亲亲食品

Better Food, Better Life

親親食品集團（開曼）股份有限公司
QINQIN FOODSTUFFS GROUP (CAYMAN) COMPANY LIMITED

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY

STOCK CODE：1583

Annual Report 2020

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Hui Ching Lau *(Chairman)*
Wong Wai Leung *(Chief Financial Officer)*
Wu Wenxu (appointed on 8 December 2020)

NON-EXECUTIVE DIRECTORS

Hui Lin Chit
Sze Man Bok
Wu Huolu
Wu Sichuan
Wu Yinhang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Cai Meng
Chan Yiu Fai Youdey
Ng Swee Leng
Paul Marin Theil

COMPANY SECRETARY

Wong Wai Leung *FCCA CPA*

AUTHORISED REPRESENTATIVES

Sze Man Bok
Wong Wai Leung

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PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1583

HEAD OFFICE IN THE PRC

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Fujian Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPANY'S WEBSITE

www.fjqinqin.com

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Hong Kong

Reed Smith Richards Butler

PRC

Global Law Office

Cayman Islands

Maples and Calder

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

SHARE REGISTRAR

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

KEY FINANCIAL PERFORMANCE

Consolidated Income Statement

	For the year ended 31 December 2020 RMB'000	2019 RMB'000	% of change
Revenue	**792,829**	690,852	14.8%
Operating profit	**24,452**	76,618	-68.1%
Profit attributable to shareholders	**17,660**	81,187	-78.2%
Earnings per share			
— Basic	**RMB0.026**	RMB0.125	
— Diluted	**RMB0.026**	RMB0.125	

Consolidated Balance Sheet

	As at 31 December 2020 RMB'000	2019 RMB'000	% of change
Cash and bank balances	**711,018**	732,033	-2.9%
Bank borrowing	**70,199**	NIL	100%
Net current assets	**492,577**	661,494	-25.5%
Net assets	**1,335,958**	1,146,760	16.5%

KEY FINANCIAL RATIOS

	31 December 2020	31 December 2019	Change (% points)
Gross profit margin	**31.7%**	35.4%	-3.7
Return on equity	**1.3%**	7.1%	-5.8
Current ratio (times)	**2.0**	4.1	
Finished goods turnover days	**25 days**	18 days	
Trade receivables turnover days	**4 days**	4 days	

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "**Board**"), I am pleased to present the results of Qinqin Foodstuffs Group (Cayman) Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2020. During the year, the Group continued to focus on the manufacturing, distribution and sale of food and snack products in the People's Republic of China (the "**PRC**").

In 2020, the Group has made significant progress in a number of strategic development areas to strengthen its business and have established a more solid foundation to support its future development and growth. The key strategic development accomplishments are as follows:

- Overall business returned to its upward trajectory with revenue increased by 14.8% in 2020.
- Continuing growth in e-commerce business with revenue growth by 5.8 times in 2020, representing 7.7% of total revenue in 2020.
- Our success in strategic investments in a number of fast-growing consumer goods companies with their fair value increased by RMB28.7 million in 2020.
- Successful launching of new products, new snack food series under "A Snack Shop (親親物語)" brand and a new business line for the manufacturing, distribution and sale of rice wine.
- Completion on the establishment of a new production base in Xiaogan City, the PRC and the continuing construction and development of four other new production bases in different areas of the PRC and the transformation of existing production base to enhance production capacity, quality and efficiency.

PERFORMANCE

Under the impact of the outbreak of the COVID-19 pandemic in 2020, the Group continued to focus its efforts on increasing revenue growth with the aim to drive its long-term corporate development and future profit growth. The Group has regained the growing momentum as the revenue increased by RMB101.9 million or 14.8% from RMB690.9 million in 2019 to RMB792.8 million in 2020. The overall sales volume has also increased mainly attributable to the Group's continuous adjustments on product mix and sales strategies, its focus on new products development to enrich the product portfolio, and the continuing growth of e-commerce business. As the online purchase penetration continued to rise, the Group captured this opportunity to increasing the intensity of internet marketing and product promotional activities for its e-commerce business in 2020 with the aim to achieve sales volume growth and increase market share. Revenue from e-commerce business increased by 5.8 times in 2020, representing 7.7% of total revenue in 2020, which contributed to the increase in total revenue of the Group.

In accordance with the Group's strategic plan, the Group strategically invested additional efforts and resources into e-commerce channels to achieve sales volume growth and increased the percentage of new retail channels to facilitate further long-term growth of the Group's business. Based on its strategic decision, the products sold by the Group through e-commerce channels in 2020 carry a lower net selling price due to higher intensity of product promotional activities and channel expenses. As a result, whilst gross profit increased by RMB6.6 million or 2.7% from RMB244.5 million in 2019 to RMB251.1 million attributable to increase in overall sales volume, the gross profit margin decreased from 35.4% in 2019 to 31.7% in 2020.

Despite the fact that there was an increase in revenue and gross profit in 2020, the consolidated net profit of the Group decreased from RMB81.2 million in 2019 to RMB17.7 million in 2020. The decrease in consolidated net profit was mainly due to (i) the one-off gain on disposal of certain land use rights and property of the Group in 2019 of approximately RMB23.8 million, whereas there was no such disposal gain in 2020; (ii) as the Hong Kong dollar ("**HKD**") and the United States dollar ("**USD**") depreciated against the Renminbi ("**RMB**") in 2020, the Group recorded a foreign exchange loss in relation to its cash and cash equivalent denominated in HKD and USD totaling approximately RMB12.2 million, whereas a foreign exchange gain of RMB13.1 million was recorded in 2019 when HKD and USD appreciated against RMB; and (iii) the Group strategically invested additional efforts and resources into e-commerce channels to achieve sales volume growth and increased the percentage of new retail channels to facilitate further long-term growth of the Group's business. Based on its strategic decision, the products sold by the Group through e-commerce channels in 2020 carry a lower net selling price due to higher intensity of product promotional activities and channel expenses, resulting in a net loss recorded on e-commerce business for the year, and also offsetting the increase in gross profit and net profit driven by the increase in overall sales volume.

In 2020, there was an increase in fair value of the Group's investments in a number of consumer goods companies with fast-growing potential and synergy with the Group's business. As a result, the Group recorded a net fair value gain through other comprehensive income (after deduction of related tax provision) of RMB21.7 million in 2020. With the combined effect of the consolidated net profit and the fair value gain on investments, the total comprehensive income for the year decreased from RMB81.2 million in 2019 to RMB39.4 million in 2020.

PROSPECTS AND VISION

Our strategic initiatives in recent years, particularly to stay focus on investing in new products, e-commerce business, information management system and new production facilities and equipment, has laid a firm foundation for the next chapter in the Group's business development.

Building upon the success of the strategic plan and development of the Group, we will continue our efforts to expand product portfolio and promote product innovation and upgrades to meet changing consumer preferences. The Group will also strengthen its distribution network in the PRC by enhancing existing cooperation relationships with distributors and expand online sales platform. With the establishment of the new production bases across PRC and the improvement of production efficiency and capability, our products will be able to reach an expanded range of local market in PRC and will improve our customer coverage.

The Group's corporate vision is "To become the most innovative food corporation in China through self-enhancement and to create a better life for all", with a business philosophy of "Better Food, Better Life" and a corporate mission of "To be a people oriented company that creates happiness and moments of optimism". The Group will continue to strive to create a new generation corporate culture with focus on "Integrity, Trustworthiness, Passion and Philanthropy".

Our vision and strategic objectives represent our continuing commitment to the long-term development and success of the business of the Group. We are confident that we are well placed to remain competitive during this challenging business environment.

APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to all our shareholders, customers and other business partners for their long-term attention and support to the Group over the years. I would also like to thank the senior management team and all staff of the Group for their dedication and hard work to the Group during the past year.

Hui Ching Lau
Chairman
Hong Kong, 18 March 2021

Qinqin Foodstuffs Group (Cayman) Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") is a renowned food and snacks company with strong brand recognition in the People's Republic of China (the "**PRC**"). The Group is principally engaged in the manufacturing, distribution and sale of jelly products, crackers and chips, seasoning products, confectionery and other food and snacks products under "Qinqin (親親)", "Shangerry (香格里)" and "A Snack Shop (親親物語)" brands. In 2020, the Group also developed a new business line for the manufacturing, distribution and sale of rice wine (米酒) in PRC.

In 2020, the Group has made significant progress in a number of strategic development areas to strengthen its business and have established a more solid foundation to support its future development and growth. The key strategic development accomplishments are as follows:

- Overall business returned to its upward trajectory with revenue increased by 14.8% in 2020.
- Continuing growth in e-commerce business with revenue growth by 5.8 times in 2020, representing 7.7% of total revenue in 2020.
- Our success in strategic investments in a number of fast-growing consumer goods companies with their fair value increased by RMB28.7 million in 2020.
- Successful launching of new products, new snack food series under "A Snack Shop (親親物語)" brand and a new business line for the manufacturing, distribution and sale of rice wine.
- Completion on the establishment of a new production base in Xiaogan City, the PRC and the continuing construction and development of four other new production bases in different areas of the PRC and the transformation of existing production base to enhance production capacity, quality and efficiency.

INDUSTRY ENVIRONMENT

The outbreak of the COVID-19 pandemic in 2020 has brought upon unprecedented challenges and uncertainty on China's economic development. Under the impact of the pandemic, the food and snacks industry was facing new challenges and opportunities with the gradual changes in working and consumption habits of people in PRC.

While the overall economy remained challenging during the year, the Group believes that the food and snacks industry in PRC is still with great appeal and development potential. With the increase in consumers' health awareness and income level, new market opportunities are also developing. As consumers pursue healthier and personalised products and favour high quality and innovative products, product development in this industry is becoming more diversified. Under such changes, enterprises have to constantly focus on product innovation and product quality improvement and introduce new products timely to adapt to changes in consumers' demand and preferences. In addition, sales and distribution channels are undergoing structural adjustments, in particular with the impact of the pandemic and new online and offline channels, resulting in the need for improvement in corporate sales and marketing strategies.

BUSINESS OVERVIEW

Under the impact of the outbreak of the pandemic in 2020, the Group continued to focus its efforts on increasing revenue growth with the aim to drive its long-term corporate development and future profit growth. The Group has regained the growing momentum as the revenue increased by RMB101.9 million or 14.8% from RMB690.9 million in 2019 to RMB792.8 million in 2020. The overall sales volume has also increased mainly attributable to the Group's continuous adjustments on product mix and sales strategies, its focus on new products development to enrich the product portfolio, and the continuing growth of e-commerce business. As the online purchase penetration continued to rise, the Group captured this opportunity to increasing the intensity of internet marketing and product promotional activities for its e-commerce business in 2020 with the aim to achieve sales volume growth and increase market share. Revenue from e-commerce business increased by 5.8 times in 2020, representing 7.7% of total revenue in 2020, which contributed to the increase in total revenue of the Group.

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Despite the fact that there was an increase in revenue and gross profit in 2020, the consolidated net profit decreased from RMB81.2 million in 2019 to RMB17.7 million in 2020. The decrease in consolidated net profit was mainly due to (i) the one-off gain on disposal of certain land use rights and property of the Group in 2019 of approximately RMB23.8 million, whereas there was no such disposal gain in 2020; (ii) as the Hong Kong dollar ("**HKD**") and the United States dollar ("**USD**") depreciated against Renminbi ("**RMB**") in 2020, the Group recorded foreign exchange loss in relation to its cash and cash equivalent denominated in HKD and USD totaling approximately RMB12.2 million, whereas a foreign exchange gain of RMB13.1 million was recorded in 2019 when HKD and USD appreciated against RMB; and (iii) the Group strategically invested additional efforts and resources into e-commerce channels to achieve sales volume growth and increased the percentage of new retail channels to facilitate further long-term growth of the Group's business. Based on its strategic decision, the products sold by the Group through e-commerce channels in 2020 carry a lower net selling price due to higher intensity of product promotional activities and channel expenses, resulting in a net loss recorded on e-commerce business for the year, and also offsetting the increase in gross profit and net profit driven by the increase in overall sales volume.

In 2020, there was an increase in fair value of the Group's investments in a number of consumer goods companies with fast-growing potential and synergy with the Group's business. As a result, the Group recorded a net fair value gain through other comprehensive income (after deduction of related tax provision) of RMB21.7 million in 2020. With the combined effect of the consolidated net profit and the fair value gain on investments, the total comprehensive income decreased from RMB81.2 million in 2019 to RMB39.4 million in 2020.

Jelly products

Sales of jelly products for 2020 were approximately RMB421.3 million (2019: RMB411.5 million), representing an increase of 2.4% as compared with last year and accounting for 53.1% (2019: 59.6%) of total revenue of the Group. Gross profit margin was 33.4% (2019: 34.2%), representing a decrease of approximately 0.8 percentage points as compared with last year.

In 2020, the Group continued to adjust its product mix by, on the basis of its existing products, developing and launching new products, including products such as「蒟蒻果凍」,「棒棒冰」and「美汁汁」. The addition of new products has further enriched the three existing major product lines including the traditional-flavor jelly product line, functional jelly product line and pudding jelly product line. During the year, with the goal of increasing product sales volume, the Group continued to optimise the strategies on product promotion and other sales expenditures, resulting in an increase in both the sales volume and sales revenue of new and existing products. Since the overall sales volume increased, the sharing of the Group's production fixed costs reduced correspondingly, and the revenue, gross profit also increased during the year. There was a slight decrease in gross profit margin as the Group launched certain lower profit margin new products this year with the target on volume increase.

Crackers and Chips

Sales of crackers and chips for 2020 were approximately RMB217.7 million (2019: RMB183.2 million), representing an increase of 18.9% as compared with last year and accounting for 27.5% (2019: 26.5%) of the total revenue of the Group. The gross profit margin was 37.2% (2019: 40.0%), representing a decrease of approximately 2.8 percentage points as compared with last year.

During the year, with the continuous launching and distribution of new products, including「鷄味塊」,「親親圈」and「洋蔥圈」, consumers' acceptance of the Group's products increased. The Group focused on enhancing the expansion and management of its sales channels, while continuing to optimise its strategies on product promotion and other sales expenditures. As a result, the sales volume and sales revenue of both new products and existing products increased during the year. Since the overall sales volume increased, the sharing of the Group's production fixed costs reduced correspondingly, and the revenue, gross profit also increased during the year. The decrease in gross profit margin was mainly due to the increased in intensity of promotional activities on certain products of the Group.

Seasoning Products

Sales of seasoning products for 2020 were approximately RMB74.7 million (2019: RMB69.7 million), representing an increase of 7.2% as compared with last year and accounting for 9.4% (2019: 10.1%) of the total revenue of the Group. The gross profit margin was 36.9% (2019: 35.8%), representing an increase of approximately 1.1 percentage points as compared with last year. Owing to a significant increase in the prices of certain raw materials in last year, the Group had made price adjustments to some products since last year. As there was a decrease in the price of certain raw materials this year and the gross profit of some of the new products was higher than that of the existing products, both revenue, gross profit and gross profit margin increased accordingly in 2020.

Confectionery and Other Products

Sales of confectionery and other products for 2020 were approximately RMB79.1 million (2019: RMB26.5 million), representing an increase of 2.0 times as compared with last year and accounting for 10.0% (2019: 3.8%) of the total revenue of the Group. During the year, the Group has started two new businesses under the confectionery and other products segment, namely A Snack Shop (親親物語) business and rice wine and sesame candy business. The significant growth in revenue was mainly attributable to the increase in sales from A Snack Shop (親親物語) business, other new snack food products such as seafood type snack food, bakery products and rice wine products, and OEM business. As the new products under this segment were mainly sold through e-commerce channels and carry a lower net selling price due to higher intensity of product promotional activities and channel expenses, the overall gross profit margin decreased accordingly.

Details of the new businesses are further set out below:

- ***A Snack Shop (親親物語) Business***

  In 2020, the Group has established a new snack food division for the development of a new snack food series under "A Snack Shop (親親物語)" brand. During the year, the Group has developed over 200 new products units mainly for sale in the e-commerce channels under "A Snack Shop (親親物語)" brand. These products categories mainly included dried fruits, nuts, biscuits, bakery and dried meat and vegetarian snacks, which are developed with the target to provide a variety of popular snacks for the new generation consumers.

  With the continuing growth of the Group's e-commerce business, there was a significant growth in revenue from this division, resulting in the increase in revenue of the confectionery and other products segment.

- ***Rice Wine and Sesame Candy Business***

  To capture the opportunity on the development of certain traditional food and beverage industry in the PRC, the Group entered into a strategic cooperation agreement with the People's Government of Xiaogan City, the PRC in late 2018 to jointly promote the revitalisation and development of the traditional manufacturing industries of sesame candy (麻糖) and rice wine (米酒) (both being local specialities of Xiaogan City).

The Group successfully won the bid for two parcels of land with a total area of approximately 121,000 square meters located at Xiaogan City and obtained the land use rights certificates of the respective land in 2019 and the construction of the first phase of Qinqin Healthy Rice Wine Industrial Park (親親健康米酒工業園) and the installation of equipment were completed in the first half of 2020. Due to the COVID-19 pandemic, the Group's original plan to launch and distribute new rice wine products in the first half of 2020 was slightly delayed to the last quarter of 2020 and therefore revenue contribution to the Group in 2020 was not significant.

In addition, the Group has engaged an overseas design company to design a conceptual layout for a tourism factory facilities in Xiaogan City and will develop a new project that combines the production of sesame candy and rice wine with tourism elements.

The Group believes the aforementioned new businesses expanded the Group's product lines, facilitated the diversified development of the Group's food and snack products business, and further advanced the Group's long-term development and growth.

Strategic Development Investment Projects

As part of the strategic development plans and business expansion strategies of the Group, the Group has invested in a number of consumer goods companies with fast-growing potential and synergy with the Group's business. These companies mainly engage in the production or sale of food, beverage and alcohol products in the PRC and abroad. During the year, the Group cooperated with some of these companies to jointly promote the Group's products on e-commerce channels and in food fairs and exhibition.

In 2020, the Group recorded a net fair value gain through other comprehensive income (after deduction of related tax provision) of RMB21.7 million due to the increase in fair value of these investments. The Group believes that the strategic investments in these companies will be beneficial to the long-term development and industrial layout of the Group.

Product Development and Upgrade

The Group is committed to developing popular, natural and healthy products with high nutritious value and quality. The Group's product management center, leveraging its outstanding professional technical talents as well as research and development capabilities for innovative products, has enhanced its creativity in areas such as product development, packaging design and brand marketing. The Group has increased its investment in product innovation, production facilities and quality inspection equipment, thereby ensuring the speed and efficiency of the development and launching of new products.

For jelly products, the Group has set the product development objective in the direction of functional and nutritional products with low sugar, low calories, zero preservatives and zero artificial pigments. In 2020, the Group has successful developed and launched new products including「蒟蒻果凍」,「棒棒冰」and「美汁汁」. The Group developed different products to cater to the needs of different people, its product line expanded from jelly products with only single fruit flavor to pudding and functional jelly products, offering a variety of options for consumers. While strengthening research and development and being committed to improving the contents of its products, the Group continued to work with different kinds of domestic and overseas enterprises to produce innovative jelly products.

For crackers and chips, while maintaining its leading position in seafood crackers and chips, the Group continued to expand its product lines. In 2020, the Group has successful developed and launched new products including「鷄味塊」,「親親圈」and「洋蔥圈」. The Group also sought to enhance its brand influence and market share through a series of upgrades in terms of production processes, packaging, product and flavour. The Group upgraded its product quality by improving tastes and expanding flavours to cater to the preferences of young consumers and regional features.

For seasoning products, the Group has set a clear objective of becoming a "small- and medium-sized restaurant solution provider". The Group aimed to increase the proportion of products with mid-to-high gross profit in the product structure, and strived to strengthen its brand influence and market share through a series of upgrading such as package upgrading and continued to enhance the investment in and establishment of food and beverage channels. While consolidating its business with small restaurants, it also actively expanded its market share among chain restaurant brands and agricultural trade and wholesale market.

For A Snack Shop (親親物語) business, the Group has launched over 200 new products units during the year and for rice wine products, the Group has also developed and launched its new products「親親釀」and「白醇米酒」in 2020.

Promotion and Marketing

The Group continued to make adjustments to its promotion and marketing strategies and extended its promotion and marketing activities into different promotion and advertising channels.

In 2020, the Group appointed famous young actor Wei Daxun (魏大勳) as spokesperson for its new strategic products「蘊能可吸凍」and up-and-coming actor Jin Haochen (金瀚辰) as its brand ambassador to appear in commercials for its「蒟蒻果凍」and Qinqin prawn cracker.

The Group also made full use of new social media including WeChat, Weibo, TikTok, Xiaohongshu and bilibili, by taking advantage of fan economy to establish effective interaction with young consumers and to increase its brand awareness. In order to increase public exposure for its products, the Group also increased its advertising expenditure on offline advertising channels including bus bodies, outdoor billboards, digital frames on buildings, and elevator posters.

In addition, the Group cooperated with certain of its strategic investment partners to jointly promote the Group's and their products on both e-commerce channels and food fairs and exhibition to attract new customers.

Channel Expansion

Along with product upgrades, the Group continued to broaden its existing distributors network by expanding to new channels such as snack food branded stores, convenience stores, campus snack stores, gas stations.

As the online purchase penetration continued to rise, the Group captured this opportunity to increase the intensity of internet marketing and product promotional activities for its e-commerce business in 2020, with the aim to achieve sales volume growth and increase market share. In 2020, the Group's e-commerce division in Shanghai continued to develop products catering to the characteristics of the e-commerce channels to differentiate from its offline products and increase unit price per customer. As a result, the Group achieved a continuing growth in e-commerce business with revenue growth by 5.8 times in 2020, representing 7.7% of total revenue in 2020.

Based on the Group's strategic decision, products sold by the Group through e-commerce channels carry a lower net selling price due to higher intensity of product promotional activities and channel expenses. In addition, due to the higher distribution and selling expenses incurred on e-commerce business, the e-commerce business still operated at a net loss position in 2020. However, the Group will continue its strategic plan to expand its e-commerce channels to achieve sales volume growth and increase market share in order to gradually increase the percentage of new retail channels to facilitate further long-term growth of the Group's business. The Group will continue to actively work with new retailers including Alibaba and JD to develop new retail channels, which the Group believes it can build on this foundation to achieve a further growth in this business and bring additional profits to the Group in the future.

Production Facilities Improvement

The Group has established a bold development plan for its production facilities and equipment. In 2020, the Group continued to optimise its resources through the establishment of new production base, transforming existing production base, and upgrading its equipment, so as to improve its production facilities, production process and product quality, and to enhance production capacity and efficiency that will meet the long-term development of the Group. The progress of the Group's main development projects in PRC is as follows:

- the Group completed the construction and equipment installation for the first phase of Qinqin Healthy Rice Wine Industrial Park (親親健康米酒工業園) in Xiaogan City, the PRC within a year and production commenced in 2020;

- the Group signed an agreement with the People's Government of Xiantao City, the PRC in November 2019, in respect of the disposal of related land use rights and property of the Group's existing production base in Xiantao City, the PRC, in which the Group planned to construct a new production base to replace its existing production base in that city. In 2020, the Group completed the land auction and obtained the land use rights certificate in respect of the new production base. The construction of the new production base is currently in progress and expected to be completed and put into operation in 2021;

- the Group signed a cooperative agreement with the People's Government of Sishui County, Jining City, Shandong Province, the PRC in December 2019, as the Group planned to construct a new production base in Sishui County, Jining City, Shandong Province, the PRC to replace the Group's existing production base (as leased properties) in Taian City, Shandong Province, the PRC. The construction of the first phase of the new production base was completed in January 2021 and production has been commenced;

- the Group continued the gradual upgrade and transformation project for the head office's production base, office and other supporting facilities in Jinjiang City, Fujian Province, the PRC, so as to increase production and office efficiency;

- the Group signed an agreement with the People's Government of Dongbo County, Meishan City, Sichuan Province, the PRC in July 2020, as the Group planned to construct a new production base in Meishan City, Sichuan Province, the PRC, so as to facilitate the Group's further expansion in the Southwest China market. In 2020, the Group completed the land auction and obtained the land use rights certificate in respect of the new production base. The construction of the new production base is currently in progress and expected to be completed and put into operation in 2021; and

- the Group signed an agreement with the People's Government of Xiji County, Ningxia City, Gansu Province, the PRC in November 2020 for construction of a new production base on a lease property in Ningxia City, Gansu Province, the PRC, so as to facilitate the Group's further expansion in the Northwest China market. The construction of the new production base is currently in progress and expected to be completed and put into operation in 2021.

The Group aimed to reduce the impact of increasing labour costs by increasing the level of our production facilities automation. The Group continued to conduct "equipment transformation, production process enhancement, quality improvement" for its production facilities and cooperated with various foreign equipment enterprises for bringing in world advanced standards production lines. The Group believes that a highly automated production process with technologically-more-advanced equipment will allow the Group to reduce its reliance on labour, improve production efficiency and accelerate the time-to market for our products. In addition, the Group continued to adopt measures to save energy and lower consumption and products defective rate.

The Group strived to provide consumers with healthy and safe products, and it has always strictly complied with the stringent international production standards. Hence, the Group has been awarded the HALAL, SC, KOSHER and ISO9001 certifications in respect of its production facilities, quality control and management system.

FUTURE PROSPECTS AND STRATEGIES

The Group's strategic initiatives in recent years, particularly to stay focus on investing in new products, e-commerce business, information management system and new production facilities and equipment, has laid a firm foundation for the next chapter in the Group's business development.

Although the market is full of challenges, we are looking forward to 2021 as the Group will continue to focus our efforts in the following areas, to drive further growth of the Group's business and thereby creating greater value for its shareholders.

- Capture the opportunities of consumer upgrades through continuous product innovations, thereby adhering to its diversified product strategies, focusing on enhancement of product quality, optimisation of product portfolio and strengthening market position of our key products.

- Expand our distribution channels, strengthen our traditional distribution network and further develop other new market access such as e-commerce channels, snack food branded stores and restaurants channels in order to increase market penetration.

- Establish and transform our production bases and upgrade equipment to improve production facilities, production processes and product quality and to enhance production capacity and efficiency that will meet the long-term development of the Group.

- Refine internal management process, invest in talent development and information management system to raise corporate management standards, improve the Group's operating efficiency and core competitiveness, and to enhance sustainable development of the Group.

- Explore investment opportunities in consumer goods companies with fast-growing potential and synergy with the Group's business, alliances with strategic investment partners to facilitate long-term development and business growth of the Group.

LIQUIDITY AND CAPITAL RESOURCES

The Group maintained a solid financial position and was in a net cash position as at 31 December 2020. As at 31 December 2020, the Group had cash and bank balances of RMB711.0 million (2019: RMB732.0 million) and bank borrowings of RMB70.2 million (2019: Nil).

As at 31 December 2020, the Group's working capital or net current assets were RMB492.6 million (2019: RMB661.5 million). The current ratio, represented by current assets divided by current liabilities, was 2.0 (2019: 4.1). The Group's total equity was RMB1,336.0 million (2019: RMB1,146.8 million), representing an increase of 16.5%.

Cash and bank balances were mainly denominated in HKD, USD and RMB. As at 31 December 2020, pledged bank deposits of RMB66.0 million (2019: Nil) were being used as the security for a banking facility of USD8.0 million (equivalent to RMB52.2 million) granted by a bank for certain short term credit facility arrangement.

As part of treasury management activities with respect to the Group's surplus cash assets, the Group has invested, at fair value, of RMB56.9 million as at 31 December 2020 (2019: Nil) in units in investment funds measured at fair value through profit or loss. During the year, there was a net gain of RMB0.7 million (2019: Nil) recorded in profit or loss due to the fair value change of these investments.

As at 31 December 2020, the Group's bank borrowings denominated in RMB bore fixed interest rates ranged from 3% to 3.35% per annum. In addition, the effective interest rate of the Group's bank overdraft denominated in USD was 1.6% per annum as at 31 December 2020. As the Group was in net cash position as at 31 December 2020 and in 31 December 2019, no gearing ratio was presented.

In 2020, the Group invested RMB318.9 million on capital expenditure (2019: RMB168.6 million). The capital expenditure for 2020 was mainly incurred for land acquisition, construction of new production bases and production equipment upgrades in PRC. The Group will continue to invest in capital expenditure projects to facilitate the Group's business expansion plan and it is expected that the upcoming capital expenditure requirements will be funded by both internal and external resources of the Group. Overall, the Group's financial position remains sound for continued business expansion.

COMMITMENTS AND CONTINGENCIES

As at 31 December 2020, the Group had total capital commitments (contracted but not provided for) of RMB378.6 million (2019: RMB88.2 million).

As at 31 December 2020, the Group had future aggregate minimum lease payments under non-cancellable operating leases of RMB1.1 million (2019: RMB2.9 million). As at 31 December 2020, the lessors of our leased properties in Taian city, Shandong province were still in the process of obtaining the relevant title documents to the properties.

The Group had no material contingent liabilities as at 31 December 2020 and 31 December 2019.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save for those disclosed in this report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year.

CHARGE ON ASSETS

As at 31 December 2020, certain land use rights and buildings of the Group with net book value of RMB15.0 million (2019: Nil) were pledged for bank borrowings of RMB10.0 million (2019: Nil). In addition, the Group had a banking facility of USD8.0 million (equivalent to RMB52.2 million) (2019: Nil) granted by a bank for certain short term credit facility arrangement which was pledged by the bank deposits of the Group in the amount of RMB66.0 million as at 31 December 2020.

HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2020, the Group had approximately 2,600 (2019: 2,200) employees. For the year ended 31 December 2020, total employee benefit expenses, including directors' emoluments, was approximately RMB155.2 million (2019: RMB140.9 million). The increase in total employee benefit expenses was mainly attributable to the increase in number of employees during the year to facilitate the business expansion of the Group.

The Group aims to create a strong sense of community and a motivating environment for its employees to excel. The Group recruit employees based on a number of factors, including their educational background, work experience and vacancies within the Group. The Group determines employees' compensation based on their qualifications, work experience, position and performance. In addition to salaries, the Group provides a comprehensive range of staff benefits to its employees, including performance or contribution-based bonuses and allowances for meals and free dormitories. Besides, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

The Group also committed to continuing education and development of its employees, and the Group provides various education and training programs both internally and externally to cultivate its employees in improving their skills and developing their potential.

FOREIGN EXCHANGE RISK

The Group operates its businesses primarily in the PRC and its functional currency is RMB. Foreign exchange risk arises mainly from future commercial transactions of sales and purchases with overseas customers and suppliers by the Group and recognised assets or liabilities, such as cash and cash equivalent, term deposits, restricted bank deposits, trade and other receivables and payables, and bank borrowings of the Group, which are denominated in HKD, USD and other currencies.

During the year, HKD and USD devalued against RMB. The Group recorded foreign exchange loss in relation to its cash and cash equivalent in HKD and USD totaling RMB12.2 million (2019: net foreign exchange gain totaling RMB13.1 million). In order to limit this exchange rate risk, the Group closely monitors HKD and USD exposure to an acceptable level by buying or selling foreign currencies at spot rates where necessary. Save as disclosed above, the Group is exposed to minimal foreign exchange risk exposure as the Group focus its sales and purchase within the PRC market.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

DIRECTORS

Executive Directors

Mr. Hui Ching Lau, aged 41, was a non-executive director of the Company since 22 March 2016 until his re-designation as an executive director on 16 May 2017. He is the Chairman of the board of directors of the Company and the chairman and member of nomination committee of the Company since 12 April 2017. He is also a director of most of the subsidiaries of the Group. He is responsible for providing leadership, guidance and strategic advice on corporate development and investment of the Group. He has accumulated over 16 years of experience in the food and snacks business since he became a director of some of the subsidiaries of the Group in April 2003. He is also the managing director of Lianjie Investments Group Limited. He has about 19 years of experience in investment management and is responsible for the daily operation and management of Lianjie Investments Group Limited. Mr. Hui is also an executive director of Hengan International Group Company Limited ("**Hengan**" and, together with its subsidiaries, "**Hengan Group**") (a company whose shares are listed on the Main Board of the Stock Exchange, stock code: 1044) since 10 December 2020.

Since the resignation of Mr. Zhu Hong Bo as the Chief Executive Officer of the Group in August 2019, Mr. Hui oversees the responsibilities of the Chief Executive Officer with the support of the senior management team of the Group.

Mr. Hui was a director of AGORA Hospitality Group Co., Ltd. (a company whose shares are listed on the Tokyo Stock Exchange, stock code: 9704) from 29 March 2018 to 3 December 2020. Mr. Hui was a non-executive director of China Huiyuan Juice Group Limited ("**Huiyuan Juice**") from 29 January 2018 to 10 January 2019. Huiyuan Juice is a company incorporated in the Cayman Islands with limited liability and whose shares were listed on the Main Board of Stock Exchange of Hong Kong (Stock code: 1886) until 18 January 2021 which the listing status were cancelled by the Stock Exchange. Huiyuan Juice was principally engaged in production and sale of fruit juice, fruit and vegetable juice and other beverages. In October 2019, a winding-up petition and provisional liquidators application at the High Court of Hong Kong was served on Huiyuan Juice. For further details of the proceedings, please refer to the announcements of Huiyuan Juice including that dated 24 January 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0124/ltn201901249978.pdf), 24 October 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1025/2019102401207.pdf), 19 November 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1119/2020111901298.pdf) and 30 November 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1130/2020113001375.pdf).

Mr. Hui graduated with a Degree of Bachelor of Arts in Accounting & Finance and Economics from the University of Kent at Canterbury in July 2001, and a Degree of Master of Science in Finance from the University of London (Imperial College of Science, Technology and Medicine) in the UK in November 2002. He also received a Degree of Executive Master of Business Administration from Cheung Kong Graduate School of Business in September 2010 in the People's Republic of China.

Mr. Hui is the son of Mr. Hui Lin Chit, the ex-Chairman of the board of directors and a non-executive director of the Company. He is a director of Sure Wonder Limited, a substantial shareholder within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Wong Wai Leung, aged 43, is an executive director, the chief financial officer and company secretary of the Company. He is also a director of most of the subsidiaries of the Group. He is responsible for the corporate development, investment, accounting and financial, and corporate governance matters of the Group. Mr. Wong worked at Ernst & Young in audit assurance from September 2000 to July 2009. He is an independent non-executive director of MediNet Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock code: 8161), since 19 May 2016, an independent non-executive director of Vertical International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock code: 8375), since 24 October 2017, and an independent non-executive director of Zhongchang International Holdings Group Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 859), since 13 May 2020. He is also a director in a private group ultimately owned by Mr. Hui Ching Lau, which manages investments and trusts for Mr. Hui Ching Lau's family.

Mr. Wong received a Degree of Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 2000. He has also been a member of the Hong Kong Institute of Certified Public Accountants since July 2004, and a fellow of the Association of Chartered Certified Accountants since September 2010.

Mr. Wu Wenxu, aged 49, is an executive director of the Company and the vice president of the Group. He is responsible for managing and overseeing overall production activities and the management of the Group's supply chain, production facilities and equipment. He joined the Group in June 1993 and he has rich experience in production and manufacturing, technological innovation and quality control.

Non-Executive Directors

Mr. Hui Lin Chit (formerly known as Hui Chi Lin), aged 67, is a non-executive director of the Company. He was the Chairman of the Company until 12 April 2017. He is responsible for providing leadership, guidance and strategic advice to the Group. He has accumulated over 12 years of experience in the food and snacks business since he became a director of some of the subsidiaries of the Group in November 2008. Mr. Hui is also an executive director, deputy chairman, chief executive officer and authorised representative of Hengan, as well as founding shareholder of Hengan Group and a director of a number of its subsidiaries. Mr. Hui was appointed as executive director of Wang Zeng Berhad on 15 June 2017, a company listed on the Main Market of Bursa Malaysia Securities Berhad with a stock code of 7203. He was redesignated as non-independent non-executive chairman of Wang Zeng Berhad on 25 September 2017.

Mr. Hui is the chairman of United Nations Maritime-Continental Silk Road Cities Alliance and the Jinjiang City Charity Federation.

During the period from 1998 to 2012, Mr. Hui was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference ("**CPPCC**"). During the period from 1997 to 2011, he was also a member of the Executive Committee (at the Eighth CPPCC) and Standing Committee (at the Ninth CPPCC), and deputy chairman (at the Tenth CPPCC) of the All-China Federation of Industry and Commerce. Mr. Hui was also the deputy chairman of the Ninth, Tenth and Eleventh Political Consultative Conference in Quanzhou City and the chairman of the Tenth, Eleventh, Twelfth and Thirteenth Quanzhou Federation of Industry and Commerce. Mr. Hui was accredited with the title of Senior Economist in the People's Republic of China by the Department of Human Resources of Fujian Province in May 1996.

Mr. Hui is the father of Mr. Hui Ching Lau, the Chairman and an executive director of the Company.

Mr. Sze Man Bok, aged 71, is a non-executive director of the Company and a director of certain subsidiaries of the Group. He is responsible for providing leadership, guidance and strategic advice to the Group. He has accumulated over 12 years of experience in the food and snacks business since he became a director of some of the subsidiaries of the Group in November 2008. Mr. Sze is an executive director, chairman and founding shareholder of Hengan Group. Mr. Sze was appointed as executive director of Wang Zeng Berhad on 15 June 2017, a company listed on the Main Market of Bursa Malaysia Securities Berhad with a stock code of 7203. He was redesignated as non-independent non-executive director of Wang Zeng Berhad on 25 September 2017.

Mr. Wu Huolu, aged 57, is a non-executive director of the Company. He is responsible for providing leadership and guidance in relation to the general development of the Group. He is one of the founding members of the Group and has accumulated over 30 years of experience in food and snacks production, operation and management. He had also acted as a director of Luyan (Fujian) Pharma Co., Ltd, a company which engaged in distribution of medicine and listed on the Shenzhen Stock Exchange (Stock code: 2788) since January 2011 to October 2017. Mr. Wu Huolu is also a director of Fujian Shuncheng Flour Industry Development Co., Ltd. ("**Shuncheng Flour**"). Please refer to the section headed"Continuing Connected Transactions"in the Report of the Directors for further details of the transactions between our Group and Shuncheng Flour.

Mr. Wu is the brother-in-law of Mr. Wu Yinhang's brother. Mr. Wu Yinhang is a non-executive director of the Company. Mr. Wu Huolu is a director of Easy Success International Investment Limited, a substantial shareholder within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Wu Sichuan, aged 56, is a non-executive director of the Company. He is responsible for providing leadership and guidance in relation to the general development of the Group. He is one of the founding members of the Group and has accumulated over 30 years of experience in food and snacks production, operation and management.

Mr. Wu Yinhang, aged 53, is a non-executive director of the Company. He is responsible for providing leadership and guidance in relation to the general development of the Group. He is one of the founding members of the Group and has accumulated over 30 years of experience in food and snacks production, operation and management. He is also an executive director of Shuncheng Flour. Please refer to the section headed "Continuing Connected Transactions" in the Report of the Directors for further details of the transactions between our Group and Shuncheng Flour.

Mr. Wu is the brother of Mr. Wu Huolu's brother-in-law. Mr. Wu Huolu is a non-executive director of the Company.

Independent Non-executive Directors

Mr. Cai Meng, aged 53, was appointed as an independent non-executive director of the Company on 17 June 2016. He is a member of audit, remuneration and nomination committees of the Company. Mr. Cai has more than 17 years of experience in business management consulting services, and has been the chairman of Beijing Hejun Hengcheng Business Management Consultant Corp., Ltd. (previously known as Hejun Consulting Company Limited) since January 2015. The company was listed on the New Third Board of the China Stock Markets (Stock number: 839279) since September 2016. Mr. Cai was a research assistant (lecturer) at Beijing University of Aeronautics and Astronautics (now known as Beihang University) from July 1990 to September 1994. He acted as a deputy general manager of various departments of China Asset Management Co., Limited during the period from May 1998 to June 2002. Mr. Cai was a partner of Beijing Hezhong Huifu Consulting Co. Ltd., a securities investment consulting firm, from November 2002 to March 2008. From March 2008 to March 2014, he was the general manager and project manager of H&J Consulting Co., Ltd (now known as Beijing Hejun Digital Learning Company Limited, a company providing management training services), and was chairman of the supervisory board of the same from August 2014 to December 2015.

Mr. Cai obtained a Degree of Bachelor of Laws in July 1990 from Beijing University of Aeronautics and Astronautics, and then a Certificate of Graduation for a post-graduate degree in education from the same university in July 1997. He was then awarded the Certified Management Consultant certification by the International Council of Management Consulting Institutes in June 2006.

Mr. Chan Yiu Fai Youdey, aged 51, was appointed as an independent non-executive director of the Company on 17 June 2016. He is a member of audit, remuneration and nomination committees of the Company. Mr. Chan has 27 years of experience in the legal industry. Mr. Chan has been a partner of David Y.Y. Fung & Co., solicitors since December 2004. He is also an independent non-executive director of Nan Nan Resources Enterprises Limited, a company listed on the main board of the Stock Exchange (Stock code: 1229), since March 2008.

Mr. Chan graduated from the University of Hong Kong with a Degree of Bachelor of Laws in June 1992 and a Postgraduate Certificate in Laws in June 1994. Mr. Chan received a Degree of Master of Laws from the City University of Hong Kong in November 1997 and a Degree of Master of Laws from the People's University of China in June 2001. Mr. Chan was admitted as a solicitor in Hong Kong in February 1997, and in England and Wales in July 1997. He was accredited as a general mediator by the Hong Kong International Arbitration Centre in February 2013.

Mr. Ng Swee Leng, aged 56, was appointed as an independent non-executive director of the Company on 17 June 2016. He is the chairman of audit committee and a member of remuneration and nomination committees of the Company. Mr. Ng has 31 years of financial and managerial experience. Mr. Ng was the Associate Finance Director of Procter & Gamble International Operations Pte. Limited in Singapore from August 2007 to August 2008. He then joined Kraft Foods China and acted as its Chief Financial Officer from November 2008 to June 2013 before he acted as the Chief Financial Officer of GroupM China from June 2013 until February 2016. He was responsible for, amongst others, overseeing the finance functions and corporate governance matters of the aforesaid companies before his appointment as an independent non-executive director of the Company.

Mr. Ng completed the examination of The Chartered Institute of Management Accountants ("**CIMA**") in the UK in November 1989. He has been a fellow of CIMA since September 2000. Mr. Ng was certified as a Chartered Accountant by, and became a member of, the Malaysian Institute of Accountants in June 2001, and has been a member of the Chartered Global Management Accountants in the UK and USA since May 2011.

Mr. Paul Marin Theil, aged 67, was appointed as an independent non-executive director of the Company on 17 June 2016. He is the chairman of remuneration committee and a member of audit and nomination committees of the Company. Mr. Theil has extensive experience in the finance and investment industry. Mr. Theil is the founder of Shenzhen Zhong An Credit Investment Co., Ltd and was appointed as its chairman in January 2008. Mr. Theil has been an independent director of China Industrial Bank Co. Ltd., a company listed on the Shanghai Stock Exchange (Stock code: 601166) since October 2013. He is also an independent non-executive director of Hengan since 17 May 2019. Mr. Theil was also formerly a director of Hengan during the period from July 2000 to September 2001.

Mr. Theil graduated from Yale University with a Degree of Bachelor of Arts in June 1975 and a Degree of Master of Arts in East Asian Studies in June 1975. He also graduated with a Degree of Juris Doctor and a Degree of Master of Business Administration from Harvard Law School and Harvard Business School in November 1981 and June 1980 respectively.

SENIOR MANAGEMENT

Mr. Chen Xin Yi, aged 43, is the general manager of the snack food management division and is responsible for the management of OEM snack food. He joined the Group in July 2013. He was responsible for the Group's supply chain management from July 2013 to October 2020, responsible for procurement and supply chain management. He has been re-designated from the general manager of the supply chain center to the general manager of the snack food management division with effect from October 2020.

Prior to that, he worked as director of operation in Yashili International Group Limited from October 2007 to December 2008, and Xiamen Huierkang Food Co., Ltd from January 2009 to July 2013. He has over 20 years of experience in production operation and supply chain management.

Mr. Chen graduated from Jimei University with a Degree of Bachelor of Foreign Economics and Financial Accounting in July 2000, and later obtained a Degree of Bachelor of Logistics Management (online education) from Tongji University in December 2008. He further obtained a Degree of MBA from Wuhan University of Technology in June 2013. Mr. Chen was certified as second level Enterprise Training Specialist (Technician) by the Ministry of Human Resources and Social Security of the People's Republic of China in October 2007, and then as a first level Logistics Specialist (Senior Technician) in November 2013.

Mr. Zhou Haibo, aged 39, is the general manager of the Group's rice wine products division. He is responsible for the management of production, research and development and sales of the rice wine products division. He joined the Group in May 2003 and has extensive sales management experience. He graduated from Jilin Provincial Taxation School, majoring in Diploma in Accounting.

Mr. Huang Huangshan, aged 36, is the general manager of the human resource and administration department of the Group. He is responsible for human resource and administrative management of the Group. He joined the Group in June 2017. Prior to that, he worked at Hengan Group as human resource manager. He has over 11 years of experience in human resource management. He graduated from Fujian Normal University, majoring in public service management and minoring in law, with a Degree of Bachelor of Management and a Degree of Bachelor of Law.

Mr. Zhang Xilin, aged 53, is the general manager of the Group's seasoning products division. He is responsible for the management of production and operation, marketing and administration of the seasoning products division. He joined the Group in March 2009 and has extensive experience in market planning and sales management.

Ms. Lin Tzyy Ching, aged 48, is the senior research and development engineer of the Group's product management department. She is responsible for assisting the Group in the technical work for the research and development of jelly products. She joined the Group in July 2018. Prior to that, she worked as a research and development consultant in Happyfood Food Co., Limited (華樂福食品公司). She has accumulated over 16 years of experience in food research and development. She graduated from the National Taiwan Ocean University (台灣國立基隆海洋大學), major in food science, and obtained a Degree of Master of Food Science, and received the qualification certificate of senior health manager of the People's Republic of China.

Mr. Zheng Junlong, aged 44, is the general manager of the Group's strategic investment department and the general manager of the Group's risk management department. He is responsible for the strategic investment, legal affairs, internal audit and risk management of the Group. He joined the Group in June 2017. Prior to that, he worked at the legal compliance department of Hengan Group as a senior legal officer from March 1999 to March 2007, at SKSHU Paint Co., Ltd. as the legal affairs manager from March 2007 to December 2007, at Lianjie Investments Group Limited as a vice president from December 2007 to May 2017, where he was responsible for legal affairs and assisting in handling investment affairs. He has over 21 years of experience in corporate legal affairs, investment management and administration. Mr. Zheng obtained a Diploma in Law (online education) from Beijing Normal University in 2009, and obtained the Enterprise Legal Consultant Qualification Certificate of the People's Republic of China jointly issued by the Ministry of Human Resources of the People's Republic of China, the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Justice of the People's Republic of China in December 2003.

CORPORATE GOVERNANCE CODE

Qinqin Foodstuffs Group (Cayman) Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") recognise the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders, and the board of directors (the "**Board**") is fully committed to doing so. The Board believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, achieve high standard of accountability and protect stakeholders' interests.

The Group has adopted a corporate governance statement of policy which provides guidance on the application of the corporate governance principles on the Group, with reference to the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

In the opinion of the directors of the Company (the "**Director(s)**"), the Company has complied with all code provisions as set out in the CG Code throughout the year ended 31 December 2020 and, where appropriate, the applicable recommended best practices of the CG Code, except for the deviation from code provision A.2.1 which is explained in the relevant paragraphs of this corporate governance report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. All Directors have confirmed, upon specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020. To ensure Directors' dealings in the securities of the Company (the "**Securities**") are conducted in accordance with the Model Code and securities code of the Company, a Director is required to notify the chairman of the Board (the "**Chairman**") in writing and obtain a written acknowledgement from the Chairman prior to any dealings in the Securities.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the Group, which includes leadership and control of the Company and oversees the Group's businesses, strategic decisions, internal control, risk management and performances. The management team is delegated with the authority and responsibility by the Board for the day-to-day management of the Group. The delegated functions and work tasks are periodically reviewed. Major corporate matters that are specifically delegated by the Board to the management include (1) the preparation of interim and annual reports and announcements for the Board's approval before publishing; (2) implementation of adequate internal controls and risk management procedures; and (3) compliance with relevant statutory and regulatory requirements and rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement. Directors with various professional qualifications, experience and related financial management expertise have contributed to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders. Hence, the Board believes that the current Board composition satisfy the balance of expertise, skills and experience to the corporate governance requirements of the Group as well as the ongoing development and management of its business activities.

The Board comprises twelve directors, of which three are executive Directors, namely Mr. Hui Ching Lau (Chairman), Mr. Wong Wai Leung (Chief Financial Officer and Company Secretary) and Mr. Wu Wenxu; five are non-executive Directors, namely Mr. Hui Lin Chit, Mr. Sze Man Bok, Mr. Wu Huolu, Mr. Wu Sichuan and Mr. Wu Yinhang; and four are independent non-executive Directors, namely Mr. Cai Meng, Mr. Chan Yiu Fai Youdey, Mr. Ng Swee Leng and Mr. Paul Marin Theil. The biographies of the Directors are set out in "Profile of Directors and Senior Management" on pages 17 to 22 of this annual report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's interim and annual results. During the year, four regular Board meetings were held and the attendance of each Director at the Board meetings is set out in the section headed "Board and Committees Meetings" of this report.

Regular Board meetings for each year are scheduled in advance to facilitate maximum attendance of Directors. All Directors are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Pursuant to the articles of association of the Company, all Directors appointed to fill a causal vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

Save for the family relationships disclosed in the Profile of Directors and Senior Management set out on pages 17 to 22 of this annual report, the Directors do not have material financial, business or other relationships with one another.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company is in the process of identifying a suitable candidate to assume the role as Chief Executive Officer (the "**CEO**") of the Group after Mr. Zhu Hong Bo resigned as CEO on 23 August 2019 due to health reason. The responsibilities of the CEO are overseen by Mr. Hui Ching Lau, Chairman and executive director of the Company, with the support of the senior management team of the Group.

Under the code provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

In view of Mr. Hui Ching Lau is the Chairman and executive director of the Company and he has accumulated over 16 years of experience in the food and snacks business since he became a director of some of the subsidiaries of the Group in April 2003, the Board believes that it is in the best interest of the Group to have Mr. Hui Ching Lau to oversee the responsibilities of the CEO with the support of the senior management team of the Group whilst the Company is still in the process of identifying a suitable candidate to assume the role as CEO. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

All Directors, including Non-Executive Directors, who are appointed to fill a casual vacancy or as an addition to the existing Board, shall hold office only until the next following general meeting after his or her appointment and shall then be eligible for re-election.

Moreover, all Directors (including Independent Non-Executive Directors) of the Company are appointed for a term of three years expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director, or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the articles of association of the Company and/or any applicable laws and regulations. All Directors, being eligible, offer for re-election at the annual general meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from all four Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules.

The Board, through the Nomination Committee, has reviewed the independence of all Independent Non-Executive Directors and concluded that all of them are independent within the definition of the Listing Rules. Furthermore, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any of the Independent Non-Executive Directors has been impaired up to the date of this report.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointing a new Director, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire relevant knowledge and skills. All Directors had provided to the Company records of training received during the year, including attended seminars, briefing or workshop and reading materials in respect of regulatory updates about the directors' duties, the Group's business and relevant industry, etc.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to talents, skills, experience, independence and knowledge. The Company will also take into consideration its own business model and specific needs from time to time. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

As at the date of this report, the Board comprises twelve Directors, amongst them, four are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of age, professional experience, skills and knowledge.

Having reviewed the board diversity policy and the Board's composition, the Nomination Committee considered that the requirements of the board diversity policy had been met and no measurable objective had been set to implement the board diversity policy.

AUDIT COMMITTEE

An Audit Committee has been established by the Board with specific written terms of reference and all members of the Audit Committee are Independent Non-Executive Directors. Pursuant to the Audit Committee's terms of reference, the Audit Committee is authorised to commit Company funds in order to obtain advice from outside legal counsel, accountants, investigatory services or other expert advice. Details of the authority and responsibilities of the Audit Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange.

The Audit Committee comprises four Independent Non-Executive Directors, namely Mr. Ng Swee Leng, Mr. Cai Meng, Mr. Chan Yiu Fai Youdey and Mr. Paul Marin Theil. Mr. Ng Swee Leng is the chairman of the Audit Committee.

During the year ended 31 December 2020, the Audit Committee held two meetings to review the interim and the annual results before their submission to the Board and monitored the integrity of such financial statements; and review the internal control and risk management systems with auditor. The attendance of each member of the Audit Committee is set out in the section headed "Board and Committees Meetings" of this report.

The Audit Committee has also discussed and reviewed the key audit matters determined by the external auditor under the new and revised auditor reporting standards under Hong Kong Standards on Auditing for the year ended 31 December 2020.

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Board with specific written terms of reference and all members of the Remuneration Committee are Independent Non-Executive Directors. Details of the authority and responsibilities of the Remuneration Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange. The remuneration committee has adopted model set out in code provision B.1.2(c)(ii) of the CG Code.

The Remuneration Committee comprises four Independent Non-Executive Directors, namely Mr. Paul Marin Theil, Mr. Cai Meng, Mr. Chan Yiu Fai Youdey and Mr. Ng Swee Leng. Mr. Paul Marin Theil is the chairman of the Remuneration Committee.

During the year ended 31 December 2020, the Remuneration Committee held two meetings to make recommendation of the remuneration packages and performance bonuses for the Directors and senior management of the Company and remuneration packages of new director. The attendance of each member of the Remuneration Committee is set out in the section headed "Board and Committees Meetings" of this report.

Details of the amount of Directors' emoluments for the year ended 31 December 2020 are set out in note 37 to the financial statements.

For the year ended 31 December 2020, the remuneration of the members of the senior management who are not directors are within the following bands:

Remuneration band	Number of persons
Within HKD1,000,000	6

NOMINATION COMMITTEE

A Nomination Committee has been established by the Board with specific terms of reference. The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the reappointment of the Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters. Details of the authority and responsibilities of the Nomination Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange.

The Nomination Committee comprises four Independent Non-Executive Directors, namely Mr. Cai Meng, Mr. Chan Yiu Fai Youdey, Mr. Ng Swee Leng and Mr. Paul Marin Theil, and one Executive Director, namely Mr. Hui Ching Lau. Mr. Hui Ching Lau is the chairman of the Nomination Committee.

The Board had adopted a nomination policy, which included the selection criteria and nomination procedures, for nomination of new Directors with effect from 1 January 2019. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The Nomination Committee has also reviewed the structure, size and composition of the Board and concluded that members of the Board has possessed the expertise and independence to carry out the Board's functions and responsibilities during the year ended 31 December 2020.

During the year, Mr. Wu Wenxu was appointed as new Director by the Board. In considering the nomination of director, the Nomination Committee had based on the nomination policy to assess the candidate on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out his duty and responsibility effectively, etc. and made recommendation to the Board for approval.

BOARD AND COMMITTEES MEETINGS

The individual attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee as well as annual general meeting during the year ended 31 December 2020 are set out below:

	Attendance/Number of Meetings Held during the term of office				
Name of Directors	**Annual General Meeting**	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**
Executive Directors					
Mr. Hui Ching Lau	1/1	4/4	—	—	2/2
Mr. Wong Wai Leung	1/1	4/4	2/2*	2/2*	2/2*
Mr. Wu Wenxu#	—	1/1	—	—	—
Non-Executive Directors					
Mr. Hui Lin Chit	0/1	3/4	—	—	—
Mr. Sze Man Bok	0/1	4/4	—	—	—
Mr. Wu Huolu	1/1	4/4	—	—	—
Mr. Wu Sichuan	0/1	4/4	—	—	—
Mr. Wu Yinhang	0/1	4/4	—	—	—
Independent Non-Executive Directors					
Mr. Cai Meng	0/1	4/4	2/2	2/2	2/2
Mr. Chan Yiu Fai Youdey	1/1	3/4	1/2	2/2	2/2
Mr. Ng Swee Leng	0/1	4/4	2/2	2/2	2/2
Mr. Paul Marin Theil	1/1	4/4	2/2	2/2	2/2

* Being the secretary of the meetings

\# Appointed as Executive Director with effect from 8 December 2020

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2020 which gives a true and fair view of the state of affairs of the Group as at 31 December 2020, and of the results and cash flows for year then ended. In preparing the financial statements for the year ended 31 December 2020, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The interim and annual results of the Company are announced in a timely manner within the limit of two months and three months, respectively, after the end of the relevant periods in accordance with the Listing Rules.

The Directors have acknowledged their responsibility for preparing all information and representation contained in the financial statements of the Company for the year ended 31 December 2020. The statement of reporting responsibilities of auditor is set out in the independent auditor's report.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out as follows:

Services rendered	Fee paid/payable RMB'000
Audit of financial statements	1,900
Other non-audit services	94
Total	1,994

The Company considers that the provision of non-audit services will not impair the objectivity of the auditor.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the design and implementation of the systems of internal controls which covers financial reporting, operations, compliance and risk management of the Company, as well as continuous monitoring the effectiveness of such systems. The Board has delegated such responsibility to the management of the Company. The management, under the supervision of the Board, has established an on-going process for identifying, evaluating and managing significant risks faced by the Group.

The Audit Committee reviews the risk management and internal control systems that are significant to the Group on an on-going basis. The Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, as well as their training programmes and budgets.

During the year, the Company's internal audit department reviewed its internal control procedures and made recommendations to the Board any improvements that can be made to the existing internal control procedures. The internal control and accounting system of the Group have been in place and functioning effectively for the year under review.

The Board is satisfied that the risk management and internal control systems in place covering all material controls including financial, operational and compliance controls for the year under review and up to the date of issuance of the annual report is reasonably effective and adequate.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified; and

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control — review of the annual internal audit report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal control, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

COMPANY SECRETARY

Mr. Wong Wai Leung has been the Company Secretary of the Company since March 2016. He is a full time employee of the Company and has adequate working knowledge on the Company to discharge his duty as the Company Secretary. Mr. Wong reports to the Chairman of the Company and is responsible for advising the Board on corporate governance matters. For the year under review, Mr. Wong has confirmed that he has taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an Extraordinary General Meeting ("EGM")

Pursuant to the Company's articles of association and the Companies Act (as consolidated and revised) of the Cayman Islands (the "**Companies Act**"), registered shareholders of the Company (the "**Shareholders**") holding not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "**EGM Requisitionists**") can deposit a written request to convene an EGM at the registered office of the Company (the "**Registered Office**"), which is presently situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The EGM Requisitionists must state in their request(s) the objects of the EGM and such request(s) must be signed by all the EGM Requisitionists and may consist of several documents in like form, each signed by one or more of the EGM Requisitionists.

The Share Registrars will verify the EGM Requisitionists' particulars in the EGM Requisitionists' request. Promptly after confirmation from the Share Registrars that the EGM Requisitionists' request is in order, the Company Secretary will arrange with the Board to convene an EGM by serving sufficient notice to all the registered Shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the EGM Requisitionists' request is verified not in order, the EGM Requisitionists will be advised of the outcome and a EGM will not be convened as requested.

The EGM Requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM if within twenty-one (21) days of the deposit of the EGM Requisitionists' request, the Board does not proceed duly to convene an EGM provided that any EGM so convened is held within a further twenty-one (21) days from the date of the original EGM Requisitionists' request. An EGM so convened by the EGM Requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Company.

Procedures for Shareholders to Put Forward Proposals at a General Meeting

There are no provisions in the Company's articles of association or the Companies Act for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceeding paragraph. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholders' meetings to the Board in writing to the Hong Kong office of the Company whose contact details are as follows or directly by raising questions at the general meeting of the Company:—

Suite 2601, 26th Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong

Shareholders' enquires

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or call its customer service hotline at (852) 2980 1333.

Shareholders may also make enquiries to the Board at the general meetings of the Company.

Dividend Policy

The Company has adopted a policy on payment of dividends pursuant to code provision of the CG Code that has become effective from 1 January 2019, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to Shareholders.

Declaration, recommendation and payment of dividends of the Company is subject to the approval of the Board, depending on the results of operation, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors may consider relevant from time to time. Any future declaration, recommendation and payment of dividends of the Company may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of the Board. The Company does not have any predetermined dividend payout ratio.

INVESTOR RELATIONS

The public are welcomed to give their comments and make enquiries through the Company's website and by means of emails to the investor relations department (email address: ir@fjqinqin.com.hk). The management always provides prompt responses to any such enquiries. During the year ended 31 December 2020, there were no changes in the Company's Memorandum and Articles of Association. An up-to-date consolidated version of the Company's Memorandum and Articles of Association is available on the Company's website.

ABOUT THE REPORT

Adhering to the corporate mission of "To be a people-oriented company that creates happiness and moments of optimism" and the corporate vision of "To become the most innovative food corporation in China through self-enhancement and to create a better life for all", Qinqin Foodstuffs Group (Cayman) Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") strive to build a harmonious enterprise. The Group has created a business model for sustainable development with its vigorous promotion on energy-saving and emission-reduction. To satisfy customers' needs, the Group strives to produce high-quality products and service. The Group also shoulders its social responsibility by taking on practical actions, with a vision to pursue a joint development with its staffs, customers and investors, as well as the society.

The Company has prepared its 2020 Environmental, Social and Governance Report (the "**Report**") in accordance with the requirements of Appendix 27 "Environmental, Social and Governance Reporting Guide" under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This report illustrated the Company's policies and achievements from four aspects, including environment, product, employees and community, with the purpose to enhance our sense of responsibility, awareness and commitment to sustainable development.

Since over 90% of the Group's revenue and businesses occur in mainland China, thus the Report covers the Group's main business information on 7 production companies that operate three major business segments, including jelly, crackers and chips and seasoning products, in China and discloses the Environmental, Social and Governance ("**ESG**") performance for the period from 1 January 2020 to 31 December 2020.

The information disclosed in the Report is based on important, quantitative, balanced and consistent reporting principles, with the provision of explanations for those disclosure rules which are not applicable to the Group, and thereby meets the disclosure requirement of "comply or explain". Apart from the environmental information which is disclosed with a focus on the 7 production companies of the Group, all the other information in the Report will be disclosed at the Group's level.

ESG MANAGEMENT

1. ESG Strategies

To boost corporate responsibility competitiveness, the capacity itself has to be supported by a comprehensive ESG management system. The Group continues to consolidate a seamless mix and blend of ESG responsibility motif and operation strategies that will enable us to refine the ESG responsibility management system. The Board of Directors of the Company (the "**Board of Directors**") has always approved the Group's commitment to its corporate social responsibility undertakings and assumed full responsibility for the Group's ESG strategies and reporting. The Board is responsible for assessing and defining the Group's ESG risks and ensures that the Group has formulated appropriate and effective ESG risk management and internal control systems. The Board of Directors reviews the Group's ESG performance annually and approves the Group's annual ESG report.

Our Group's management team is responsible for implementing ESG risk management and internal control systems, as well as reporting to the Board of Directors on ESG-related risks and opportunities, and to provide confirmation regarding the effectiveness of the ESG system.

The Group has established an ESG working group that draws its members from various key departments. The ESG working group is responsible for promoting and undertaking projects and daily management duties, along with setting up a comprehensive system for risk management and internal control, actively assisting the management to coordinate horizontally within the Group, so that each of the functional departments can fully implement each policy and communicate with each other, while effectively provide relevant data and information. The Group will compile reports and provide guidance and trainings based on the collected ESG data and information.

2. Stakeholder Communication

The main stakeholders related to our Group include shareholders and investors, governments and regulatory authorities, distributors and consumers, suppliers and contractors, employees, communities and the environment. The Group is committed to maintaining communication with all stakeholders, to truly understand their opinions and expectations, and through effective and diversified communication channels, which help the Group improve and refine its comprehensive management capabilities and levels on a continuous term. With such undertakings, the Group hope to safeguard the needs of stakeholders. The Group has identified the following distinctive stakeholders:

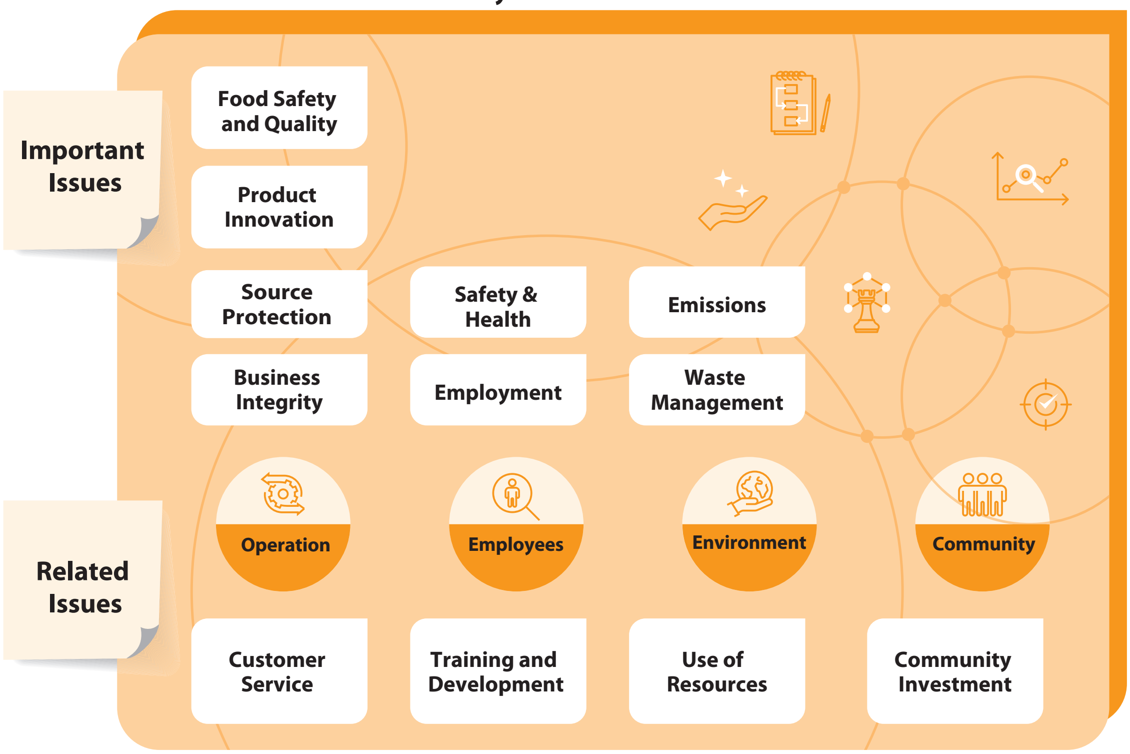
Stakeholder	Shared objectives	Communication and feedback channels	Frequency of communication
Shareholders and Investors	Steady growth in return on investments Asset preservation and appreciation Explore new markets and opportunities Prevent operation risk Safeguard information rights	— Annual General Meeting — Annual Report and Announcement — Investor Meetings — Investor Relations Events and Website	Multiple per year
Government and Regulatory Authorities	Food safety Green production Operation compliance with law Pay tax in accordance with law	— Monitoring and Inspection — Tax Payment — Policy Consultation, Information Exchange in Meeting and Reporting	Multiple per year
Distributors and Consumers	Produce diversified and delicious premium products Food safety Provide sustainable innovative products Create win-win situation Offer refined customer service and communication channels	— Corporate Public Accounts at WeChat and Weibo — Corporate Website — Service Hotline — Product Order Fairs	Daily
Suppliers and Contractors	Advocate openness and fairness Promote long-term cooperation and development Food safety	— Evaluation on Suppliers — On-site Inspection — Daily Communication	Multiple per year
Employees	Protect employers' benefits and rights Promote occupation health and safety Provide equal employment opportunities Promote career development and training Provide promotion and development Work-life balance	— Labour Union — Management Mailbox — Staff Training — Staff Activities — Staff Interview	Irregular

Stakeholder	Shared objectives	Communication and feedback channels	Frequency of communication
Environment	Preservation of ecological environment Green and low-carbon development	— Government and Regulatory Authorities Inspection — Third Party Inspection Bodies Inspection	Irregular
Community	Facilitate employment Enhance local economic development	— Provide Employment Opportunities — Promote Local Economic Development — Improve Infrastructure at Locality — Poverty Alleviation — Community Charity — Voluntary Services	Multiple per year

3. Materiality Assessment

On the basis of stakeholders communication, the Group has identified and conducted materiality assessment on material issues and related topics according to the "ESG Reporting Guide", important issues of the Company, industry features and social responsibility standards. The Group discloses and responds to relevant subjects in the Report in degrees of detail varying with the materiality result of different subjects, which is shown below:

Materiality Assessment Results



Environmental Protection

The Group insists on a green and low-carbon emission development concept. With regards to its due responsibility on environmental protection, the Group's environmental protection policies are integrated into its corporate development. We enforce the national laws and regulations in the field of environmental protection with rigor, takes further efforts to control pollutants and reduce the total emission volume of pollutants, so as to minimize the environmental impacts of its production and operations, and to achieve growths in both economic benefits and social benefits. We also allocate resources for environmental protection, aiming to ensure that all of its environmental protection and energy consumption indicators comply with national standards. We are working towards improving the efficiency on use of resources and attaining the goal of a pollution-free society in its production and operation processes. On one hand, the Group pays attention to and strictly abides by the laws and regulations in the environmental field; on the other hand, it actively promotes new technologies and new processes, as well as protects and improves the environment by not only cutting wastewater and waste gas emissions but also reducing water, electricity, emissions and resources, effectively integrating green environmental protection into all aspects.

1. Emissions

The major emissions discharged by the Group are the waste gas generated from the combustion of fossil fuels during its production and operation, the wastewater generated from various processes during its product production and the dust particles generated from transport. For the pollutants generated during the production, the Group has been in strict compliance with the requirements under the laws and regulations such as the "Environmental Protection Law of the People's Republic of China", continuously improving production process technology and equipment, and taking effective measures when pollutants are generated and discharged, so as to reduce the environmental impact of waste water, waste gas, greenhouse gas, hazardous and non-hazardous solid waste generated during the production. The boilers used at its production facilities have been equipped with advanced low-nitrogen burners. The exhaust gas emissions produced by the burners such as SO2 and NOX meet the "Emission Standard of Air Pollutants for Boilers of the PRC" and are discharged in an orderly manner through a funnel, minimizing their impacts on the surrounding environment. In addition, our production facilities actively responded to national call for energy saving and emission reduction by eliminating the use of coal and diesel to reduce the reliance on petrochemical products. Some production facilities eradicate the emission of waste gas at source by using natural gas or purchased steam as well as adopting the centralized heating method in production. The waste fume generated during the production will be purified by electrostatic fume pacifier, which effectively reduces the waste gas and pollutants in order to meet the national emission standard.

Wastewater discharged by the Group are mainly production wastewater and domestic wastewater generated during production. The Group has been in strict compliance with the requirements under the laws and regulations such as the "Law of the People's Republic of China on the Prevention and Control of Water Pollution", and therefore has formulated the "Sewage Treatment System Management Measures", where all production facilities have built-in sewage treatment systems, and wastewater will meet the discharge standards after treatment. In 2020, following the Group's strategic plan, each newly built production facility is equipped with comprehensive environmental protection equipment in strict compliance of the requirements of environmental protection laws, adopts developed and reliable domestic sewage treatment processes, improves the efficiency of pollutant treatment, and ensures the sewage in compliance with the discharge standards. It has also formulated internal control indicators and management systems to assist all production facilities in strictly complying with emission indicators so as to ensure the sewage discharge in compliance with the standards while reducing pollutant emissions and operating costs.

(1) Management and supervision of pollutants

The sewage treatment stations of the production facilities under the Group are equipped with professional sewage management personnel who are responsible for the dedicated management of wastewater, waste gas and waste residue treatment facilities in the area to ensure the discharge of various pollutants in compliance with the requirements of national laws and regulations. In addition to the daily management of various environmental indicators for each sewage treatment stations of production facilities by a person who is responsible for environmental protection at the production facilities, the Group's environmental protection engineer is dispatched to each production facility every six months to provide technical guidance, supervise and manage the implementation of various environmental protection tasks, and implement the Group's environmental protection work. At the same time, the Group also attaches great importance to environmental management and technical training for environmental protection personnel, and strives to improve and maintain the professional quality of environmental protection personnel. During the year, we carried out a number of environmental protection trainings where five environmental protection personnel received a three-day training regarding environmental protection laws and regulations, sewage treatment operation standardization and application of sewage discharge license in order to improve the comprehensive quality of professional and technical personnel.

(2) Discharge of pollutants in compliance with the standards

By strictly complying with the requirements of national environmental protection laws and regulations, the Group installed online monitoring equipment at the discharge exit of each sewage treatment stations of production facilities to conduct online real-time monitoring of the discharge of COD (chemical oxygen demand), ammonia nitrogen, total nitrogen, PH and other pollutants, as well as responds to and rectifies the abnormal situations in a timely manner to ensure they are able to stably meet the emission standards. In order to ensure the accuracy of online monitoring data, a third-party institution with environmental testing qualifications will be regularly engaged to monitor various pollutants in the area, including wastewater and odor, and the test reports will be issued. Relevant data will be published on the environmental monitoring platform.

The Group's major emissions in 2020 were as follows:

Emissions	**Details of emissions**	**Emission volume**		**Unit**
		2020	2019	
Waste gas	Nitrous oxides (NOx)	**0.18**	0.20	Tonne
	Sulphur dioxide (SO2)	**0.0012**	0.0012	Tonne
	Dust particles	**0.0007**	0.0004	Tonne
Wastewater	Chemical oxygen demand (COD)	**73.1**	63.9	Tonne
	Ammonia nitrogen (NH3-N)	**7.3**	6.39	Tonne
	Wastewater volume	**487,623.0**	425,987.0	Cubic metre

Total wastewater emission volume		**Unit**	**Wastewater emission density**		**Density unit**
2020	2019		**2020**	2019	
487,623.0	425,987.0	Cubic metre	**6.34**	6.01	Cubic metre/tonne of products

2. *Greenhouse Gas*

Greenhouse gas emitted by the Group is mainly generated from the energy consumption, which includes natural gas, electricity and steam, during its production. By strictly complying with the relevant requirements under the "Work Plan for Controlling Greenhouse Gas Emissions for the 13th Five-Year Period", the Group is committed to, among others, improving equipment energy efficiency, reducing energy consumption, using clean energy and conducting refined product management, in order to reduce the emissions of greenhouse gas.

Based on the nature of the Group's business, the major gas emissions are greenhouse gas, sulfur dioxide and dust which are mainly derived from the use of electricity and fuels converted from fossil fuels. The Group's calculation for greenhouse gas mainly covers carbon dioxide, methane and nitrous oxide. Greenhouse gas emissions information are calculated in accordance with the "Reporting Guidance on Environmental KPIs" issued by the Stock Exchange. Scope 1 of greenhouse gas includes the greenhouse gas emission generated directly from the Group's operation; Scope 2 of greenhouse gas is generated from the Group's internal consumption of electricity, heat and steam which led to the "indirect energy" greenhouse gas emission.

The Group's major greenhouse gas emission volume and emission density in 2020 were as follows:

Greenhouse gas emissions	**Emission volume**		**Unit**
	2020	2019	
Direct greenhouse gas emissions	**2,770.58**	2,887.25	Tonne of carbon dioxide equivalent (tCO2e)
Energy indirect greenhouse gas emissions	**22,653.68**	17,421.05	Tonne of carbon dioxide equivalent (tCO2e)
Total greenhouse gas emission volume	**25,424.26**	20,308.30	Tonne of carbon dioxide equivalent (tCO2e)

Total greenhouse gas emission volume		**Unit**	**Greenhouse gas emission density**		**Density unit**
2020	2019		**2020**	2019	
25,424.26	20,308.30	Tonne of carbon dioxide equivalent (tCO2e)	**0.33**	0.29	Tonne of carbon dioxide equivalent (tCO2e)/ tonne of products

3. *Waste Management*

The Group has been in strict compliance with the requirements under the "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste". After the Group classifies, collects and centrally stores hazardous waste in accordance with the "Administrative Measures for Hazardous Waste Management", hazardous waste is treated and thus rendered harmless by qualified third-party companies before disposal. In 2020, the newly built production facilities of the Group have set up waste collection warehouses, transfer warehouses etc. to effectively reclassify and store the waste. The Group is committed to reducing the solid waste at source and implementing refined management. The newly built facilities actively introduce new production equipment, and adopt new processes and technologies, thereby reducing the solid waste, and separating the generated solid waste which will be turned into treasure. Taking a more effective way to scrap the recycled products can ensure that they will not be sold in the market again. The production facilities under the Group reduced the quantity and volume of wastes by improving production processes. Moreover, the hazardous waste is treated and thus rendered harmless, and such measures meet the standard of causing no harm to human health and reduce secondary pollution in environment at source.

For non-hazardous wastes, the Group has been in strict compliance with the requirements under the "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste". Non-hazardous wastes are treated and thus rendered harmless, separated before disposal and finally recycled and reused by the companies with relevant qualifications. The Group continually introduced waste recycling treatments at its production facilities, recycled useful constituent and energy from solid wastes to cut down consumption of resources and speed up the recycling and utilization of resources.

The volume and density of wastes generated by the Group in 2020 were as follows:

Waste discharge	**Unit**	**2020**	2019
Total discharge of hazardous wastes	Litre	**243.5**	301.2
Density of hazardous waste discharge	Litre/tonne of products	**0.003**	0.004
Total discharge of non-hazardous wastes	Tonne	**1,809.08**	1,346.2
Density of non-hazardous waste discharge	Tonne/tonne of products	**0.0235**	0.0190

Note: (1) Hazardous wastes include waste batteries, ink, detergents etc.
(2) Non-hazardous wastes are mainly: plastic, sludge, waste paper, production wastes etc.

In 2020, all production facilities strived to carry out measures to improve and upgrade production equipment in the production process as well as integrate and optimize the existing production lines. In order to reduce the impact of the COVID-19 on the Group and ensure that the food is produced in a safe condition, we keep the environment clean at all times and spray disinfectants on vehicles and items entering the facilities. Our production facilities will conduct daily disinfection and sterilization regularly on the production area, office area, staff dormitories, canteens and surroundings of the facilities. During the pandemic, the wastes were disposed as they were not delivered to the recycling company on time. As a result, some emission of pollutants and wastes failed to meet the emission reduction targets in 2020. The situations are as follows:

- Analysis of pollutant emission
  - The total emission volume of waste gas (including NOx, SO2 and dust particles) reduced by 9.8% when compared to the same period last year.
  - The discharge density of wastewater increased by 5.5% when compared to the same period last year, while COD pollutants reduced by 9.25 tonnes/year when compared to the same period last year, and NH3-N increased by 0.91 tonne/year when compared to the same period last year.
  - The emission density of greenhouse gas increased by 13.8% when compared to the same period last year while the direct greenhouse gas emission reduced by 4.0% when compared to the same period last year, and the energy indirect greenhouse gas emission increased by 30.0% when compared to the same period last year.

- Analysis of waste emission
  - The volume of hazardous wastes generated per packaging unit reduced by 25.0% when compared to the same period last year, and the hazardous wastes generated are treated and thus rendered harmless by qualified third-party companies before disposal.
  - The total volume of non-hazardous wastes increased by 23.7% when compared to the same period last year. Among non-hazardous wastes, plastic, waste paper, waste metal and production wastes are all resources which can be reused. In order to reduce the direct emission of wastes into the environment, the Group disposed of the waste resources to other demanding companies by way of open tender, thus maximizing the utilization of resources and achieving its greatest recyclable value.

4. *Use of Resources*

The Group is committed to maximizing the recycling of resources in the entire lifecycle of products (research and development, production and elimination), and continues to work forwards energy-saving and emission reduction.

(1) Energy Consumption

The major energy consumption of the Group are natural gas, electricity and steam consumed during its production. By strictly complying with the "Energy Conservation Law of the People's Republic of China", the Group always strives to increase its energy efficiency and continuously strive to improve its energy performance.

In accordance with the "Continuous Production Improvement and Management Measures of Qinqin", the Group's continuous production improvement committee assesses the improvement proposals submitted by each production facility every year and announces the awarded improvement proposal accordingly. The Group also encourages all staff to actively participate in the improvement activities, successively and continually improves and optimizes various production processes and equipment, effectively reduces energy waste and production costs, enhances product quality and production effectiveness and efficiency, as well as facilitates its operational management and improvement in effectiveness.

The Group's total energy consumption in 2020 were as follows:

Energy	**Type of energy**	**Volume** **2020**	2019	**Unit**
Direct energy	Natural gas	**930,855.88**	1,025,130.80	Nm^3
Indirect energy	Purchased electricity	**26,885,420.20**	20,356,050.60	Kilowatt-hour (kWh)
	Purchased steam	**66,095.91**	50,742.30	Tonne

Total energy consumption **2020**	2019	**Unit**	**Energy consumption density** **2020**	2019	**Density unit**
50,687.23	42,594.03	Megawatt hour (MWh)	**0.66**	0.60	Megawatt hour(MWh)/ tonne of products

(2) Water Consumption

The major water consumption of the Group is derived from its production and living water usage. By strictly complying with the requirements of the laws and regulations such as "Water Law of the People's Republic of China", the Group continues to carry out watersaving technology assessment and application in order to reduce water consumption. The Group obtained its water supply from tap water supplied by water supply companies controlled by relevant local governments. As water supply is a public utility regulated by the PRC government, the Group has not experienced a material shortage during the year. The Group processed the water supplied to the Group according to industry standards before it is used for product production. To monitor water quality, water used by the Group undergoes quality checks in each location of its production facilities.

The total water consumption of the Group in 2020 were as follows:

Total water consumption volume 2020	2019	Unit	Water consumption density 2020	2019	Density unit
769,856	688,876	Tonne	**10.00**	9.73	Tonne/tonne of products

The energy and water consumption in 2020 were analyzed as follows:

- Water consumption volume per product unit increased by 2.8% when compared to the same period last year because the Group used water for the production of its jelly products, and during the reporting period, the Group's jelly products increased by 7.3% when compared to the same period last year. The Group will continue to further enhance production technology, introduce advanced production lines and reduce the discharge volume of wastewater.

- Energy consumption volume per product unit increased by 10.0% when compared to the same period last year, among which the consumption volume of purchased electricity and steam increased, due to the fact that some facilities are undergoing renovation and establishment, resulting in an increase in electricity consumption. As the production facilities are gradually completed and put into production, electricity consumption will be improved.

The Group will actively adopt the following measures to improve the efficiency of energy and water consumption in the future, including:

(1) Improved recycling and utilizing of extruded and dried condensate to increase steam utilization rate and reduce steam consumption.

(2) Reform of circuit of dormitory buildings to reduce electricity consumption.

(3) Implementation of sterilization water and heat recovery to save energy consumption of sterilization water.

(4) Installation of LED lighting fixtures and other facilities to reduce energy consumption.

(5) Uploading water, electricity, steam and other consumption data to the "cloud management", analyzing with big data to provide guidance on energy management and control work and improving energy management standards.

5. *Raw Material Consumption*

In terms of raw material consumption, in order to reduce waste, the Group has adhered to the consumption standards on the consumption of packaging materials and raw materials for various production units and individual products. The Group carries out assessment on the relevant key performance indicators monthly and annually. There are reward and punishment systems based on the result of the assessment. Whether the material consumption exceeds the acceptable level will be directly linked to the salary of each employee. Such policy uses performance tools to guide employees in all positions to actively concern about material consumption and effectively reduce material discharge.

The Group's total consumption of packaging materials for finished products and the consumption per unit of production in 2020 were as follows:

Type of packaging materials	**Volume of packaging materials**		**Unit of material consumption volume**	**Density of packaging materials**		**Density unit**
	2020	2019		**2020**	2019	
Plastic	**4,917.30**	4,061.96	Tonne	**0.06**	0.06	Tonne/tonne of finished products
Paper	**7,674.44**	6,637.58	Tonne	**0.10**	0.09	Tonne/tonne of finished products

The Group will actively adopt the following measures to reduce the consumption of packaging materials in the future, including:

(1) Purchase of mechanical cup stacking, auto packaging machine and other equipment to reduce packaging material damage for the new facilities.

(2) Proposed purchase of integrated recycling equipment for leftover materials to increase the recycling rate of leftover materials of plastic cups and reduce raw material waste for the new facilities.

6. Environment and Natural Resources

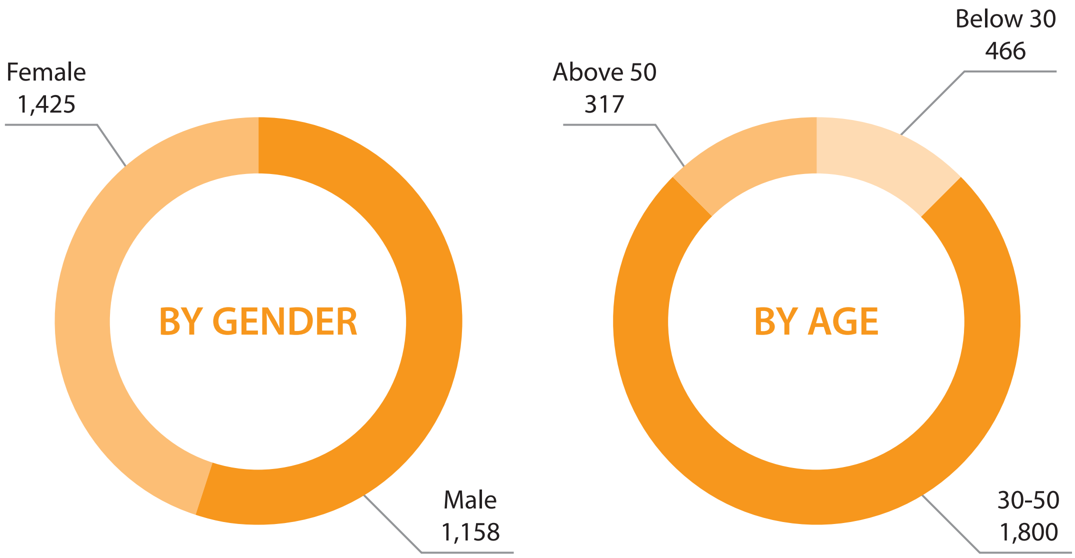
The Group's business activities have had minimal impacts on the environment and natural resources as the Group promotes that the production process for each business section must be clean, which is in line with energy-saving and emission-reduction policies. Through continuous innovation of "green design" and "green products", the philosophy of environmental protection has been implemented on raw material procurement, production and sales of products. We also value the importance of environmental management. While safeguarding the interests, we can firmly establish a harmonious relationship with the natural environment, effectively implement the philosophy of sustainable development, and reduce the impact on the environment and natural resources.

Society

1. Employment

In accordance with the requirements under the laws and regulations as stated in the "Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China", the Group complies with and constantly optimises its personnel management system, establishes an effective employee protection mechanism to protect the legitimate rights and interests of employees and proactively strive for harmonious labour relations. The Group has formulated the "Personnel Management System of Qinqin". The Group hires employees with different nationalities, genders, ages and religious beliefs, and is always upholding the principles of fairness, impartiality and openness in service appointment. Thus, all of the Group's employees are entitled to equal opportunities and equivalent treatments. In accordance with the "Remuneration Management System of Qinqin", through the establishment of a remuneration management system that integrates position, performance and competence by the Group, the employees are encouraged to learn on their own initiative and to work hard, thereby enhancing their skills and overall quality.

At the end of the reporting period, the Group has 2,583 employees. The following figure sets forth the employee structure by gender and age group:



(1) Fair Employment

The salary provided by the Group's to its staff members is not less than that stipulated by the local minimum wage law, while the overall salary has considered other attributes, including duties and responsibilities, capabilities, knowledge, and experience of the incumbent, and the corresponding standard pay scale for the specific post in the hierarchy ranking, that conforms with the appropriate pay range. Also, in assessing the overall salary, the Group will calibrate against the internal pay scale and performance of the respective incumbent, so that the salary package will represent a fair and justified reward to the staff that corresponds to his/her value returns to the Company. Besides salaries, the Group provides employees with various employees' benefits, including bonuses for performance, contribution, and other allowances such as high-temperature allowances (for working outdoor at high temperature), birthday cash gifts, wedding cash gifts, holiday benefits, reimbursement to cover travel expenses for visiting relatives for staff of management level, staff dormitories, and allowance for housing rentals outside working venues. In addition, pursuant to the terms of the share option scheme adopted by the Company, the Group can grant share options to eligible staff members.

In compliance with the relevant requirements under the "Labour Contract Law of the People's Republic of China", the Group will not dismiss employees without reasonable causes. The labour contracts contain provisions setting out the rights and obligations of the parties to protect the lawful rights and interests of workers and to build and develop harmonious and stable labour relations.

The Group upholds the principles of openness and fairness for recruitment in accordance with the relevant regulations. Various types of discrimination are prohibited. The recruitment process is solely based on the assessment of individual capabilities of candidates, regardless of race, colour, gender, age and religious beliefs. All employees and job applicants are entitled to equal opportunities and fair treatments. Such diversification in service appointment helps to enhance the strengths of the Group. It also attracts different talents with various skills. The Group treats every employee's contribution fairly.

(2) Working Hours and Holidays

The Group's working hour policies for its employees have been in strict compliance with the requirements under the "Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China", which ensure sufficient rest time and appropriate work-life balance for employees. On the New Year's Day, Spring Festival, Ching Ming Festival, International Labour Day, Dragon Boat Festival, Mid-Autumn Festival, National Day and other statutory holidays provided under the relevant laws and regulations, workers are allowed to take leave, aiming to increase their sense of wellbeing.

2. *Health and Safety*

The Group is committed to providing employees with a healthy, safe and comfortable working environment. In addition to national policies and regulations, the Group has formulated systems and regulations including the "Safety Work Management Measures for the Production and Operation Department", which ensure the health and safety of employees. The Group has also established a production safety team, and it has further provided basic management work and secured production safety. The Group regularly trains employees on safety production practices, purchases suitable protective devices and tools for employees, and posts safety warnings and signs at workplaces, with the aim to constantly reminding employees to be cautious of hidden dangers. Every year, the Group arranges medical examinations for employees in order to protect the health of each and every employee.

(1) Production Safety

The Group enhances the safety and precaution awareness and self-protection abilities of all staff through safety training, regularly distributes various labor-protection supplies according to the job needs of each post, as well as supervises and educates them on proper wearing and use of such supplies. The Group identifies responsible personnel for production safety in departments, implements safety education, training and publicity, and regularly arranges relevant personnel to conduct safety inspections in workplaces, so as to identify safety issues in time to eliminate hidden dangers, and also carries out fire drill trainings with the fire department on a regular basis. The Group installs dust and exhaust devices for facilities that generate dust and waste gas. For the equipment generating excessive noise, priority is first given to eliminating or reducing noise sources, then to control over the spread of noise, and last to wearing protective equipment.

(2) Occupational Safety

The Group conducts occupational health examinations on frontline staff on a regular basis, offers check-ups once every year for staff above employee level, and creates occupational health management files, so as to protect their physical and psychological health, which enables them to pay attention to personal health during their work. The Group has been in strict compliance with the regulations of the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" and the "Measures for the Administration of Occupational Health Examination", and regularly carries out pre-employment, on-job and pre-departure occupational health examination annually. The Group cares about the physical conditions and working environment of each employee and their daily activities in the Group.

(3) Hazard Identification and Control Measures

The Group identifies and evaluates the risk factors present in the existing workplaces, and it determines the necessary control measures to eliminate and reduce risks and to achieve system security. For potential emergencies (such as fires, flammable leaks, typhoons, accidental injuries), each of the production facilities has formulated the "Environmental Emergency Response Plan of Qinqin", such plan details the possible and unpredictable environmental events and existing risks within the Group and the corresponding emergency plans and response control procedures in place and manages them according to emergency procedures.

(4) Pandemic Prevention and Control

In January 2020, the Group established a working group on pandemic prevention and control to comprehensively coordinate pandemic prevention work at the Group's headquarter and each production facility, and has set up working groups on pandemic prevention for each production facility to ensure the pandemic prevention works are properly implemented. According to the relevant national regulations and requirements of local governments, the Group has issued "Management Measures for Prevention and Control of COVID-19 (親親公司預防新型冠狀病毒股炎防疫管控工作管理辦法)" and appointed heads of production facility as chief responsible persons to supervise each working group on making contingency plans. We also allocated all our people to enhance preventive and hygienic disinfection measures for the best in disease prevention and control.

As employees resume work, the Group has set up checkpoints for prevention and control at the entrances and exits of each facility, where daily temperature checks and identity verification and registration are conducted for personnel entering, particularly to ensure that the health monitoring measures (i.e. confirming health conditions of personnel entering and exiting and whether masks are properly used) are in place. Vehicles and goods must be disinfected before entering the factory. As for employees who are returning to work, each department should inform the working group in advance about their transportation, time, route of travel, activity records, temperature and other relevant information. Every employee must fulfill the return-to-work requirements before resuming work.

To ensure the smooth operation of the production and the health and safety of our employees, the Group has prepared sufficient sanitary and personal protective equipment such as masks, disinfectants, protective gear, and infrared thermometer for daily use at each production facility. Meanwhile, each working group will regularly disinfect and sterilize the production area, office area, staff dormitory, canteens and surroundings of the facility every day, to safeguard a safe working and living environment for our employees.

In addition, in order to raise employees' awareness in disease prevention and complying with the social distancing requirements, the Group has formulated the following measures:

- Reporting health condition for timely employee condition tracking
  The working group on pandemic prevention and control will coordinate with each department and production facility on the compiling of pandemic prevention and control report. They timely monitor employees' health conditions through statistics gathered from WeChat and daily temperature checks, to ensure a full coverage condition tracking with zero-miss among all employees.

- Catering management and separate dining at different times
  Canteens at each facility arrange employees to dine in turn through takeaway catering for minimizing the risk of cross-infection. All personnel are required to keep a distance of at least 1 meter from others and wear masks when waiting in line, and are only allowed to take off the mask when dining. Each should dine alone at one table and leave the table after finishing their meal for the convenience of next diners.

- Shift-duty and home office to reduce gatherings
  In order to effectively reduce gatherings and stop the transmission of the disease, with the recommendations from the working group on pandemic prevention, the Group has adopted flexible working measures. Under shift-duty arrangement, some employees are required to work from home and submit work logs through our human resource system to report daily work plans and progress, so as to ensure an orderly operation of each department.

- Education and publicity to promote pandemic prevention and control knowledge
  Each working group on pandemic prevention carries on education and publicity of pandemic prevention and control for employees through various ways, such as posting posters, billboards, TV broadcasts, WeChat media, and publishing COVID-19 prevention and control knowledge. It also strengthens positive publicity and guidance to continuously improve employees' awareness of prevention and control, to eliminate panic, and to guide employees not to believe in rumors, not to spread rumors, and counter the pandemic scientifically.

3. Development and Training

The Group implements a "people-oriented" management philosophy and is committed to building a "ever-learning enterprise" which creates a strong learning atmosphere. The overall quality of its staff service is continuously enhanced. The Group has a consistent focus on employees' personal and professional developments. Apart from expanding its business, the Group also provides training and promotion opportunities for employees who are passionate about their work. Under the "Training Management System of Qinqin", the Group has established a unique talent training system which has been implemented by the Group through coordination between various departments, leveraging external resources and internal teaching capabilities and using a variety of training methods.

The Group's trainings, including new staffs orientation trainings, trainings for management trainees, management trainings and professional skill trainings, are either conducted internally or outsourced. In 2020, the Group conduct trainings both online and offline, which fully utilized the opportunities of quality management system certification and the launch of human resource management system to strengthen the training and learning in food quality and safety management and systematic concepts for employees at all levels. Through the implementation of the organization development consulting project, the Group has effectively facilitated the execution of its strategy, rebuilt the organizational capabilities, and greatly uplifted the management standard and capabilities of the middle and senior management.

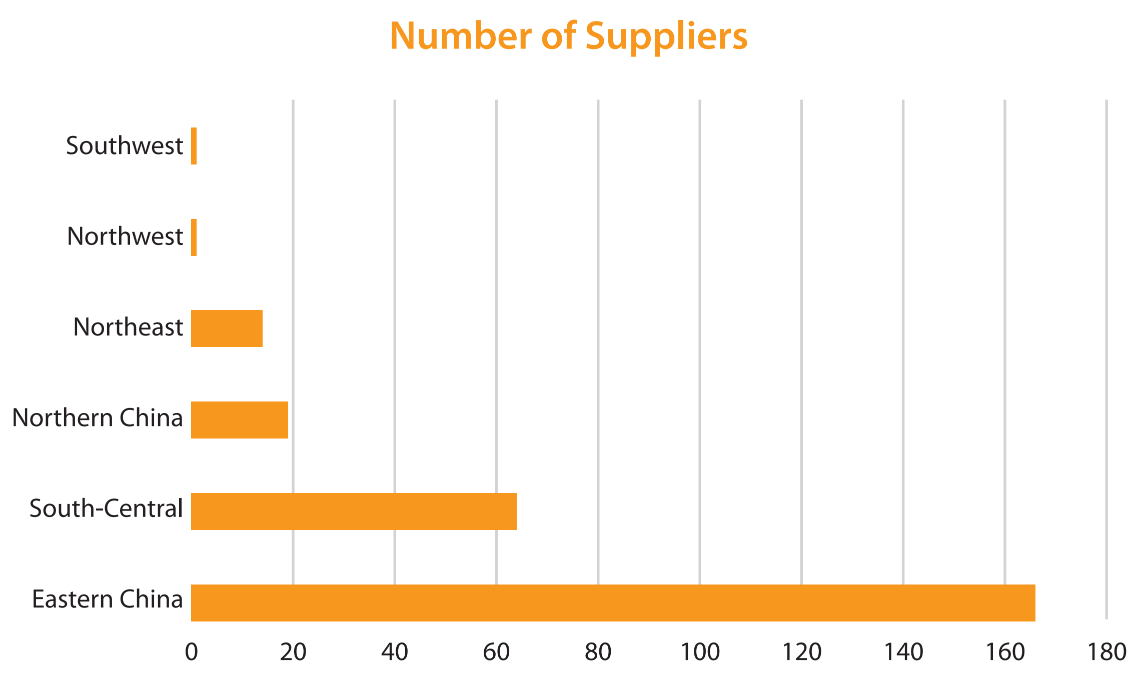
4. *Employee Guidelines*

In compliance with the requirements under the laws and regulations such as the "Labour Contract Law of the People's Republic of China", the Group prohibits child labour or forced labour. Pursuant to the "Personnel Management System of Qinqin", in the recruitment and selection of talents, those under 16 years of age must not be recruited. In addition, a restriction is set out in the human resource information system of the Group that the information on person under 16 years of age cannot be entered. As such, there has been no forced labour for the Group. The Group adheres to the equal and voluntary principle, fully understands employees' decisions and supports their development, and coordinates necessary procedures, e.g. personnel files and social security transfer for employees who voluntarily terminate their labour contracts. For employees who fail to fulfil their labour contractual obligations or fail to pass qualification assessment upon expiry of contract, the Group will terminate such labour contracts in accordance with relevant laws and regulations.

5. *Supply Chain Management*

For the production of food and snack products, the Group implements strict procedures for selecting suppliers, in order to ensure the quality of raw materials. The Group has developed the "Procurement Management System of Qinqin" and "Supplier Management and Evaluation Measures of Qinqin" to conduct assessment, selection, review and appraisal of its suppliers. Qualified suppliers, which have been confirmed by the review and appraisal results, shall have the proven ability to meet the Company's requirements for the quality of materials to be procured. In addition, management and control are conducted over the procurement process to ensure that the materials procured meet the requirements for production technologies and product quality. Apart from the financial status, the Group shall consider the suppliers' environmental, social and ethical morals while selecting suppliers or evaluating supplier relationships. Such investigations and assessments shall cover the basic situation, qualification certificate, technical competitiveness, production capacity, quality assurance system, after-sales service capacity and food safety control of the suppliers. The Group requires suppliers to possess business licenses and related food production licenses, to comply with laws and regulations, and to sign the letter of undertakings in favour of the Group in accordance with the supply contracts.

The following is the number of suppliers of the Group divided by region in PRC:



6. *Product Responsibility*

The Group has been in strict compliance with a series of laws and regulations (including the "Food Safety Law of the People's Republic of China", the "Production Safety Law of the People's Republic of China" and the "Law of the People's Republic of China on the Protection of Consumers' Rights and Interests") related to areas such as production and operation, food packaging and food safety. The Group ensures the strict compliance with the laws and regulations in sections including food production and processing, product packaging and product transportation, thereby guarantees product quality.

(1) Product Innovation

The Group is committed to providing the consumer-centred services, that it will follow closely the current tidal trend in consumption upgrade and continuously apply innovative measures to improve product contents and product portfolio. Besides, the Group will adopt an innovative approach, to provide consumers with attentive and well-thought services, along with improving the products' overall accessibility. Based on the product management center and product research and development (R&D) team, the Group has continuously invested in the research and development team and scale-up R&D efforts to research on new products, so as to meet the diverse needs of consumers. The Group actively participates in various technology sharing endeavours, that it has joined hands with the Sports Medicine Research Institute of the General Administration of Sport of China, among other research centres and professional institutes, including the Food Institute of Fujian Normal University, Fujian Agriculture and Forestry University, and Jiangnan University, among others. The Group also introduced the world-advanced level jelly production line from Japan and other global advanced production lines, so as to promote market competitiveness of new products with the application of top-notch techniques and technology. The innovative products launched by the Group covered several functional purposes including low salt, low sugar, meal replacement, high nutrition, and weight management. With such initiatives, the Group hope to promote healthy and nutritious eating habits.

(2) Quality Control

The Group's quality management department is responsible for the development, management and supervision of the quality monitoring system and food safety management policy of the Group. The quality control teams continuously monitor the raw materials, ensuring that the quality and safety meet the specifications and quality requirements of the Group. The Group also adopts strict quality control measures for the production process to ensure consistent product quality and carries out inspection and tests in the whole production process. All products must be inspected at all stages of the production process, including later production inspection and final quality control before it is delivered for sale. The Group also works with certified third-party inspection companies to carry out product quality and food safety testing for the products of the Group. Furthermore, the Group continues to improve its internal management procedures by abiding to the latest developments in the relevant food safety laws and regulations.

The Group has been in strict compliance with the requirements of relevant laws and regulations, including the "Food Safety Law of the People's Republic of China" and the "Law of the People's Republic of China on the Protection of Consumers' Rights and Interests". The Group implements national food safety principles, as well as carries out quality control in several areas, such as the creation of an outstanding quality control team, establishment of a professional quality control system, improvement of the Group's standard quality control system and the promotion of building of safety culture.

All of the Group's production facilities and production lines are designed in compliance with the PRC's national quality standards. International Organisation for Standardization (ISO9001 and ISO22000), HALAL, SC, KOSHER and HACCP certification have also been obtained for certain production facilities. Each year, the Group engages third party external audit certified companies to conduct external audit for the Group's corporate quality control system certification.

At the same time, the Group actively participated in various events that promote food safety, for example: Safety Month, the themed 3.15 food safety activities, quality product evaluation and rating, and arranged study sessions to follow the guiding directives of "Opinions of the Central Committee of the CPC and the State Council on Deepening Reform and Strengthening Food Safety Work", among other initiatives. Apart from nurturing the food safety awareness among its overall staff members, our Group also aim to spread the message to the rest of the community.

(3) Product Information

The Group has formulated the "Management Procedures for Design and Modification of Packaging and Samples Printing and the Label Review Management Rules" for standardising the product label review, which strengthens the label management and enhances the label compliance. The Group has established a cross-department label checking team, with members from the product management department, risk management department and quality management department, to review contents of labels, including product brand, advertising slogan, trademark, product ingredients and related food safety information, in accordance with the "Advertising Law of the People's Republic of China", the "Food Safety Law of the People's Republic of China", the "National Standard for Food Safety — General Code for Pre-packaged Food Labelling", the "National Standard for Food Safety — General Principles for Nutrition Labelling of Pre-packaged Food", as well as the relevant laws and regulations and food safety standards. The commencement of any packaging materials printing process is subject to the duly pass of the review assessment on label contents (or subsequent to the due rectification of any label error and re-assessment approval), to ensure product label compliance. The Group's product packaging, promotion materials, website, advertising video, among others, can only be launched into or released into the markets after the relevant approval from the group's legal department on intellectual property rights is obtained to ensure the legal compliance of the Group's products and marketing practices.

In 2020, the Group did not encounter any product recalls incident due to safety and health issues. The Group has set up a product tracking management system and manages information of all the process online through SAP system. It generates tracking management information from all aspects such as raw material arrival, production process and sales of products, to realize the directional tracking of products.

(4) Customer Complaints

The Group values every customer's complaint. The Group adopts an internal policy which promotes real-time response to product complaints. The Group has a dedicated customer service team and a customer service hotline to ensure prompt response to customers and consumers. Customer complaints are handled by the customer service staff of the sales management team, and the relevant departments in the Group's headquarter will be notified of in real-time to take remedial measures and to adopt appropriate preventive measure so as to avoid recurrence in the future.

The Group has product quality guidelines and policies to clarifies quality objectives. Each department will plan a specific path towards the quality objectives, and then the quality management department will supervise the progress of achieving the objectives, analyzes, summarizes and immediately handles the situation of quality defects, as well as tracking the quality improvement verification. The Group has implemented the management measures such as "Administrative Measures for Food Recalls". It has established product recall procedures and set up a product recall team, in order to investigate and perform quality and safety checks for potential recall products. Once the Group confirms any recalled product, the Group shall immediately establish a recall-product committee, aiming to identify the batches of products to be recalled and promptly notify the relevant parties.

(5) Intellectual Property Protection

The Group greatly concerns with the protection and management of intellectual property rights, and strictly abides by laws and regulations, including the "Trademark Law of the People's Republic of China", the "Copyright Law of the People's Republic of China", and the "Patent Law of the People's Republic of China", among other laws and regulations.

As of 31 December 2020, the Group has secured 802 trademarks, 116 patent rights, and 336 copyright registrations in mainland China. The Group's legal department is responsible for coordinating the daily intellectual property management within the Group. As such, the department carefully monitors the trademarks that are going through the preliminary examination in the Trademark Office, screens and follows up on the expiry of right of use of trademarks, performs checks for patents due for annual fee payments, and arranges for timely renewal and payment, so as to ensure continuous validity and functionality of the intellectual property rights applied by the Group. The Group engages professional lawyers to train and educate relevant internal staff on basic legal knowledge that includes intellectual property rights, product labelling, promotional advertising, among others, to increase their awareness to respect intellectual property rights, and to enhance the Group's overall compliance with intellectual property rights.

(6) Privacy protection

The Group attaches great importance to consumer information and privacy and strictly complies with the requirements of relevant laws and regulations including the "Law of the People's Republic of China on the Protection of Consumers' Rights and Interests". The Group properly handles and keeps strict confidentiality of consumers' personal information collected through sales channels. The "Personnel Management System of Qinqin" specifies that no employee shall disclose business information, production formula, technical data, documents and other trade secrets of the Company. For any employees whose deliberate disclosure of technical and business secrets of the Group which caused significant economic losses to the Group, their labour contracts with the Group will be terminated.

7. *Business Integrity*

The Group strictly complies with the requirements of relevant laws and regulations such as the "Interim Provisions on Banning Commercial Bribery" and "Anti-Unfair Competition Law of the People's Republic of China". In accordance with relevant laws and regulations and actual situations of the Company, the Group set up the "Whistleblowing System of Qinqin" and the "Management Measures for Litigation Cases of Qinqin". The Group prohibits any corruption and bribery. Directors and employees must comply with corporate policies regarding the acceptance of benefits, and shall not seek personal gain in insider information in any circumstance. All persons involved in the selection of suppliers and contractors and procurement matters must avoid abuse of power or avoid any circumstances that prevent them from making independent decisions when purchasing goods and services. The Group has committed to the establishment of an anti-corruption and fraudulence mechanism, has "zero tolerance" on any violations of professional integrity and business ethics, and it has conducted special audits on areas where high risks of corruption and fraudulence exist.

The Group has established a whistleblowing system, internal audit department and market surveillance team, set up whistleblowing hotlines and CEO mailbox and promoting them to employees and business partners such as customers and suppliers/contractors, encourage employees, customers, suppliers etc. to report any corruption and fraudulent behaviors. The Group has established an internal audit department and market surveillance team, which enables independent investigations of reported matters. Such assisted the Group in identifying financial management loopholes, strengthening the financial management system, enhancing the financial management quality, enhancing self-discipline, self-improvement and disciplinary concepts of the leaders and promote honesty and integrity. The Group has also adopted necessary protective measures to avoid any relevant persons from being exposed to any form of harassment after reporting or cooperating in an investigation. Penalties will be imposed according to the severity of the verified violations of relevant regulations, until given relevant legal responsibilities.

8. *Care For Society*

The Group bears in mind its corporate social responsibility and mission. By proactively participating in social welfare undertakings and positively serving the community, the Group keeps paying back to society. While pursuing corporate growth, the Group also promotes social development and progress and fulfils its social responsibility as a corporate citizen through charitable donations, support for cultural undertakings, volunteer activities, and care for the elderly and children.

The Group has established more than 20 production companies and trading branches across Mainland China, solving the local unemployment problem. The Group also actively participates in public welfare and charity cause. Some of the events organized or participated in by the Group during the year are as follows:

(1) In January 2020, the Group donated 600 boxes of「蘊能可吸果凍」and RMB200,000 to the hospitals in Xiaonan District, Hubei Province, the epicenter of the outbreak, and also donated RMB300,000 to the Xiantao Red Cross Society of Hubei Province to support the frontline against the pandemic.

(2) In February 2020, the Group donated 500 boxes of「蘊能可吸果凍」to the frontliners who suffered food shortages in the severely affected area Tianmen, Hubei Province, to fully support the fight against the pandemic and pay tribute to all frontliners in the pandemic prevention.

(3) In March 2020, Qinqin Foodstuffs provided consolation money for sick employees and launched a charity donation initiative among all employees, calling on all to carry forward the corporate values of philanthropy and help the concerned employees overcome the illnesses and difficulties.

(4) In May 2020 before the upcoming Children's Day, Qinqin Foodstuffs delivered delicious snacks to the children at Jinjiang Geling Primary School (晉江格林小學), Jinjiang No. 8 Experimental Primary School (晉江市第八實驗小學) and Jinjiang Hualin Primary School (晉江華林小學), and wished them a happy holiday and healthy growth.

(5) In May 2020 before the upcoming Nurses Day, Qinqin Foodstuffs, always with a strong sense of social responsibility, sent designated staff to Shanghai Proton and Heavy Ion Hospital, Development Zone Branch of Jinjiang Hospital and Anhai Hospital to donate new products under Qinqin Foodstuffs, and show concern and care for healthcare workers.

The directors (the "**Director(s)**") of Qinqin Foodstuffs Group (Cayman) Company Limited (the "**Company**") herein present their report together with the audited financial statements of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. During the year, the Group is principally engaged in the manufacturing, distribution and sale of food and snack products in the People's Republic of China (the "**PRC**").

The principal activities of the Company's subsidiaries are set out in note 35 to the consolidated financial statements in the annual report.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Company's business, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on page 7 and 16 of this annual report. An analysis using financial key performance indicators can be found in "Financial Highlights" on page 3 of this annual report. This above discussion and highlight form part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement on page 73 of this annual report.

The Board did not recommend the payment of final dividend for the year ended 31 December 2020.

The register of members of the Company (the "**Shareholders**") will be closed from Wednesday, 12 May 2021 to Monday, 17 May 2021 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Monday, 17 May 2021 (the "**2021 AGM**"), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2021 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 11 May 2021.

RESERVES

Details of the movement in reserves of the Company and of the Group during the year are set out in note 36 to the consolidated financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

The Company's net reserves available for distribution, calculated in accordance with the Companies Act of the Cayman Islands, as consolidated and revised from time to time, as at 31 December 2020 amounted to RMB600,786,000 (2019: RMB465,152,000), which represented the retained earnings/accumulated losses and share premium.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 25 to the consolidated financial statements in the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 142.

DIRECTORS

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

Executive Directors

Mr. Hui Ching Lau *(Chairman)*
Mr. Wong Wai Leung
Mr. Wu Wenxu (appointed as director with effect from 8 December 2020)

Non-Executive Directors

Mr. Hui Lin Chit
Mr. Sze Man Bok
Mr. Wu Huolu
Mr. Wu Sichuan
Mr. Wu Yinhang

Independent Non-Executive Directors

Mr. Cai Meng
Mr. Chan Yiu Fai Youdey
Mr. Ng Swee Leng
Mr. Paul Marin Theil

Pursuant to the articles of association of the Company, all Directors appointed to fill a causal vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. In addition, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Accordingly, Mr. Wu Wenxu, Mr. Hui Lin Chit, Mr. Wu Sichuan, Mr. Cai Meng and Mr. Ng Swee Leng shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE AGREEMENT

Each of the executive Directors and non-executive Directors has respectively entered into a service contract with the Company for a term expiring on 7 July 2022, except that Mr. Wu Wenxu's service contract term shall expire on 7 December 2023. The service contract may be terminated in accordance with the respective terms of the service contract.

Independent non-executive Directors were appointed pursuant to the respective letters of appointment for a term of three years expiring on 7 July 2022.

None of the Directors of the Company has entered or has proposed to enter into any service contract with the Company or any member of the Group other than contracts expiring or terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors are set out in note 37 to the consolidated financial statements. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2020, the Group had approximately 2,600 (2019: 2,200) employees. The Group aims to create a strong sense of community and a motivating environment for its employees to excel. The Group recruit employees based on a number of factors, including their educational background, work experience and vacancies within the Group. The Group determines employees' compensation based on their qualifications, work experience, position and performance. In addition to salaries, the Group provides a comprehensive range of staff benefits to its employees, including performance or contribution-based bonuses and allowances for meals and free dormitories. Besides, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

The Group also committed to continuing education and development of its employees, and the Group provides various education and training programs both internally and externally to cultivate its employees in improving their skills and developing their potential.

Remuneration of Directors and senior management of the Group is reviewed by the Company's remuneration committee against the Company's goals and objectives.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out on page 17 to 22.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 34 to the consolidated financial statements and under the Continuing Connected Transactions below, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

COMPETING BUSINESSES

As at 31 December 2020, none of the Directors had any interest in a business which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

CONTINUING CONNECTED TRANSACTIONS

The following transactions are regarded as continuing connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") ("**Listing Rules**"), and are disclosed in accordance with Chapter 14A of the Listing Rules.

	2020 **RMB'000**	2019 RMB'000
Purchases of flour from Fujian Shuncheng Flour Industry Development Co., Ltd ("**Shuncheng Flour**")	**1,794**	1,799

Shuncheng Flour is a company owned as to over 50% by Mr. Wu Huolu and Mr. Wu Yinhang, each of whom is a Director of the Company, and their family members. Shuncheng Flour has been supplying flour to the Group in the ordinary course of our business during the year ended 31 December 2020.

The supply of flour from Shuncheng Flour to the Group during the year ended 31 December 2020 has been governed by a framework agreement entered into between a wholly owned subsidiary of the Company and Shuncheng Flour on 12 December 2018, which set out the principle terms governing the supply of flour to members of the Group for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021 (both days inclusive).

The aforesaid continuing connected transactions have been reviewed by independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid continuing connected transaction were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or better; and (c) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 34 to the consolidated financial statements. None of them constitutes a disclosable transaction as defined under the Listing Rules.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2020, the interest and short positions of the Directors in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which (a) were required to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which the Directors have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were set out below:

Long positions in the shares of the Company (the "Shares")

Name of Director	Note	Capacity/Nature of interest	Number of Shares interested	Number of underlying Shares interested (Note 1)	Approximate percentage of interest in the Company (Note 2)
Mr. Hui Ching Lau	3	Interest of controlled corporation/ corporate interest	248,315,905	—	32.89%
Mr. Sze Man Bok	4	Beneficial owner and founder of discretionary trust/ personal and other interests	45,760,919	—	6.06%
Mr. Wu Huolu	5	Beneficial owner and interest of controlled corporation/ personal and corporate interests	35,842,895	—	4.75%
Mr. Wong Wai Leung		Beneficial owner/personal interest	—	240,000	0.03%
Mr. Wu Wenxu		Beneficial owner/personal interest	—	220,000	0.03%

Notes:

1. Underlying Shares represent share options granted to the directors pursuant to share option scheme of the Company and details of which are set out on pages 58.

2. The percentages expressed are based on the total number of issued Shares of 755,096,557 as at 31 December 2020.

3. These 248,315,905 Shares are held and owned by Sure Wonder Limited, which is wholly owned by Mr. Hui Ching Lau and accordingly, Mr. Hui Ching Lau is deemed to be interested in the said 248,315,905 Shares.

4. These 45,760,919 Shares comprise 45,645,799 Shares held and owned by Tin Lee Investments Limited ("**Tin Lee**") and 115,120 Shares held and owned by Mr. Sze Man Bok. Tin Lee is a wholly owned subsidiary of Tin Wing Holdings Limited, which is owned by Seletar Limited and Serangoon Limited as nominee on trust for Credit Suisse Trust Limited, the trustee of the Sze's Family Trust. Mr. Sze Man Bok is settlor and beneficiary of the Sze's Family Trust and accordingly, is deemed to be interested in the said 45,645,799 Shares.

5. These 35,842,895 Shares comprise (i) 35,214,895 Shares held and owned by Easy Success International Investment Limited ("**Easy Success**"), which is wholly owned by Mr. Wu Huolu; and (ii) 628,000 Shares held and owned by Mr. Wu Huolu. Mr. Wu Huolu is deemed to be interested in the said 35,214,895 Shares held by Easy Success accordingly.

Save as disclosed above, none of the Directors or chief executive had, as at 31 December 2020, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which, (a) were required to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive have taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2020, so far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the Shares and the underlying Shares, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, or to be notified to the Company, were as follows:

Long Positions in the Shares of the Company

Name of Substantial Shareholder	Note	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the Company (Note 1)
Sure Wonder Limited	2	Beneficial owner/beneficial interest	248,315,905	32.89%
Tin Lee Investments Limited	3	Beneficial owner/beneficial interest	45,645,799	6.05%
Tin Wing Holdings Limited	3	Interests of controlled corporation/ corporate interest	45,645,799	6.05%
Serangoon Limited	3,4	Nominee for another person/other interest	53,834,099	7.13%
Seletar Limited	3,4	Nominee for another person/other interest	53,834,099	7.13%
Credit Suisse Trust Limited	3,4	Trustee/other interest	53,834,099	7.13%

Notes:

1. The percentages expressed are based on the total number of issued Shares of 755,096,557 as at 31 December 2020.

2. Mr. Hui Ching Lau, the Chairman and executive Director of the Company, is the sole director and sole shareholder of Sure Wonder Limited. His interest in Shares is disclosed in the "Directors' Interests in Securities" above.

3. Tin Lee Investments Limited is a wholly owned subsidiary of Tin Wing Holdings Limited which is owned by Seletar Limited and Serangoon Limited as nominee on trust for Credit Suisse Trust Limited, the trustee of the Sze's Family Trust. Each of Tin Wing Holdings Limited, Seletar Limited, Serangoon Limited and Credit Suisse Trust Limited, and Mr. Sze Man Bok are deemed to be interested in 45,645,799 Shares held and owned by Tin Lee Investments Limited under the SFO. Mr. Sze's interest in Shares is disclosed in the "Directors' Interests in Securities" above.

4. These 53,834,099 Shares comprise 45,645,799 Shares held and owned by Tin Lee Investments Limited (under the Sze's Family Trust) and 8,188,300 held by other trusts. As stated in note 3 above, Seletar Limited and Serangoon Limited have deemed interests in these Shares on trust for Credit Suisse Trust Limited, being trustee of the said trusts, and accordingly, each of them are deemed to be interested in these Shares under the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Scheme**") on 16 May 2017 which is valid and effective for a period of 10 years commencing on the date of adoption of the Scheme. Further details of the Scheme are disclosed in note 26 to the consolidated financial statements.

(1) The terms of the Scheme are summarised as follows:

(i) Purpose of the Scheme
The purpose of the Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving performance targets in order to enhance the value of the Company and the Shares for the benefit of the Company and the Shareholders as a whole and at the same time allow participants to enjoy the results of the Company attained through their efforts and contribution, to retain participants who achieve such performance targets and attract human resources that are valuable to the Group. The Scheme will provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants.

(ii) Eligible Persons
Participants of the Scheme comprise of directors (including executive Director(s), non-executive Directors and independent non-executive Directors), officers and employees of any member of the Group as determined by the Board from time to time. The Directors may, at their discretion, invite participants to participate in the Scheme. In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(iii) Maximum Number of Shares Available for Issue
The maximum number of shares available for issue after considering the options already granted under the Scheme as at the date of the annual report are 36,009,655, representing 4.8% of total issued shares of the Company as at the date of this annual report, which are not more than 10% of the issued share capital of the Company (i.e. 47,569,655 shares) as at the date of the approval of the Scheme.

(iv) Maximum Entitlement of Each Participant

Unless approved by Shareholders in the manner set out in this paragraph below, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding Options, if any) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to a participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding Options, if any) in the 12-month period up to and including the date of such further grant exceeding the said 1% limit shall be subject to Shareholders' approval in advance with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. A circular containing the information required under the Listing Rules must be sent to the Shareholders disclosing the identity of such participant and the number and terms of the options granted and to be granted.

Where any grant of Options to a substantial Shareholder or an independent non-Executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding, if any) to such person in the 12 month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the shares then in issue; and

(b) having an aggregate value, based on the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of such grant, in excess of HK$5 million (or such other amount as may from time to time be specified by the Stock Exchange),

such further grant of options shall be subject to prior approval by the Shareholders. The proposed grantee, his associates and all core connected persons (as such terms are defined in the Listing Rules) of the Company shall abstain from voting at such general meeting, except that such grantee, his associates or all core connected persons may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

(v) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme and the offer of the grant of an option at any time commencing on the date of grant and expiring on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant.

(vi) Acceptance of Offer

An offer for the grant of options must be accepted not less than 10 business days after the offer date and must be accompanied by payment of HK$1.00.

(vii) Subscription Prices

The subscription price for the shares shall be such price determined by the Board at its absolute discretion and notified to the Participant in the offer of option and shall be no less than the higher of:

(a) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;

(b) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(c) the nominal value of a share on the date of grant.

(viii) Remaining Life of the Scheme
The Scheme will remain in force before 16 May 2027.

(2) The table below sets out movements in the share options granted under the Scheme during the year ended 31 December 2020:

	Number of share options							
Eligible person	Balance as at 1/1/2020	Granted during the year	Exercised during the year	Cancelled or lapsed during the year	Balance as at 31/12/2020	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors								
Mr. Wong Wai Leung	60,000	—	—	—	60,000	2.56	06/06/2017	07/06/2019-06/06/2022
	60,000	—	—	—	60,000	2.56	06/06/2017	07/06/2020-06/06/2022
	60,000	—	—	—	60,000	2.31	16/08/2018	17/08/2020-16/08/2023
	60,000	—	—	—	60,000	2.31	16/08/2018	17/08/2021-16/08/2023
Mr. Wu Wenxu (Note 3)	60,000	—	—	—	60,000	2.56	06/06/2017	07/06/2019-06/06/2022
	60,000	—	—	—	60,000	2.56	06/06/2017	07/06/2020-06/06/2022
	50,000	—	—	—	50,000	2.31	16/08/2018	17/08/2020-16/08/2023
	50,000	—	—	—	50,000	2.31	16/08/2018	17/08/2021-16/08/2023

Eligible person	Number of share options Balance as at 1/1/2020	Granted during the year	Exercised during the year	Cancelled or lapsed during the year	Balance as at 31/12/2020	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Other employees	2,555,000	—	—	(225,000)	2,330,000	2.56	06/06/2017	07/06/2019-06/06/2022
	2,555,000	—	—	(225,000)	2,330,000	2.56	06/06/2017	07/06/2020-06/06/2022
	3,700,000	—	—	(430,000)	3,270,000	2.31	16/08/2018	17/08/2020-16/08/2023
	3,700,000	—	—	(430,000)	3,270,000	2.31	16/08/2018	17/08/2021-16/08/2023
	12,970,000	—	—	(1,310,000)	11,660,000			

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of exercise period.

2. The closing price of the Shares immediately before the date on which the share options being granted on 6 June 2017 and 16 August 2018 was HK$2.56 and HK$2.29 respectively.

3. Mr. Wu Wenxu appointed as director with effect from 8 December 2020.

The Company used the Binomial Model for assessing the fair value of the share option granted. The following assumptions were used to calculate the fair values of the share options:

	Date of Grant 6 June 2017	16 August 2018
Grant date share price	HK$2.56	HK$2.29
Exercise price	HK$2.56	HK$2.31
Expected life	5 years	5 years
Expected volatility (note a)	33%	34%
Risk-free rate (note b)	0.94%	2.06%
Dividend yield (note c)	1.49%	1.91%

Notes:

(a) Expected volatility is estimated with reference to the historical share price of the Company and a set of comparable companies.

(b) Risk-free rate is determined with reference to the yield of Hong Kong Exchange Fund Notes.

(c) Dividend yield is estimated by reference to the historical share price and dividend paid of the Company and a set of comparable companies.

According to the Binomial Model, the fair value of the option granted, which had been charged to the consolidated income statement for the year ended 31 December 2020, amounted to approximately RMB1,391,000 and the remaining unamortised fair value of approximately RMB202,000 will be charged to the consolidated income statement in future.

It should be noted that the value of an option varies with different variables of certain subjective assumptions, any change in variables so adopted may materially affect the fair value estimate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors. Having made specific enquiries with all the Directors, they have confirmed compliance with the required standard as set out in the Model Code throughout the year ended 31 December 2020.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the Independent Non-executive Directors and is satisfied of their independence.

AUDIT COMMITTEE

The audit committee, which comprises four Independent Non-executive Directors of the Company, has reviewed with the management in conjunction with the auditor, the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of audited consolidated financial statements of the Group for the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's customers primarily comprise of distributors, direct key accounts and other retailers and the Group mainly sell its products to a broad network of distributors. The Group has maintained well-established relationships with its distributors and leverages the strength of their distribution channels to efficiently distribute products and reach consumers in different regions of China.

The Group selects its suppliers based on price, product quality, safety and market reputation and typically collaborate with reliable and reputable suppliers of raw materials. The Group has had stable relationships with many of its suppliers of raw materials, and the Group generally has various sources of supply for each type of raw material to reduce the reliance on a single supplier and to make reference to prevailing market prices for the same raw material.

The percentages of purchases and sales for the year ended 31 December 2020 contributed by the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	4.5%
— five largest suppliers combined	16.5%
Sales	
— the largest customer	6.8%
— five largest customers combined	11.4%

None of Directors, their close associates or substantial shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested, at any time during the year, in the Group's five largest customers or suppliers.

CHANGES IN DIRECTORS' AND CHIEF EXECUTIVES' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, changes of information of the Directors are set out as below:

Executive Director — Mr. Hui Ching Lau (Chairman)

On 3 December 2020, Mr. Hui resigned as a director of AGORA Hospitality Group Co., Ltd. (a company whose shares are listed on the Tokyo Stock Exchange, stock code: 9704).

On 10 December 2020, Mr. Hui was appointed as an executive director of Hengan International Group Company Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 1044).

Executive Director — Mr. Wong Wai Leung

On 13 May 2020, Mr. Wong was appointed as an independent non-executive director of Zhongchang International Holdings Group Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 859).

Mr. Wong's minimum annual remuneration was increased from HK$1,820,000 to HK$2,158,000 with effect from 1 January 2021.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float during the year ended 31 December 2020 under the Listing Rules.

PERMITTED INDEMNITY PROVISIONS

According to the articles of association of the Company, every director of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a director in defending and proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

Save as disclosed herein, at no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

PRE-EMPTIVE RIGHTS

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

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

RAISING OF FUNDS AND USE OF PROCEEDS

(a) Pursuant to the subscription agreements dated 22 March 2019 entered into between the Company and the subscribers, an aggregate of 104,400,000 ordinary shares of the Company of HKD0.01 each in the share capital of the Company (the "**Shares**") were issued at HKD2.2 per Share (the "**2019 Subscription Price**") to the subscribers on 1 April 2019 (the "**2019 Subscription**"). The aggregate nominal value of the Shares under the 2019 Subscription is HKD1,044,000. The 2019 Subscription Price represented (i) a premium of approximately 1.38% to the closing price of HKD2.17 per Share as quoted on the Stock Exchange on 21 March 2019, the date on which the terms of the subscription agreement were fixed; and (ii) a discount of approximately 1.43% to the average closing price of approximately HKD2.232 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to and including 21 March 2019. The subscribers are independent professional or individual investors. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the subscribers (and their respective ultimate beneficial owners, if applicable) are third parties independent of the Company and its connected persons. Details of the 2019 Subscription were disclosed in the Company's announcements dated 22 March 2019 and 1 April 2019.

The gross and net proceeds of the 2019 Subscription were approximately HKD229.68 million (equivalent to approximately RMB197.0 million) and approximately HKD229.48 million (equivalent to approximately RMB196.8 million), respectively. The net subscription price, after deducting such fees, costs and expenses, is therefore approximately HKD2.198 per Share under the 2019 Subscription.

Sets out below is a summary of the intended and actual use of proceeds from the 2019 Subscription:

Intended use of proceeds as announced and actual use of proceeds	**Net proceeds** (Approximate) (RMB in million)	**Amount of proceeds utilised up to 31 December 2020** (Approximate) (RMB in million)	**Amount of proceeds unutilised up to 31 December 2020** (Approximate) (RMB in million)
Upgrade of enterprise resource planning (ERP) system of the Group	15.4	7.2	8.2
Purchase of machinery and equipment	29.2	29.2	—
Promotion and marketing campaigns	25.7	25.7	—
Provide funding for land acquisition and development costs of sesame candy and rice wine production facilities in Xiaogan City, Hubei Province, PRC.	126.5	126.5	—
Total	196.8	188.6	8.2

As at the date of this report, the Company expects that the unutilised proceeds will be used according to the intended use of proceeds as previously announced. As the Company is in the process of upgrading its ERP system by phases, it is expected that the unutilised proceeds as at 31 December 2020 will be fully utilised in the financial year 2021.

(b) Pursuant to the subscription agreements dated 22 December 2020 entered into between the Company and the subscribers, an aggregate of 80,000,000 Shares were issued at HKD2.2 per Share (the "**2020 Subscription Price**") to the subscribers on 29 December 2020 (the "**2020 Subscription**"). The aggregate nominal value of the Shares under the 2020 Subscription is HKD800,000. The 2020 Subscription Price (i) equaled the closing price of HKD2.2 per Share as quoted on the Stock Exchange on 21 December 2020, the date on which the terms of the subscription agreement were fixed; and (ii) represented a discount of approximately 4.51% to the average closing price of approximately HKD2.304 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to and including 21 December 2020. The subscribers are independent professional corporate and/or individual investors. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the subscribers (and their respective ultimate beneficial owners, if applicable) are third parties independent of the Company and its connected persons. Details of the 2020 Subscription were disclosed in the Company's announcements dated 22 December 2020 and 29 December 2020.

The gross and net proceeds of the 2020 Subscription were approximately HKD176.0 million (equivalent to approximately RMB148.6 million) and approximately HKD175.8 million (equivalent to approximately RMB148.4 million), respectively. The net subscription price, after deducting such fees, costs and expenses, is therefore approximately HKD2.198 per Share under the 2020 Subscription.

Sets out below is a summary of the intended and actual use of proceeds from the 2020 Subscription:

Intended use of proceeds as announced and actual use of proceeds	**Net proceeds** (Approximate) (RMB in million)	**Amount of proceeds utilised up to 31 December 2020** (Approximate) (RMB in million)	**Amount of proceeds unutilised up to 31 December 2020** (Approximate) (RMB in million)
Purchase of machinery and equipment	30.2	—	30.2
Promotion and marketing campaigns	16.9	—	16.9
Provide funding for land acquisition and development costs of new production facilities	101.3	—	101.3
Total	148.4	—	148.4

As at the date of this report, the Company expects that the unutilised proceeds will be used according to the intended use of proceeds as previously announced. The Company expected that the unutilised proceeds as at 31 December 2020 will be fully utilised in the financial year 2021.

Save as disclosed herein, the Company did not have any other fund raising activity during the year ended 31 December 2020 and up to the date of this report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

There was no significant event of the Group occurred after the reporting period.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Details of the Company's environmental, social and governance practices are set out in the Environmental, Social and Governance Report of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

On behalf of the Board
Qinqin Foodstuffs Group (Cayman) Company Limited

Hui Ching Lau
Chairman

Hong Kong, 18 March 2021

To the Shareholders of Qinqin Foodstuffs Group (Cayman) Company Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Qinqin Foodstuffs Group (Cayman) Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 141 which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition — sales of goods
- Recognition of deferred income tax assets

Key Audit Matters	How our audit addressed the Key Audit Matters
1. Revenue recognition — sales of goods	
Refer to Note 2(22) (Summary of significant accounting policies) and Note 5 (Revenue and segment information) of the consolidated financial statements. During the year ended 31 December 2020, the Group recognised revenue from sales of goods amounted to RMB792.8 million. Revenue is recognised when the Group satisfies a performance obligation by transferring the control of promised good or service to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that good or service. We focused on this area due to the large volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers, including direct customers and distributors in many different locations.	We understood, evaluated and validated management's controls in respect of the Group's sales transactions. In addition, we tested the general control environment of the Group's information technology systems and the automated controls that were related to revenue recording. We conducted testing of revenue transactions on a sample basis by examining the relevant supporting documents including customer contracts and orders, sales involces, goods delivery notes and good receipt records. In addition, we circularised confirmations on a sample basis on trade receivables balances as at the balance sheet date. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date, by reconciling recognised revenue with the goods delivery notes and good receipt records, to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we found the Group's revenue from sales of goods being tested were supported by the evidences that we obtained.

Key Audit Matters	How our audit addressed the Key Audit Matters
2. Recognition of deferred income tax assets	
Refer to Note 2(19) (Summary of significant accounting policies), Note 4 (Critical accounting estimates and judgements) and Note 30 (Deferred income tax) of the consolidated financial statements. As at 31 December 2020, deferred income tax assets of approximately RMB30.1 million were recognised for tax losses that can be carried forward in respect of certain subsidiaries in Mainland China, to the extent that realisation of the related tax benefits through the availability of future taxable profits is probable. Significant judgements and estimation are involved in determining the recognition of deferred income tax assets and considering whether future taxable profit will be available against which the unutilised tax losses can be utilised. Management prepared a 5-year profit forecast to assess the probability of generating sufficient taxable profits in the foreseeable future involving significant assumptions, such as revenue growth rates and gross margins. We focused on this area due to its significance to the consolidated financial statements, the high degree of estimation uncertainty about the future taxable profit to be available against which the unutilised tax losses can be utilised and the inherent complexity and judgements involved in recognition of deferred income tax assets.	We obtained an understanding of the management's internal control and assessment process of recognition of deferred income tax assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as management estimation about the future taxable profit to be available against which the unutilised tax losses can be utilised, including but not limited to the appropriateness of the significant assumptions of revenue growth rates and gross margins. We compared the current year's actual results with the prior year forecast to consider, with hindsight, whether key assumptions included in that forecast had been subject to management bias. We checked the mathematical accuracy of the forecast model, and evaluated and challenged management's profit forecasts for the next five years of the individual subsidiaries that have unutilised tax losses. Our assessment focused on the key assumptions, such as revenue growth rates and gross margins, by comparing them to these subsidiaries' historical operating results and future operating plans, together with external economic and industry forecasts, where appropriate.

Key Audit Matters	How our audit addressed the Key Audit Matters
2. Recognition of deferred income tax assets	
	We also performed a sensitivity analysis over the key assumptions used in the profit forecast such as the revenue growth rates and gross margins to assess the potential impact of a range of possible outcomes. We verified the existence and amounts of unutilised tax losses, together with their expiry dates, and the income tax rates applicable to the subsidiaries by examining the tax returns submitted by the relevant entities and reviewing the correspondences with the tax authorities. We assessed the adequacy of the disclosures related to recognition of deferred income tax assets in the context of HKFRSs. Based on our work performed, we found that management's judgement and estimation for the recognition of deferred income tax assets were supported by the evidences that we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions take to eliminate threats or related safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2021

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	5	**792,829**	690,852
Cost of goods sold	6	**(541,707)**	(446,358)
Gross profit		**251,122**	244,494
Distribution and selling expenses	6	**(145,182)**	(118,930)
Administrative expenses	6	**(101,008)**	(81,152)
Net impairment losses on financial assets	3(1)(ii)	**(1,453)**	(542)
Other income and other gains — net	8	**20,973**	32,748
Operating profit		**24,452**	76,618
Finance income	9	**17,163**	30,065
Finance costs	9	**(13,020)**	(437)
Finance income — net		**4,143**	29,628
Share of net loss of investments accounted for using the equity method	18	**(2,871)**	(1,891)
Profit before income tax		**25,724**	104,355
Income tax expense	10	**(8,064)**	(23,168)
Profit for the year, all attributable to shareholders of the Company		**17,660**	81,187
Earnings per share for profit attributable to shareholders of the Company			
— Basic earnings per share (expressed in RMB per share)	11	**RMB 0.026**	RMB 0.125
— Diluted earnings per share (expressed in RMB per share)	11	**RMB 0.026**	RMB 0.125

The notes on pages 79 to 141 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit for the year	**17,660**	81,187
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Fair value gains on financial assets at fair value through other comprehensive income	**21,731**	—
Other comprehensive income for the year	**21,731**	—
Total comprehensive income for the year, all attributable to shareholders of the Company	**39,391**	81,187

The notes on pages 79 to 141 are an integral part of the consolidated financial statements.

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**402,413**	247,600
Construction-in-progress	14	**231,452**	112,075
Right-of-use assets	15	**85,938**	72,601
Intangible assets	16	**2,502**	2,179
Prepayments for non-current assets	17	**24,773**	3,890
Deferred income tax assets	30	**51,106**	28,729
Investments accounted for using the equity method	18	**2,539**	3,109
Financial assets at fair value through other comprehensive income	19	**61,610**	23,146
		862,333	493,329
Current assets			
Inventories	21	**150,556**	98,161
Trade receivables	22	**11,040**	5,614
Other receivables, prepayments and deposits	22	**51,039**	40,437
Financial assets at fair value through profit and loss	23	**56,942**	—
Cash and bank balances	24	**711,018**	732,033
		980,595	876,245
Total assets		**1,842,928**	1,369,574

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Equity			
Equity attributable to shareholders of the Company			
Share capital	25	**6,433**	5,758
Other reserves	27	**736,801**	553,231
Retained earnings		**592,724**	587,771
Total equity		**1,335,958**	1,146,760
Liabilities			
Non-current liabilities			
Lease liabilities	15	**6,654**	3,110
Deferred income tax liabilities	30	**12,298**	4,953
		18,952	8,063
Current liabilities			
Trade payables	28	**86,347**	47,884
Other payables and accrued charges	28	**229,375**	100,393
Contract liabilities	5(3)	**78,751**	53,885
Current income tax liabilities		**22,238**	10,613
Borrowings	29	**70,199**	—
Lease liabilities	15	**1,108**	1,976
		488,018	214,751
Total liabilities		**506,970**	222,814
Total equity and liabilities		**1,842,928**	1,369,574

The notes on pages 79 to 141 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 73 to 141 were approved by the Board of Directors on 18 March 2021 and were signed on its behalf.

Hui Ching Lau
Director

Wong Wai Leung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2019		4,861	355,751	507,685	868,297
Comprehensive income					
Profit for the year and total comprehensive income for the year		—	—	81,187	81,187
Transactions with equity holders					
Issue of ordinary shares	25	897	195,895	—	196,792
Equity-settled share option arrangement	26	—	484	—	484
Appropriation to statutory reserves	27	—	1,101	(1,101)	—
Total transactions with equity holders		897	197,480	(1,101)	197,276
Balance at 31 December 2019		5,758	553,231	587,771	1,146,760
Balance at 1 January 2020		5,758	553,231	587,771	1,146,760
Comprehensive income					
Profit for the year		—	—	17,660	17,660
Other comprehensive income					
Fair value gains on financial assets at fair value through other comprehensive income		—	21,731	—	21,731
Total comprehensive income for the year		—	21,731	17,660	39,391
Transactions with equity holders					
Issue of ordinary shares	25	675	147,741	—	148,416
Equity-settled share option arrangement	26	—	1,391	—	1,391
Appropriation to statutory reserves	27	—	12,707	(12,707)	—
Total transactions with equity holders		675	161,839	(12,707)	149,807
Balance at 31 December 2020		6,433	736,801	592,724	1,335,958

The notes on pages 79 to 141 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows generated from operating activities			
Cash generated from operations	31(a)	**41,339**	121,385
Income tax paid		**(18,670)**	(7,998)
Interest paid		**(140)**	—
Net cash generated from operating activities		**22,529**	113,387
Cash flows used in investing activities			
Purchase of property, plant and equipment, including additions of construction-in-progress		**(204,159)**	(125,286)
Purchase of land use rights		**(12,331)**	(26,960)
Purchase of intangible assets	16	**(740)**	(1,479)
Payments for investments accounted for using the equity method	18	**(2,301)**	(5,000)
Payments for financial assets at fair value through other comprehensive income	19	**(9,800)**	(23,146)
Payments for financial assets at fair value through profit or loss	23	**(56,197)**	—
Proceeds from compensation for land use rights		**17,514**	—
Proceeds from disposal of property, plant and equipment	31(b)	**2,552**	9,624
Increase in bank deposits with original maturity over 3 months		**(163,777)**	—
Interest received		**17,163**	16,952
Net cash used in investing activities		**(412,076)**	(155,295)
Cash flows generated from financing activities			
Proceeds from issues of shares	25	**148,416**	196,792
Proceeds from borrowings	31(c)	**126,929**	—
Repayment of borrowings	31(c)	**(56,730)**	—
Repayment of lease liabilities	31(c)	**(1,636)**	(2,049)
Net cash generated from financing activities		**216,979**	194,743
Net (decrease)/increase in cash and cash equivalents		**(172,568)**	152,835
Cash and cash equivalents at beginning of the year		**732,033**	566,085
Effect of foreign exchange rate changes in cash and cash equivalents		**(12,224)**	13,113
Cash and cash equivalents at end of the year		**547,241**	732,033

The notes on pages 79 to 141 are an integral part of the consolidated financial statements.

1 GENERAL INFORMATION

Qinqin Foodstuffs Group (Cayman) Company Limited (the "**Company**") was incorporated in the Cayman Islands on 14 January 2016 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.The address of the Company's principal business place is Unit 2601, 26th Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the manufacturing, distribution and sale of food and snack products in the People's Republic of China (the "**PRC**").

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 July 2016.

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(1) Basis of preparation *(Continued)*

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Standards	Effective for annual periods beginning on or after
Definition of Material — amendments to HKAS 1 and HKAS 8	1 January 2020
Definition of a Business — amendments to HKFRS 3	1 January 2020
Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 16 (Amendments) Covid-19-related Rent Concessions	1 June 2020

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2020, and have not been early adopted by the Group in preparing these consolidated financial statements. The Group intends to adopt them no later than the respective effective dates of these new standards and amendments. The Group has evaluated the impact of these new standards and amendments, no new standards or amendments have a significant impact on the consolidated financial statements of the Group.

Standards	Effective for annual periods beginning on or after
Amendments to HKAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 16 Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKAS 37 (Amendments) Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 17 Insurance contracts	1 January 2023
Annual Improvements to HKFRS Standards 2018-2020	1 January 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(2) Subsidiaries

(i) Consolidation

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(2) Subsidiaries *(Continued)*

(ii) Separate financial statements

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

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

(3) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2(11).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) 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 Board of Directors of the Company who makes strategic decisions.

(5) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the Company's and its subsidiaries' functional currency and the Group's presentation currency.

(ii) 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 income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income" and "finance costs", where applicable. All other foreign exchange gains and losses are presented in the consolidated income statement within "other income and other gains — net".

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(6) Property, plant and equipment

Buildings comprise mainly factories, warehouses and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. 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 income statement 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 cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Machinery	10 - 20 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(10)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income and other gains — net" in the consolidated income statement.

(7) Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any (Note 2(10)). Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods of the lease. Amortisation of land use rights is calculated on a straight-line basis over the period of the leases.

(8) Leases

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(8) Leases *(Continued)*

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(8) Leases *(Continued)*

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

(9) Intangible assets — Computer softwares

Computer softwares represent purchased softwares and are amortised over their estimated useful lives (10 years).

(10) Impairment of investments in subsidiaries and non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Other 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 (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of an impairment at each reporting date.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

(ii) Recognition and and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Financial assets *(Continued)*

(iii) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

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

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3(1)(ii)(b) for further details.

(12) Offsetting financial instruments

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

(13) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(14) Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 22 for further information about the Group's accounting for trade receivables and Note 3(1)(ii)(b) for a description of the Group's impairment policies.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(15) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(16) Share capital

Ordinary shares are classified as equity.

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

(17) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(18) Borrowings

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(18) Borrowings *(Continued)*

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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

(19) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in other comprehensive income or equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

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

(ii) Deferred income tax

(a) Inside basis differences

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(19) Current and deferred income tax *(Continued)*

(ii) Deferred income tax (Continued)

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, 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.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries 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.

(iii) Offsetting

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 tax 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.

(20) Employee benefits

(i) Pension obligations

The employees of the Group in Mainland China are covered by the government-sponsored defined contribution pension plan under which the retired employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to the pension plan. Under the pension plan, the Group has no obligation for post-retirement benefits beyond the contributions made. The contributions are recognised as employee benefit expense when they are due.

(ii) Housing funds, medical insurances and other social insurances

The employees of the Group in Mainland China are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period, and recognised as employee benefit expense when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(20) Employee benefits *(Continued)*

(iii) Share-based compensation

The Group operates an equity-settled share-based payment plan (Note 26). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expenses. 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 non-market vesting conditions (eg profitability and sales growth targets).

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-marketing vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, 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 account.

(21) 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. Provisions are not recognised for future operating losses.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(22) Revenue recognition

(i) Sale of goods

The Group manufactures, distributes and sells food and snack products. Sales are recognised when control of the products has transferred, being when the products are delivered and the customers have inspected and accepted the products. Customers have full discretion over the channel and price to sell the products, and there is no more unfulfilled obligation that could affect the acceptance of the products. Delivery occurs when the products have been shipped to the specific location. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group's products are often sold with retrospective volume discounts based on aggregate sales over a period of time. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in other payables and accrued charges) is recognised for expected volume discounts payable to customers in relation to sales made.

Most of the sales were made with advance payment, and no element of financing is deemed present as the remaining sales are made with credit terms of 30 to 90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(iii) Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(23) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(24) Government grants

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

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are presented in the consolidated balance sheet by deducting the grant in arriving at the carring amount of the asset and are recognised in the consolidated income statement on a straight-line basis over the life of a depreciable asset as a reduced depreciation expense.

(25) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

(1) Financial risk factors

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

(i) Market risk

(a) Foreign exchange risk

The Group operates primarily in Mainland China and the functional currency of majority of the companies in the Group is RMB. Foreign exchange risk arises mainly from future commercial transactions of sales and purchases with overseas customers and suppliers by the Group and recognised assets or liabilities, such as cash and cash equivalents, term deposits, restricted bank deposits, trade and other receivables and payables, and bank borrowings of the Group, which are denominated in Hong Kong Dollar ("**HKD**"), United States Dollar ("**USD**") and other currencies that are not the functional currency of the relevant companies in the Group.

As at 31 December 2020, if RMB had strengthened/weakened by 5% against the foreign currencies with all other variables unchanged, the Group's profit for the year before income tax would have been RMB18,181,000 (2019: RMB24,684,000) lower/higher respectively.

(b) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (note 24) and borrowings (note 29), the Group has no other significant interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2020 and 31 December 2019, as all borrowings have fixed interest rates, interest rate risk is avoided.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Financial risk factors *(Continued)*

(ii) Credit risk

Credit risk arises from bank deposits, trade and other receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions.

(a) Risk management

Credit risk is managed on a group basis. All bank balances were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. Majority of the Group's sales are settled in cash by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that settlement of trade receivables are followed up on a timely basis.

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, trade receivables and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

The table below shows the bank balances with counterparties as at 31 December 2020 and 2019:

	2020 RMB'000	2019 RMB'000
Counterparties		
— Big 4 state-owned banks (Note)	**271,112**	234,471
— Other reputable and sizeable domestic commercial banks	**80,939**	128,109
— Highly reputable and sizeable foreign-owned banks	**358,961**	369,402
	711,012	731,982

Note: Big 4 domestic banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Financial risk factors *(Continued)*

(ii) Credit risk (Continued)

(b) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of goods, and
- other financial assets at amortised cost.

While cash and cash equivalents were also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

Trade receivables

The Group applied the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and aging periods.

The expected loss rates are based on the ageing profiles of trade receivables over a period of 36 months before 31 December 2020 and 31 December 2019 respectively. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables:

31 December 2020	**Within 6 months**	**7 to 12 months**	**Over 12 months**
Expected loss rate	0.02%	0.12%	65.22%

31 December 2019	**Within 6 months**	**7 to 12 months**	**Over 12 months**
Expected loss rate	0.02%	0.12%	73.62%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Financial risk factors *(Continued)*

(ii) Credit risk (Continued)

(b) Impairment of financial assets *(Continued)*

Trade receivables (Continued)

The closing loss allowances for trade receivables as at 31 December 2020 and 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade receivables Year ended 31 December	
	2020 **RMB'000**	2019 RMB'000
Opening loss allowance at 1 January	**3**	94
Increase in loss allowance recognised in profit or loss during the year	**1,453**	633
Receivables written off during the year as uncollectible	**—**	(633)
Unused amount reversed	**—**	(91)
Closing loss allowance at 31 December	**1,456**	3

Trade receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

There is no loss allowance for other financial assets at amortised cost as at 31 December 2020 and 2019.

(iii) Liquidity risk

Cash flow is managed at Group level by head office finance department ("**Group Finance**"). Group Finance monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. Group Finance usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Group Finance mainly invests surplus cash in time deposits, with appropriate maturities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Financial risk factors *(Continued)*

(iii) Liquidity risk (Continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2020					
Trade payables	**86,347**	**—**	**—**	**—**	**86,347**
Other payables (excluding non-financial liabilities)	**136,473**	**—**	**—**	**—**	**136,473**
Borrowings (note 29)	**70,805**	**—**	**—**	**—**	**70,805**
Lease liabilities	**1,141**	**421**	**1,098**	**7,686**	**10,346**
	294,766	**421**	**1,098**	**7,686**	**303,971**
At 31 December 2019					
Trade payables	47,884	—	—	—	47,884
Other payables and accrued charges (excluding non-financial liabilities)	61,132	—	—	—	61,132
Lease liabilities	2,341	1,361	1,556	840	6,098
	111,357	1,361	1,556	840	115,114

(2) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated on the basis of the total borrowings as a percentage of the total shareholders' equity. As the Group was in net cash position as at 31 December 2020 and in 31 December 2019, no gearing ratio was presented.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(3) Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's financial assets that are measured at fair value at 31 December 2020:

	At 31 December	
	2020 **RMB'000**	2019 RMB'000
Financial assets		
Financial assets at fair value through profit and loss ("**FVPL**")		
— Level 3 (note 23)	**56,942**	—
Financial assets at fair value through other comprehensive income ("**FVOCI**")		
— Level 3 (note 19)	**61,610**	23,146
	118,552	23,146

During the year ended 31 December 2020 and 2019, there are no transfers among levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

The following table presents the changes in level 3 instruments for the year ended 31 December 2020:

	Year ended 31 December	
	2020 **RMB'000**	2019 RMB'000
Opening Balance	**23,146**	—
Additions-FVOCI	**9,800**	23,146
Additions-FVPL	**56,197**	—
Fair value changes — gain to profit and loss	**745**	—
Fair value changes — gain to other comprehensive income	**28,664**	—
Closing balance	**118,552**	23,146

4 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.

(1) Useful lives of property, plant and equipment

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

(2) Impairment of property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy stated in Note 2(10). The recoverable amount of a CGU (cash-generating unit) has been determined based on higher of value-in-use and fair value less costs to sell.

The Group measured the value-in-use and fair value less costs to sell by discounting the future estimated cash flow deriving from the property, plant and equipment. These calculations required the Group to estimate the expected future cash flows from the CGUs and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

(3) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3(1).

(4) Estimation of the fair value of certain financial assets

The fair value of financial instruments that are not traded in an active market, such as equity interest classified as FVOCI and investment in unlisted units in investment fund are determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(5) Current tax and deferred tax

The Group is subject to income taxes in Mainland China and in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

5 REVENUE AND SEGMENT INFORMATION

(1) Description of segments

The Board of Directors of the Company monitors the gross profit of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. For management purposes, the Group is organised into business units based on their products and has four reportable operating segments as follows:

i. Jelly Products
ii. Crackers and Chips
iii. Seasoning Products
iv. Confectionery and Other Products

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(2) Segments results

	Year ended 31 December 2020				
	Jelly Products RMB'000	Crackers and Chips RMB'000	Seasoning Products RMB'000	Confectionery and Other Products RMB'000	Group RMB'000
Revenue — recognised at a point in time					
Sales to external customers	421,257	217,704	74,724	79,144	792,829
Cost of goods sold	(280,644)	(136,810)	(47,161)	(77,092)	(541,707)
Results of reportable segments	140,613	80,894	27,563	2,052	251,122

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

Results of reportable segments	251,122
Distribution and selling expenses	(145,182)
Administrative expenses	(101,008)
Net impairment losses on financial assets	(1,453)
Other income and other gains — net	20,973
Finance income	17,163
Finance costs	(13,020)
Share of net loss of investments accounted for using the equity method	(2,871)
Profit before income tax	25,724
Income tax expense	(8,064)
Profit for the year	17,660

Other segment information is as follows:

	Jelly Products	Crackers and Chips	Seasoning Products	Confectionery and Other Products	Group
Depreciation and amortisation charges					
Allocated	19,068	6,582	3,554	1,780	30,984
Unallocated					3,196
					34,180
Capital expenditures					
Allocated	79,657	16,880	5,844	34,577	136,958
Unallocated					181,928
					318,886

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(2) Segments results *(Continued)*

	Year ended 31 December 2019				
	Jelly Products RMB'000	Crackers and Chips RMB'000	Seasoning Products RMB'000	Confectionery and Other Products RMB'000	Group RMB'000
Revenue — recognised at a point in time					
Sales to external customers	411,466	183,154	69,734	26,498	690,852
Cost of goods sold	(270,944)	(109,818)	(44,784)	(20,812)	(446,358)
Results of reportable segments	140,522	73,336	24,950	5,686	244,494

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

Results of reportable segments	244,494
Distribution and selling expenses	(118,930)
Administrative expenses	(81,152)
Net impairment losses on financial assets	(542)
Other income and other gains — net	32,748
Finance income	30,065
Finance costs	(437)
Share of net loss of investments accounted for using the equity method	(1,891)
Profit before income tax	104,355
Income tax expense	(23,168)
Profit for the year	81,187

Other segment information is as follows:

	Jelly Products RMB'000	Crackers and Chips RMB'000	Seasoning Products RMB'000	Confectionery and Other Products RMB'000	Group RMB'000
Depreciation and amortisation charges					
Allocated	20,377	7,314	2,473	1,079	31,243
Unallocated					4,884
					36,127
Capital expenditures					
Allocated	55,023	7,237	1,691	—	63,951
Unallocated					104,624
					168,575

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(2) Segments results *(Continued)*

Geographical information

Over 90% of the Group's revenue and operating profit were generated from the sales in Mainland China and over 90% of the Group's non-current assets were located in Mainland China, therefore no geographical information is presented in accordance with HKFRS 8 Operating Segments.

Major customers

None of the Group's sales to a single customer accounting to 10% or more of the Group's total revenue for the year, therefore no major customer information is presented in accordance with HKFRS 8 Operating Segments.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the Board of Directors of the Company for review.

(3) Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	2020 RMB'000	2019 RMB'000
Contract liabilities — advances from customers	**78,751**	53,885

The following table shows how much of the revenue recognised in the current reporting year that was related to carried-forward contract liabilities:

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Advances from customers	**53,885**	24,500

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

6 EXPENSES BY NATURE

Expenses included in cost of goods sold, distribution and selling expenses and administrative expenses were analysed as follows:

	2020 **RMB'000**	2019 RMB'000
Raw materials and consumables used	**445,058**	321,477
Changes in inventories of work-in-progress and finished goods	**(42,263)**	3,880
Employee benefit expense, including directors' emoluments (note 7)	**155,227**	140,942
Transportation and packaging expenses	**53,904**	35,093
Utilities and various office expenses	**49,122**	39,909
Depreciation of property, plant and equipment (note 13)	**30,267**	31,578
Marketing and advertising expenses	**28,304**	17,296
Travelling expenses	**15,836**	18,307
Provision for decline in value of inventories (note 21)	**6,169**	902
Rental expenses for leases of properties (note 15)	**5,364**	2,560
Amortisation of right-of-use assets (note 15)	**3,496**	3,785
Auditor's remuneration	**1,900**	1,800
Amortisation of intangible assets (note 16)	**417**	764
Research and development expenses	**556**	1,024
Others	**34,540**	27,123
Total cost of sales, distribution and selling expenses and administrative expenses	**787,897**	646,440

7 EMPLOYEE BENEFIT EXPENSE, INCLUDING DIRECTORS' EMOLUMENTS

	2020 RMB'000	2019 RMB'000
Wages and salaries	**150,354**	127,785
Equity-settled share-based payment expense (note 26)	**1,391**	484
Pension, housing fund, medical insurance and other social benefits	**3,482**	12,673
Total employee benefit expenses	**155,227**	140,942

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included two (2019: two) directors, details of whose emoluments are reflected in the analysis presented in note 37. The emoluments payable to the remaining three (2019: three) individuals during the year were as follows:

	2020 RMB'000	2019 RMB'000
Salaries, wages and bonuses	**934**	995
Equity-settled share-based payment	**20**	13
Pension, housing fund, medical insurance and other social benefits	**16**	61
	970	1,069

The emoluments fell within the following band:

	Numbers of the individual	
	2020	2019
Emolument band		
Within HKD1,000,000	**3**	3

8 OTHER INCOME AND OTHER GAINS — NET

	2020 RMB'000	2019 RMB'000
Government grants	**18,300**	8,686
Gains on disposal of property, plant and equipment — net	**1,194**	5,073
Net fair value gains on financial assets at fair value through profit or loss	**745**	—
Gains on modification of lease period of land use rights (note 15)	**364**	15,825
Gains on write-off of payables	**270**	3,879
Losses on disposal of software	**—**	(2,294)
Others	**100**	1,579
	20,973	32,748

Governments grants received during the year primarily comprised financial subsidies received from various local government authorities in Mainland China. There are no unfulfilled conditions or contingencies relating to these governments grants.

The loss on disposal of software represented the write-off of the accounting system and certain systems for operations after the usage of SAP systems under service contract.

9 FINANCE INCOME AND FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Finance income:		
Interest income from bank deposits	**17,163**	16,952
Exchange gains	**—**	13,113
	17,163	30,065
Finance costs:		
Exchange losses	**(12,224)**	—
Interest expense for borrowings	**(156)**	—
Interest expense for lease liabilities (note 15)	**(174)**	(213)
Other finance charges	**(466)**	(224)
	(13,020)	(437)
Finance income — net	**4,143**	29,628

10 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated income statement represents:

	2020 RMB'000	2019 RMB'000
Current income tax	**30,295**	22,594
Deferred income tax, net (note 30)	**(22,231)**	574
Income tax expense	**8,064**	23,168
Represented by:		
Corporate income tax	**8,944**	22,530
Withholding tax on distributed profits and unremitted earnings	**(880)**	638
Income tax expense	**8,064**	23,168

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2019/20 onwards, the Group's first HK$2 million of assessable profits under Hong Kong profits tax during the year ended 31 December 2020 and 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK$2 million will continue to be subject to a tax rate of 16.5%.

Taxation on Mainland China income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Mainland China in which the Group operates. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax at the rate of 25% (2019: 25%).

Deferred income tax is calculated on temporary differences under the liability method using the prevailing tax rates applicable to the Mainland China subsidiaries of the Group.

The profits of the Mainland China subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong.

The Group provides for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totally RMB101,362,000 at 31 December 2020 (2019: RMB70,392,000). As at 31 December 2020, deferred income tax liabilities of approximately RMB5,068,000 (2019: RMB3,520,000) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

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

	2020 RMB'000	2019 RMB'000
Profit before income tax	**25,724**	104,355
Tax calculated at tax rates applicable to profits of the Group's companies	**6,816**	24,964
Income not subject to tax	**(559)**	(3,445)
Expenses not deductible	**1,220**	—
Withholding tax on distributed profit and unremitted earnings	**(880)**	638
Others	**1,467**	1,011
Income tax expense	**8,064**	23,168

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Profit attributable to shareholders of the Company (RMB'000)	**17,660**	81,187
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**675,534,913**	648,996,557
Basic earnings per share	**RMB0.026**	RMB0.125

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. The Company's potentially dilutive ordinary shares comprise of share options.

	2020	2019
Profit attributable to shareholders of the Company (RMB'000)	**17,660**	81,187
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**675,534,913**	648,996,557
Adjustments for share options	**230,829**	224,118
Weighted average number of ordinary shares for diluted earnings per share	**675,765,742**	649,220,675
Diluted earnings per share	**RMB0.026**	RMB0.125

12 DIVIDENDS

At a meeting of the Board of Directors held on 18 March 2021, the Board of Directors did not recommend any payment of dividend to shareholders for the year ended 31 December 2020 (2019: Nil).

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2020					
Cost	264,472	150,292	19,748	1,102	435,614
Accumulated depreciation	(102,417)	(62,773)	(15,460)	(146)	(180,796)
Accumulated impairment	—	(7,218)	—	—	(7,218)
Net book amount	162,055	80,301	4,288	956	247,600
Year ended 31 December 2020					
Opening net book amount	162,055	80,301	4,288	956	247,600
Additions	27,099	15,583	3,029	1,371	47,082
Transfer from construction-in-progress (note 14)	116,704	22,426	226	—	139,356
Depreciation for the year (note 6)	(15,839)	(13,876)	(444)	(108)	(30,267)
Disposals	(691)	(645)	(22)	—	(1,358)
Closing net book amount	289,328	103,789	7,077	2,219	402,413
At 31 December 2020					
Cost	401,491	183,025	22,254	2,473	609,243
Accumulated depreciation	(112,163)	(73,962)	(15,177)	(254)	(201,556)
Accumulated impairment	—	(5,274)	—	—	(5,274)
Net book amount	289,328	103,789	7,077	2,219	402,413

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2019					
Cost	274,496	153,135	19,561	787	447,979
Accumulated depreciation	(97,633)	(62,779)	(15,299)	(324)	(176,035)
Accumulated impairment	—	(7,218)	—	—	(7,218)
Net book amount	176,863	83,138	4,262	463	264,726
Year ended 31 December 2019					
Opening net book amount	176,863	83,138	4,262	463	264,726
Additions	1,232	17,533	1,029	639	20,433
Transfer to construction-in-progress (note 14)	(1,259)	(171)	—	—	(1,430)
Depreciation for the year (note 6)	(13,599)	(16,948)	(901)	(130)	(31,578)
Disposals	(1,182)	(3,251)	(102)	(16)	(4,551)
Closing net book amount	162,055	80,301	4,288	956	247,600
At 31 December 2019					
Cost	264,472	150,292	19,748	1,102	435,614
Accumulated depreciation	(102,417)	(62,773)	(15,460)	(146)	(180,796)
Accumulated impairment	—	(7,218)	—	—	(7,218)
Net book amount	162,055	80,301	4,288	956	247,600

Depreciation expenses have been charged to the consolidated income statement as follows:

	2020 RMB'000	2019 RMB'000
Manufacturing overheads included in cost of goods sold	**23,696**	22,878
Distribution and selling expenses	**171**	42
Administrative expenses	**6,400**	8,658
	30,267	31,578

As at 31 December 2020, certain land use rights (note 15) and buildings of the Group, with a total net book value of RMB14,966,000 (2019: Nil), were pledged as security for borrowings amounted to RMB10,000,000 (2019: Nil) of the Group as disclosed in notes 29.

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As mentioned in note 15 below, on 29 November 2019, the Group's subsidiary in Xiantao City, Hubei province, Mainland China entered into an agreement with Xiantao Land Reserve Center of the People's Government of Xiantao City to sell the subsidiary's land use rights and the property and production plants attached thereon to the government for a total compensation consideration of RMB82,300,000, of which RMB17,514,000 is attributable to the land use rights and the remaining RMB64,786,000 is attributable to property and production plants. The property and plants subject to the disposal with carrying amounts totalled RMB29,928,000 as at the date of signing of the agreement on 29 November 2019 had ceased depreciation since 29 November 2019 given that its anticipated recoverable amount from the compensation consideration is larger then the carrying amounts.

14 CONSTRUCTION-IN-PROGRESS

	2020 RMB'000	2019 RMB'000
At 1 January	**112,075**	3,995
Additions	**258,733**	107,123
Transfer (to)/ from property, plant and equipment (note 13)	**(139,356)**	1,430
Transfer to expense	**—**	(473)
At 31 December	**231,452**	112,075

15 LEASES (INCLUDING LAND USE RIGHTS)

(i) Amounts recognised in the consolidated balance sheet

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Right-of-use assets		
Buildings	**7,587**	4,894
Land use rights	**78,351**	67,707
	85,938	72,601
Lease liabilities		
Buildings		
— Current	**1,108**	1,976
— Non-current	**6,654**	3,110
	7,762	5,086

15 LEASES (INCLUDING LAND USE RIGHTS) *(Continued)*

(i) Amounts recognised in the consolidated balance sheet *(Continued)*

Movements in right-of-use assets in 2020 and 2019 are analysed as follows:

	2020 Buildings RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January	**4,894**	**67,707**	**72,601**
Additions	**7,164**	**12,331**	**19,495**
Modification of lease term	**(2,662)**	**—**	**(2,662)**
Amortisation charges (note 6)	**(1,809)**	**(1,687)**	**(3,496)**
At 31 December	**7,587**	**78,351**	**85,938**

	2019 Buildings RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January	1,657	43,980	45,637
Additions	5,478	26,960	32,438
Modification of lease term (note a)	—	(1,689)	(1,689)
Amortisation charges (note 6)	(2,241)	(1,544)	(3,785)
At 31 December	4,894	67,707	72,601

Notes:

a. On 29 November 2019, the Group's subsidiary in Xiantao City, Hubei province, Mainland China entered into an agreement with Xiantao Land Reserve Center of the People's Government of Xiantao City, pursuant to the agreement the Group's subsidiary will sell its land use rights and the property and production plants attached thereon to the government for a total compensation consideration of RMB82,300,000, of which RMB17,514,000 is attributable to the land use rights and the remaining RMB64,786,000 is attributable to property and production plants. It is expected that the land use rights will be returned to the government by December 2021, accordingly, the lease terms of the land use rights are considered to be shortened from the previous ending by year 2053 and 2056 to ending around in two years by December 2021. This represented a modification of lease of land use rights with the government upon signing of the agreement pursuant to the application of HKFRS 16 Leases, and a gain on modification of RMB15,825,000, being the difference between the consideration of the disposal attributable to the land use rights of RMB17,514,000 and the decrease in the carrying amount of the land use rights by RMB1,689,000 due to shortened remaining lease period, was recognised in "Other income and other gains — net" (note 8) during the year ended 31 December 2019.

b. As at 31 December 2020, certain land use rights of the Group that are situated within the Jinjiang Industrial Zone, Fujian Province, Mainland China, with carrying amount of approximately RMB6,414,000 (2019: RMB 6,561,000) were still in the process of applying for the ownership certificates.

c. As at 31 December 2020, the lessors of the Group's leased properties in Taian City, Shandong Province, Mainland China, with carrying amount of right-of-use assets of approximately RMB710,000 (2019: RMB 710,000) were still in the process of obtaining the relevant title documents to the properties.

15 LEASES (INCLUDING LAND USE RIGHTS) *(Continued)*

(ii) Amounts recognised in the consolidated income statement

	2020		
	Buildings RMB'000	**Land use rights RMB'000**	**Total RMB'000**
Amortisation charges (note 6)			
Cost of goods sold	**947**	**—**	**947**
Distribution and selling expenses	**—**	**—**	**—**
Administrative expenses	**862**	**1,687**	**2,549**
	1,809	**1,687**	**3,496**
Interest expense (included in finance costs) (note 9)			**174**
Operating lease expenses in respect of buildings (note 6)			**5,364**
Total charges to income statement			**9,034**

	2019		
	Buildings RMB'000	Land use rights RMB'000	Total RMB'000
Amortisation charges (note 6)			
Cost of goods sold	947	—	947
Distribution and selling expenses	662	—	662
Administrative expenses	632	1,544	2,176
	2,241	1,544	3,785
Interest expense (included in finance costs) (note 9)			213
Operating lease expenses in respect of buildings (note 6)			2,560
Total charges to income statement			6,558

The total cash outflow for leases in 2020, not considering the receipt of government grant, was RMB66,067,000 (2019: RMB44,361,000).

15 LEASES (INCLUDING LAND USE RIGHTS) *(Continued)*

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices and warehouses, and a production property. Rental contracts are typically made for fixed periods from 1 year to 10 years but may have extension options as described in (iv) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

(iv) Extension and termination options

Extension options are included in a number of office leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

16 INTANGIBLE ASSETS

	2020 RMB'000	2019 RMB'000
Computer softwares		
At 1 January		
Cost	**2,324**	6,953
Accumulated amortisation	**(145)**	(3,195)
Net book amount	**2,179**	3,758
Year ended 31 December		
Opening net book amount	**2,179**	3,758
Additions	**740**	1,479
Disposals (note 8)	**—**	(2,294)
Amortisation for the year (note 6)	**(417)**	(764)
Closing net book amount	**2,502**	2,179
At 31 December		
Cost	**3,064**	2,324
Accumulated amortisation	**(562)**	(145)
Net book amount	**2,502**	2,179

Amortisation of intangible assets has been charged to administrative expenses in the consolidated income statements.

17 PREPAYMENTS FOR NON-CURRENT ASSETS

The balance represented prepayments for purchase of property, plant and equipment and land use rights.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2020 **RMB'000**	2019 RMB'000
At 1 January	**3,109**	—
Additions during the year	**2,301**	5,000
Share of results	**(2,871)**	(1,891)
At 31 December	**2,539**	3,109

As at 31 December 2020, the Group invested RMB7,301,000 (2019: RMB5,000,000) in Jinjiang Buzui Investment Partnership (Limited Partnership)(晉江不醉股權投資合夥企業(有限合夥)) ("**Jinjiang Buzui**"), a limited investment partnership established on 22 May 2019, as a limited partner and holds 99.8% of the equity interest in Jinjiang Buzui. The Group executes its rights as a limited partner and does not hold the management responsibilities of Jinjiang Buzui. The Group is regarded to be able to exert significant influence on Jinjiang Buzui by virture of the fact that the Group holds a significant equity holding in Jinjiang Buzui and is the single investor other then the founder, and accordingly the investment is accounted for as an associate of the Group. As at 31 December 2020, Jinjiang Buzui principally holds 60.83% (2019: 71.43%) of the equity interest in Shanghai Buzui Wine Industry Co, Ltd. ("**Shanghai Buzui**"), which was established in March 2019, which is in the business of distribution and sale of sparkling and fruit wine.

The particulars of the associate of the Group as at 31 December 2020, which is accounted for using equity method, are set out as follows:

Name of entity	**Place of business and date of establishment**	**% of ownership interest**		**Nature of relationship**	**Measurement method**
		2020 **%**	2019 %		
Jinjiang Buzui Investment Partnership (Limited Partnership)	Mainland China 22 May 2019	**99.8**	99.8	Associate	Equity method

The directors of the Company consider that the associate as at 31 December 2020 was immaterial to the Group and thus the individual financial information of the associate was not disclosed.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Unlisted equity investments		
At 1 January	**23,146**	—
Additions	**9,800**	23,146
Fair value changes	**28,664**	—
At 31 December	**61,610**	23,146

During the year ended 31 December 2020, the Group made equity investments in a number of consumer products companies with anticipated fast-growing potential and synergy with the Group's business. The fair values of these investments were determined mainly based on direct comparison approach by making reference to quoted market price earning ratios and recent transaction prices of similar deals. The fair value measurement is categorised within level 3 of the fair value hierarchy (note 3(3)).

20 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	Note	2020 RMB'000	2019 RMB'000
Financial assets			
Financial assets at amortised cost			
— Trade receivables	22	**11,040**	5,614
— Other receivables, prepayments and deposits, excluding non-financial assets	22	**4,485**	20,015
— Cash and bank balances	24	**711,018**	732,033
FVPL	23	**56,942**	—
FVOCI	19	**61,610**	23,146
		845,095	780,808
Financial liabilities			
Financial liabilities at amortised costs			
— Trade payables	28	**86,347**	47,884
— Other payables, excluding non-financial liabilities	28	**136,473**	61,132
Borrowings	29	**70,199**	—
Lease liabilities	15	**7,762**	5,086
		300,781	114,102

21 INVENTORIES

	2020 RMB'000	2019 RMB'000
Finished goods	**48,685**	25,389
Work-in-progress	**39,923**	20,956
Raw materials	**59,696**	48,871
Spare parts and consumables	**2,252**	2,945
	150,556	98,161

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB402,795,000 (2019: RMB325,357,000).

The Group recorded a provision for decline in value of inventories amounting to RMB6,169,000 (2019: RMB902,000). These amounts have been included in cost of goods sold in the consolidated income statement (note 6).

22 TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS

	2020 RMB'000	2019 RMB'000
Trade receivables	**12,496**	5,617
Less: provision for impairment (note 3(1)(ii)(b))	**(1,456)**	(3)
	11,040	5,614
Other receivables, prepayments and deposits		
Advance payments to suppliers	**22,570**	8,887
Value added tax recoverable (i)	**18,010**	8,124
Prepayments for utility and other expenses	**5,974**	3,411
Compensation for land use rights (note 15)	**—**	17,514
Others	**4,485**	2,501
	51,039	40,437
Total	**62,079**	46,051

(i) The Group's distribution and sale of self-manufactured products are subject to value added tax ("**VAT**"). The applicable tax rate for domestic sales 13% after 1 April 2019 and which was 16% before 1 April 2019. Input VAT from purchases of raw materials, certain fixed assets and utilities can be deducted from output VAT. VAT recoverable is the net difference between deductible input and output VAT.

22 TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS *(Continued)*

The credit period ranges from 30 to 90 days (2019: 60 to 90 days). The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2020 was as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	**9,792**	2,299
31 - 180 days	**1,251**	1,382
181 - 365 days	**—**	1,936
Over 365 days	**1,453**	—
	12,496	5,617

There is no significant concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

As the credit terms are short and most of the trade receivables, other receivables, prepayments and deposits are due for settlement within one year, the carrying amount of the trade receivables, other receivables, prepayments and deposits approximate their fair value at the balance sheet date.

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	**12,392**	5,551
Other currencies	**104**	66
	12,496	5,617

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Unlisted units in investment fund		
At 1 January	**—**	—
Additions	**56,197**	—
Fair value changes	**745**	—
At 31 December	**56,942**	—

During the year ended 31 December 2020, the Group made investment in an unlisted units in investment fund. The fair values of these investment was determined mainly based on statement of net value of the fund. The fair value measurement is categorised within level 3 of the fair value hierarchy (note 3(3)).

24 CASH AND BANK BALANCES

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	**547,241**	732,033
Restricted bank deposits — current	**65,946**	—
Term deposits — current	**97,831**	—
Total	**711,018**	732,033

The cash and cash equivalents represented cash deposits held at call with banks and in hand and deposits with original maturity within three months.

The restricted bank deposits are deposits held at bank for bank facilities and secured borrowings of the Group.

The term deposits — current have original maturities over three months at inception.

24 CASH AND BANK BALANCES *(Continued)*

The carrying amounts of the cash and bank balances were denominated in the following currencies:

	2020 **RMB'000**	2019 RMB'000
RMB	**400,107**	238,302
HKD	**167,351**	250,373
USD	**142,927**	242,716
JPY	**633**	642
Total	**711,018**	732,033

The Group's bank deposits and cash denominated in RMB included deposit with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

25 SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Authorised:		
At 31 December 2019 and 31 December 2020	**1,000,000,000**	**10,000**

	Number of shares	**Share capital** RMB'000
Issued and fully paid:		
At 1 January 2019	570,696,557	4,861
Issue of shares during the year (note a)	104,400,000	897
At 31 December 2019	675,096,557	5,758
Issue of shares during the year (note b)	80,000,000	675
At 31 December 2020	**755,096,557**	**6,433**

25 SHARE CAPITAL *(Continued)*

(a) Pursuant to the subscription agreements dated 22 March 2019 entered into between the Company and the subscribers, an aggregate of 104,400,000 new shares of the Company with par value of HK$0.01 per share were issued at HK$2.2 per share to the subscribers on 1 April 2019. The net proceeds of the issue was approximately HK$229.48 million (equivalent to approximately RMB196.8 million) and the amount of RMB897,000 and RMB195,895,000 (note 27) were recorded under share capital and share premium account in other reserves, respectively.

(b) Pursuant to the subscription agreements dated 22 December 2020 entered into between the Company and the subscribers, an aggregate of 80,000,000 new shares of the Company with par value of HK$0.01 per share were issued at HK$2.2 per share to the subscribers on 29 December 2020. The net proceeds of the issue was approximately HK$175.8 million (equivalent to approximately RMB148.4 million) and the amount of RMB675,000 and RMB147,741,000 (note 27) were recorded under share capital and share premium account in other reserves, respectively.

26 SHARE OPTION SCHEME

The Company adopted a share option scheme on 16 May 2017 (the "**Scheme**").

On 6 June 2017, 9,630,000 share options ("**Options**") to subscribe for a total of 9,630,000 ordinary shares of the Company were granted to a director and certain employees of the Group pursuant to the Scheme. Out of the 9,630,000 Options, 9,480,000 Options were accepted by the grantees.

On 16 August 2018, 11,000,000 Options to subscribe for a total of 11,000,000 ordinary shares of the Company were granted to two directors and certain employees of the Group pursuant to the Scheme. All Options were accepted by the grantees.

Movements in the number of Options outstanding and their exercise prices are as follows:

	Options granted on 16 August 2020	
	Exercise price per share	**Number of Options**
At 1 January 2019	**HK$2.31**	10,320,000
Cancelled/lapsed during the year	**HK$2.31**	(2,700,000)
At 31 December 2019	**HK$2.31**	7,620,000
Cancelled/lapsed during the year	**HK$2.31**	(860,000)
At 31 December 2020	**HK$2.31**	6,760,000

26 SHARE OPTION SCHEME *(Continued)*

	Options granted on 6 June 2019 Exercise price per share	Number of Options
At 1 January 2019	HK$2.56	7,000,000
Cancelled/lapsed during the year	HK$2.56	(1,650,000)
At 31 December 2019	HK$2.56	5,350,000
Cancelled/lapsed during the year	HK$2.56	(450,000)
At 31 December 2020	HK$2.56	4,900,000
Total options granted		11,660,000

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

Grant Date	**Exercisable Date**	**Expiry date**	**Exercise price**	**Number of Options**	
				2020	2019
6 June 2017	7 June 2019	6 June 2022	HK$2.56	**2,450,000**	2,675,000
6 June 2017	7 June 2020	6 June 2022	HK$2.56	**2,450,000**	2,675,000
16 August 2018	17 August 2020	16 August 2023	HK$2.31	**3,380,000**	3,810,000
16 August 2018	17 August 2021	16 August 2023	HK$2.31	**3,380,000**	3,810,000
Total				**11,660,000**	12,970,000

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The equity-settled share-based payment expense for the year ended 31 December 2020 amounted to RMB1,391,000 (2019: RMB484,000) (note 7), and the remaining unamortised fair value of share options granted of approximately RMB202,000 (2019: RMB1,946,000) will be charged to the consolidated income statement in the future.

The following assumptions were used to calculate the fair values of the Options by using Binomial Model:

	Options Granted on 6 June 2017	**Options Granted on 16 August 2018**
Grant date share price	HK$2.56	HK$2.29
Exercise price	HK$2.56	HK$2.31
Expected life	5 years	5 years
Expected volatility (note a)	33%	34%
Risk-free rate (note b)	0.94%	2.06%
Dividend yield (note c)	1.49%	1.91%

26 SHARE OPTION SCHEME *(Continued)*

Notes:

(a) Expected volatility is estimated with reference to the historical share price of the Company and a set of comparable companies.

(b) Risk-free rate is determined with reference to the yield of Hong Kong Exchange Fund Notes.

(c) Dividend yield is estimated by reference to the historical share price and dividend paid of the Company and a set of comparable companies.

27 OTHER RESERVES

	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	FVOCI Reserve RMB'000	Exchange reserve RMB'000	Share option reserve RMB'000	Total RMB'000
At 1 January 2020	**467,239**	**(115,044)**	**192,621**	**—**	**3,594**	**4,821**	**553,231**
Appropriation to statutory reserves	**—**	**—**	**12,707**	**—**	**—**	**—**	**12,707**
Issue of ordinary shares (note 25)	**147,741**	**—**	**—**	**—**	**—**	**—**	**147,741**
Fair value change of FVOCI	**—**	**—**	**—**	**21,731**	**—**	**—**	**21,731**
Equity-settled share option arrangement (note 26)	**—**	**—**	**—**	**—**	**—**	**1,391**	**1,391**
At 31 December 2020	**614,980**	**(115,044)**	**205,328**	**21,731**	**3,594**	**6,212**	**736,801**
At 1 January 2019	271,344	(115,044)	191,520	—	3,594	4,337	355,751
Appropriation to statutory reserves	—	—	1,101	—	—	—	1,101
Issue of ordinary shares (note 25)	195,895	—	—	—	—	—	195,895
Equity-settled share option arrangement (note 26)	—	—	—	—	—	484	484
At 31 December 2019	467,239	(115,044)	192,621	—	3,594	4,821	553,231

Statutory reserves comprise statutory surplus reserve of the subsidiary companies in Mainland China. The Company's subsidiaries incorporated in Mainland China are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations at rate of 10% or at the discretion of the Board of Directors of the subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 3(3). These changes are accumulated within the FVOCI reserve within equity. The group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

28 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

	2020 RMB'000	2019 RMB'000
Trade payables	**86,347**	47,884
Other payables and accrued charges		
Payables for purchase of property, plant and equipment	**136,473**	13,934
Staff salaries payables	**36,637**	37,804
Taxes payables	**1,349**	1,457
Accrued expenses and others payables	**54,916**	47,198
	229,375	100,393
Total	**315,722**	148,277

At 31 December 2020, the ageing analysis of trade payables based on invoice date was as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	**83,961**	43,338
31 — 180 days	**2,386**	4,500
Over 365 days	**—**	46
	86,347	47,884

The carrying amounts of trade payables and other payables approximate their fair value as at the balance sheet date due to short-term maturity.

The carrying amounts of trade payables were denominated in RMB.

29 BORROWINGS

	2020 RMB'000	2019 RMB'000
Current		
Short-term bank loans — unsecured	**8,000**	—
Short-term bank loans — secured	**10,000**	—
Bank overdraft — secured	**52,199**	—
Total borrowings	**70,199**	—

The borrowings of the Group as at 31 December 2020 were secured by the Group's land use rights (note 15), buildings (note 13) and restricted bank deposits (note 24).

For the year ended 31 December 2020, the weighted average effective interest rates on borrowings were 2.48% (2019: Nil).

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

	2020 RMB'000	2019 RMB'000
USD	**52,199**	—
RMB	**18,000**	—
	70,199	—

The fair values of borrowings approximate their carrying amounts as of the balance sheet date.

30 DEFERRED INCOME TAX

The analysis of deferred income tax assets and liabilities is as follows:

	2020 RMB'000	2019 RMB'000
Deferred income tax assets		
— Deferred income tax asset to be recovered after more than 12 months	**41,793**	20,148
— Deferred income tax asset to be recovered within 12 months	**9,313**	8,581
	51,106	28,729
Deferred income tax liabilities		
— Deferred income tax liability to be settled after more than 12 months	**(12,298)**	(4,953)

The net movements on the deferred income tax account are as follows:

30 DEFERRED INCOME TAX *(Continued)*

	2020 RMB'000	2019 RMB'000
At beginning of the year	**23,776**	24,350
Charged to other comprehensive income	**(7,199)**	—
Credited/(charged) to consolidated income statement (note 10)	**22,231**	(574)
At end of the year	**38,808**	23,776

The movements in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Accrued expense and provisions		Temporary differences attributable to right-of-use assets		Unrealised profit in inventories arising from intra-group transactions		Tax losses		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
At beginning of the year	**7,739**	8,602	**3,009**	—	**842**	729	**17,139**	15,261	**28,729**	24,592
Credited/(charged) to consolidated income statement	**326**	(863)	**8,656**	3,009	**406**	113	**12,989**	1,878	**22,377**	4,137
At end of the year	**8,065**	7,739	**11,665**	3,009	**1,248**	842	**30,128**	17,139	**51,106**	28,729

Deferred income tax liabilities:

	Withholding income tax on unremitted earnings in subsidiaries in Mainland China		Temporary differences attributable to property, plant and equipment and right-of-use assets		Tax effects of fair value gains on financial assets at FVOCI		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
At beginning of the year	**880**	242	**4,073**	—	**—**	—	**4,953**	242
Charged to other comprehensive income	**—**	—	**—**	—	**7,199**	—	**7,199**	—
(Credited)/charged to consolidated income statement	**(880)**	638	**1,026**	4,073	**—**	—	**146**	4,711
At end of the year	**—**	880	**5,099**	4,073	**7,199**	—	**12,298**	4,953

30 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2020, except for the tax losses amounting to RMB10,012,000 (2019: RMB5,212,000), which the Group did not recognised for deferred income tax assets, the Group recognised all others deferred income tax assets in respect of losses that can be carried forward against future taxable income. There was no invalid tax losses for the year ended 31 December 2020 (2019: nil) and the unutilised tax losses as at year end date would expire in one to five years for offsetting against future taxable profits.

The Group provides for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totally RMB101,362,000 at 31 December 2020 (2019: RMB70,392,000) . As at 31 December 2020, deferred income tax liabilities of approximately RMB5,068,000 (2019: RMB3,520,000) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2020 RMB'000	2019 RMB'000
Profit before income tax	**25,724**	104,355
Depreciation of property, plant and equipment (note 13)	**30,267**	31,578
Provision for decline in value of inventories (note 21)	**6,169**	902
Amortisation of right-of-use assets (note 15)	**3,496**	3,785
Net impairment losses on financial assets	**1,453**	542
Amortisation of intangible assets (note 16)	**417**	764
Gains on disposal of property, plant and equipment (note 8)	**(1,194)**	(5,073)
Gains on modification of lease period of land use rights (note 8)	**(364)**	(15,825)
Losses on disposal of software (note 8)	**—**	2,294
Share of net loss of investments accounted for using the equity method (note 18)	**2,871**	1,891
Equity-settled share-based payment expense (note 26)	**1,391**	484
Net fair value gains on financial assets at FVPL (note 8)	**(745)**	—
Finance income, net	**(4,787)**	(30,065)
Operating profit before working capital changes	**64,698**	95,632
(Increase)/ decrease in inventories	**(58,564)**	2,694
(Increase)/ decrease in trade receivables, other receivables, prepayments and deposits	**(34,548)**	2,223
Increase in trade payables, other payables and accrued charges, and contract liabilities	**69,753**	20,836
Cash generated from operations	**41,339**	121,385

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Proceeds from disposal of property, plant and equipment

	2020 RMB'000	2019 RMB'000
Net book value (note 13)	**1,358**	4,551
Gains on disposal of property, plant and equipment (note 8)	**1,194**	5,073
Proceeds from disposal of property, plant and equipment	**2,552**	9,624

(c) Debt reconciliation

	Borrowings	**Lease liabilities**	**Total**
As at 1 January 2020	**—**	**5,086**	**5,086**
Cash flows			
— Inflow from financing activities	**126,929**	**—**	**126,929**
— Outflow from financing activities	**(56,730)**	**(1,636)**	**(58,366)**
Non-cash changes			
— Acquisition - leases	**—**	**7,164**	**7,164**
— Modification of leases	**—**	**(2,852)**	**(2,852)**
As at 31 December 2020	**70,199**	**7,762**	**77,961**
As at 1 January 2019			
(Recognised on adoption of HKFRS 16)	—	1,657	1,657
Cash flows			
— Inflow from financing activities	—	—	—
— Outflow from financing activities	—	(2,049)	(2,049)
Non-cash changes			
— Acquisition - leases	—	5,478	5,478
— Modification of leases	—	—	—
As at 31 December 2019	—	5,086	5,086

32 CONTINGENT LIABILITIES

At 31 December 2020, the Group had no material contingent liabilities (2019: Nil).

33 COMMITMENTS

As at 31 December 2020 and 2019, the Group had the following commitments:

(a) Capital commitments

	2020 RMB'000	2019 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	**62,063**	24,408
Buildings and land use rights	**316,582**	63,773
	378,645	88,181

(b) Other commitments

As at 31 December 2020 and 2019, the Group had future aggregate minimum lease payments under non-cancellable operating leases and other non-cancellable contracts as follows:

	2020 RMB'000	2019 RMB'000
Not later than 1 year	**1,097**	1,785
Later than 1 year and not later than 5 years	**—**	1,085
	1,097	2,870

34 RELATED PARTY TRANSACTIONS

The ultimate controlling party of the Group is Mr. Hui Ching Lau ("**Mr. Hui**"), who is also the Chairman of the Board. Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties during the years.

(a) Transactions with related parties

(i) Lease of offices

	2020 RMB'000	2019 RMB'000
— Lianjie Sports Investments Limited ("**Lianjie Sports**")	**428**	421
— Lianjie Investments Group Limited ("**Lianjie Investments**")	**2,635**	525
	3,063	946

Lianjie Sports is a company wholly owned by Mr. Hui.

Lianjie Investments is a company controlled by Mr. Hui and his associates.

(ii) Purchases of goods from:

	2020 RMB'000	2019 RMB'000
— Fujian Shuncheng Flour Industry Development Co., Ltd. ("**Shuncheng Flour**")	**1,794**	1,799

Shuncheng Flour is a company controlled by two directors of the Company and their associates.

34 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management compensation

	2020 RMB'000	2019 RMB'000
Key management compensation — Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,422**	4,197

Further details of directors' and the chief executive's emoluments are included in note 37 to the consolidated financial statements

35 PRINCIPAL SUBSIDIARIES

The following is a list of the subsidiaries of the Company as at 31 December 2020:

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held %
Direct subsidiary:				
QinQin Foodstuffs Group Company Limited	British Virgin Island, limited liability company	Investment holding in Hong Kong	135,946,900 Ordinary shares of HKD0.001 each	100%
Xiaogan QinQin (Hong Kong) Company Limited(孝感親親(香港)有限公司)	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD1,000	100%
Indirect subsidiaries:				
QinQin Foodstuffs Group (Hong Kong) Company Limited(親親食品集團(香港)股份有限公司)	Hong Kong, limited liability company	Investment holding, distribution and sale of snack foods in Hong Kong	HKD1	100%
QinQin F&B (China) Investments Co., Ltd (親親(中國)投資有限公司)	Mainland China, wholly foreign-owned enterprise	Investment holding in Mainland China	USD100,000,000	100%
Fushun Nanfang Food Industry Co., Ltd. (撫順南方食品工業有限公司)	Mainland China, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in Mainland China	RMB10,000,000	100%

35 PRINCIPAL SUBSIDIARIES *(Continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held %
Indirect subsidiaries: *(Continued)*				
Fushun QinQin Food Industry Development Co., Ltd.(撫順親親食品工業發展有限公司)	Mainland China, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in Mainland China	RMB22,000,000	100%
Luohe Linying QinQin Food Industry Co., Ltd. (漯河臨潁親親食品工業有限公司)	Mainland China, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in Mainland China	RMB100,000,000	100%
Fujian QinQin Holdings Co., Ltd. (福建親親股份有限公司)	Mainland China, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in Mainland China	RMB93,680,000	100%
Quanzhou QinQin Foodstuff Co., Ltd. (泉州親親食品有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in Mainland China	RMB130,000,000	100%
Taian QinQin Food Co., Ltd. (泰安親親食品有限公司)	Mainland China, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in Mainland China	RMB5,000,000	100%
Xiantao QinQin Food Industry Co., Ltd. (仙桃親親食品工業有限公司)	Mainland China, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in Mainland China	RMB10,000,000	100%
Xiantao QinQin Flavour Commerce Co., Ltd. (仙桃市親親調料商貿有限公司)	Mainland China, wholly foreign-owned enterprise	Trading in Mainland China	RMB10,000,000	100%

35 PRINCIPAL SUBSIDIARIES *(Continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held %
Indirect subsidiaries: *(Continued)*				
Xianyang QinQin Food Industry Co., Ltd. (咸陽親親食品有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in Mainland China	RMB5,000,000	100%
QinQin Business Trade Co., Ltd.(泉州親親商貿有限公司)	Mainland China, wholly foreign-owned enterprise	Trading in Mainland China	RMB5,000,000	100%
QinQin (Quanzhou) E-commerce Co.,Ltd. (泉州市親親電子商務有限公司)	Mainland China, wholly foreign-owned enterprise	Online trading in Mainland China	RMB55,000,000	100%
Xiaogan QinQin F&B Co., Ltd.(孝感親親食品有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of food and beverage products in Mainland China	USD6,000,000	100%
Xiaogan QinQin Biotechnology Co., Ltd. (孝感親親生物科技有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of food and beverage products in Mainland China	USD24,000,000	100%
Xiantao QinQin Food Technology Co., Ltd. (仙桃市親親食品科技有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in Mainland China	USD10,000,000	100%

35 PRINCIPAL SUBSIDIARIES *(Continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held %
Indirect subsidiaries: *(Continued)*				
Jining QinQin Food Technology Co., Ltd. (濟寧市親親食品科技有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in Mainland China	USD19,000,000	100%
Shin Shin Investments Company Limited (親親投資株式會社)	Japan, limited liability company	Investment holding, distribution and sale of snack foods in Japan	JPY10,000,000	100%
Sichuan QinQin Food Technology Co., Ltd. (四川省親親食品科技有限公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in Mainland China	USD10,000,000	100%
Shanghai Laoshaiwuyu Trading Co., Ltd. (上海老篩物語商貿有限責任公司)	Mainland China, wholly foreign-owned enterprise	Sale of snack foods in Mainland China	RMB5,000,000	100%
Ningxia QinQin Food Technology Co., Ltd. (寧夏親親食品科技有限責任公司)	Mainland China, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in Mainland China	USD6,000,000	100%

36 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

(a) Balance sheet of the Company

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**122,000**	120,609
Current assets			
Other receivables, prepayments and deposits		**195,429**	325,390
Financial assets at fair value through profit or loss		**56,942**	—
Cash and bank balances		**239,060**	29,732
		491,431	355,122
Total assets		**613,431**	475,731
Equity			
Share capital	25	**6,433**	5,758
Reserves		**606,998**	469,973
Total equity		**613,431**	475,731
Liabilities		**—**	—
Total equity and liabilities		**613,431**	475,731

The balance sheet of the Company was approved by the Board of Directors on 18 March 2021 and was signed on its behalf.

Hui Ching Lau
Director

Wong Wai Leung
Director

36 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

(b) Reserves movements of the Company

	Share premium RMB'000	**Accumulated losses** RMB'000	**Share option reserve** RMB'000	**Total** RMB'000
At 1 January 2020	**467,239**	**(2,087)**	**4,821**	**469,973**
Profit for the year	**—**	**(12,107)**	**—**	**(12,107)**
Issue of ordinary shares (note 25)	**147,741**	**—**	**—**	**147,741**
Equity-settled share option arrangement (note 26)	**—**	**—**	**1,391**	**1,391**
At 31 December 2020	**614,980**	**(14,194)**	**6,212**	**606,988**
At 1 January 2019	271,344	(11,818)	4,337	263,863
Profit for the year	—	9,731	—	9,731
Issue of ordinary shares (note 25)	195,895	—	—	195,895
Equity-settled share option arrangement (note 26)	—	—	484	484
At 31 December 2019	467,239	(2,087)	4,821	469,973

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2020 is set out below:

Name of Director	Fees RMB'000	Salary and bonuses RMB'000	Share-based compensation RMB'000	Pension, housing fund allowances, medical insurance and other social benefits RMB'000	Total RMB'000
Executive Directors:					
Mr. Hui Ching Lau *(Chairman)*	53	—	—	3	56
Mr. Wong Wai Leung	53	1,608	28	16	1,705
Mr. Wu Wenxu (Note)	3	325	26	6	360
Non-executive Directors:					
Mr. Hui Lin Chit	53	—	—	—	53
Mr. Sze Man Bok	53	—	—	—	53
Mr. Wu Huolu	53	—	—	—	53
Mr. Wu Sichuan	53	—	—	6	59
Mr. Wu Yinhang	53	—	—	7	60
Independent Non-executive Directors:					
Mr. Cai Meng	89	—	—	—	89
Mr. Chan Yiu Fai Youdey	89	—	—	—	89
Mr. Ng Swee Leng	89	—	—	—	89
Mr. Paul Marin Theil	89	—	—	—	89
	730	1,933	54	38	2,755

Note: Mr. Wu Wenxu was appointed as an executive director of the Company on 8 December 2020.

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

The remuneration of every director and the chief executive for the year ended 31 December 2019 is set out below:

Name of Director	Fees RMB'000	Salary and bonuses RMB'000	Share-based compensation RMB'000	Pension, housing fund allowances, medical insurance and other social benefits RMB'000	Total RMB'000
Executive Directors:					
Mr. Hui Ching Lau *(Chairman)*	53	—	—	3	56
Mr. Zhu Hong Bo (Note)	41	1,400	15	16	1,472
Mr. Wong Wai Leung	53	1,381	9	16	1,459
Non-executive Directors:					
Mr. Hui Lin Chit	53	—	—	—	53
Mr. Sze Man Bok	53	—	—	—	53
Mr. Wu Huolu	53	—	—	—	53
Mr. Wu Sichuan	53	—	—	6	59
Mr. Wu Yinhang	53	—	—	7	60
Independent Non-executive Directors:					
Mr. Cai Meng	88	—	—	—	88
Mr. Chan Yiu Fai Youdey	88	—	—	—	88
Mr. Ng Swee Leng	88	—	—	—	88
Mr. Paul Marin Theil	88	—	—	—	88
	764	2,781	24	48	3,617

Note: Mr. Zhu Hong Bo resigned as a director of the Company on 14 October 2019.

During the year ended 31 December 2020, no emoluments paid or receivable in respect of a person's services as a director (whether of the Company or its subsidiary undertaking) other than those disclosed in above tables, such as discretionary bonuses, housing allowance, or remunerations paid or receivable in respect of accepting office as director incurred (2019: none), and no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking incurred (2019: none).

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

During the year ended 31 December 2020, RMB13,000 (2019: RMB13,000) of retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries.

(c) Directors' termination benefits

During the year ended 31 December 2020, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2019: RMB800,000).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2020, no consideration was provided to or receivable by third parties for making available director's services (2019: None).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2019: None).

(f) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in note 34(a), no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019 : None).

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**792,829**	690,852	761,819	727,257	980,902
Profit/(loss) before income tax	**25,724**	104,355	39,031	(2,256)	57,449
Income tax expense	**(8,064)**	(23,168)	(6,271)	(4,280)	(25,927)
Profit/(loss) for the year, all attributable to shareholders of the Company	**17,660**	81,187	32,760	(6,536)	31,522

ASSETS AND LIABILITIES

	At 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,842,928**	1,369,574	1,050,718	792,863	894,854
Total liabilities	**506,970**	222,814	182,421	121,480	218,157
Equity attributable to shareholders of the Company	**1,335,958**	1,146,760	868,297	671,383	676,697

The summary above does not form part of the audited consolidated financial statements in the annual report.