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Qinqin Foodstuffs Group (Cayman) Company Limited
親親食品集團(開曼)股份有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1583)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS			
KEY FINANCIAL PERFORMANCE			
Consolidated Income Statement	For the year ended 31 December		
	2019	2018	% of change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	690,852	761,819	-9.3%
Operating profit	76,618	3,435	2,130.5%
Profit attributable to shareholders	81,187	32,760	147.8%
Earnings per share			
— Basic	RMB 0.125	RMB0.058	
— Diluted	RMB 0.125	RMB0.058	
Consolidated Balance Sheet			
	As at 31 December		
	2019	2018	% of change
	<i>RMB'000</i>	<i>RMB'000</i>	
Cash and cash equivalents	732,033	566,085	29.3%
Bank borrowing	NIL	NIL	N/A
Net current assets	661,494	520,946	27.0%
Net assets	1,146,760	868,297	32.1%
KEY FINANCIAL RATIOS			
	31 December 2019	31 December 2018	Change (% points)
Gross profit margin	35.4%	30.5%	4.9
Return on equity	7.1%	3.8%	3.3
Current ratio (times)	4.1	3.9	
Finished goods turnover days	18 days	11 days	
Trade receivables turnover days	4 days	4 days	

RESULTS

The Board of Directors of Qinqin Foodstuffs Group (Cayman) Company Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019, together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2019	2018
	Note	RMB'000	RMB'000
Revenue	4	690,852	761,819
Cost of goods sold		<u>(446,358)</u>	<u>(529,318)</u>
Gross profit		244,494	232,501
Distribution and selling expenses		(118,930)	(131,175)
Administrative expenses		(81,152)	(97,567)
Net impairment (losses)/reversal on financial assets		(542)	166
Other income and other gains — net		<u>32,748</u>	<u>(490)</u>
Operating profit		76,618	3,435
Finance income		30,065	35,802
Finance costs		<u>(437)</u>	<u>(206)</u>
Finance income - net		29,628	35,596
Share of net loss of investments accounted for using the equity method		<u>(1,891)</u>	<u>—</u>
Profit before income tax	5	104,355	39,031
Income tax expense	6	<u>(23,168)</u>	<u>(6,271)</u>
Profit for the year, all attributable to shareholders of the Company		81,187	32,760
Earnings per share for profit attributable to shareholders of the Company	7		
— Basic earnings per share (expressed in RMB per share)		<u>RMB 0.125</u>	<u>RMB0.058</u>
— Diluted earnings per share (expressed in RMB per share)		<u>RMB 0.125</u>	<u>RMB0.058</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	81,187	32,760
Other comprehensive income for the year	—	—
Total comprehensive income for the year, all attributable to shareholders of the Company	<u>81,187</u>	<u>32,760</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		247,600	264,726
Construction-in-progress		112,075	3,995
Right-of-use assets	9	72,601	—
Land use rights	9	—	43,980
Intangible assets		2,179	3,758
Prepayments for non-current assets		3,890	6,542
Deferred income tax assets		28,729	24,592
Investments accounted for using the equity method		3,109	—
Financial assets at fair value through other comprehensive income	10	23,146	—
		<u>493,329</u>	<u>347,593</u>
Current assets			
Inventories		98,161	101,757
Trade receivables	11	5,614	9,049
Other receivables, prepayments and deposits		40,437	26,234
Cash and cash equivalents		732,033	566,085
		<u>876,245</u>	<u>703,125</u>
Total assets		<u>1,369,574</u>	<u>1,050,718</u>
Equity			
Equity attributable to shareholders of the Company			
Share capital		5,758	4,861
Other reserves		553,231	355,751
Retained earnings		587,771	507,685
Total equity		<u>1,146,760</u>	<u>868,297</u>
Liabilities			
Non-current liabilities			
Lease liabilities	9	3,110	—
Deferred income tax liabilities		4,953	242
		<u>8,063</u>	<u>242</u>
Current liabilities			
Trade payables	12	47,884	56,616
Other payables and accrued charges		100,393	101,063
Contract liabilities		53,885	24,500
Current income tax liabilities		10,613	—
Lease liabilities	9	1,976	—
		<u>214,751</u>	<u>182,179</u>
Total liabilities		<u>222,814</u>	<u>182,421</u>
Total equity and liabilities		<u>1,369,574</u>	<u>1,050,718</u>

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION AND PRINCIPLE ACCOUNTING POLICIES

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

(1) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- HK(IFRIC) 23 Uncertainty over income tax treatments
- HKFRS 9 (Amendments) Prepayment features with negative compensation
- HKAS 28 (Amendments) Long-term interests in associates and joint venture
- HKAS 19 (Amendments) Plan amendment, curtailment or settlement
- Annual Improvements to HKFRS Standards 2015 — 2017 Cycle

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 3. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2. BASIS OF PREPARATION AND PRINCIPLE ACCOUNTING POLICIES *(Continued)*

(2) New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2019, and have not been early adopted by the Group in preparing these consolidated financial statements. The Group intends to adopt them no later than the respective effective dates of these new standards and amendments. The Group has evaluated the impact of these new standards and amendments, no new standards or amendments have a significant impact on the consolidated financial statements of the Group.

Standards	Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Revised Conceptual Framework	
Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17 Insurance contracts	1 January 2021

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition method in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.8%.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 Determining whether an Arrangement contains a Lease.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(ii) Measurement of lease liabilities and right-of-use assets

	<i>RMB '000</i>
Operating lease commitments disclosed as at 31 December 2018	3,826
Less:	
Short-term leases recognised on a straight-line basis as expense	(2,090)
	<u>1,736</u>
Discounted using the lessee's incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019	1,657
Of which:	
Current lease liabilities	935
Non-current lease liabilities	722
	<u>1,657</u>
Add: Reclassification of land use rights	43,980
	<u>45,637</u>

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increase by RMB45,637,000
- Land use rights — decrease by RMB43,980,000
- Lease liabilities (current portion) — increase by RMB935,000
- Lease liabilities (non-current portion) — increase by RMB722,000

There was no impact on retained earnings on 1 January 2019.

4. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to the operating profit by business segments is as follows:

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

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

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

Other segment information is as follows:

Depreciation and amortisation charges					
Allocated	20,377	7,314	2,473	1,079	31,243
Unallocated					4,884
					36,127
Capital expenditures					
Allocated	55,023	7,237	1,691	—	63,951
Unallocated					104,624
					168,575

4. REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended 31 December 2018				Group RMB '000
	Jelly Products RMB '000	Crackers and Chips RMB '000	Seasoning Products RMB '000	Confectionery and Other Products RMB '000	
Revenue — recognised at a point in time					
Sales to external customers	435,238	210,273	87,307	29,001	761,819
Cost of goods sold	<u>(314,242)</u>	<u>(134,273)</u>	<u>(59,251)</u>	<u>(21,552)</u>	<u>(529,318)</u>
Results of reportable segments	<u>120,996</u>	<u>76,000</u>	<u>28,056</u>	<u>7,449</u>	<u>232,501</u>

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

Results of reportable segments	232,501
Distribution and selling expenses	(131,175)
Administrative expenses	(97,567)
Net reversal of impairment losses on financial assets	166
Other income and other gains — net	(490)
Finance income	35,802
Finance costs	<u>(206)</u>
Profit before income tax	39,031
Income tax expense	<u>(6,271)</u>
Profit for the year	<u>32,760</u>

Other segment information is as follows:

Depreciation and amortisation charges					
Allocated	<u>20,806</u>	<u>5,954</u>	<u>2,681</u>	<u>1,576</u>	31,017
Unallocated					<u>2,300</u>
					<u>33,317</u>
Capital expenditures					
Allocated	<u>11,810</u>	<u>3,457</u>	<u>832</u>	<u>—</u>	16,099
Unallocated					<u>5,820</u>
					<u>21,919</u>

4. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

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

Major customer

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

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after crediting and charging the following:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Crediting		
Interests income from bank deposits	16,952	11,287
Gains on modification of lease period of land use rights (<i>Note 9</i>)	15,825	—
Gains on disposal of property, plant and equipment — net	5,073	—
Government grant income (<i>Note(a)</i>)	8,686	4,708
Exchange gain from financing activities — net	13,113	24,515
Exchange gain from operating activities — net	—	17
Charging		
Depreciation of property, plant and equipment	31,578	31,526
Amortisation of right-of-use assets/land use rights (<i>Note 9</i>)	3,785	1,064
Amortisation of intangible assets	764	727
Losses on disposal of property, plant and equipment — net	—	6,329
Losses on disposal of software	2,294	—
Employee benefit expense, including directors' emoluments	140,942	170,640
Marketing and advertising expenses	17,296	13,441
Rental expenses for leases of properties	2,560	4,759
Net impairment losses/(reversal) on financial assets	542	(166)
Provision/(reversal of provision) for decline in value of inventories	902	(582)
Exchange loss from operating activities — net	40	—
	<u> </u>	<u> </u>

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

6. INCOME TAX EXPENSE

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	22,594	11,086
Deferred income tax, net	574	(4,815)
	<hr/>	<hr/>
Income tax expense	23,168	6,271
	<hr/> <hr/>	<hr/> <hr/>

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

Taxation on Mainland China income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Mainland China in which the Group operates. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax at the rate of 25% (2018: 25%).

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

The profits of the Mainland China subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's Mainland China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

7. EARNINGS PER SHARE

(a) Basic

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

	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	<u>81,187</u>	<u>32,760</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>648,996,557</u>	<u>561,196,557</u>
Basic earnings per share	<u><u>RMB0.125</u></u>	<u><u>RMB0.058</u></u>

(b) Diluted

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

	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	<u>81,187</u>	<u>32,760</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>648,996,557</u>	<u>561,196,557</u>
Adjustments for share options	<u>224,118</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share	<u><u>649,220,675</u></u>	<u><u>561,196,557</u></u>
Diluted earnings per share	<u><u>RMB0.125</u></u>	<u><u>RMB0.058</u></u>

8. DIVIDENDS

At a meeting of the Board of Directors held on 25 March 2020, the Board of Directors did not recommend any payment of dividend to shareholders for the year ended 31 December 2019 (2018: Nil).

9. LEASES (INCLUDING LAND USE RIGHTS)

As mentioned in Notes 3 above, the Group changed its accounting policies for leases where the Group is a lessee pursuant to the adoption of HKFRS 16 Leases effective 1 January 2019. This note provides information for leases including land use rights, where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

	31 December 2019	As at 1 January 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Right-of-use assets			
Buildings	4,894	1,657	—
Land use rights	67,707	43,980	—
	<u>72,601</u>	<u>45,637</u>	<u>—</u>
Land use rights	<u>—</u>	<u>—</u>	<u>43,980</u>
Lease liabilities			
Buildings			
— Current	1,976	935	—
— Non-current	3,110	722	—
	<u>5,086</u>	<u>1,657</u>	<u>—</u>

9. LEASES (INCLUDING LAND USE RIGHTS) (Continued)

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

Movements in right-of-use assets in 2019 and land use rights in 2018 are analysed as follows:

	2019			2018
	Right-of-use assets			Land use rights
	Buildings RMB'000	Land use rights RMB'000	Total RMB'000	RMB'000
At 1 January	1,657	43,980	45,637	39,419
Additions	5,478	26,960	32,438	5,625
Modification of lease term (Note a)	—	(1,689)	(1,689)	—
Amortisation charges	(2,241)	(1,544)	(3,785)	(1,064)
At 31 December	<u>4,894</u>	<u>67,707</u>	<u>72,601</u>	<u>43,980</u>

Notes:

- On 29 November 2019, the Group's subsidiary in Xiantao City, Hubei province, Mainland China entered into an agreement with Xiantao Land Reserve Center of the People's Government of Xiantao City, pursuant to the agreement the Group's subsidiary will sell its land and the property and production plants attached thereon to the government for a total compensation consideration of RMB82,300,000, of which RMB17,514,000 is attributable to the land use right and the remaining RMB64,786,000 is attributable to property and production plants. It is expected that the land will be returned to the government by December 2021, accordingly, the lease term of the land use right is considered to be shortened from the previous ending by year 2053 and 2056 to ending around two years to December 2021. This represented a modification of lease of land use right with the government upon signing of the agreement pursuant to the application of HKFRS 16 Leases, and a gain on modification of RMB15,825,000, being the difference between the consideration of the disposal attributable to the land use right of RMB17,514,000 and the decrease in the carrying amount of the land use right by RMB1,689,000 due to shortened remaining lease period, was recognised in "Other income and other gains — net" during the year ended 31 December 2019.
- As at 31 December 2019, certain land of the Group that are situated within the Jinjiang Industrial Zone, Fujian Province, Mainland China, with carrying amount of approximately RMB6,561,000 (2018: RMB6,709,000) were still in the process of applying for the ownership certificates.
- As at 31 December 2019, the lessors of the Group's leased properties in Taian City, Shandong Province, Mainland China, with carrying amount of right-of-use assets of approximately RMB710,000 (2018: Nil) were still in the process of obtaining the relevant title documents to the properties.

9. LEASES (INCLUDING LAND USE RIGHTS) (Continued)

(ii) Amounts recognised in the consolidated income statement

	2019			2018
	Buildings	Right-of-use assets Land use rights	Total	Land use rights
	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation charges				
Cost of goods sold	947	—	947	—
Distribution and selling expenses	662	—	662	—
Administrative expenses	632	1,544	2,176	1,064
	<u>2,241</u>	<u>1,544</u>	<u>3,785</u>	<u>1,064</u>
Interest expense (included in finance costs)			213	—
Operating lease expenses in respect of buildings			<u>2,560</u>	<u>4,759</u>
Total charges to income statement			<u>6,558</u>	<u>5,823</u>

The total cash outflow for leases in 2019 was RMB44,361,000.

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

The Group leases various offices and warehouses, and a production property. Rental contracts are typically made for fixed periods but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

(iv) Extension and termination options

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

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Unlisted equity investments		
At 1 January	—	—
Additions	23,146	—
Fair value changes	—	—
At 31 December	<u>23,146</u>	<u>—</u>

During the year ended 31 December 2019, the Group made equity investments in a number of consumer products companies with anticipated fast-growing potential and synergy with the Group's business. The fair values of these investments were determined mainly based on direct comparison approach by making reference to quoted market price earning ratios and recent transaction prices of similar deals. The fair value measurement is categorised within level 3 of the fair value hierarchy.

11. TRADE RECEIVABLES

The credit period ranges from 60 to 90 days (2018: 60 to 90 days). The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2019 was as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 30 days	2,299	1,131
31 - 180 days	1,382	7,759
181 - 365 days	1,936	253
	<u>5,617</u>	<u>9,143</u>
Less: provision for impairment	(3)	(94)
Trade receivables — net	<u>5,614</u>	<u>9,049</u>

12. TRADE PAYABLES

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 30 days	43,338	40,072
31 - 180 days	4,500	15,891
181 - 365 days	—	190
Over 365 days	46	463
	<u>47,884</u>	<u>56,616</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Qinqin Foodstuffs Group (Cayman) Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) is a renowned food and snacks company with strong brand recognition in the People’s Republic of China (the “**PRC**”). The Group is principally engaged in the manufacturing, distribution and sale of jelly products, crackers and chips, confectionery and other food and snacks products under the “Qinqin (親親)” brand and seasoning products under the “Shangerry (香格里)” brand. The Group is committed to providing consumers with healthy and safe products. The Group continues to optimise its product portfolio and improve its product competitiveness in order to satisfy new consumer preferences and increase market share, and to further consolidate the leading position of the Group in food and snacks industry.

INDUSTRY ENVIRONMENT

While the food and snacks industry of the PRC faced challenges from economic environment in 2019, the Group believes that the food and snacks industry of the PRC is still an industry with great appeal and development potential. With the increase in consumers’ health awareness and income level, new market opportunities are developing. The Group believes that the industry is also under continuing structural adjustment. As consumers pursue healthier and personalised products and favour high quality and innovative products, product development in this industry is becoming more diversified. Under such changes, enterprises have to focus on product innovation and product quality improvement and introduce new products to adapt to changes in consumers’ demand and preferences. In addition, sales and distribution channels are also undergoing structural adjustments, resulting in the need for improvement in corporate sales and marketing strategies.

BUSINESS OVERVIEW

Although the Group’s total revenue for 2019 was approximately RMB690.9 million (2018: RMB761.8 million), representing a decrease of 9.3% as compared with last year, the gross profit for the year was approximately RMB244.5 million (2018: RMB232.5 million), representing an increase of approximately 5.2% as compared with last year; gross profit margin was 35.4% (2018: 30.5%), representing an increase of approximately 4.9 percentage points as compared with last year. In 2019, the profit attributable to the Company’s shareholders was approximately RMB81.2 million (2018: profit attributable to the Company’s shareholders of RMB32.8 million), representing an increase of approximately 1.5 times as compared with last year.

In 2019, the Group aimed to increase its overall profit and to drive its long-term corporate development, through continuous adjustments on product mix. The Group focused on the development of new products to enrich its product portfolio. Despite the decrease in sales volume and total revenue during the year, the significant increase in the consolidated net profit is mainly due to the Group focusing on the development of new and high-margin products. During the year, the Group proactively increased its promotion and related sales expenditures on its new and high-margin products, whilst product promotional activities and expenses on its existing and low-margin products were reduced. These strategic adjustments led to a drop in the sales volume of its existing and low-margin products and a decrease in total revenue during the year accordingly. However, as the proportion of sales of new and high-margin products to total sales has been increased, together with the impact from sales strategies adjustments to reduce its promotional activities and expenses on its existing and low-margin products, such factors therefore resulted in a proportionately greater decrease in cost of goods sold figure for the year as compared with total revenue, and the Group's gross profit, gross profit margin, operating profit and consolidated net profit have all increased during the year. The Group believes the aforementioned adjustments to its product mix and sales strategies are beneficial to its long-term corporate development and growth.

In addition, in order to optimise the Group's resources and to facilitate the development of new production base, the Group disposed certain land use rights and property with a net gain of approximately RMB23.8 million during the year, which also resulted in the increase in the consolidated net profit for the year.

Jelly Products

Sales of jelly products for 2019 were approximately RMB411.5 million (2018: RMB435.2 million), representing a decrease of 5.5% as compared with last year and accounting for 59.6% (2018: 57.1%) of total revenue of the Group. In 2019, the Group continued to adjust its product mix and established its three major product lines including the traditional-flavor jelly product line, the pudding jelly product line and the functional jelly product line. The Group continued to focus on the development of pudding jelly and functional jelly products and promoted new products with high-margin, including fruit flavour flexible pouches packaging jelly products, namely 「奇蔬妙果」, 「蔬果一日分」 and 「茶清果輕」; 「小Q仔」, a pudding jelly product line targeting the children market; 「輕美力」, a body management jelly product targeting for the female market; and 「蘊能+」, a functional fitness jelly products developed with the Institute of Sports Medicine of the General Administration of Sport of China. In 2019, the Group adjusted its sales strategies proactively by increasing its promotion and related sales expenditures on its new and high-margin products, whilst product promotional activities and expenses on its existing and low margin products were reduced. These strategic adjustments led to a drop in the sales volume of its existing and low-margin products and a decrease in total revenue during the year accordingly. During the current year, the gross profit margin of jelly products was 34.2% (2018: 27.8%), representing an increase of approximately 6.4 percentage points as compared with last year. Increase in gross profit and gross profit margin during the current year was mainly attributable to product mix adjustments and the increase in the proportion of new products, together with the impact on reduction of promotional activities and expenses on its existing and low-margin products. The Group believes that the gradual increase in the proportion of new products will facilitate the recovery of the growth trend of jelly products business.

Crackers and Chips

Sales of crackers and chips for 2019 were approximately RMB183.2 million (2018: RMB210.3 million), representing a decrease of 12.9% as compared with last year and accounting for 26.5% (2018: 27.6%) of total revenue of the Group. Since 2018, the Group has been focusing on the promotion of its high-priced products through a comprehensive upgrade of its prawn cracker products from packaging to product quality. The sales of these products are less robust in rural areas due to higher pricing, which led to a drop in the sales volume of products and a decrease in revenue and gross profit of crackers and chips in 2019. During the current year, the gross profit margin of crackers and chips is 40.0% (2018: 36.1%), representing an increase of approximately 3.9 percentage points as compared with last year. Increase in gross profit margin during the current year was mainly attributable to product mix adjustments and the increase in the proportion of new products, together with the impact on reduction of promotional activities and expenses on its existing and low-margin products.

In connection with the problem of sales of high-priced products are less robust in rural areas, the Group proactively developed more new products with wider price ranges as well as different specification in 2019, in order to cater for the needs of different markets and consumers. Meanwhile, the Group continued to launch new products with new flavours for its popular series (such as the classic prawn crackers series and the crayfish flavour series), established a product line of seafood crackers and chips, and launched its squid flavour products and chicken flavored products for taste-extension. The Group believes the continuous launching and distribution of new products to the market will be beneficial to the development and growth of its crackers and chips business.

Seasoning Products

Sales of seasoning products for 2019 were approximately RMB69.7 million (2018: RMB87.3 million), representing a decrease of 20.1% as compared with last year and accounting for 10.1% (2018: 11.5%) of total revenue of the Group. In 2019, the Group has made price adjustment to its products due to the significant increase in the price of certain raw material of seasoning products. As customers are relatively sensitive to the prices, along with the impact from sales strategies adjustments to reduce the intensity of product promotional activities and expenses, sales volume of seasoning products declined as a result. During the current year, the launching and promotion of new products was slower than expected, as a result, the negative impact from the decline in sales volume of its existing products and the increase of certain raw materials price was unable to be offset, thus revenue and gross profit of the seasoning products recorded a decrease in 2019. The gross profit margin was 35.8% (2018: 32.1%), representing an increase of approximately 3.7 percentage points as compared with last year. The increase was mainly attributable to the impact on reduction of promotional activities and expenses on products.

The Group's strategies will continue to accelerate the development of new products and upgrade on product packaging, resulting in an optimised product mix and an increased proportion in high-margin products. The Group continued to step up promotion of its seasoning products in two channels, namely the catering market and the agricultural trade and wholesale market, and to launch products to meet the demands of the catering market. Meanwhile, with aim of seeking market opportunities and new growth drivers in the process of industrialisation of the catering industry, the Group will continue to provide customised products and services to catering chain customers and catering supply chain customers.

Confectionery and Other Products

Sales of confectionery and other products for 2019 were approximately RMB26.5 million (2018: RMB29.0 million), representing a decrease of 8.6% as compared with last year and accounting for 3.8% (2018: 3.8%) of total revenue of the Group. Sales of confectionery and other products contributed relatively small proportion to the overall sales of the Group.

Development of Sesame Candy and Rice Wine Business

Since the Group has entered into the Strategic Cooperation Agreement with Xiaogan City People's Government in Mainland China in November 2018 to jointly promote the revitalisation and development of the traditional manufacturing industries of sesame candy (麻糖) and rice wine (米酒) (being local specialities of the Xiaogan City), the Group successfully won the bid for two parcels of land with total area of approximately 121,000 square meter located at Xiaogan City in January and August 2019 and obtained the land use rights certificate of the respective land. The construction of the first phase of Qinqin Healthy Rice Wine Industrial Park (親親健康米酒工業園) on the respective land was completed in January 2020 and it has entered into equipment installation and pilot production stages. During the year, the Group has also engaged an overseas design company to design a conceptual layout for its tourism factory facilities, and planned on developing a new project that incorporates the production of sesame candy (麻糖) and rice wine (米酒) with tourism elements.

The Group believes that the aforementioned new development project will expand its product lines, facilitate the Group's diversified development in its food and snack products business as well as further advance the Group's long-term development and growth.

Strategic Development Investment Project

During the year, the Group invested in a number of projects in accordance with its strategic development plans and business expansion strategies. The investment area is mainly on consumer products companies with fast-growing potential and synergy with the Group's business. The business of these enterprises mainly includes the production or sale of food, beverage and alcohol products in PRC and abroad, which is of positive significance to the long-term development and industrial layout of the Group.

Research and Development and Promotion

The Group is committed to developing natural, healthy products with good nutritious value and quality, and to establishing a brand image of “national snacks” among consumers. Upon restructuring the product management center last year, the Group, leveraging on the outstanding professional technical talents as well as research and development capabilities of innovative products, has enhanced its creativity in areas such as product development, packaging design and brand marketing, and has also increased its investments in product innovation, thereby reassuring the speed and efficiency of new products from development to launch.

The Group has focused on the launching, sales and marketing channels of new products, and has also put much attention on the innovative moves of social media nowadays. The Group also engaged the well-known young actor Wei Daxun (魏大勳) as spokesperson for its new strategic products 「蘊能可吸凍」, made full use of social media including WeChat, Weibo, Douyin and Xiaohongshu etc. to establish effective interaction with young consumers, and large-scale marketing exposure, thereby enhanced brand loyalty. As for the distribution channels, basing on the behavioral changes of contemporary young consumer groups, the Group also launched 「蘊能可吸凍」 mainly through e-commerce and in convenience stores located in the first and second tier cities, and acquired competitive advantages in the market countrywide.

Product Upgrade

The Group believes that health-consciousness and food safety are still the major themes during the upgrade and transformation process of the PRC food industry. Any product upgrade must follow the trend of low sugar, low salt, and with no preservatives.

For jelly products, the Group has set the product development objective in the direction of functional and nutritional products with zero preservatives, zero artificial pigments, zero sweeteners and low calories. The Group developed different products to cater to the needs of different people, its product line expanded from jelly products with only single fruit flavor to pudding and functional jelly products, offering a variety of options for consumers. While strengthening research and development and being committed to improving the contents of its products, the Group continued to work with different kinds of domestic and overseas enterprises to produce innovative jelly products.

For crackers and chips, the Group targets to become a leading seafood crackers and chips brand in the PRC. Through a series of upgrades in terms of packaging, product and flavor to improve its brand influence and market share, the Group upgraded its product quality by improving tastes and expanding flavors to cater to the preferences of young consumers and regional features.

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

Channel Expansion

Along with product upgrades, the Group will strive to maintain its existing market share and distributors network. The Group will further expand and upgrade its distribution network through sales to snack food branded stores, convenience stores, campus snack stores, gas stations and other channels. The Group will also increase promotion of its e-commerce and export sales channels to increase sales. The Group will actively work with new retailers including Alibaba and JD and gradually increase the percentage of new retail channel in the Company’s channels.

With the online purchase penetration rate further increased, the Group also continued to strengthen its expansion of internet marketing. In 2019, the Group restructured its e-commerce division in Shanghai and it continued to develop products catering to the characteristics of the e-commerce channel to differentiate from its offline products and increase unit price per customer. The Group will continue to focus on developing its business in e-commerce platforms on Tmall and JD in the year.

Production Facilities Improvement

The Group has clearly established a project development plan for its production facilities and equipment. During the year, the Group continued to optimise its resources through the establishment of new production base, transforming existing production base, and upgrading its equipment, so as to improve its production facilities, production process and product quality, and to enhance production capacity and efficiency that will meet the long-term development of the Group. Apart from the project in relation to the development of sesame candy and rice wine business as mentioned above, the Group mainly launched the following projects during the year:

- the Group signed an agreement with the People’s Government of Xiantao City, the PRC in November 2019, regarding the disposal of related land use rights and property of the Group’s existing production base in Xiantao City, the PRC, in which the Group planned to construct a new production base as replacement for its existing production base in that city;

- the Group signed a cooperative agreement with the People’s Government of Sishui County, Jining City, Shandong province, the PRC in December 2019, in which the Group planned to construct a new production base in Sishui County, Jining City, Shandong province, the PRC in replacement of the Group’s existing production base (as leased properties) located in Taian City, Shandong province, the PRC;
- the Group successfully introduced the world-advanced level jelly product production line from Japan, and completed the renovation and expansion of its head office’s production base located in Jinjiang City, Fujian Province, the PRC, and the construction of supporting facilities for the related new production line so as to facilitate the installation of the new production equipment and to realise the Group’s development and technology innovation in new jelly products; and
- the Group commenced the gradual upgrade and reconstruction project for the head office’s production base, office and other supporting facilities located in Jinjiang City, Fujian Province, the PRC, so as to increase production and office efficiency.

The Group aimed to reduce the impact of increasing labor costs by increasing the level of our production facilities automation. The Group continued to conduct “equipment transformation, production process enhancement, quality improvement” for its production facilities. The Group also upgraded the existing production lines, and established “high-speed, high-yield, low-loss rates and high automation” benchmarking production line in each production base, and cooperated with various foreign equipment enterprises for bringing in jelly and crackers and chips products production line with world advanced standards. The Group believes that a highly automated production process with technologically-more-advanced equipment will allow the Group to reduce its reliance on labor, improve production efficiency and accelerate the time-to-market for our products. In addition, the Group continued to adopt measures to save energy and lower consumption and products defective rate.

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

FUTURE PROSPECTS AND STRATEGIES

After the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC, including but not limited to, extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over people travelling and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc. It may have a temporary impact on the Group’s transportation and production cost in some regions, but not to the extent of material. As at the date of this announcement, the Group was not aware of any material effect on the financial results of the Group as a result of the COVID-19 outbreak. The Group will actively work utmost on epidemic prevention and control, and daily operation management to reduce the impact of the epidemic on the Group’s operations and financial performance.

Looking forward to 2020, the Group will continue to pursue its corporate development strategy of capturing the opportunities of consumer upgrades through continuous product innovations. The Group remains customer-centric and will continue to enhance its product portfolio and promote product innovation and upgrades. The Group will carry out construction and renovation of production bases and equipment upgrades to improve its production facilities, production processes and product quality. The products of the Group will be developed in a direction towards more natural, healthy and secure to meet different consumer demands and enhance their competitiveness.

The Group has completed upgrading the enterprise resource planning (ERP) system to the information management system developed by SAP during the year. The Group will continue to invest resources to develop an information management system that meets the Company’s requirements for sustainable development, in leading the Group’s operations management in a scientific, networked and intelligent way and to improve the Group’s operating efficiency and core competitiveness.

Although the market is full of challenges, the Group will continue to adhere to its diversified product strategies. The Group will focus on the enhancement of product quality, optimisation of product portfolio and strengthen the market position of its key products. The Group will also further develop its distribution channels, strengthen its traditional distribution network and develop other new market access such as e-commerce and restaurants channel in order to increase market penetration. The Group will also improve its production facilities, production process and product quality and enhance production capacity and efficiency. The Group will refine its internal management team and process and recruit senior personnel in the industry to raise its standard in corporate management and technology improvement, provide consumers with safe and assured products, and capture opportunities brought by consumer upgrade in the PRC, thereby creating greater value for its shareholders.

LIQUIDITY AND CAPITAL RESOURCES

The Group maintained a solid financial position and was in a net cash position as at 31 December 2019. As at 31 December 2019, the Group had cash and bank balances of RMB732.0 million (2018: RMB566.1 million). Cash and bank balances were mainly denominated in Hong Kong dollars (“**HKD**”), United States dollars (“**USD**”) and Chinese Renminbi (“**RMB**”). The Group’s working capital or net current assets were RMB661.5 million (2018: RMB520.9 million). The current ratio, represented by current assets divided by current liabilities, was 4.1 (2018: 3.9).

As at 31 December 2019, the Group’s total equity was RMB1,146.8 million (2018: RMB868.3 million), representing an increase of 32.1%.

The Group did not have any borrowings as at 31 December 2019 (2018: Nil).

COMMITMENTS AND CONTINGENCIES

As at 31 December 2019, the Group had total capital commitments (contracted but not provided for) of RMB88.2 million (2018: RMB5.3 million).

As at 31 December 2019, the Group had future aggregate minimum lease payments under non-cancellable operating leases and non-cancellable contracts of RMB2.9 million (2018: RMB3.8 million).

The Group had no material contingent liabilities as at 31 December 2019 and 31 December 2018.

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

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

CHARGE ON ASSETS

There was no charge on the Group’s assets during the year.

HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2019, the Group had approximately 2,200 (2018: 2,500) employees. For the year ended 31 December 2019, total employee benefit expenses, including directors' emoluments, was approximately RMB140.9 million (2018: RMB170.6 million). The decrease in total employee benefit expenses was mainly attributable to the decrease in number of employees during the year.

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

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

FOREIGN EXCHANGE RISK

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

During the year, RMB devalued against HKD and USD. The Group recorded net foreign exchange gain in relation to its cash and cash equivalent in HKD and USD totaling RMB13.1 million (2018: net foreign exchange gain totaling RMB24.5 million). Save as disclosed above, the Group is exposed to minimal foreign exchange risk exposure as the Group focused on its sales and purchase within the PRC market.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

OTHER INFORMATION

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 12 June 2020 (the “**2020 AGM**”), notice of which will be published on the website of the Company (www.fjqinqin.com) and the designated website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (www.hkexnews.hk), and despatched to shareholders of the Company accordingly.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company (the “**Shareholders**”) will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020 (both days inclusive), for the purpose of determining Shareholders’ entitlement to attend and vote at the 2020 AGM, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2020 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 8 June 2020.

RAISING OF FUNDS AND USE OF PROCEEDS

Pursuant to the subscription agreements dated 22 March 2019 entered into between the Company and the subscribers, an aggregate of 104,400,000 ordinary shares of the Company of HKD0.01 each in the share capital of the Company (the “**Shares**”) were issued at HKD2.2 per Share (the “**Subscription Price**”) to the subscribers on 1 April 2019 (the “**Subscription**”). The aggregate nominal value of the Shares under the Subscription is HK\$1,044,000. The Subscription Price represented (i) a premium of approximately 1.38% to the closing price of HK\$2.17 per Share as quoted on the Stock Exchange on 21 March 2019, the date on which the terms of the subscription agreement were fixed; and (ii) a discount of approximately 1.43% to the average closing price of approximately HK\$2.232 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to and including 21 March 2019. The subscribers are independent professional or individual investors. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Subscribers (and their respective ultimate beneficial owners, if applicable) are third parties independent of the Company and its connected persons. Details of the Subscription were disclosed in the Company’s announcements dated 22 March 2019 and 1 April 2019.

The gross and net proceeds of the Subscription were approximately HKD229.68 million (equivalent to approximately RMB197.0 million) and approximately HKD229.48 million (equivalent to approximately RMB196.8 million), respectively. The net subscription price, after deducting such fees, costs and expenses, is therefore approximately HK\$2.198 per Share under the Subscription.

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

Intended use of proceeds as announced and actual use of proceeds	Net proceeds (Approximate) (RMB in million)	Amount of proceeds utilised up to 31 December 2019 (Approximate) (RMB in million)	Amount of proceeds unutilised up to 31 December 2019 (Approximate) (RMB in million)
Upgrade of enterprise resource planning (ERP) system of the Group	15.4	2.5	12.9
Purchase of machinery and equipment	29.2	29.2	—
Promotion and marketing campaigns	25.7	25.7	—
Provide funding for land acquisition and development costs of sesame candy and rice wine production facilities in Xiaogan City, Hubei Province, PRC.	126.5	85.5	41.0
Total	196.8	142.9	53.9

As at the date of this announcement, the Company expects that the unutilised proceeds will be used according to the intended use of proceeds as previously announced. As the Company is in the process of upgrading its ERP system and developing the new production facilities in Xiaogan City, Hubei Province, PRC in phases, it is expected that the unutilised proceeds as at 31 December 2019 will be fully utilised in the financial year 2021 and 2020 respectively.

Save as disclosed herein, the Company did not have any other fund raising activity during the year ended 31 December 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE CODE

The Group recognises the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders, and the Board is fully committed to doing so. The Board believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, achieve high standard of accountability and protect stakeholders' interests.

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

In the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the year ended 31 December 2019 and, where appropriate, the applicable recommended best practices of the CG Code, except for a deviation from code provision A.2.1 of the CG Code in respect of the roles of chairman and chief executive officer of the Company.

During the year ended 31 December 2019, Mr. Zhu Hong Bo resigned as Chief Executive Officer (the “**CEO**”) of the Group with effect from 23 August 2019 due to health reason. The Company is in the process of identifying a suitable candidate to assume the role as CEO. The responsibilities of the CEO are overseen by Mr. Hui Ching Lau, Chairman and executive director of the Company, with the support of the senior management team of the Group.

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

In view of Mr. Hui Ching Lau is the Chairman and executive director of the Company and he has accumulated over 15 years of experience in the food and snacks business since he became a director of some of the subsidiaries of the Group since April 2003, the Board believes that it is in the best interest of the Group to have Mr. Hui Ching Lau to oversee the responsibilities of the CEO with the support of the senior management team of the Group whilst the Company is still in the process of identifying a suitable candidate to assume the role as CEO. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules on the Stock Exchange as the code of conduct for dealing in securities of the Company by the directors of the Company (the “**Directors**”). All Directors have confirmed, upon specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019. To ensure Directors’ dealings in the securities of the Company (the “**Securities**”) are conducted in accordance with the Model Code and securities code of the Company, a Director is required to notify the Chairman in writing and obtain a written acknowledgement from the Chairman prior to any dealings in the Securities.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from all four Independent Non-executive Directors, namely Mr. Cai Meng, Mr. Chan Yiu Fai Youdey, Mr. Ng Swee Leng and Mr. Paul Marin Theil in accordance with Rule 3.13 of the Listing Rules.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit committee, which comprises all four Independent Non-executive Directors of the Company, has reviewed with the management in conjunction with the auditor, the accounting principles and practices adopted by the Group and discussed the internal control, risk management and financial reporting matters including the review of the draft consolidated financial statements of the Group for the year ended 31 December 2019.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Company's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PwC on the preliminary announcement.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board of
Qinqin Foodstuffs Group (Cayman) Company Limited
Hui Ching Lau
Chairman and Executive Director

Hong Kong, 25 March 2020

As of the date of this announcement, the Board comprises 11 Directors, of which two are executive Directors, namely Mr. Hui Ching Lau (Chairman) and Mr. Wong Wai Leung (Chief Financial Officer and Company Secretary); five are non-executive Directors, namely Mr. Hui Lin Chit, Mr. Sze Man Bok, Mr. Wu Huolu, Mr. Wu Sichuan and Mr. Wu Yinhang; and four are independent non-executive Directors, namely Mr. Cai Meng, Mr. Chan Yiu Fai Youdey, Mr. Ng Swee Leng and Mr. Paul Marin Theil.