



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

(Incorporated in Bermuda with limited liability)

Stock Code: 1262

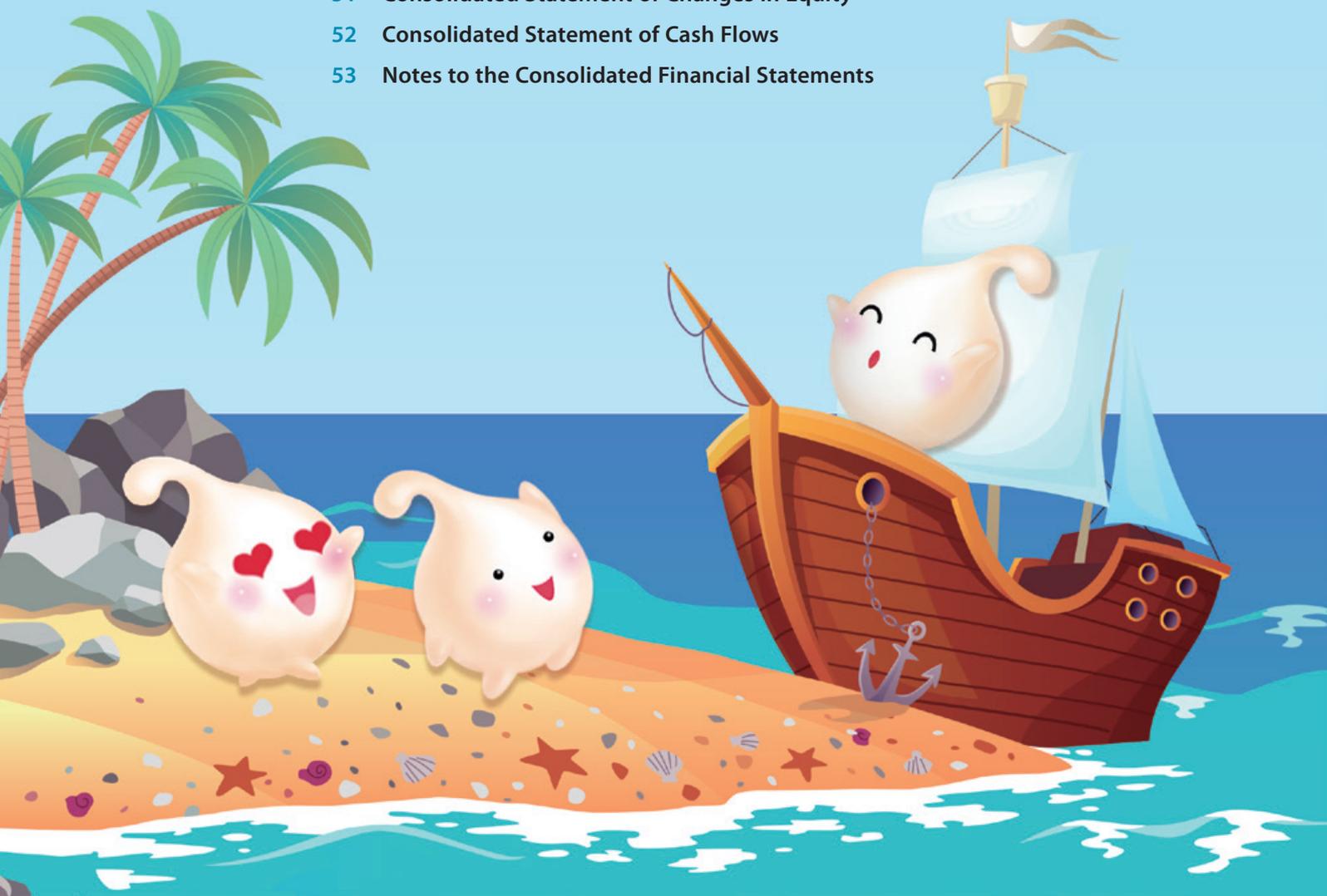


Annual Report 2022



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Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Wuli Industrial Area
Jinjiang, Fujian
PRC

PLACE OF BUSINESS IN HONG KONG

Unit 2108, 21/F,
Island Place Tower,
510 King's Road,
North Point, Hong Kong

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock code: 1262

COMPANY WEBSITE

<http://www.lbxxgroup.com>

(information contained in this website does not form part of this annual report)

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Li Hung Kong (*Vice-Chairman*)

Independent Non-Executive Directors

Li Biao
Guo Li (*appointed on 2 September 2022*)
Sun Kam Ching (*resigned on 2 September 2022*)
Chung Yau Tong

COMPANY SECRETARY

Chan Yee Lok

AUTHORIZED REPRESENTATIVES

Zheng Yu Shuang
Chan Yee Lok

AUDIT COMMITTEE

Chung Yau Tong (*Chairman*)
Li Biao
Guo Li (*appointed on 2 September 2022*)
Sun Kam Ching (*resigned on 2 September 2022*)

REMUNERATION COMMITTEE

Guo Li (*Chairman*) (*appointed on 2 September 2022*)
Sun Kam Ching (*Chairman*) (*resigned on 2 September 2022*)
Zheng Yu Long
Chung Yau Tong

NOMINATION COMMITTEE

Li Biao (*Chairman*)
Zheng Yu Shuang
Chung Yau Tong

AUDITORS

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

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
17/F Far East Finance Centre,
16 Harcourt Road,
Hong Kong

PRINCIPAL BANKERS

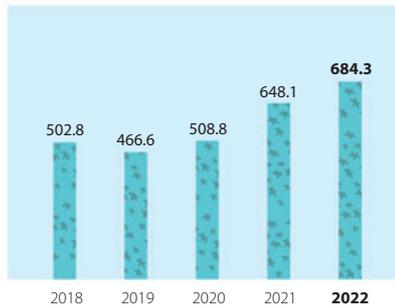
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

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

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

Financial Highlights

Revenue
RMB'M



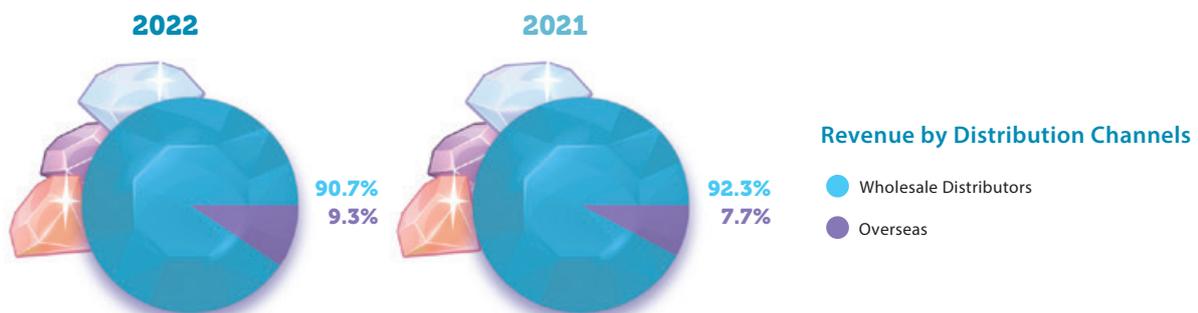
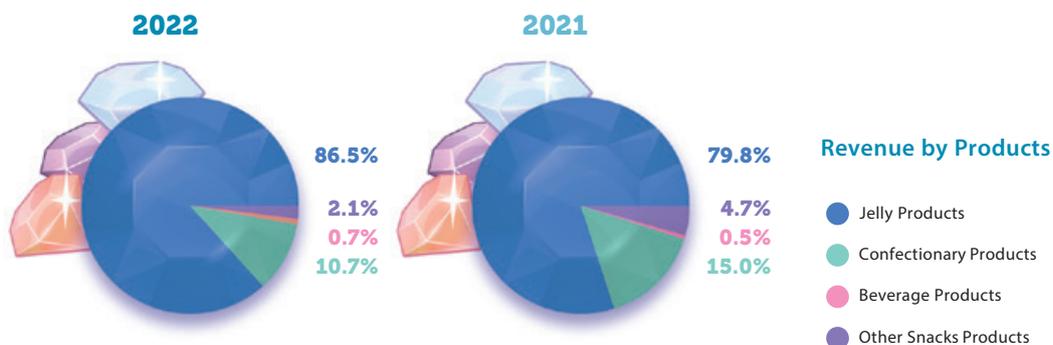
GP Margin **Gross Profit**
RMB'M



EBITDA/(LBITDA) Margin **EBITDA/(LBITDA)(Note)**
RMB'M



Net Profit/(Loss) Margin **Net Profit/(Loss)**
RMB'M



Note: EBITDA refers to profit/(loss) before interests, income tax, depreciation, amortisation, allowance for expected credit losses, gain/loss on disposal of asset classified as held for sale and written-off of property, plant and equipment.

Financial Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	684,263	648,066	508,838	466,570	502,802
Gross profit	244,192	224,281	166,544	139,005	128,119
(Loss)/profit before taxation	(67,671)	16,996	15,976	(153,264)	(191,901)
Taxation	(7,657)	(82,200)	(45,379)	(16,846)	12,307
Loss and total comprehensive loss for the year	(75,328)	(65,204)	(29,403)	(170,110)	(179,594)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Assets					
Non-current assets	352,661	421,612	523,845	787,137	1,169,947
Current assets	624,650	868,442	1,005,395	698,719	524,400
Total assets	977,311	1,290,054	1,529,240	1,485,856	1,694,347
Equity					
Total equity	327,312	402,640	467,844	497,247	667,357
Liabilities					
Non-current liabilities	15,846	15,846	15,846	15,864	19,233
Current liabilities	634,153	871,568	1,045,550	972,745	1,007,757
Total liabilities	649,999	887,414	1,061,396	988,609	1,026,990
Total equity and liabilities	977,311	1,290,054	1,529,240	1,485,856	1,694,347

Chairman's Statement

Dear shareholders,

I am pleased to present the annual report of Labixiaoxin Snacks Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2022 and extend my gratitude to all the shareholders on behalf of the board (the "**Board**") of directors (the "**Director(s)**") of the Company.

During the year ended 31 December 2022, the consumer sentiment in the People's Republic of China ("**China**" or the "**PRC**") had gradually recovered from the hit by the Novel Coronavirus ("**COVID-19**") outbreak. The Group's sales was positively affected by the gradual recovery of the consumer sentiment and the removal of lock-up measures in most areas of the PRC. Although there were still several COVID-19 surges in certain cities or provinces in the PRC (e.g. Shanghai, Jinjiang and Jilin), during the first half of year 2022, the sales of the Group had picked up after July 2022 following the stabilisation of the COVID-19 pandemic in the second half of year 2022. In addition, in the past three years, the Group had put immense efforts in expanding its new retail, e-commerce, social media and society distribution channels (collectively the "**New Sales Channels**"). The expansion of these New Sales Channels started to pay off during the year ended 31 December 2022 and mainly boosted the sales of our jelly products. During the year ended 31 December 2022, the Group has reported revenue of RMB684.3 million, representing an increase of approximately 5.6% as compared with year 2021 mainly due to the reasons and measures mentioned above. The gross profit margin increased slightly from 34.6% in the year ended 31 December 2021 to 35.7% in the year ended 31 December 2022 mainly due to profit margin from the sales through New Sales Channels are in general lower than sales through distributors. The Group's advertising and promotion expenses increased by approximately 89.0% to RMB92.0 million during year 2022 due to the Group had launched more advertising and promotion activities both online and offline during the year.

Although the sales performance of the Group had gradually recovered from the COVID-19 pandemic, much of the PRC's economy and our distributors were bruised by COVID-19 control measures in 2022, from full-scale lockdowns in places like Shanghai to restrictions that made it difficult for locals to travel and factories/warehouses to move their goods when infections spiked. Some of these distributors suffered from great financial difficulties that our Group encountered slow settlements from or default by these distributors. As a result, the allowance for expected credit losses of the Group increased by approximately RMB47.5 million as compared with year 2021.

For the year ended 31 December 2022, the Group recorded a net loss of RMB75.3 million, as compared with RMB65.2 million in last year. The main reasons for the increase in the Group's net loss during the year ended 31 December 2022 was mainly due to (i) increase in allowance for expected credit losses by approximately RMB47.5 million due to slow settlements from or default by the distributors and (ii) there was a loss on disposal of asset classified as held for sale of RMB20.9 million in the year ended 31 December 2022 (2021: a gain of approximately RMB13.3 million) and offset by the increase in gross profit for the year ended 31 December 2022 as compared with year 2021.

During the year ended 31 December 2022, the Group had spent RMB12.8 million in capital expenditures mainly for the upgrade of production lines in various production plants. In year 2022, the Group had generated RMB15.5 million net operating cash inflow (2021: net operating cash outflow of RMB135.3 million). As at 31 December 2022, the gearing ratio of the Group was 156.6%. The Group is committed to maintaining sufficient cash and available banking facilities for its working capital requirements and for capitalising on any potential investment opportunities in the future.

At the end of year 2022, the PRC government announced to uplift quarantine requirements for locals in December 2022 and international arrivals starting from 8 January 2023, which marks a significant move in returning to normally. This important move will likely boost the consumer sentiment in the PRC and the market demand for the Group's snack products is expected to increase during the year ending 31 December 2023. The Directors considered that there may be surges in COVID-19 cases in the first half of year 2023 in the PRC and have short-term pressure on the Group's business. However, the PRC economy and snacks industry will rapidly rebound in the second half of year 2023. The Directors considered that a steady and healthy recovery of PRC's economy and our business may happen in the short to medium term. To build a solid foundation for mid-to-long term growth, the Group will continue committing to (i) take proactive steps in marketing its brand image and products in 2023 and onwards, (ii) launch new snacks products from time to time to offer better choices to the consumers and (iii) restructure and consolidating its production facilities to enhance its production and logistic efficiency. The Directors believe that these measures will bring positive impacts to the Group's financial performance in the longer run.

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

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

Yours sincerely

ZHENG YU HUAN

Chairman





Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2022, the Group has reported revenue of RMB684.3 million, representing an increase of approximately 5.6% as compared with year 2021 mainly due to increase sales of jelly products by 14.5%. In the past three years, the Group had put immense efforts in expanding its New Sales Channels. The expansion of these New Sales Channels started to pay off during the year ended 31 December 2022 and mainly boosted the sales of our jelly products.

During the year ended 31 December 2022, the consumer sentiment in the PRC had gradually recovered from the hit by the COVID-19 outbreak. The Group's sales was positively affected by the gradual recovery of the consumer sentiment and the removal of lock-up measures in most areas of the PRC. However, there were still several COVID-19 surges in certain cities or provinces in the PRC e.g. Shanghai, Jinjiang and Jilin, following the 2022 Lunar New Year to May 2022. Local governments in these areas had taken measures to minimize the impact of the COVID-19 pandemic, including but not limited to: mandatory quarantine of infected personnel and their close contacts, compulsory quarantine of visitors and travelers and lockdowns of high risk areas (collectively, the "Governments' Measures"). Due to the Governments' Measures, the Group's major subsidiary in Jinjiang, Fujian was required to stop its production and operation temporarily in March and April 2022. As a result, the sales performance of the Group was negatively affected during March and April 2022. The sales of the Group had gradually picked up after July 2022 following the stabilisation of the COVID-19 pandemic in the second half of year 2022 and resulted in the increase in sales for the year ended 31 December 2022 as compared with year 2021.

Although the sales performance of the Group had gradually recovered from the COVID-19 pandemic, much of the PRC's economy and our distributors were bruised by COVID-19 control measures in year 2022, from full-scale lockdowns in places like Shanghai to restrictions that made it difficult for locals to travel and factories to move their goods when infections spiked. Some of these distributors suffered from great financial difficulties that our Group encountered slow settlements from or default by these distributors. As a result, the allowance for expected credit losses of the Group increased by approximately 136.2% to RMB47.5 million as compared with year 2021.

For the year ended 31 December 2022, the Group recorded a net loss of RMB75.3 million, as compared with RMB65.2 million in last year. The main reasons for the increase in the Group's net loss during the year ended 31 December 2022 was mainly due to (i) increase in allowance for expected credit losses by approximately RMB47.5 million due to slow settlements from or default by the distributors and (ii) there was a loss on disposal of asset classified as held for sale of RMB20.9 million in the year ended 31 December 2022 (2021: gain of RMB13.3 million) and offset by the increase in gross profit for the year ended 31 December 2022 as compared with year 2021.

REVENUE

Revenue increased by approximately 5.6% to RMB684.3 million during the year ended 31 December 2022 when compared with the same period in year 2021. During the year ended 31 December 2022, the Group's sales performance has been positively impacted by the recovery of consumer sentiments and the removal of lock-up measures in most areas of the PRC. In addition, the Group had put immense efforts in expanding its New Sales Channels in the past three years which started to boost the sales of the Group during the year ended 31 December 2022. As at 31 December 2022, the Group had a total number of 1,095 distributors (31 December 2021: 1,206).

Jelly products

Revenue of jelly products increased by approximately 14.5% from RMB517.4 million in the year ended 31 December 2021 to RMB592.2 million in the year ended 31 December 2022 mainly due to the expansion of the New Sales Channels as disclosed above.

During the year ended 31 December 2022, revenue attributable to jelly snacks increased by approximately 16.7% to RMB333.7 million while sales attributable to jelly beverages increased by approximately 11.7% to RMB258.5 million.

Confectionary products

Confectionary products recorded a decrease in revenue during the year ended 31 December 2022. Sales of confectionary products decreased by approximately 25.1% from RMB97.4 million in the year ended 31 December 2021 to RMB73.0 million in the year ended 31 December 2022. The decrease was mainly due to (i) temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022 and (ii) the distributors purchased less festive products in the last quarter of 2022 as they expect there will be a surge in COVID-19 cases before the 2023 Lunar New Year.

Beverage products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue of beverages products of the Group increased by approximately 70.0% to RMB5.1 million in the year ended 31 December 2022. While there was a rebound in sales of beverages products in the year ended 31 December 2022, the Group will continue to shift its focus from beverages products to core and more profitable jelly and bean curd products in the coming year.

Other snacks products

Revenue of other snacks products decreased by approximately 53.9% to RMB14.0 million during the year ended 31 December 2022. The decrease was mainly due to (i) temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022 and (ii) the distributors purchased less festive product in the last quarter of 2022 as they expect there will be a surge in COVID-19 cases before the 2023 Lunar New Year.

COST OF SALES AND GROSS PROFIT

Cost of sales increased by approximately 3.8% to RMB440.1 million in the year ended 31 December 2022, mainly attributable to the corresponding increase in sales. The gross profit increased by approximately 8.9% to RMB244.2 million in the year ended 31 December 2022. The gross profit margin increased slightly from 34.6% for the year ended 31 December 2021 to 35.7% for the year ended 31 December 2022.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately 33.4% to RMB116.3 million in the year ended 31 December 2022 primarily due to an increase in advertising and promotion expenses by approximately 89.0% to RMB92.0 million during the period under review to promote its New Sales Channels.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 15.2% to RMB105.0 million in the year ended 31 December 2022 as compared with the same period in 2021, mainly due to increase in payroll expenses and inflation.

INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Bermuda and British Virgin Islands ("BVI") are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income currently arising in Hong Kong for the year ended 31 December 2022 and 2021. The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the year.

The income tax expense during the year ended 31 December 2022 was mainly due to PRC income tax for the year net of the movements in deferred tax assets.

Management Discussion and Analysis

NET LOSS FOR THE YEAR

For the year ended 31 December 2022, the Group recorded a net loss of RMB75.3 million, an increase of approximately 15.5% from the net loss of RMB65.2 million in last year. The main reasons for the increase in the Group's net loss during the year ended 31 December 2022 was mainly due to (i) increase in allowance for expected credit losses by approximately RMB47.5 million due to slow settlements from or default by the distributors and (ii) there was a loss on disposal of asset classified as held for sale of approximately RMB20.9 million in the year ended 31 December 2022 (2021: gain on disposal of asset classified as held for sale of approximately RMB13.3 million) and offset by the increase in gross profit for the year ended 31 December 2022 as compared with the year ended 31 December 2021.

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 31 December 2022, the cash and bank balances amounted to RMB71.9 million (As at 31 December 2021: RMB80.6 million). The decrease in cash and bank balances was mainly due to repayment of bank borrowings and payment of interests. The bank borrowings of the Group decreased by RMB58.5 million during the year ended 31 December 2022.

As at 31 December 2022, the Group's gearing ratio (total borrowings, lease liabilities and loan from a director divided by total equity) was 156.6% (As at 31 December 2021: 140.5%). The Group maintained sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash inflow from operating activities of RMB15.5 million for the year ended 31 December 2022 (2021: net cash outflow of RMB135.3 million). The Group has spent RMB12.8 million during the year ended 31 December 2022 for the upgrade of production lines of the production plants. The Group has net cash outflow from financing activities of RMB80.1 million for the year ended 31 December 2022 which was mainly due to repayment of matured bank borrowings and payment of interest expenses.

Capital expenditure

During the year ended 31 December 2022, the Group incurred RMB12.8 million in capital expenditure mainly for the upgrade of production lines of the production plants.

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2022, the balance increased by RMB7.9 million from the beginning of the year. The increase in inventory level was mainly due to improvement in sales performance through New Sales Channels that more inventories were prepared by the Group to meet the demand of Lunar New Year sales in late January 2023. The inventories turnover days for the years ended 31 December 2022 and 2021 were 53 days and 72 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors and New Sales Channels customers. The Group typically sells its products on credit and grant 180 days credit to most of the wholesale distributors and New Sales Channels customers. The balance decreased by RMB62.0 million or 16.2% from the beginning of the year mainly due to increase in allowance for expected credit losses by approximately RMB47.5 million due to slow settlements from or default by certain wholesale distributors.

The trade receivable turnover days for the years ended 31 December 2022 and 2021 were 200 days and 205 days, respectively. Subsequent to the year ended 31 December 2022 and up to the date of this annual report, approximately RMB192.0 million of the trade receivables were settled by the wholesale distributors and New Sales Channels customers.

Asset classified as held for sale

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

The Purchaser had fully settled the consideration of RMB180,000,000 in accordance with the Transfer Agreement and Jinjiang Construction had fully refunded the RMB40,000,000 land deposit to the Vendor. All the conditions precedent to the Transfer Agreement had been fulfilled, and the completion took place on 6 May 2022. Upon completion, the Vendor ceased to have any interest in the FJ Land Right.

After taking into account the estimated transaction costs directly attributable to the completion of disposal, a loss on disposal of asset classified as held for sale of RMB20,923,000 was recorded during the year ended 31 December 2022.

Trade payables

Trade payables mainly represent the balances due to the Group’s suppliers who generally grant credit terms ranging from 30 days to 60 days to the Group.

Trade payables turnover days for the years ended 31 December 2022 and 2021 were 29 days and 64 days respectively.

Foreign exchange fluctuations

The Group earns revenue and incur costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the year ended 31 December 2022, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered the financial benefits of such forward contracts may not outweigh their costs. The Company will continue to monitor foreign exchange changes to best preserve the Group’s cash value.

Charges on assets

As at 31 December 2022, land use rights and buildings of the Group with carrying values of RMB89,280,000 (31 December 2021: RMB91,759,000) and RMB107,195,000 (31 December 2021: RMB63,989,000) respectively, were pledged to banks as securities for banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2022, the Group had no contingent liabilities (31 December 2021: Nil).

Management Discussion and Analysis

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 1,300 employees (including part-time employees) (2021: 1,170 employees) and the total remuneration expenses for the year ended 31 December 2022 amounted to RMB100.6 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

The emoluments of the Directors and senior management of the Company are decided by the Board with the recommendation of the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

PROSPECTS

At the end of year 2022, the PRC government announced to uplift quarantine requirements for locals in December 2022 and international arrivals starting from 8 January 2023, which marks a significant move in returning to normally. This important move will likely boost the consumer sentiment in the PRC and the market demand for the Group's snack products is expected to increase during the year ending 31 December 2023. The Directors considered that there may be surges in COVID-19 cases in the first half of year 2023 in the PRC and have short-term pressure on the Group's business. However, the PRC economy and snacks industry will rapidly rebound in the second half of year 2023. The Directors considered that a steady and healthy recovery of PRC's economy and our business may happen in the short to medium term. To build a solid foundation for mid-to-long term growth, the Group will continue committing to (i) take proactive steps in marketing its brand image and products in 2023 and onwards, (ii) launch new snacks products from time to time to offer better choices to the consumers and (iii) restructure and consolidating its production facilities to enhance its production and logistic efficiency. The Directors believe that these measures will bring positive impacts to the Group's financial performance in the longer run.

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

KEY RISKS AND UNCERTAINTIES

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

Business Risk

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

Industrial Risk

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

Operational Risk

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

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

Financial Risk

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

Disaster Events

The Group's business will be materially and adversely affected by natural disaster events such as outbreak of contagious diseases or other catastrophic events. Depending on the severity, duration and locality, such events could severely disrupt the Group's business operations and cause adverse impacts to our business. Such events, or a general apprehension of such events, may also significantly and adversely affect consumer sentiments and reduce demand for our snacks products. The Group regularly conducts risk assessment, and has taken out appropriate insurance covering our properties, business operations and third-party liabilities.

The global outbreak of COVID-19 in 2020 is an example of such disaster events, which has also caused changes in the macro-economic environment, dampening of travel and consumer sentiments, as well as changes in local laws and regulations (including but not limited to travel bans and mandatory quarantine requirements). The impact of the COVID-19 outbreak on our Group's business and the measures taken by our Group to manage the same are set out in the section headed "Management Discussion and Analysis" on pages 10 to 15 of this Annual Report. The extent of the impact of the COVID19 pandemic on the Group's business operations and financial results remains a principal risk and continues to create uncertainties for our Group's business operations and financial results.

Biographical Details of Directors and Senior Management

DIRECTORS

ZHENG YU HUAN

Chairman and Executive Director

Mr. Zheng Yu Huan, aged 52, is an executive Director. He was appointed as the chairman of the Board since 17 March 2015. He was appointed as a Director on 15 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the Group's overall management in particular on sales and marketing operations, including formulating the advertising and promotional programs. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of a number of the Group's subsidiaries including LBXX International and Timeluck. Mr. Zheng has over 24 years of experience in sales and marketing of snack food products. He joined the Group in 2000 as a deputy general manager of LBXX Fujian.

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

ZHENG YU SHUANG

Chief Executive Officer and Executive Director

Mr. Zheng Yu Shuang, aged 54, is the chief executive officer of the Group (the "Chief Executive Officer") and an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations of the Company. He is the head of the Group's production department and oversees the quality control department. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX International, LBXX Sichuan, LBXX Anhui, LBXX Fujian, LBXX Tianjin and Timeluck.

Mr. Zheng has over 26 years of experience in the manufacture of snack food products. He joined the Group in 2000 as the general manager of LBXX Fujian. From 1994 to 2000, Mr. Zheng was a general manager of the production and quality control department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration from Renmin University of China (中國人民大學) in May 2006. He received a certificate qualifying as a senior quality control inspector (高級質量(品質)管理師) from China Professional Talent Pool Management Center (中國專業人才庫管理中心) in July 2009. Mr. Zheng has also assumed several social positions, such as the honorary chairman of Jinjiang Food Industry Association (晉江市食品行業協會) from 2007 to 2010, a member of the Tianjin Chinese People's Political Consultative Conference (天津市人民政治協商會議) from 2008 to 2012, and the vice-chairman of the Confectionery Committee of China National Food Industry Association (中國食協糖果專業委員會) from May 2010 to May 2013. Mr. Zheng is the brother of Mr. Zheng Yu Long and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

Biographical Details of Directors and Senior Management

ZHENG YU LONG

Executive Director

Mr. Zheng Yu Long, aged 57, is an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations, strategic planning and business development of the Group. He is also actively involved in the marketing of the products and branding of the Group, and procurement of raw materials from suppliers. Mr. Zheng is a key contact person between the Group and its business partners. He is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiary, Timeluck. Mr. Zheng joined the Group in 2000 as a managing director of LBXX Fujian. Mr. Zheng has over 28 years of experience in the marketing and manufacturing of snack food products. Since joining the Group in 2000, Mr. Zheng has dedicated the past 22 years to expand and promote the Group's business from a manufacturer of jelly products to a recognized snack food brand in China. From 1991 to 2000, Mr. Zheng was the general manager of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司), where he was responsible for the daily operations, sales, production, procurement and business development of this company. Through such experiences, Mr. Zheng has developed extensive relationships with the industry partners and is able to keep abreast of the latest development of the snack food industry. Mr. Zheng Yu Long was brought up in the PRC. Mr. Zheng has never been a full time government official of any country, or a full time employee of any state or government-owned/operated entity for a substantial period of time. Mr. Zheng is the brother of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

LI HUNG KONG

Vice Chairman and Non-Executive Director

Mr. Li Hung Kong, aged 54, is the vice-chairman and non-executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as a non-executive Director on 23 September 2011. He is an experienced entrepreneur who has over 26 years of experience in investing and managing manufacturing business. He is also a director of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX Fujian and Timeluck. Mr. Li joined the Group in 2000 as a director of LBXX Fujian. Prior to joining the Group, Mr. Li founded the following companies in the 1990s, Jinjiang Xingtai Packing Wear Co., Ltd. (晉江市興泰包裝用品有限公司), Fujian Huatai Packing Co., Ltd. (福建華泰包裝用品有限公司), companies engaged in the paper packaging business, and Jen Yuon Trading Co. (晉融貿易公司), a company engaged in commercial trading, and has been as a director in each of these companies since their establishment. Mr. Li is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan.

LI BIAO

Independent Non-Executive Director

Mr. Li Biao, aged 56, is the independent non-executive Director. He was appointed as an independent non-executive Director on 7 August 2020. Mr. Li has over 22 years of experience in the food industry.

Mr. Li graduated from the department of business administration of Beihang University (北京航空航天大學) and has previously worked at state-owned enterprises and government offices in the PRC. Mr. Li is currently the deputy chief editor of China Food Safety Post (中國食品安全報社), a supervisor of State Administration for Market Regulation (國家市場監督管理局) and an officer of the quality and marketing committee of China Association for Quality Promotion (中國質量萬里行促進會). Mr. Li is also the deputy executive officer and secretary general of the brand promotion committee of China Academy of Management Science (中國管理科學研究院), the secretary general of National Nutrition and Safety Industry Committee (全國營養健康產業委員會), and the secretary general of China Food Safety Annual Conference (中國食品安全年會).

Biographical Details of Directors and Senior Management

GUO LI

Independent Non-Executive Director

Ms. Guo Li, aged 34, is the independent non-executive Director. She was appointed as an independent non-executive Director on 2 September 2022. Ms. Guo has over 10 years of experience in the operation and management of large-scale hotel chains. Ms. Guo is currently an operations director of a health care company in the PRC, responsible for management and operation of the hotels and restaurants. Ms. Guo obtained her bachelor's degree in business administration from Henan University Minsheng College (河南大學民生學院) (now known as Henan Kaifeng College of Science Technology and Media (河南開封科技傳媒學院)) in July 2013.

CHUNG YAU TONG

Independent Non-Executive Director

Mr. Chung Yau Tong, aged 51, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Chung has 27 years of experience in audit practice, financial management and compliance assurance of listed companies in Hong Kong. From 1994 to 2000, Mr. Chung was with PricewaterhouseCoopers, where he last held the position of a manager. Mr. Chung was with CITIC 21CN Company Limited (stock code: 00241) from 2000 to 2005, where he last held the position as the group financial controller. He was a qualified accountant of Gome Electrical Appliances Holding Company Limited (stock code: 00493) from 2005 to March 2007. Mr. Chung was the financial controller and company secretary of Vongroup Limited (stock code: 00318) from March 2007 to December 2007. He currently serves as the financial controller and company secretary of Chaoyue Group Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and now known as International Business Settlement Holdings Limited, stock code: 00147) since 2008. Mr. Chung received a bachelor's degree in business administration from The University of Hong Kong in 1994. He is a fellow of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Chan Yee Lok, aged 48, is our chief financial officer the ("**Chief Financial Officer**") and company secretary (the "**Company Secretary**") since November 2014. He is responsible for our accounting, finance and company secretarial matters. Prior to joining us in August 2014, Mr. Chan had worked in international accounting firms and companies listed on the Main Board of the Stock Exchange and possessed over 24 years of accounting, financing, auditing and company secretarial experience. Mr. Chan graduated from the City University of Hong Kong with a bachelor's degree with honours in accountancy in 1997. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Mr. Chen Jian Ming, aged 58, is the head of our procurement department. He is primarily responsible for the sourcing and procurement of raw materials for the Group. He has over 23 years of commercial and banking experience. Mr. Chen joined us in 2010. Prior to joining us, Mr. Chen served in various positions at China Construction Bank, Quanzhou branch (中國建設銀行泉州分行) between January 1990 and October 2010, including deputy branch manager, deputy manager and manager of the credit department. Mr. Chen received a bachelor's degree in finance from the Hunan University (湖南大學) through online courses in July 2005. He is also recognized as a qualified professional in economics (經濟師) by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人事部).

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

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting stringent corporate governance practices and procedures with a view to safeguarding the interests of shareholders as well as enhancing investor confidence and the Company's accountability and transparency. The Company set out its corporate governance practices with reference to Part 2 of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2022, the Company has complied with all the code provisions set forth under Part 2 of the CG Code and there has been no deviation from the code provisions throughout the year ended 31 December 2022.

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

THE BOARD OF DIRECTORS

Responsibilities

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

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

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

Board Composition

As at the date of this Annual Report, the Board comprises seven members in total, with three executive Directors, one non-executive Director and three independent non-executive Directors.

Corporate Governance Report

The composition of the Board during the year ended 31 December 2022 and up to the date of this Annual Report is set out below:

Executive Directors

Mr. Zheng Yu Huan (*Chairman*)

Mr. Zheng Yu Shuang (*Chief Executive Officer*)

Mr. Zheng Yu Long

Non-Executive Director

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

Independent Non-Executive Directors

Mr. Li Biao

Ms. Sun Kam Ching (resigned on 2 September 2022)

Ms. Guo Li (appointed on 2 September 2022)

Mr. Chung Yau Tong

The biographical details of the current Board members are set out under the section headed “Biographical Details of Directors and Senior Management” on pages 16 to 18 of this Annual Report.

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

During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive Directors represented over one-third of the Board.

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

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

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

Chairman and Chief Executive Officer

During the year ended 31 December 2022, the roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

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

Appointment and Re-election of Directors

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

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

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

Board Meetings

Board Practices and Conduct of Meetings

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

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

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

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

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

Corporate Governance Report

Directors' Attendance Records

During the year ended 31 December 2022, 5 Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings and the 2022 annual general meeting (the "2022 AGM") during the year ended 31 December 2022 are set out below:

Name of Director	Attendance/Number of Meetings	
	Board Meetings	2022 AGM
Mr. Zheng Yu Huan	5/5	1/1
Mr. Zheng Yu Shuang	5/5	1/1
Mr. Zheng Yu Long	5/5	1/1
Mr. Li Hung Kong	5/5	1/1
Mr. Li Biao	5/5	1/1
Ms. Sun Kam Ching (resigned on 2 September 2022)	4/4	1/1
Ms. Guo Li (appointed on 2 September 2022)	1/1	N/A
Mr. Chung Yau Tong	5/5	1/1

Continuous Professional Development

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

During the year ended 31 December 2022, some of the Directors attended external seminars and/or conferences to update their general business and economic knowledge or statutory requirements, Listing Rules and other relevant topics related to listed company. The Directors also read materials in relation to regular update to statutory requirements, the Listing Rules and other relevant topics related to listed company.

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

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

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

During the year ended 31 December 2022, the Company Secretary has taken not less than 15 hours of relevant professional training.

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2022.

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

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2022.

DELEGATION BY THE BOARD

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

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. The Board has also established mechanisms to ensure independent views are available to the Board. For instance, each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board. Further, the Board shall at all times comprise at least three independent non-executive Directors that represent at least one-third of the Board, such that there is always a strong element of independence on the Board which can effectively exercise independent judgment. The chairman of the Board will hold meetings with the independent non-executive Directors without the involvement of other Directors at least annually to discuss any issues and concerns. The Board has reviewed and considered that the mechanisms are effective in ensuring that independent views and input are provided to the Board during the year ended 31 December 2022.

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

BOARD COMMITTEES

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

Nomination Committee

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

During the year ended 31 December 2022, the Nomination Committee was primarily responsible for:

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

Nomination Policy

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

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

- (a) reputation for integrity;
- (b) experience in food and beverages industry and/or business strategy, management, legal and financial aspects;
- (c) whether the proposed candidate is able to assist the Board in effective performance of its responsibilities;
- (d) the perspectives and skills that the proposed candidate is expected to bring to the Board;
- (e) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- (f) commitment in respect of available time and relevant interest; and
- (g) in the case of selection for independent non-executive Directors, the independence of the proposed candidate.

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

Board Diversity Policy

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

As at 31 December 2022, the Board comprises of seven members, including one female independent non-executive Director. The Board targeted to keep the current level of at least 14% female representative in the Board. The Nomination Committee will use its reasonable efforts to identify and recommend female candidates to the Board for consideration for appointment as Directors from time to time in order to increase female representation on the Board.

In particular, going forward and with a view to developing a pipeline of potential successors to the Board, the Company will (i) continue to make appointments based on merits with reference to board diversity as a whole; (ii) consider the possibility of nominating female management staff who has the necessary skills and experience to the Board; and (iii) provide career development opportunities and more resources in training female staff with the aim of promoting them to the senior management or Board so that the Board will have a pipeline of female senior management and potential successors to the Board in the foreseeable future.

Increasing gender equality remained paramount to the Group. In 2022, women represented 52% of the Group's workforce. The Company will continue take steps to promote gender diversity at all levels of the Group, including by recruiting staff of different gender.

Corporate Governance Report

The Nomination Committee will meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year ended 31 December 2022, details of attendance are set out below:

Nomination Committee Members	Attendance/ Number of Meeting
Mr. Li Biao (<i>Chairman of Nomination Committee</i>)	1/1
Mr. Zheng Yu Shuang	1/1
Mr. Chung Yau Tong	1/1

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Zheng Yu Long, Ms. Sun Kam Ching (replaced by Ms. Guo Li on 2 September 2022), and Mr. Chung Yau Tong, the majority of which are independent non-executive Directors, with Ms. Sun Kam Ching (replaced by Ms. Guo Li on 2 September 2022) acting as the chairman of the Remuneration Committee. The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits.

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

Pursuant to code provision E.1.5 of Part 2 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2022 is as follows:

Remuneration Band (HKD)	Number of Individual
Nil–HK\$1,000,000	1
HK\$1,000,001–HK\$1,500,000	1

During the year ended 31 December 2022, the Remuneration Committee was primarily responsible for:

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

- reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules; and
- considering and implementing other matters, as defined or assigned by the Board or otherwise required by the Listing Rules from time to time.

There was no material matter relating to the Company's share option scheme that were reviewed and/or approved by the Remuneration Committee during the year ended 31 December 2022. The Company did not grant any share options or awards to the Directors and Senior Management during the year ended 31 December 2022.

The Remuneration Committee held one meeting during the year ended 31 December 2022 and the details of attendance are set out below:

Remuneration Committee Members	Attendance/ Number of Meeting
Ms. Sun Kam Ching (<i>Chairman of Remuneration Committee</i>) (resigned on 2 September 2022)	1/1
Ms. Guo Li (<i>Chairman of Remuneration Committee</i>) (appointed on 2 September 2022)	N/A
Mr. Zheng Yu Long	1/1
Mr. Chung Yau Tong	1/1

Audit Committee

The Audit Committee comprises three members, namely Mr. Li Biao, Ms. Sun Kam Ching (replaced by Ms. Guo Li on 2 September 2022), and Mr. Chung Yau Tong, all of which are independent non-executive Directors, with Mr. Chung Yau Tong acting as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review the financial information and reporting process, risk management and internal control systems and to provide advice and comments to the Board.

During the year ended 31 December 2022, the Audit Committee was primarily responsible for:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- developing and implementing policy on the engagement of an external auditor to supply non-audit services;
- monitoring integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and reviewing significant financial reporting judgements contained in them;
- reviewing the Company's financial controls, internal control and risk management systems;
- discussing with management the risk management and internal control systems and ensuring that management has discharged its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;

Corporate Governance Report

- reviewing the Group's connected transactions;
- reviewing the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response; and
- ensuring that the Board provides a timely response to the issues raised in the external auditor's management letter.

The Audit Committee held two meetings during the year ended 31 December 2022 and the details of attendance are set out below:

Audit Committee Members	Attendance/ Number of Meeting
Mr. Chung Yau Tong (<i>Chairman of Audit Committee</i>)	2/2
Mr. Li Biao	2/2
Ms. Sun Kam Ching (resigned on 2 September 2022)	2/2
Ms. Guo Li (appointed on 2 September 2022)	N/A

Corporate Governance Functions

During the year ended 31 December 2022, the Audit Committee is also responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

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

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

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

Risk management and Internal Controls

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

The main features of the risk management and internal control systems of the Group are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the senior management of the Group ("Senior Management"). The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. The Board, through the Audit Committee, conducts reviews of the effectiveness of such systems at least annually, covering all material controls including financial, operational and compliance controls. The Board acknowledges that the Board is responsible for the risk management and internal control systems and reviewing their effectiveness, and such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has formulated and adopted Risk Management Policy in providing directions in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The handling and dissemination of inside information of the Company are strictly controlled to preserve the confidentiality, including but not limited to the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;
2. Remind employees who are in possession of inside information to be fully conversant with their obligations to preserve the confidentiality;
3. Ensure appropriate confidentiality agreements are in place when the Company enters into significant negotiations or dealings with third party(ies); and
4. Inside information is handled and communicated by designated persons.

The Board and the Senior Management of the Company review the safety measures regularly to ensure that the Company's inside information is properly handled and disseminated. In addition, the Group has engaged an independent professional advisor to review the risk management and internal control systems, as well as the internal audit functions of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. The internal audit department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. It examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Senior Management of the Company. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remedial actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board, through the Audit Committee, had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk management and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules.

Corporate Governance Report

The Board has approved the appointment of an independent professional adviser of the Company to conduct a thorough review of and make recommendations to improve the Company's internal controls and to ensure compliance with Chapter 14 of the Listing Rules. The adviser has identified certain internal control deficiencies and made recommendations for improvement. The Company has commenced and will continue with the implementation of the recommendations.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 42 to 47 of this Annual Report.

During the year ended 31 December 2022, the Group's external auditor provided the following services to the Group:

Type of Services	Service fees RMB'000
Statutory audit services	979
Non-audit services – taxation	–
Total	979

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

The annual general meeting regarding the financial results for the year ended 31 December 2022 (the "AGM") will be held on Thursday, 15 June 2023. The notice of the AGM will be sent to the shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

Convening a special general meeting by shareholders and making proposals at the special general meeting

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at a special general meeting.
- Eligible Shareholders who wish to convene a special general meeting for the purpose of making proposals or moving a resolution at an extraordinary/a special general meeting must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong.
- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene a special general meeting, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the Eligible Shareholder(s) concerned.

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

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post to Unit 2108, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong or by email to 1262 @lbxxgroup.com.

INVESTOR RELATIONS

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

At the annual general meetings of the Company held on 31 May 2013 and 23 June 2022, the shareholders approved the amendments to the bye-laws and adoption of new bye-laws of the Company. Details of the major amendments are set out in the circulars of the Company dated 30 April 2013 and 23 May 2022, respectively.

Investors Communication Policy

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

During the year ended 31 December 2022, the Directors and senior management of the Company participated in numerous investor meetings. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media, if applicable. Based on the foregoing, the Company considers the implementation of the investors' communication policy during the year ended 31 December 2022 was effective.

Disclaimer

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

DIVIDEND POLICY

The company has adopted a dividend policy (the "Dividend Policy") which aims to enable the shareholders to participate in the Company's profit and allow the Company to retain adequate reserves for future growth.

Through a sustainable dividend policy, the Board endeavours to strike a balance between meeting shareholders' expectations and maintaining prudent capital management. Under the Dividend Policy, if the Group records positive net profits and subject to the maintenance of the Group's normal operations and the laws and regulations of the applicable jurisdictions, the Company may declare and pay dividends to the shareholders.

Pursuant to the Dividend Policy, any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the relevant laws. The recommendation of the payment of dividend is subject to the sole discretion of the Board, and any declaration of final dividend of the year will be subject to the approval of the shareholders. The Dividend Policy is subject to review by the Board from time to time and will be amended as appropriate.

Directors' Report

The Board is pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 32 to the consolidated financial statements.

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

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year ended 31 December 2022 and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2022 are provided in the section headed "Chairman's Statement" on pages 6 and 7 and the section headed "Management Discussion and Analysis" on pages 10 to 15 of this Annual Report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of the report of the Directors on pages 40 to 41 of this Annual Report.

An analysis of the Group's performance during the year ended 31 December 2022 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 15 of this Annual Report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" of the report of the Directors on pages 40 to 41 of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 48.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: Nil).

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the shareholders who are entitled to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Monday, 12 June 2023 to Thursday, 15 June 2023 (both dates inclusive), during which period no transfer of shares of the Company (the "Share(s)") will be registered. In order to be eligible to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 pm on Friday, 9 June 2023.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2022 are set out in Note 15 to the consolidated financial statements.

BORROWINGS

Particular of the borrowings of the Group as at 31 December 2022 is set out in Note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the consolidated financial statements.

RESERVES

The movements in the reserves of the Group during the year ended 31 December 2022 are set out on Note 33 of the consolidated financial statements.

As at 31 December 2022, there was no reserves available for distributable under the Bye-laws of the Company.

FINANCIAL SUMMARY

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

DIRECTORS

The Directors during the year ended 31 December 2022 and up to the date of this Annual Report were:

Executive Directors:

Mr. Zheng Yu Huan (*Chairman*)

Mr. Zheng Yu Shuang (*Chief Executive Officer*)

Mr. Zheng Yu Long

Non-Executive Director:

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

Independent Non-Executive Directors:

Mr. Li Biao

Ms. Sun Kam Ching (resigned on 2 September 2022)

Ms. Guo Li (appointed on 2 September 2022)

Mr. Chung Yau Tong

In accordance with bye-law 84(1) of the Company's Bye-law, Mr. Zheng Yu Shuang and Mr. Li Biao shall retire from office as Directors by rotation at the forthcoming AGM, whereas Ms. Guo Li shall retire at the forthcoming AGM pursuant to bye-law 83(2) and 84(2) of the Company's Bye-law. In addition, Mr. Chung Yau Tong has serving the Board as independent non-executive director for more than 9 years. Pursuant to the code provision A.4.3 of Appendix 14 of the Listing Rules, his further appointment should be subject to a separate resolution to be approved by shareholders in the forthcoming AGM. All retiring Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Biographical details of Directors are set out on pages 16 to 18 of this Annual Report.

DIRECTORS' EMOLUMENTS

The emoluments of the Directors are determined with reference to the Director's duties, responsibilities, performance and the results of the Group. Details of the remuneration and contributions to pension schemes of the Directors are set out in Note 27 to the consolidated financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is satisfied with the independent status and considered all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

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

CONNECTED TRANSACTIONS

During the year ended 31 December 2022, the Company entered into the following connected transaction with a connected person of the Company:

- (i) On 31 December 2022, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan facility of RMB60,000,000. As at 31 December 2022, the Company had drawn down RMB41,798,000. The amount is unsecured, repayable on 31 December 2023 and bears fixed interest at 2% per annum.

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

Details of related party transactions of the Group during the year ended 31 December 2022 are disclosed in Note 36 to the consolidated financial statements. These transactions were either exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, or did not fall under the definition of connected transactions or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" above, no other transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted as at 31 December 2022 or at any time during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year ended 31 December 2022.

PERMITTED INDEMNITY PROVISION

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

Such permitted indemnity provision has been in force for the year ended 31 December 2022. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

EQUITY-LINKED AGREEMENTS

Except for the New Share Option Scheme, no equity-linked agreements were entered into by the Group or in existence during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, the respective interests and short positions of the Directors and the chief executive and their associates in the Shares and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director/ Chief Executive	Nature of interest	Number of Shares interested	Approximate percentage of interest in the Company (Note 1)	Note
Zheng Yu Long	Interest of a controlled corporation	610,915,527	45.97%	2
	Beneficial owner	119,935,060	9.02%	3
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	45.97%	2
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	45.97%	2
Li Hung Kong	Interest of a controlled corporation	610,915,527	45.97%	2

Notes:

- (1) The calculation is based on the total number of 1,328,977,000 Shares in issue as at 31 December 2022.
- (2) The 610,915,527 Shares are beneficially owned by Alliance Food And Beverages (Holding) Company Limited ("**Alliance Holding**"), a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the shares held by Alliance Holding for the purpose of the SFO.
- (3) In addition to the 610,915,527 Shares held through Alliance Holding, Zheng Yu Long is also personally and beneficially interested in 119,935,060 Shares.

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

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

Save as disclosed above, as at 31 December 2022, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

On 23 June 2021 (the “**Adoption Date**”), the Company conditionally adopted a new share option scheme (the “**New Share Option Scheme**”) whereby the Board can grant options for the subscription of Shares to any full-time or part-time employees, executives, officers or directors (including independent non-executive directors) of the Company or any of its subsidiaries; and any advisors, consultants, agents, suppliers, customers and distributors who, in the sole opinion of the Board will contribute or have contributed to the Company and/or any of its subsidiaries (the “**Eligible Participants**”) and to provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

To be an Eligible Participant, the overriding principle is that the person must have contributed or will contribute to the Group. The terms of the New Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules, which governs the terms of the share option schemes of listed companies and their subsidiaries. The maximum number of Shares that can be issued according to the New Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate number of the Shares in issue as at the date of the adoption of the New Share Option Scheme (i.e. 132,897,700 Shares), representing 10% of the issued share capital of the Company as at the date of this Annual Report.

The total number of Shares which may be issued upon exercise of all the options granted and yet to be exercised under the New Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the aggregate number of the Shares in issue from time to time. Unless otherwise approved by the shareholders of the Company, the number of Shares that may be granted to a Eligible Participant (including both exercised, cancelled and outstanding options) under the New Share Option Scheme or any other share option scheme adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) in any 12 month period must not exceed 1% of the Shares in issue. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share on the date of grant. Each grantee shall pay a consideration of HK\$1.00 at the time the option is granted.

The New Share Option Scheme shall take effect from the Adoption Date and shall remain effective within a period of 10 years from the Adoption Date. As at the date of this Annual Report, the remaining life of the New Share Option Scheme is approximately 8 years and 2 months.

As at the date of this Annual Report, no options have been granted under the New Share Option Scheme, while the number of options available for grant under the New Share Option Scheme as at 1 January 2022 and 31 December 2022 was 132,897,700.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2022.

SUBSTANTIAL SHAREHOLDERS' IN SHARES AND UNDERLYING SHARES

At 31 December 2022, the following interests of 5% or more of the issued share capital of the Company were required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

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

Notes:

- (1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.
- (2) The calculation is based on the total number of 1,328,977,000 Shares in issue as at 31 December 2022.
- (3) The 610,915,527 Shares are beneficially owned by Alliance Holding, a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2022 which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

Save as disclosed under the section headed "USE OF THE PROCEEDS FOM THE FJ LAND RIGHT DISPOSAL", there was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2022. Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this Annual Report.

USE OF THE PROCEEDS FROM THE DISPOSAL

During the year ended 31 December 2020, the Group had disposed the entire equity interest of an indirect wholly-owned subsidiary of the Company to an independent third party (the "Disposal"). The Disposal was completed on 30 December 2020.

As disclosed in the announcement for the Disposal on 27 July 2020, the net proceeds from the Disposal, after deducting the estimated transaction costs and taxes attributable to the Disposal of approximately RMB60,614,000, are estimated to be approximately RMB227,814,000, of which approximately RMB100,000,000 will be applied to repay the borrowings of the Group, approximately RMB60,000,000 will be applied for the Group's business development and the remaining approximately RMB67,814,000 will be used for the general working capital of the Group.

Up to 31 December 2022, all of the proceeds from the Disposal had been used for the repayment of borrowings, the Group's business development and general working capital of the Group.

USE OF THE PROCEEDS FROM THE FJ LAND RIGHT DISPOSAL

During the year ended 31 December 2022, the Group had completed the disposal of FJ Land Right to the Purchaser ("FJ Land Right Disposal"). Please refer to the circular of the Company dated 24 June 2019 for further information on the FJ Land Right Disposal.

As disclosed in the announcement for the FJ Land Right Disposal on 15 May 2019, the net proceeds from the FJ Land Right Disposal, after deducting the estimated transaction costs and taxes attributable to the FJ Land Right Disposal of approximately RMB10.82 million, are estimated to be approximately RMB209.18 million, of which approximately RMB100.00 million will be applied to repay the borrowings of the Group, approximately RMB50.00 million will be applied for the Group's business development and the remaining approximately RMB59.18 million will be used for the general working capital of the Group.

Up to 31 December 2022, approximately RMB100.0 million, RMB37.4 million and RMB29.7 million of the proceeds from the FJ Land Right Disposal had been used for the repayment of borrowings, the Group's business development and general working capital of the Group, respectively. All the remaining unused net proceeds from the FJ Land Right Disposal will be utilized in accordance with the intended use of proceeds in the coming years.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

As at 31 December 2022, the Group had approximately 1,300 employees. The Group recruited and promoted individual persons according to their strength and development potential. The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the market rates, workload and responsibilities and general economic situation.

FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year ended 31 December 2022 included 3 directors and 2 employees. The aggregated amounts of basic salaries, housing allowances, other allowances and benefits in kind of the five highest paid individuals for the year ended 31 December 2022 was RMB3,602,000. The retirement schemes contributions of the five highest paid individuals for the year ended 31 December 2022 was RMB53,000.

During the year ended 31 December 2022 there was no bonuses paid to or receivable by the five highest paid individuals of the Group which are discretionary or are based on the Company's, the Group's or any subsidiaries of the Group's performance.

LITIGATION AND ARBITRATION

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

SUFFICIENCY OF PUBLIC FLOAT

The Company had maintained a sufficient public float throughout the year ended 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the Group's largest customer and five largest customers accounted for approximately 7.0% (2021: 4.3%) and 24.4% (2021: 16.9%) of the Group's total turnover for the year, respectively.

During the year ended 31 December 2022, the Group's largest supplier and five largest suppliers accounted for approximately 6.4% (2021: 5.9%) and 24.9% (2021: 24.1%) of the Group's total purchases for the year, respectively.

None of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year ended 31 December 2022.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental Protection

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

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

Compliance with Laws and Regulations

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

As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company during the year ended 31 December 2022.

Workplace Quality

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

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

Health and Safety

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

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

Training and Development

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

AUDITORS

The financial statements for the year ended 31 December 2022 have been audited by HLB Hodgson Impey Cheng Limited ("HLB"). A resolution will be proposed in the forthcoming AGM to re-appoint HLB as auditors of the Company.

On behalf of the Board

Labixiaoxin Snacks Group Limited

Zheng Yu Huan

Chairman

Hong Kong, 30 March 2023

Independent Auditors' Report



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

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

TO THE SHAREHOLDERS OF LABIXIAOXIN SNACKS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Labixiaoxin Snacks Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 48 to 110, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB75,328,000 during the year ended 31 December 2022 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately RMB9,503,000. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment on property, plant and equipment</p> <p>Refer to Note 3, 5 and 15 of the consolidated financial statements.</p> <p>As at 31 December 2022, the Group had property, plant and equipment of approximately RMB248,183,000, which mainly comprised land and buildings of approximately RMB107,195,000, and plant and equipment of approximately RMB137,172,000. The management performed an impairment assessment with reference to valuations performed by an independent professional valuer. We focused on this area because the balance of property, plant and equipment was significant which represented about 25.4% of total assets of the Group and the assessment process is complex and highly subjective which based on the selection of appropriate comparables and assumptions.</p>	<p>Our procedures in relation to management's impairment assessment included:</p> <ul style="list-style-type: none"> • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. <p>We found that the assumptions made by management for impairment assessment were supported by the available evidence.</p>

Independent Auditors' Report

Key audit matter

How our audit addressed the key audit matter

Allowance for expected credit losses on trade receivables

Refer to Note 3, 4, 5 and 19 of the consolidated financial statement.

The Group has trade receivables of approximately RMB321,876,000 (net of allowance for expected credit losses). Provision is made for lifetime expected credit losses on trade receivables.

Management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

Our procedures in relation to management's allowance for expected credit losses on trade receivables included:

- Understanding the key controls that the Group has implemented to manage and monitor its credit risk;
- Checking on a sample basis, the ageing profile of the trade receivables as at 31 December 2022 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records and other correspondence with the customers; and
- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used for determining the expected credit losses.

We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the allowance for expected credit losses to be supportable by available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' 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 THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either 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.

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Fong Ka Yiu.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Fong Ka Yiu

Practising Certificate Number: P08080

Hong Kong, 30 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Revenue	6	684,263	648,066
Cost of sales		(440,071)	(423,785)
Gross profit		244,192	224,281
Other income	7	6,915	11,270
Other (loss)/gain, net	8	(21,528)	13,247
Allowance for expected credit losses, net	4	(47,521)	(20,117)
Written-off of property, plant and equipment	10	(1,133)	(2,921)
Selling and distribution expenses		(116,259)	(87,146)
Administrative expenses		(104,987)	(91,128)
Operating (loss)/profit		(40,321)	47,486
Finance income		378	822
Finance costs		(27,728)	(31,312)
Finance costs, net	9	(27,350)	(30,490)
(Loss)/profit before taxation	10	(67,671)	16,996
Taxation	11	(7,657)	(82,200)
Loss and total comprehensive loss for the year		(75,328)	(65,204)
Loss per share attributable to equity holders of the Company (RMB per share)	12		
– Basic and diluted		(0.06)	(0.05)

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

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

Consolidated Statement of Financial Position

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	14	89,280	92,097
Property, plant and equipment	15	248,183	274,263
Deposits for property, plant and equipment	16	15,198	47,595
Deferred tax assets	17	–	7,657
		352,661	421,612
Current assets			
Inventories	18	75,382	67,467
Trade receivables	19	321,876	383,923
Prepayments and other receivables	20	155,516	156,485
Cash and cash equivalents	22	71,876	80,567
		624,650	688,442
Asset classified as held for sale	23	–	180,000
		624,650	868,442
Total assets		977,311	1,290,054
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	26	470,030	470,030
Reserves	33	(142,718)	(67,390)
Total equity		327,312	402,640

Consolidated Statement of Financial Position

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liability			
Deferred tax liabilities	17	15,846	15,846
		15,846	15,846
Current liabilities			
Trade and other payables	24	163,513	342,071
Bank borrowings	25	470,640	529,150
Lease liabilities	21	–	347
		634,153	871,568
Total liabilities		649,999	887,414
Total equity and liabilities		977,311	1,290,054
Net current liabilities		(9,503)	(3,126)
Total assets less current liabilities		343,158	418,486

Approved and authorised for issue by the board of directors on 30 March 2023:

Zheng Yu Huan
Director

Zheng Yu Shuang
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital	Share premium	Merger reserve	Statutory reserves	Share option reserves	Currency translation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note 33(a))	(Note 33(b))	(Note 33(c))			
Balance as at 1 January 2021	470,030	615,656	(87,600)	170,163	5,328	(41)	(705,692)	467,844
Loss and total comprehensive loss for the year	-	-	-	-	-	-	(65,204)	(65,204)
Transfer to statutory reserves	-	-	-	14,343	-	-	(14,343)	-
Lapse of share option (Note 30)	-	-	-	-	(5,328)	-	5,328	-
Balance as at 31 December 2021 and 1 January 2022	470,030	615,656	(87,600)	184,506	-	(41)	(779,911)	402,640
Loss and total comprehensive loss for the year	-	-	-	-	-	-	(75,328)	(75,328)
Balance as at 31 December 2022	470,030	615,656	(87,600)	184,506	-	(41)	(855,239)	327,312

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
(Loss)/profit before taxation		(67,671)	16,996
Adjustments for:			
– Amortisation and depreciation		40,601	43,827
– Allowance for expected credit losses on trade receivables, net	10	47,523	20,047
– (Reversal of allowance)/allowance for expected credit losses on other receivables, net	10	(2)	70
– Loss/(gain) on disposal of asset classified as held for sale	8	20,923	(13,257)
– Written-off of property, plant and equipment	10	1,133	2,921
– Interest income on bank deposits	9	(378)	(822)
– Finance costs	9	27,728	31,312
Operating cash flow before working capital changes		69,857	101,094
– Decrease/(increase) in trade receivables, prepayments and other receivables		15,495	(104,468)
– Increase in inventories		(7,915)	(3,886)
– Decrease in trade and other payables		(61,975)	(103,051)
Cash generated from/(used in) operations		15,462	(110,311)
Income tax paid		–	(24,979)
Net cash generated from/(used in) operating activities		15,462	(135,290)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(5,641)	(19,433)
Deposits paid for property, plant and equipment		(14,799)	(2,140)
Refund of deposits for property, plant and equipment		40,000	–
Decrease in pledged bank deposits		–	40,916
Interest received on bank deposits		378	822
Proceed from deposit of asset classified as held for sales		–	74,000
Proceeds from disposal of assets classified as held for sale		36,000	19,259
Net cash generated from investing activities		55,938	113,424
Cash flows from financing activities			
Proceeds from bank borrowings		444,150	563,450
Repayments of bank borrowings		(502,660)	(676,743)
Proceed from/(repayment of) loan from a director		5,708	(12,208)
Interest paid		(26,933)	(30,549)
Repayment of lease liabilities		(356)	(356)
Net cash used in financing activities		(80,091)	(156,406)
Net decrease in cash and cash equivalents		(8,691)	(178,272)
Cash and cash equivalents as at the beginning of the year		80,567	258,839
Cash and cash equivalents as at the end of the year		71,876	80,567

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in thousands of units of Renminbi (“**RMB’000**”), which is also the functional currency of the Company, unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors of the Company on 30 March 2023.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

Amendment to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “**IASB**”) for the first time, which are mandatorily effective for the Group’s annual periods beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendments to IFRSs in issued but not yet effective

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

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts ¹
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1	Non-current Liabilities with Covenants ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

The directors anticipate that the application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

Going concern basis

The Group incurred a net loss of approximately RMB75,328,000 (2021: approximately RMB65,204,000) for the year ended 31 December 2022. As at 31 December 2022, the Group's current liabilities exceeded its current assets by approximately RMB9,503,000 (2021: approximately RMB3,126,000).

The directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of twelve months from 31 December 2022. They are of the opinion that, taking into account the plans and measures as stated below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

(1) *Financial support from substantial shareholder*

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB41,798,000 loan from a loan facility of RMB60,000,000 to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from the date of this report.

(2) *Alternative sources of external funding*

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

(3) *Cost control measurements*

The Group has taken measures to tighten cost controls over production costs and expenses with the aim of attaining profitable and positive cash flow operations.

(4) *Business reorganisation*

The Group may consider to dispose non-core business and/or financial assets if required.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. The effect of these adjustments has not been reflected in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of consolidated financial statements (Continued)

The consolidated financial statements have been prepared on the historical cost basis except for asset classified as held for sale that are measured at the lower of their previous carrying amount and fair value less costs to sell at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Significant accounting policies

Basis of consolidation

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including reattribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets, and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") except for transactions and events within the scope of IAS 37 or IFRIC 21, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange difference arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

	Useful lives
Buildings	20 years
Plant and equipment	5 – 10 years
Motor vehicles	5 years
Leasehold improvements	5 years

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use assets includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19 related rent concessions in which the Group applied the practical expedient.

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains one or more additional lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component. The associated non-lease components are included in the respective lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Non-current assets held for sale

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average cost basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

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

Financial assets

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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

A financial asset is classified as held for trading if:

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

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

Amortised cost and interest income

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

(ii) Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, deposits, other receivables and cash and bank balances) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(ii) Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

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

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(a) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(ii) *Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)*

(a) **Significant increase in credit risk** (Continued)

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

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

(b) **Definition of default**

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

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

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

(c) **Credit-impaired financial assets**

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(ii) Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(d) Write-off policy

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

(e) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(iii) Derecognition of financial assets

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

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

Financial liabilities and equity

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

(iv) Financial liabilities at amortised cost

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

(v) Derecognition of financial liabilities

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

- (i) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (ii) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

Share capital

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/(loss) before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Employee benefits

Retirement benefit costs

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payments

Equity-settled share-based payments transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserves). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserves. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserves will be transferred to share capital (nominal value) and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserves will be transferred to accumulated losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

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

Revenue from the processing and sales of jelly products, confectionary products, beverages products and other snacks products is recognised when control of the products has transferred, being at the point the products are delivered to the customer and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Dividend distribution

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of the person or that person's spouse or domestic partner.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, cash and cash equivalents, trade payables, accrued charges and other payables, bank borrowings and lease liabilities. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets measured at amortised cost	438,322	518,654
Financial liabilities		
Amortised costs	634,153	871,568

Financial risk factors

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

(a) Market risk

(i) Currency risk

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

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

(ii) Cash flow and fair value interest rate risks

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

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

As at 31 December 2022, if the interest rate on variable-rate borrowings had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year ended 31 December 2022 would have been approximately RMB2,177,000 lower/higher (2021 pre-tax profit: RMB1,874,000 lower/higher), mainly as a result of higher/lower interest expense on borrowings with floating interest rates. The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) *Credit risk and impairment assessment*

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

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2022 and 2021.

In respect of the deposits, the credit quality has been assessed with reference to historical information about the counterparties default rate and financial position of the counterparties. The Group recognised the allowance for expected credit losses by assessing the credit risk characteristics of other receivables, discount rate and the likelihood of recovery and considering the prevailing economic conditions. The directors of the Company consider that the credit risk of the deposits are low and no provision was made as of 31 December 2022 and 2021.

For the other receivables, the management makes periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL.

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

As at 31 December 2022 and 2021, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessment on the recoverability of the trade receivables by using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of various customer segments with similar financial strength and any disputes with the debtors. The calculation reflects the probability of default, loss given default rate, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Majority of the Group's revenue is received from individual customers in relation to sales of jelly products, confectionery products and beverages products. The Group's trade receivables arise mainly from sales of jelly products, confectionery products and beverages product. As at the end of the year, the top five debtors and the largest debtor accounted for approximately 15.90% and 4.96% (2021: 9.37% and 2.18%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivables disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit risk and impairment assessment (Continued)

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 180 days (2021: 180 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

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

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2022 and 2021:

At 31 December 2022	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Less than 30 days	0.71	63,572	451
31 to 90 days	2.56	70,388	1,802
91 to 180 days	3.88	112,460	4,367
Over 180 days	6.40	87,689	5,613
Individual assessment	100.00	77,039	77,039
		411,148	89,272
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At 31 December 2021	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Less than 30 days	0.75	65,091	486
31 to 90 days	2.50	43,262	1,083
91 to 180 days	4.01	70,560	2,832
Over 180 days	15.14	246,759	37,348
		425,672	41,749

At 31 December 2022, the ECL of debtors with gross carrying amount of approximately RMB334,109,000 (2021: RMB425,672,000) was assessed by using provision matrix which was shown in the following table for the year ended 31 December 2022. Debtors with gross carrying amount of approximately RMB77,039,000 as at 31 December 2022 was long overdue with significant amounts, known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit risk and impairment assessment (Continued)

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

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2021	21,702	–	21,702
Allowance for expected credit losses recognised	20,047	–	20,047
As at 31 December 2021 and 1 January 2022	41,749	–	41,749
Transfer (Reversal of allowance)/allowance for expected credit losses recognised, net	(14,589) (14,927)	14,589 62,450	– 47,523
As at 31 December 2022	12,233	77,039	89,272

The following table shows the movement in 12m-ECL that has been recognised for other receivables:

	12m-ECL RMB'000
As at 1 January 2021	155
Allowance for expected credit losses recognised	70
As at 31 December 2021 and 1 January 2022	225
Reversal of allowance for expected credit losses recognised, net	(2)
As at 31 December 2022	223

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 180 days past due.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(c) Liquidity risk

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

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

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

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
As at 31 December 2022					
Trade payables	–	27,912	–	27,912	27,912
Accruals and other payables	–	93,803	–	93,803	93,803
Loan from a director	2.00	42,634	–	42,634	41,798
Bank borrowings	5.54	496,703	–	496,703	470,640
		661,052	–	661,052	634,153
As at 31 December 2021					
Trade payables	–	21,654	–	21,654	21,654
Accruals and other payables	–	284,327	–	284,327	284,327
Loan from a director	2.00	36,811	–	36,811	36,090
Bank borrowings	5.23	541,133	–	541,133	529,150
Lease liabilities	5.13	356	–	356	347
		884,281	–	884,281	871,568

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "On demand or within one year" time band in the above maturity analysis. As at 31 December 2022, the aggregate carrying amounts of these bank loans amounted to RMB196,990,000. Taking into account the Group's financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid 2-3 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2022	10,449	10,449	196,768	217,666	196,990

Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings, lease liabilities and loan from a director divided by total equity as shown in the consolidated statement of financial position.

The gearing ratios at 31 December 2022 and 2021 were as follows:

	2022 RMB'000	2021 RMB'000
Total borrowings	512,438	565,587
Total equity	327,312	402,640
Gearing ratio	156.6%	140.5%

Fair value estimation

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Provision of allowance for expected credit losses for trade receivables

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

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in Note 4 and 19.

(b) Current taxes and deferred taxes

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset including right-of-use assets, the Group estimates the recoverable amount of the cash generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions in the Group's manufacturing and sales of jelly, confectionary, beverage and other snacks products operation.

As at 31 December 2022, the carrying amounts of property, plant and equipment and right-of-use assets subject to impairment assessment were approximately RMB248,183,000 and RMB89,280,000 in Note 15 and 14 respectively.

6. SEGMENT INFORMATION

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

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

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

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

The CODM assesses the performance of the operating segments based on measure of segment results without allocation of corporate income (included the other income and other gain) and corporate expenses including the administrative expense and other loss. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements. The Company's executive directors make decisions based on the operating results of each segment and review reports on the ageing analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of operating segments. Therefore, only the segment revenue and segment results are presented.

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

Geographic information

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. SEGMENT INFORMATION (Continued)

During the years ended 31 December 2022 and 2021, none of the individual customer accounted for 10% or more of the Group's external revenue. As at 31 December 2022 and 2021, majority of the Group's assets, liabilities and capital expenditure were located or utilised in the PRC.

Segment revenue and results

	Year ended 31 December 2022				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	592,196	72,992	5,125	13,950	684,263
Cost of sales	(374,863)	(50,619)	(7,174)	(7,415)	(440,071)
Gross profit/(loss)	217,333	22,373	(2,049)	6,535	244,192
Results of reportable segments	41,263	5,237	(10,997)	3,173	38,676

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

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

	2022 RMB'000
Results of reportable segments	38,676
Corporate income	6,915
Corporate expenses	(85,912)
Operating loss	(40,321)
Finance income	378
Finance costs	(27,728)
Loss before taxation	(67,671)
Taxation	(7,657)
Loss for the year	(75,328)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2022				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Capital expenditure	12,837	–	–	–	12,837
Depreciation of right-of-use assets	1,881	–	936	–	2,817
Depreciation of property, plant and equipment	31,381	–	6,226	177	37,784
Written-off of property, plant and equipment	647	–	486	–	1,133
Allowance for expected credit losses on trade receivables, net	41,107	5,085	380	951	47,523

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

	Year ended 31 December 2021				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	517,363	97,427	3,039	30,237	648,066
Cost of sales	(341,551)	(61,339)	(2,459)	(18,436)	(423,785)
Gross profit	175,812	36,088	580	11,801	224,281
Results of reportable segments	33,738	18,282	(6,169)	5,276	51,127

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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

	2021 RMB'000
Results of reportable segments	51,127
Corporate income	24,517
Corporate expenses	(28,158)
Operating profit	47,486
Finance income	822
Finance costs	(31,312)
Profit before taxation	16,996
Taxation	(82,200)
Loss for the year	(65,204)

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2021				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Capital expenditure	20,108	–	–	–	20,108
Depreciation of right-of-use assets	1,880	–	936	–	2,816
Depreciation of property, plant and equipment	34,864	–	5,402	745	41,011
Written-off of property, plant and equipment	2,921	–	–	–	2,921
Allowance for expected credit losses on trade receivables	16,961	2,283	94	709	20,047

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

7. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Rental income	2,884	3,162
Sundry income	1,844	4,206
Government grants (<i>Note</i>)	2,187	3,902
	6,915	11,270

Note: During the year ended 31 December 2022, the Group recognised government grants which comprise Covid-19-related subsidies of approximately RMB2,089,000 (2021: RMB3,902,000) provided by the PRC government and approximately RMB98,000 of Employment Support Scheme (2021: Nil) provided by the Hong Kong Government.

8. OTHER (LOSS)/GAIN, NET

	2022 RMB'000	2021 RMB'000
(Loss)/gain on disposal of asset classified as held for sale, net (<i>Note 23</i>)	(20,923)	13,257
Net exchange loss	(439)	(114)
(Loss)/gain on sales of raw materials and scrap materials	(166)	104
	(21,528)	13,247

9. FINANCE COSTS, NET

	2022 RMB'000	2021 RMB'000
Finance costs:		
Interest expenses on bank borrowings	(26,933)	(30,549)
Interest expenses on loan from a director	(786)	(735)
Interest expenses on lease liabilities	(9)	(28)
Total finance costs	(27,728)	(31,312)
Finance income:		
Interest income on bank deposits	378	822
Total finance income	378	822
Finance costs, net	(27,350)	(30,490)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

10. (LOSS)/PROFIT BEFORE TAXATION

	2022 RMB'000	2021 RMB'000
The Group's (loss)/profit before taxation is arrived at after charging/(crediting):		
Auditors' remuneration		
– Audit service	979	1,052
Staff costs (including directors' remuneration)		
– Salaries and bonuses	95,906	95,449
– Employer's contribution to defined contribution plans (Note 29)	4,689	3,863
Advertising and promotion expenses	92,034	48,695
Depreciation of right-of-use assets (Note 14)	2,817	2,816
Depreciation of property, plant and equipment (Note 15)	37,784	41,011
Allowance for expected credit losses on trade receivables, net (Note 4)	47,523	20,047
(Reversal of)/allowance for expected credit losses on other receivables, net (Note 4)	(2)	70
Cost of inventories sold	386,264	340,339
Written-off of property, plant and equipment	1,133	2,921
Freight and transportation expenses	6,119	4,851

11. TAXATION

	2022 RMB'000	2021 RMB'000
Current income tax – PRC Enterprise Income Tax	–	4,467
Deferred tax, net (Note 17)	7,657	77,733
	7,657	82,200

Hong Kong Profits Tax, Bermuda and BVI Income Tax

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

No provision of Hong Kong Profits Tax, Bermuda and BVI Income Tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the years ended 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

11. TAXATION (Continued)

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at the rate of 25% (2021: 25%) on taxable profits of the Group's PRC subsidiaries during the year.

Reconciliation between profit before taxation and tax charge is as follows:

	2022 RMB'000	2021 RMB'000
(Loss)/profit before taxation	(67,671)	16,996
Tax calculated at PRC applicable income tax rate of 25% (2021: 25%)	(16,918)	4,249
Effect of different tax rates of group companies operating in other jurisdictions	(200)	(306)
Tax effect of expenses and losses not deductible for tax purpose	27,741	75,844
Tax effect of income not taxable for tax purpose	(3,046)	(2,205)
Tax effect of tax losses not recognised	80	151
Under provision in prior year	–	4,467
Tax charge for the year	7,657	82,200

12. LOSS PER SHARE

(a) Basic loss per share

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

	2022	2021
Net loss attributable to the equity holders of the Company (RMB'000)	(75,328)	(65,204)
Weighted average number of ordinary shares in issue for basic loss per share ('000)	1,328,977	1,328,977
Basic loss per share (RMB per share)	(0.06)	(0.05)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

12. LOSS PER SHARE (Continued)

(b) Diluted loss per share

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

13. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

14. RIGHT-OF-USE ASSETS

	Leased properties RMB'000	Land use right RMB'000	Total RMB'000
Cost:			
As at 1 January 2021	–	123,938	123,938
Addition	675	–	675
As at 31 December 2021, 1 January 2022 and 31 December 2022	675	123,938	124,613
Accumulated depreciation:			
As at 1 January 2021	–	29,700	29,700
Charge for the year	337	2,479	2,816
As at 31 December 2021 and 1 January 2022	337	32,179	32,516
Charge for the year	338	2,479	2,817
As at 31 December 2022	675	34,658	35,333
Net book value:			
As at 31 December 2022	–	89,280	89,280
As at 31 December 2021	338	91,759	92,097

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

The land use right with carrying value of approximately RMB89,280,000 (2021: approximately RMB91,759,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction- in-progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2021	818,663	727,395	13,804	820	1,944	1,562,626
Additions	1,093	10,939	214	–	7,187	19,433
Transfer	–	2,463	–	–	(2,463)	–
Written-off	–	(25,594)	(3,024)	–	–	(28,618)
As at 31 December 2021 and 1 January 2022	819,756	715,203	10,994	820	6,668	1,553,441
Additions	857	10,127	252	–	1,601	12,837
Transfer	5,705	–	–	–	(5,705)	–
Written-off	–	(669)	(81)	–	(485)	(1,235)
As at 31 December 2022	826,318	724,661	11,165	820	2,079	1,565,043
Accumulated depreciation and impairment:						
As at 1 January 2021	683,661	567,565	11,818	820	–	1,263,864
Depreciation charge	18,286	22,530	195	–	–	41,011
Written-off	–	(22,976)	(2,721)	–	–	(25,697)
As at 31 December 2021 and 1 January 2022	701,947	567,119	9,292	820	–	1,279,178
Depreciation charge	17,176	20,399	209	–	–	37,784
Written-off	–	(29)	(73)	–	–	(102)
As at 31 December 2022	719,123	587,489	9,428	820	–	1,316,860
Net book value:						
As at 31 December 2022	107,195	137,172	1,737	–	2,079	248,183
As at 31 December 2021	117,809	148,084	1,702	–	6,668	274,263

- (i) The buildings with carrying values of approximately RMB107,195,000 (2021: RMB63,989,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

16. DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

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

17. DEFERRED TAX ASSETS/LIABILITIES

Deferred 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 tax relate to the same fiscal authority.

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

Deferred tax assets	Accrued	Tax losses	Total
	expenses		
	RMB'000	RMB'000	RMB'000
As at 1 January 2021	10,055	75,335	85,390
Debited to the consolidated statement of profit or loss and other comprehensive income (<i>Note 11</i>)	(2,398)	(75,335)	(77,733)
As at 31 December 2021 and 1 January 2022	7,657	–	7,657
Debited to the consolidated statement of profit or loss and other comprehensive income (<i>Note 11</i>)	(7,657)	–	(7,657)
As at 31 December 2022	–	–	–

At the end of the reporting period, the Group has unused tax losses of approximately RMB143,594,000 (2021: RMB582,938,000) available for offset against future profits that will fully expire in 2027. No deferred tax asset has been recognised in respect of the unused tax losses of approximately RMB143,594,000 (2021: RMB582,938,000) due to the unpredictability of future profit streams.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

17. DEFERRED TAX ASSETS/LIABILITIES (Continued)

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

Deferred tax liabilities	Withholding income tax RMB'000
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	15,846

As at 31 December 2022, deferred tax assets are recognised for accrued expenses and tax losses, to the extent that realisation of the related tax benefits through future taxable profits is probable which are calculated in full on temporary differences under the liability method using principal tax rates of 25% (2021: 25%).

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

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

As at 31 December 2022, there are temporary differences relating to the retained earnings of the Group's PRC subsidiaries amounted to approximately RMB401,113,000 (2021: RMB583,618,000). Deferred tax liabilities of approximately RMB23,584,000 (2021: RMB35,120,000), have not been recognised in respect of the tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these PRC subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	48,790	42,759
Finished goods	26,592	24,708
	75,382	67,467

19. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	411,148	425,672
Less: Allowance for expected credit losses (Note 4)	(89,272)	(41,749)
	321,876	383,923

As at 1 January 2021, trade receivables from contracts with customers (net of allowance for expected credit loss) of approximately RMB297,633,000.

For the year ended 31 December 2022, the Group's revenue are generally on credit term of 180 days (2021: 180 days). As at 31 December 2022 and 2021, the ageing analysis of trade receivables, based on invoice date, and net of allowance for expected credit losses, is as follows:

	2022 RMB'000	2021 RMB'000
Less than 30 days	63,121	64,605
31 days to 90 days	68,586	42,179
91 days to 180 days	108,093	67,728
Over 180 days	82,076	209,411
	321,876	383,923

Details of allowance for expected credit losses on trade receivables for the years ended 31 December 2022 and 2021 are set out in Note 4.

Included in the above allowance for expected credit losses on trade receivables is approximately RMB89,272,000 (2021: RMB41,749,000). The individually impaired trade receivable relates to consumers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The carrying amounts of trade receivables approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20. PREPAYMENTS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Prepayments	110,946	102,321
Other receivables	44,793	54,389
	155,739	156,710
Less: Allowance for expected credit losses	(223)	(225)
	155,516	156,485

As at 31 December 2022, prepayments mainly comprise of deposit paid for purchase of raw material of approximately RMB110,946,000 (2021: RMB102,321,000).

As at 31 December 2022, other receivables mainly comprise of value-added tax receivables of approximately RMB23,033,000 (2021: RMB30,101,000).

Details of allowance for expected credit losses on other receivables for the years ended 31 December 2022 and 2021 are set out in Note 4.

21. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Lease liabilities payables:		
– Within one year	–	347
Amount due for settlement within 12 months shown under current liabilities	–	(347)
	–	–

The weighted average incremental borrowing rate applied to lease liabilities was 5.13%.

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For the year ended 31 December 2022

22. CASH AND CASH EQUIVALENTS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	71,876	80,567

- (a) The Group's cash and cash equivalents as at 31 December 2022 and 2021 are denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
RMB	70,951	79,780
HKD	923	785
USD	2	2
	71,876	80,567

Cash and cash equivalents of the Group of approximately RMB70,951,000 (2021: RMB79,780,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(b) Reconciliation of liabilities arising from financing activities

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

	Bank borrowings RMB'000 (Note 25)	Loan from a director RMB'000 (Note 36(b))	Accrued interest payable RMB'000	Lease liabilities RMB'000 (Note 21)	Total RMB'000
As at 1 January 2021	642,443	48,298	2,564	-	693,305
Changes from financing activities:					
Proceeds from bank borrowings	563,450	-	-	-	563,450
Repayments of bank borrowings	(676,743)	-	-	-	(676,743)
Repayment of loan from a director	-	(12,208)	-	-	(12,208)
Repayment of lease liabilities	-	-	-	(356)	(356)
Interest paid	(30,549)	-	-	-	(30,549)
Total changes from financing cash flows	(143,842)	(12,208)	-	(356)	(156,406)
Other changes:					
New leases entered	-	-	-	675	675
Interest expenses	30,549	-	735	28	31,312

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22. CASH AND CASH EQUIVALENTS (Continued)

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

	Bank borrowings RMB'000 (Note 25)	Loan from a director RMB'000 (Note 36(b))	Accrued interest payable RMB'000	Lease liabilities RMB'000 (Note 21)	Total RMB'000
As at 31 December 2021 and 1 January 2022	529,150	36,090	3,299	347	568,886
Changes from financing activities:					
Proceeds from bank borrowings	444,150	–	–	–	444,150
Repayments of bank borrowings	(502,660)	–	–	–	(502,660)
Proceeds from loan from a director	–	5,708	–	–	5,708
Repayment of lease liabilities	–	–	–	(356)	(356)
Interest paid	(26,933)	–	–	–	(26,933)
Total changes from financing cash flows	(85,443)	5,708	–	(356)	(80,091)
Other changes:					
Interest expenses	26,933	–	786	9	27,728
As at 31 December 2022	470,640	41,798	4,085	–	516,523

23. ASSET CLASSIFIED AS HELD FOR SALE

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

Pursuant to the Extension Announcement dated on 31 December 2021, as additional time is required by the Purchaser and Vendor for the fulfilment of the conditions precedent to the Transfer Agreement, the long stop date shall be further extended to 30 June 2022.

The Purchaser had fully settled the consideration of RMB180,000,000 in accordance with the Transfer Agreement and Jinjiang Construction had fully refunded the RMB40,000,000 land deposit to the Vendor. All the conditions precedent to the Transfer Agreement had been fulfilled, and the completion took place on 6 May 2022. Upon completion, the Vendor ceased to have any interest in the FJ Land Right.

After taking into account the estimated transaction costs directly attributable to the completion of disposal, a loss on disposal of asset classified as held for sale of RMB20,923,000 was recorded during the year ended 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

23. ASSET CLASSIFIED AS HELD FOR SALE (Continued)

- (b) On 10 November 2020, an indirect wholly-owned subsidiary of the Company (the "Vendor"), entered into the first provisional agreement (the "First Provisional Agreement") with first purchaser (the "First Purchaser"), pursuant to which the Vendor has agreed to sell, and the First Purchaser has agreed to purchase, the first property (the "First Property") at a consideration of HK\$11,500,000 (equivalent to approximately RMB10,000,000); and the Vendor entered into the second provisional agreement (the "Second Provisional Agreement") with the second purchaser (the "Second Purchaser"), pursuant to which the Vendor has agreed to sell, and the Second Purchaser has agreed to purchase, the second property (the "Second Property") at a consideration of HK\$11,500,000 (equivalent to approximately RMB10,000,000). The disposal transactions have been completed on 29 January 2021 and the gain on disposal of asset classified as held for sale of amount RMB13,257,000 was recognised during the year ended 31 December 2021. For more details, please refer to the announcement of the Company dated 10 November 2020.

24. TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	27,912	21,654
Accrued expenses	8,759	35,341
Directors' fees and emoluments payable	20,612	18,268
Loan from a director (Note (ii))	41,798	36,090
Other payables and sundry creditors (Note (i) & (iii))	64,432	230,718
	163,513	342,071

Note:

- (i) As at 31 December 2022, other payables included interest payable of approximately RMB4,085,000 (2021: RMB3,299,000) due to a director.
- (ii) As at 31 December 2022, the Company has drawn down an aggregate amount of approximately RMB41,798,000 (2021: RMB36,090,000) from a loan facility of RMB60,000,000 (2021: RMB60,000,000) entered with Mr. Zheng Yu Long, an executive director of the Company. The amount is unsecured, repayable within 12 months and bears fixed interest at 2% per annum.
- (iii) As at 31 December 2021, the Company received RMB144,000,000 deposit of the assets classified as held for sale from the Purchaser in accordance with the terms of the Transfer Agreement.

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For the year ended 31 December 2022

24. TRADE AND OTHER PAYABLES (Continued)

The credit periods granted by suppliers generally range from 30 to 60 days (2021: 30 to 60 days). The ageing analysis of trade payables based on invoice date is as follows:

	2022 RMB'000	2021 RMB'000
Less than 30 days	19,092	14,450
31 days to 90 days	7,250	5,362
Over 90 days	1,570	1,842
	27,912	21,654

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

25. BANK BORROWINGS

	2022 RMB'000	2021 RMB'000
Secured bank borrowings	470,640	468,200
Unsecured bank borrowings	–	60,950
Total bank borrowings	470,640	529,150

Carrying amount of bank borrowings wholly repayable:

	2022 RMB'000	2021 RMB'000
On demand or within 1 year	470,640	529,150

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25. BANK BORROWINGS (Continued)

The exposure of the Group's bank borrowings are as follows:

	2022 RMB'000	2021 RMB'000
Fixed-rate borrowings	273,650	351,650
Variable-rate borrowings	196,990	177,500
	470,640	529,150

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

	2022 RMB'000	2021 RMB'000
RMB	470,640	529,150

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2022	2021
Fixed-rate borrowings	4.35% to 6.80%	4.30% to 6.80%
Variable-rate borrowings	5.07% to 5.67%	5.17% to 6.04%

The Group's variable-rate borrowings carry interest at loan prime rate (2021: loan prime rate). Interest is reset every month to 12 months. (2021: every month to 6 months).

As at 31 December 2022, the secured borrowings were mainly secured by land use right and land and buildings of the Group which set out in Note 14 and Note 15 respectively, the corporate guarantee between the fellow subsidiaries and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan, Mr. Zheng Yu Long directors of the Company, the wife of Mr. Zheng Yu Shuang and the customer of the Group.

26. SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital

	Number of shares '000	Share capital USD'000
The Company		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 (ordinary share of USD0.05 each (2021: USD0.05))	5,000,000	250,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

26. SHARE CAPITAL AND SHARE PREMIUM (Continued)

Issued share capital

	Number of shares '000	Amount		Total share capital and share premium RMB'000
		Share capital	Share premium	
		RMB'000	RMB'000	
The Company				
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 (ordinary share of USD0.05 each (2021: USD0.05))	1,328,977	470,030	615,656	1,085,686

27. DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS

The emolument of directors and chief executive for the year ended 31 December 2022, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of directors	Fee RMB'000	Salaries RMB'000	Other benefits RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive directors						
Mr. Zheng Yu Huan	-	800	-	-	15	815
Mr. Zheng Yu Shuang (<i>Note (i)</i>)	-	800	-	-	-	800
Mr. Zheng Yu Long	-	800	-	-	15	815
Non-executive director						
Mr. Li Hung Kong	196	-	-	-	-	196
Independent non-executive directors						
Mr. Li Biao	98	-	-	-	-	98
Ms. Sun Kam Ching (<i>resigned on 2 September 2022</i>)	66	-	-	-	-	66
Mr. Chung Yau Tong	196	-	-	-	-	196
Mr. Guo Li (<i>appointed on 2 September 2022</i>)	32	-	-	-	-	32
	588	2,400	-	-	30	3,018

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

27. DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS (Continued)

The emolument of directors and chief executive for the year ended 31 December 2021, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of directors	Fee RMB'000	Salaries RMB'000	Other benefits RMB'000	Discretionary bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive directors						
Mr. Zheng Yu Huan	–	800	–	–	15	815
Mr. Zheng Yu Shuang (Note (i))	–	800	–	–	–	800
Mr. Zheng Yu Long	–	800	–	–	15	815
Non-executive director						
Mr. Li Hung Kong	202	–	–	–	–	202
Independent non-executive directors						
Mr. Li Biao	101	–	–	–	–	101
Ms. Sun Kam Ching	101	–	–	–	–	101
Mr. Chung Yau Tong	202	–	–	–	–	202
	606	2,400	–	–	30	3,036

Notes:

- (i) Mr. Zheng Yu Shuang is the Chief Executive Officer of the Group.
- (ii) During the years ended 31 December 2022 and 2021, none of the directors and chief executive of the Company waived or agreed to waive any emoluments.
- (iii) During the years ended 31 December 2022 and 2021, no emoluments have been paid to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

28. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2022 included 3 (2021: 3) directors, whose emoluments are set out in Note 27. Details of the emoluments payable to the remaining 2 (2021: 2) highest paid employees, who are neither a director nor chief executive of the Company, during the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries	1,202	1,593
Retirement benefit scheme contributions	23	15
	1,225	1,608

The emoluments of the remaining 2 (2021: 2) highest paid employees fell within the following bands:

	Number of individuals	
	2022	2021
Nil – HK\$1,000,000 (equivalent to Nil – RMB900,000)	1	1
HK\$1,000,001 – HK\$1,500,000 (equivalent to RMB900,001 – RMB1,350,000)	1	1

No bonus was paid or receivable by directors or five highest paid employees after considering the Group's operations and financial performance during the year (2021:Nil).

During the years ended 31 December 2022 and 2021, none of the five highest paid employees waived or agreed to waive any emoluments.

During the years ended 31 December 2022 and 2021, no emoluments have been paid to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

29. EMPLOYEE RETIREMENT BENEFITS

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

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

For the years ended 31 December 2022 and 2021, there was no forfeiture of retirement benefits schemes contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) in the Group. As at 31 December 2022 and 2021, no forfeited contribution under the retirement benefits schemes of the Group is available to reduce the contribution payable in future years.

For the year ended 31 December 2022, the Group's retirement plan contributions amounted to approximately RMB4,689,000 (2021: RMB3,863,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

30. SHARE BASED PAYMENTS

Share Option Scheme adopted on 23 September 2011 (“Old Share Option Scheme”)

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

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

Note:

The Share Options 2016 expired on 14 November 2021, and all of them lapsed on the same date. The amount previously recognised in share option reserve was transferred to accumulated losses during the year ended 31 December 2021.

None of the options granted as stated above were granted to a director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them. Following the termination of the Old Share Option Scheme on 22 September 2021 no further options were granted under the Old Share Option Scheme.

Movement of the share options during the years ended 31 December 2021 is as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of ordinary shares subject to share options granted under the share option scheme					
					Outstanding as at 1 January 2021	Granted during the year ended 31 December 2021	Exercised during the year ended 31 December 2021	Lapsed during the year ended 31 December 2021	Outstanding as at 31 December 2021	
Employee	14 November 2016	Share Option 2016	Immediately	15 November 2016 to 14 November 2021	0.47	30,000,000	-	-	(30,000,000)	-
				Total		30,000,000	-	-	(30,000,000)	-
				Exercisable at the end of the year						-
				Weighted average exercise price (HK\$)		0.47	N/A	N/A	N/A	N/A

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

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

Share Option Scheme adopted on 23 June 2021 (“Share Option Scheme 2021”)

Details of the Share Option Scheme 2021 are set out in the section headed “Share Option Scheme” under the Directors’ Report set out in this annual report.

No share options were outstanding as at 31 December 2022 and 2021. Other than as disclosed above, no share-based compensation expense was recognised for the years ended 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements

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31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	134,206	134,206
Current assets		
Amounts due from subsidiaries	17,761	21,808
Prepayments and other receivables	170	468
Cash and cash equivalents	778	737
	18,709	23,013
Total assets	152,915	157,219
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	470,030	470,030
Share premium	615,656	615,656
Reserves	(1,006,532)	(995,311)
Total equity	79,154	90,375
LIABILITIES		
Current liabilities		
Amount due to a subsidiary	5,008	5,008
Other payables	68,753	61,836
	73,761	66,844
Total liabilities	73,761	66,844
Total equity and liabilities	152,915	157,219
Net current liabilities	(55,052)	(43,831)
Total assets less current liabilities	79,154	90,375

The Company's statement of financial position was approved and authorised by the board of directors on 30 March 2023.

Zheng Yu Huan
Director

Zheng Yu Shuang
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. PARTICULARS OF SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2022 and 2021:

Name of subsidiary	Country of business/ incorporation	Particulars of issued and fully paid ordinary share capital/registered capital	Percentage of equity interest attributable to the Group		Principal activities
			2022	2021	
Directly held					
Timeluck International Limited	BVI	USD10,002	100%	100%	Investment holding
Labixiaoxin Holdings Company Limited	Hong Kong	HK\$1	100%	100%	Investment holding
Labixiaoxin Investments Company Limited	Hong Kong	HK\$1	100%	100%	Investment holding
Indirectly held					
Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.	PRC [#]	RMB213,880,000	100%	100%	Manufacture and sale of food and beverages products
Labixiaoxin (Sichuan) Co., Ltd.	PRC [#]	RMB270,000,000	100%	100%	Manufacture and sale of food and beverages products
Labixiaoxin (Anhui) Co., Ltd.	PRC [#]	RMB180,000,000	100%	100%	Manufacture and sale of food and beverages products
Labixiaoxin (Tianjin) Co., Ltd.*	PRC [#]	RMB406,194,293	–	100%	Manufacture and sale of food and beverages products
Xiamen Labi Electronic Commerce Co., Ltd.	PRC [#]	RMB5,000,000	100%	100%	Internet sale of food and beverages products

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

* The company was deregistered during the year ended 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

33. RESERVES

(a) Merger reserve

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

(b) Statutory reserves

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

(c) Share option reserves

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

34. RESERVES OF THE COMPANY

	Share option reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance as at 1 January 2021	5,328	(881,181)	(875,853)
Loss for the year	–	(119,458)	(119,458)
Lapse of share option (<i>Note 30</i>)	(5,328)	5,328	–
Balance as at 31 December 2021 and 1 January 2022	–	(995,311)	(995,311)
Loss for the year	–	(11,221)	(11,221)
Balance as at 31 December 2022	–	(1,006,532)	(1,006,532)

Notes to the Consolidated Financial Statements

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35. COMMITMENTS

Capital commitments

As at 31 December 2022, the Group had the following capital commitments in respect of a right-of-use asset:

	2022 RMB'000	2021 RMB'000
Authorised but not contracted for a right-of-use asset	–	50,000

36. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel compensation

	2022 RMB'000	2021 RMB'000
Directors' fee	588	606
Salaries and other employee benefits	2,430	2,430
	3,018	3,036

(b) Loan from a director

As at 31 December 2022, the Company has drawn down an aggregate amount of approximately RMB41,798,000 (2021: RMB36,090,000) from a loan facility of RMB60,000,000 (2021: RMB60,000,000) entered with Mr. Zheng Yu Long, an executive director of the Company. The amount is unsecured, repayable within 12 months and bears fixed interest at 2% per annum.

(c) Personal guarantee provided by directors

Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, have provided personal guarantee to bank borrowings of the Group of approximately RMB311,690,000 (2021: RMB345,983,000) (Note 25). The bank borrowings are repayable within one year.

37. EVENTS AFTER THE REPORTING PERIOD

These were no significant events that have accrued subsequent to the end of the reporting period.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current year's presentation.

39. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2023.