills payable amounting to approximately RMB79,960,000 (31 December 2019: RMB84,460,000) were secured by pledged bank deposits of approximately RMB34,990,000 (31 December 2019: RMB70,270,000). The bills payable were with maturity period of within 1 year.
- (ii) As at 30 June 2020, the Company has drawn down an aggregate amount of approximately RMB44,186,000 (31 December 2019: RMB38,911,000) from a loan facility of RMB50,000,000 (31 December 2019: RMB50,000,000) entered into 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, a subsidiary of the Company entered into a loan agreement with an independent third party for a loan of approximately RMB41,762,000, which was secured by the equity of a PRC subsidiary of the Company. The loan was repayable within 8 months and charged at fixed interest rate of 12.0% per annum.
- (iv) As at 30 June 2020, the Group received RMB70,000,000 (31 December 2019: RMB10,000,000) deposit of the assets classified as held for sale from the Purchaser in accordance with the terms of the Transfer Agreement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)***17 TRADE AND OTHER PAYABLES** *(Continued)*

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2020, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Less than 30 days	27,213	15,023
31 days – 90 days	27,570	2,637
Over 90 days	1,710	1,933
	56,493	19,593

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

18 BANK BORROWINGS

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Secured bank borrowings	563,812	443,390
Unsecured bank borrowings	79,100	181,500
Total bank borrowings	642,912	624,890
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	642,912	624,890
	642,912	624,890

As at 30 June 2020, the bank borrowing of HKD1,850,000 (equivalent to approximately RMB1,522,000 (31 December 2019: HKD2,150,000 equivalent to approximately RMB1,790,000)) was secured by the land and buildings of approximately RMB6,187,000 (31 December 2019: RMB6,443,000) and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB150,000,000 (31 December 2019: Nil) were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of the supplier of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.00% which was repricing every 12 months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 BANK BORROWINGS *(Continued)*

As at 31 December 2019, the short-term secured bank borrowings of approximately 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% which was repricing every 12 months.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB99,890,000 (31 December 2019: RMB80,000,000) 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% (31 December 2019: 5.66%) per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB97,000,000 (31 December 2019: Nil) 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 fixed interest rate of 5.22% per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB5,400,000 (31 December 2019: Nil) were secured by corporate guarantee by the Group's PRC subsidiary. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.22% per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB52,200,000 (31 December 2019: RMB52,200,000) were secured by corporate guarantee by the Group's PRC subsidiaries and land and buildings in the PRC of approximately RMB93,604,000 (31 December 2019: RMB98,791,000). The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.16% to 5.22% (31 December 2019: floating interest rate of 5.66%) per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB33,000,000 (31 December 2019: 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 floating interest rate of 5.08% (31 December 2019: 5.44%) which was repricing every 3 months.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB115,000,000 (31 December 2019: Nil) 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 fixed interest rate of 5.22% per annum.

As at 30 June 2020, short-term secured bank borrowings of RMB9,800,000 (31 December 2019: 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 rate of 6.80% (31 December 2019: 6.80%) per annum.

As at 30 June 2020, the short-term unsecured bank borrowings of RMB79,100,000 (31 December 2019: RMB181,500,000) were repayable within 12 months and charged at fixed interest rates of 5.22% to 5.23% (31 December 2019: 4.57% to 6.98%) per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 COMMITMENTS**Capital commitments**

As at 30 June 2020, the Group had the following capital commitments in respect of right-of-use assets and property, plant and equipment:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Authorised but not contracted for – Right-of-use assets	50,000	50,000
Contracted but not provided for – Property, plant and equipment	36,400	–
	86,400	50,000

20 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the condensed 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:

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Directors' fee	376	500
Salaries and other employee benefits	2,148	2,113
	2,524	2,613

(b) Loan from a director

As at 30 June 2020, the Company has drawn down an aggregate amount of approximately RMB44,186,000 (31 December 2019: RMB38,911,000) from a loan facility of RMB50,000,000 (31 December 2019: RMB50,000,000) entered into 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 directors

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 RMB354,690,000 (31 December 2019: RMB239,400,000). The bank borrowings are repayable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

21 EVENT AFTER THE REPORTING PERIOD

On 27 July 2020, Labixiaoxin (Tianjin) Co., Ltd. as the vendor, Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. as the vendor's guarantor, an independent third party as the purchaser, and Huakunda as the target company entered into an equity transfer agreement, pursuant to which, the purchaser has conditionally agreed to acquire, the vendor has conditionally agreed to sell the entire equity interest in the target company at a consideration of approximately RMB288,428,000 (subject to adjustments), pursuant to the terms and conditions of the equity transfer agreement. For further details, please refer to the announcement of the Company dated 27 July 2020 and the circular dated 28 August 2020.

OTHER INFORMATION

SHARE OPTION SCHEME

On 23 September 2011, the Company conditionally adopted a share option scheme (the “Share Option Scheme”) whereby the board of Directors (the “Board”) can grant options for the subscription of shares of the Company (the “Shares”) to any directors of the Company (“Directors”), employees and officers of any member of the Group and any advisers, 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 that they will contribute or have contributed to the Group (the “Eligible Participants”) as described in the Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of Shares that can be issued according to the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 8.5% of the issued share capital of the Company as at the date of this Interim Report. The total number of Shares which may be issued upon 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 otherwise approved by the shareholders of the Company, the number of Shares that may be granted to a Eligible 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. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share on the date of grant. Each grantee shall pay a consideration of HK\$1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is granted and shall remain effective within a period of 10 years from that relevant date of grant.

MOVEMENTS OF THE SHARE OPTIONS GRANTED UNDER THE SHARE OPTION SCHEME

No options have been granted during the six months ended 30 June 2020 (2019: Nil).

Movement of the share options during the six months ended 30 June 2020 are as follows:

Grantee and position	Number of ordinary shares subject to share options granted under the Share Option Scheme				
	Outstanding as at 1 January 2020	Granted during the period ended 30 June 2020	Exercised during the period ended 30 June 2020	Lapsed during the period ended 30 June 2020	Outstanding as at 30 June 2020
Other employees	60,000,000	-	-	-	60,000,000

OTHER INFORMATION *(Continued)***INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES**

As at 30 June 2020, the interest and short positions of the Directors and the chief executives and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) (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 interest 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 Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules (the “Model Code”), are 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

Note:

- (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.

OTHER INFORMATION *(Continued)*INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES *(Continued)*

(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 (the "Charges"). The Charges have been released on 17 August 2020.

(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 30 June 2020, 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.

OTHER INFORMATION *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2020, 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	Security interest	Total interest in shares	Approximate percentage of 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. The Charges have been released on 17 August 2020.

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 30 June 2020.

CONNECTED TRANSACTION

As at 30 June 2020, the Company has drawn down an aggregate amount of approximately RMB44,186,000 (31 December 2019: RMB38,911,000) from a loan facility of RMB50,000,000 (31 December 2019: RMB50,000,000) entered into 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.

Under the Listing Rules, Mr. Zheng Yu Long is a connected person to the Company and the loan facility constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Since such transaction is conducted on normal commercial terms or better and is not secured by the assets of the Group, it is fully exempt from Shareholders' approval, annual review and all disclosure requirements according to Rule 14A.90 of the Listing Rules.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2020, the Group had approximately 1,150 employees and total remuneration expenses for the first half of year 2020 amounted to RMB40.0 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.

OTHER INFORMATION *(Continued)*

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

Save as disclosed in this interim report, there was no other significant investments, material acquisition and disposal of subsidiaries and associated companies during the period ended 30 June 2020 (2019: Nil). Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this interim report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the period under review.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established in compliance with Rules 3.21 and 3.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with written terms of reference in compliance with the Code Provision on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Chung Yau Tong (chairman), Mr. Li Biao and Ms. Sun Kam Ching.

The Audit Committee has discussed with the Company's management the accounting principles and practices adopted by the Group. The Audit Committee has also reviewed the interim results of the Group for the six months ended 30 June 2020.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high standard of corporate governance. For the six months ended 30 June 2020, the Board is of the view that the Company has complied with the code provisions on the Code on Corporate Governance Practices (the "**CG Code**") set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions set forth therein the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. The Company has made specific enquiries with all directors of the Company and all the directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the six months ended 30 June 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, the Company maintained adequate public float throughout the period for the six months ended 30 June 2020.