



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

Environmental, Social And
Governance Report

2017



Environmental, Social and Governance Report

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1. ABOUT THIS REPORT

1.1. Reporting Scope

To help the stakeholders understand the environmental, social and governance (“ESG”) policies, measures and performances of Labixiaoxin Snacks Group Limited (the “Company”, the “Group”, “Labixiaoxin” or “We”), this Environmental, Social and Governance Report (this “Report”) is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). For the purpose of compliance with the ESG Guide and the Corporate Governance Code, the board of directors accepts full responsibility for the Group’s environmental, social and governance strategies and reporting, for assessment and identification of risks associated with environmental, social and governance matters of the Group and for ensuring appropriate and effective risk management and internal control system in this regard remains in place.

This Report mainly summarizes policies, initiatives and performance in relation to environmental and social matters. Other subjects, including corporate governance, regulatory matters and information about directors, have been disclosed in relevant sections set out in the annual report for the year 2017 of the Group.

1.1.1 Reporting Period

This Report covers our environmental, social and governance matters in China with a span from 1 January 2017 to 31 December 2017 (the “reporting period”, the “fiscal year”).

1.1.2 Organization Scope

This Report mainly covers Labixiaoxin Snacks Group Limited (Stock code 1262) and its four subsidiaries in Fujian, Tianjin, Chengdu and Anhui.

1.1.3 Basis of Preparation

The preparation of this Report was based on the Environmental, Social and Governance Reporting Guide of Hong Kong Stock Exchange, with reference to the Sustainability Reporting (G4) Guidelines of Global Reporting Initiative, Guidance on Social Responsibility Reporting (GB/T 36001-2015) (GB/T 36001-2015 《社會責任報告編寫指南》), Guidance on Social Responsibility Reporting for Food Industry (《食品行業社會責任報告編寫指南》) issued by Chinese Academy of Social Sciences and ISO 26000 – Guidance on Social Responsibility (2010) issued by International Organization for Standardization.

1.1.4 Statement about Information

All information and materials used in this Report are extracted from the Company’s formal documents, statistics reports and financial statements. Materials of this Report are provided by the Group’s employees and partners, intended solely to disclose environmental, social and governance affairs of the Group, but not for commercial use.

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1.1.5 Versions Available

This Report is publicly available in English and Chinese. Should there be any discrepancy between the two versions, the Chinese version shall prevail.

1.1.6 Feedback on the Report

If you have any questions or suggestions on the content of this Report, please contact the Administrative Department of Labixiaoxin Snacks Group Limited through the following means.

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2. INTRODUCTION

2.1. About Labixiaoxin

Labixiaoxin Snacks Group Limited (listed on Main Board of Hong Kong Stock Exchange, stock code: HK.01262) was founded in 2000. With a history of more than a decade, Labixiaoxin grows as a benchmark enterprise in the private sector of Jinjiang City. Primarily engaged in the production of jelly products, confectionary products, CBS chocolate products, beverages, biscuits and other snack food in 9 series and over 300 varieties, the Company builds an extensive sales network covering 31 provinces and cities across China, which consists of over 500 distributors, over 8,000 distribution outlets and over 30,000 retail terminals in the domestic sales market. Labixiaoxin also establishes close partnership with many well-known large retailers both at home and abroad, including Wal-Mart, METRO, Carrefour, Trust-Mart and RT-Mart. Labixiaoxin is listed in the front rank in terms of domestic market share, playing a leading role in the domestic jelly industry. Moreover, the Company exports its products to over 30 countries and regions in Europe, America, Southeast Asia and Africa.

2.2. Corporate Culture and Philosophy

With the vision "Labi Always Delights You" (「蠟筆一下、天天開心」), the Group has been devoted to introducing Happy Culture to people, building itself as a healthy enterprise, and fulfilling social responsibilities. While relentlessly offering customers with much healthier foods, it strives for a win-win relationship with shareholders, employees and partners, and proactively makes contribution to social development.

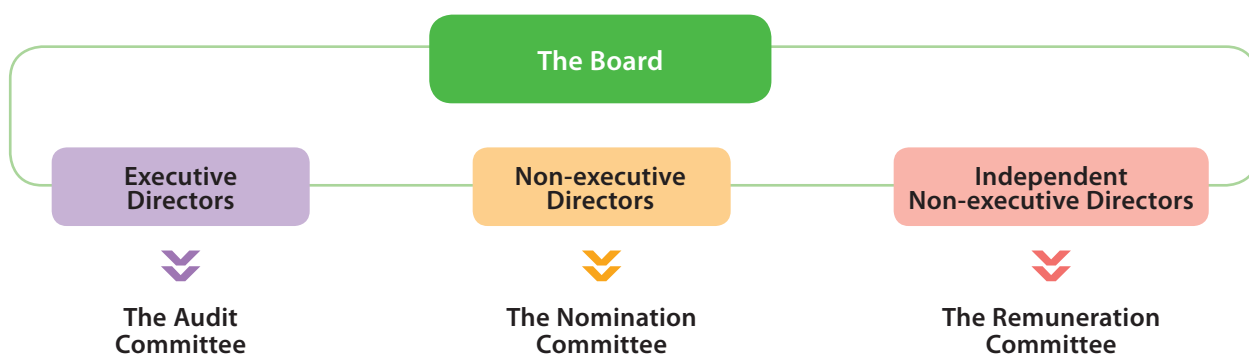
As a leader in the jelly industry, the Group always adheres to the development direction of "customer-focused" and "catering for customer demand in food safety" by conducting all the activities based on the principle of serving the customers and related parties as our duties, providing its customers with snacks that are customized, trendy, tasty and interesting, and offering unique jelly products and new-generation snacks to meet potential market demands rapidly. Snacks of Labixiaoxin are labeled with "safety", "healthiness", "quality", "nutritiousness", and "happiness" (「安全」、「健康」、「優質」、「營養」、「開心」), and the unremitted pursuit of originality, the vigorous promotion of products, brand image and services construction that lies behind ignites all these dynamic features that cater the demand of customers from multiple aspects.

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2.3. Corporate Governance

2.3.1 Corporate Governance Structure

The Group is committed to maintaining high-standard corporate governance structure to realize all-win development for the Company and each stakeholder.



The Board currently comprises 8 members, including 3 executive directors, 2 non-executive directors and 3 independent non-executive directors.

Executive Directors:

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

Non-Executive Directors:

Mr. Li Hung Kong (Vice-chairman)
Mr. Ren Yunan

Independent Non-Executive Directors:

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

The Board has set up three committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee.

2.3.2 Internal Audit Standards

The Company has set up and executed internal control and audit standards in accordance with the PRC audit laws and regulations and relevant requirements on standard operations of joint-stock companies. Such internal audit control and standards include monitoring the operation of internal control system, checking accounting records and relevant assets, monitoring the execution of preliminary and actual budgets and financial income and expenditures, and assessing benefits of major economic activities, so as to ensure the smooth and effective business operation, the reliability of financial reports and their compliance with relevant laws and regulations, and identify and manage potential risks.

2.3.3 Anti-fraud Mechanism

To guarantee the realization of operating objectives and sustainable and sound development of the Company, enhance corporate governance and internal control, we have established a series of effective anti-fraud mechanisms, with special emphasis paid to purchase, sales and other high risk areas, so as to prevent and timely discover fraud practices, and reduce the occurrence of risk events:

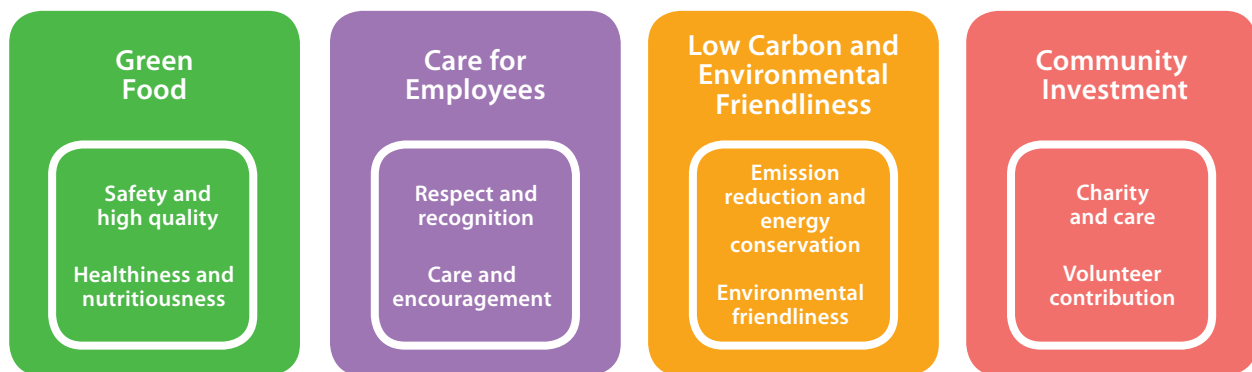
- Newly-employed employees are required to sign the “Letter of Integrity and Self-discipline of Staff” (《員工廉潔自律承諾書》), which regulates the behavior of employees, and clarify the responsibilities of employees in honesty;
- The Management of Supervisory Work (《督導工作管理辦法》) is formulated, which, in combination with SFA’s smart field service system, implements fine control of the behaviors of business personnel, and constantly optimizes the methods, contents, processes and standards of market supervision;
- A “tripartite” procurement organization structure is implemented to separate development rights, bargaining power, and execution rights, so as to achieve mutual checks and balances of functions, and reduce the possibility of fraud;
- Emphasize the integrity risk education for employees, organize education on clean and risk warning, organize lectures on clean and honest topics, and strengthen staff awareness of integrity;
- Establish smooth inspection channels, including confidential telephones, general manager suggestion boxes, etc., to accept reports on violations of laws and regulations;

During the reporting period, we have not found any breach of laws and regulations regarding anti-corruption.

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2.4. Environmental, Social and Governance Strategies

While upholding the vision “Labi Always Delights You” (「蠟筆一下·天天開心」) and focusing on production, the Group firmly believes that its current flourish is closely related to support and caring of the public; therefore, it makes “Repaying Society” (「回饋社會」) as the shared value for its management and employees. Labixiaoxin has always been pioneering in fulfilling corporate social responsibilities, whether it is about environmental protection, caring for employees, product safety and services, or public welfare undertaking. We join hands with shareholders and investors, with government and regulatory authorities, with consumers, partners, external environment, employees and external communities, to promote sustainable social development and to work hard for people’s health and happiness.



- The Group sticks to the “Green food” management principle to guarantee the safety, quality, healthiness, and nutritiousness of products it offers;
- The Group never stops offering care and support to its employees. It treasures employees’ respect and recognition, and strives to provide employees with pleasant work experience and constant development path;
- The Group strictly follows low-carbon and environmental friendliness rules in every aspect. It works hard to enhance its green competitiveness, minimize its effect on the environment, and cut down consumption and emission;
- The Group makes relentless devotion to charity and communities, delivering care and health to the public and contributing more to the society.

2.4.1 Key Issues Management

In accordance with the requirements of the ESG Guide of the Hong Kong Stock Exchange, the Group identified material issues related to stakeholders and based on the characteristics and its actual conditions to put emphasis on issues which closely relate to the Group’s business operations and have significant or potential impact to stakeholders in its responsibility fulfilment and communication.

Identification of Issues

Based on the characteristics of its business and the features of the industry, the Group made references to the ESG Guide and sorted out material issues on environment and society as its basis for analysis.

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Surveys and Researches

The Group understood the stakeholders' perspectives and comments on various issues through their discussions with internal management and one-on-one interviews, so as to assess the importance of various issues.

Screening and Assessments

Based on the results from surveys and researches, the Group assessed different material issues by considering two perspectives including the importance of the impacts to its internal business and to its external stakeholders.

Review and Confirmation

According to the assessment result of respective stakeholders, our management has confirmed 11 key issues as follows, after review which require our further monitoring, management and disclosure with keen attention.

Table 1: Key ESG Issues of Labixiaoxin

ESG Guidelines Highlights	Material Matter
A. Environment	
A1. Emissions	• Treatment of waste gas, waste water, solid waste and carbon emission
A2. Resource utilization	• Resource utilization
A3. Environment and natural resources	• Environmental impact management
B. Society	
B1. Employment	• Employment and employee rights
B2. Health and safety	• Occupational health and safety
B3. Development and trainings	• Employee development and trainings
B4. Labor standards	• Strict compliance with labor standards
B5. Supply chain management	• Supply chain management
B6. Product responsibilities	• Product quality control system
B7. Anti-corruption	• Internal audit standards and anti-fraud mechanism
B8. Community investment	• Community investment

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2.4.2 Communication with Stakeholders

The establishment of a stable, open and transparent communication mechanism with stakeholders is a key measure for the Group to fulfill and promote social responsibility. The snack food industry involves a wide range of stakeholders. When communicating with stakeholders, the Group not only aims to benefit the stakeholders through our responsibility initiatives, but also wishes to strengthen the influences of social responsibility to promote these concepts with more enterprises and individuals.

Table 2: Labixiaoxin Communication Mechanism with Stakeholders

Stakeholder	Shared targets	Communication and feedback channels
Shareholders and investors	Assets preservation and appreciation Steady growth in return on investment Operating risk prevention Development of new markets and new opportunities	Annual report and announcement The Board Special meetings Company website
Government and regulatory authorities	Operation compliance Tax compliance Contribution to local economic development	Supervision and performance evaluation Voluntary tax payment Special meetings
Consumers	Safe and healthy products Smooth communication channels	"Green food" management principle Customer service system Product quality management mechanism
Suppliers	Fair, open and impartial procurement Honesty and trustworthiness Information confidentiality	Supplier daily communication and supervision Supplier appraisal mechanism Support and assistance to suppliers
Environment	Environmental protection Energy conservation and emission reduction	Regular assessment on environmental effect Technology upgrading Environmental management plan
Employees	Occupational health Wages and benefits and security Health and safety Construction of development platform	Occupational health and safety management system Employees trainings and development Employment and employee rights
Communities	Public welfare undertaking Volunteer activities	Charity fund Product donation Visit to the elderly who live alone

2.5. Patents, Innovations and Honors

2.5.1 *Patents and Innovations of Labixiaoxin*

Upholding the vision of “innovate and promote Chinese snack foods and strive to become the leading brand in China’s snack food industry”, the Company proactively explores and innovates. The Company’s continuous innovation and development has accumulated more than 100 patents. Every year, the Company eliminates 5% of its products and alternatively launches new products to market. The Company’s technology research and development center has advanced capability in food analysis and detection as well as product research and development. With various advanced research and development and detection equipment, it offers strong technical support to the Company. In cooperation with Tianjin Institute of Microbiology, the Company has developed Yogurt Jelly, Fruit Jelly, marine biologic and microbial extraction processes, food applications and other projects, establishing its leading position in China with independent intellectual property rights.

In the reporting period, a total of 2 invention patents, 5 utility model patents and 15 appearance patents were filed and passed. Among them, the “Key technology for fruit and vegetable probiotic fermentation and industrial application” won the “Second Class Prize of The State Scientific and Technological Progress Award”.

2.5.2 *Major Honors of Labixiaoxin*

- May 2013: China Association of Bakery & Confectionery Industry Outstanding Enterprise;
- June 2013: Enterprise Most Caring about Employee 2011-2012;
- June 2013: Jinjiang Civilized Unit 2011-2012;
- July 2013: Advanced Grass-root Party Organization 2010-2012;
- August 2013: Municipal-level Key Leading Enterprise of Quanzhou’s 7th Agricultural Industrialization;
- September 2013: Most Innovative Company of Fujian Province;
- May 2014: 2013 CIEBC Top 100 Companies;
- May 2014: Municipal-level Key Leading Enterprise of Agricultural Industrialization 2013-2014;
- November 2014: Well-known Trademark of Fujian Province (November 2014 to November 2017);
- March 2015: Inventory Patent Certificate for Two-layer Mousse Jelly and Preparation Process;
- June 2015: China Association of Bakery & Confectionery Industry Top 10 Companies (Jelly);
- December 2016: Second Class Prize of The State Scientific and Technological Progress Award;
- January 2017: 2016 Jinjiang Science and Technology Award;
- January 2017: Second Class Prize of Jinjiang Patent Award;
- January 2017: Third Class prize of Quanzhou Patent Award.

3. GREEN FOOD

3.1. "Green Food" Management Principle

"Green Food" requires the implementation of comprehensive quality control. In this regard, the Company executes the following requirements:

- (1) The Company must comply with relevant PRC laws and regulations, and a wide range of policies, laws, regulations and rules in relation to food production and operation, food package, food safety, and utilization of food additives;
- (2) The Company should treasure and improve talent quality, push up occupational health and safety level, set up staff health management mechanism, and improve product quality and plant environment;
- (3) In all operating activities, the Company should apply advanced process and technologies, and follow relevant quality and technique requirements. Every product must be produced in strict compliance with relevant requirements and should be carefully crafted in each process;
- (4) The Company should carry out systematical management regarding talent, capital, governance, technology, equipment, information and environmental protection, so as to prevent substandard products, environmental violations and food safety incidents;
- (5) The Company should provide employees with working environment and living places that meet food safety and occupational health requirements, provide safe and cheap production facilities, provide labor protection products that meet the requirements of national standards, and regularly inspect production operations and equipment operating conditions.

All food produced by the Company meets the standards of pollution-free, safety, high quality and nutrition, and meets the requirements for green food:

- (1) The product or product raw materials must meet the ecological environment quality standards for green foods;
- (2) Crop planting, livestock breeding, aquaculture and food processing must comply with production practices for green foods;
- (3) Products must meet quality and hygiene standards for green foods;
- (4) Product packaging must comply with the national food labeling general standards as well as the specific packaging, decoration and labeling regulations for green foods.

3.2. Diverse Products

We offer diverse and high-quality snacks to the market, which could be categorized as follows:

- Jelly: fruit-flavored jelly, fruit juice jelly, fruit pulp jelly, fiber jelly, drinkable jelly, lactic acid bacteria jelly;
- Pudding: juice pudding, milkshake ice cream, fruit pulp pudding;
- Drink: drinkable jelly, popsicle;
- Candy: Gel candy, hard candy, toffee, nougat, gummy candy;
- CBR chocolate products: oats, small cup, crisp, egg rolls.

For years, our strong product development inputs have brought us successful product category expansion and product quality improvement. We regularly collect market information from sales and marketing departments for the purpose of developing new product lines and improving and expanding product categories. For instance, we usually launch a number of new flavor or products every year and weed out products that are least popular as compared with other products in the same line. Over recent years, we have succeeded in product category expansion, and currently we have over 1,000 SKU of jelly products sold (in different flavors, packages and weights), confectionary products and other products.

Our research and product development team is experienced and skilled, and is devoted to development of new formula and flavor, enabling our products to stand out from competition. While maintaining production costs within acceptable ranges, we are committed to product improvement and innovation and satisfying customers' changing flavor and preference, with particular focus on flavor, quality and package. In addition to internal product development, we also work in tandem with academic and research institutes to develop new products. With our strong research and product development capabilities, we are the convener of the Jelly Group of National Snack Food Standardization Technical Committee, and we participate in the formulation of national standards for various types of jelly products.

We are confident that with our product development competence, we will manage to continuously improve our product, expand product categories, enrich product mix and maintain our competitiveness in China's snack food industry.

3.3. Product Quality Control System

The Company keeps improving food quality and the level of safety management, and introduces a number of international advanced quality control systems in succession, including GB/T19001/ISO9001 Quality Management System, GB/T24001/ISO14001 Environmental Management System, GB/T28001/OHSAS18001 Occupational Health and Safety Management System, GB/T22000/ISO22000 Food Safety Management System, BRC Global Standard for Food Safety and Halal Certification, and incorporates them according to its practical conditions. By doing so, it builds a systematical and international whole-chain quality control system focusing on food safety, to realize comprehensive product quality control and to ensure stable product quality.

The Company promotes and implements quality and safety system certifications and entrusts professional third-party certification institutions to send experienced audit experts to conduct review and audit. During the reporting period, the Company passed GB/T19001/ISO9001 Quality Management System certification, HACCP certification and BRC Global Standard for Food Safety Standards certification.

3.3.1 Supply Chain Management

In order to protect the quality and safety of the Company's products and control the risks from the source, Labixiaoxin adopts the group centralized procurement model and continues to strengthen the supervision over the procurement of raw materials. It has formulated the "Management Regulations for Procurement" and "Management System for Suppliers", so as to clearly define procurement practices, build a green and safe supply chain, and continuously improve the operational performance of both the Group and its partners.

The Group has established a comprehensive supplier management system and implemented full-process management from suppliers' entry investigations to regular audits and performance evaluations. Prior to listing a supplier as a qualified supplier, the Group will follow strict supplier investigation procedures including, but not limited to, technical standards, qualification certification, quality inspection standards, equipment status, brand recognition and quality guarantee methods of suppliers. We will review qualified suppliers every year, and we will immediately start review work in case of incidence related to major quality issues, delivery dates, prices and services.

The Group conducts comprehensive performance evaluations on suppliers, conducts leveled management on suppliers, and establishes a reward and penalty for suppliers to eliminate unqualified suppliers. The Group also attaches great importance to establishing long-term and good cooperation atmosphere with suppliers, and regularly provides guidance and assistance to lower-rated suppliers.

Table 3: Statistics on the Number of Suppliers by Region

Province	Number of suppliers in 2017	Percentage
Fujian	49	38.3%
Zhejiang	12	9.4%
Anhui	11	8.6%
Tianjin	10	7.8%
Guangdong	10	7.8%
Jiangsu	10	7.8%
Shanghai	9	7.0%
Chengdu	4	3.1%
Sichuan	2	1.6%
Hainan	2	1.6%
Liaoning	2	1.6%
Jiangxi	2	1.6%
Hubei	2	1.6%
Hebei	1	0.8%
Beijing	1	0.8%
Shandong	1	0.8%

3.3.2 Production Control and Management

1) HACCP plan

According to GB/T 22000 Management System Requirements, BRC Global Standard for Food Safety, CCAA 0009 "Confectionery Production Enterprise Requirements", CCAA 0016 "Beverage Production Enterprise Requirements", CCAA 0008 "Baked Food Production Enterprise Requirements", and in combination with the Company's actual conditions, the Group compiles HACCP plan to serve as a programmatic and regulatory document for the Company's food safety management.

The HACCP plan stipulates the organizational structure, product description, production process flow chart, production process description, hazard analysis worksheet, HACCP plan table, corrective procedures, verification procedures, and defines process composition, process sequence, and the interaction between processes required for the HACCP plan, guidelines and methods for effective control of critical control points. Through monitoring, measurement and analysis, necessary improvement measures can be taken to ensure the implementation of the Company's food safety policies and objectives.

2) *Operational prerequisite program*

The Company strictly abides by the relevant laws and regulations, caters for customer requirements, and takes the internationally accepted guidelines as well as principles and operation standards of Codex Alimentarius Commission as reference, works out a prerequisite program applied in the whole production system, which is appropriate for its food safety requirements, operating scale and business type, nature of products it produced and (or) processed, aiming to control:

- the possibility that food safety hazards would affect products through working environment;
- biological, chemical and physical pollution to food, including cross contamination;
- food hazard level of product and product processing environment.

The prerequisite program set clear provisions on monitoring eight key production elements, namely water quality monitoring, food contact surface monitoring, cross contamination monitoring, disinfection and hygiene monitoring, pollutant monitoring, toxic chemical monitoring, employee health and hygiene monitoring, and insect pest monitoring.

3.3.3 **Quality Inspection**

1) *Inspection on raw and auxiliary materials to be stored into inventory*

Materials must be delivered to the Company together with a delivery inspection report provided by relevant vendor; samples shall be collected according to the requirement, and inspection and testing records shall be made in accordance with specified standards and inspection methods.

2) *Process inspection and testing*

Process and product inspection comprises workshop operator self-inspection, QC special inspection and sampling inspection of Inspection Group, which includes:

Jelly products: ingredient mixing, filling and sealing, sterilizing, selecting and packaging

Confectionary products: boiling, moulding and packaging

Beverage products: ingredient mixing, filling and sealing and packaging

Inspection and testing covers 3 product series, involving 10 procedures and 21 inspected items.

The Company has prepared guidelines on QC standard operation, which display inspection procedures by pictures to help staff better understand and control, thus further promote the standardization of quality control work and ensure product quality.

3) *Final product inspection*

The testing lab is responsible for inspection of finished product, and inspected items include sensory index, physicalchemical index, biological index, inspection method, product lot number, and criteria to judge whether a product is up to standards. The testing lab may conduct sampling inspections on finished products stored in the warehouse on random basis, and products must not be delivered if judged as substandard.

Relevant reports should be finalized, which include Product Inspection Report (《產品檢驗報告》), Water Quality Inspection Report (《水質檢驗報告》), Raw and Auxiliary Material Inspection Report (《原輔材料檢驗報告》), Microorganism Inspection Report (《微生物檢驗報告》), Ingredient Mixing Daily Report (《投料工序檢查日報表》), Sterilizing Daily Report (《殺菌工序檢查日報表》), Selecting Inspection Report (《挑選檢查報表》), Packaging Inspection Report (《包裝檢查報表》), Workshop Hygiene Report (《車間衛生檢查報表》), and other inspection tools to ensure the accuracy of records and reports

3.3.4 Warehousing and Logistics Guarantee

We strictly control the storage and operation of our products to do a good job in product protection:

- All warehouses must be kept clean; the physical conditions should match the product storage requirements. For this reason, we have built a low-temperature warehouse with an area of over 800 square meters;
- All products must be stacked neatly and stacked according to labels such as the incoming date or production date, product name, lot number, and quality status; the entry and exit of products shall follow the "first in, first out" principle;
- The distance between stored products and the ground, walls, and roof must meet the required requirements, i.e., not less than 30 centimeters from the wall, 15 centimeters from the ground, 50 centimeters from the top, and gradually let the product off the ground;
- Transportation vehicles must be clean, dry, odor-free, and have adequate rain protection facilities; logistics safety responsibility statement shall be signed with the logistics company.

3.3.5 Product Tracing and Tracking

Labixiaoxin implements strict control and tracking on product distribution:

- All product information (including full supply chain product information of raw material suppliers) has been uploaded to the Food and Drug Administration system for product tracing by relevant government agencies;
- It sets up complete and clear distribution records, including shipping origin, lot number, specific quantity, delivery time, contact person and means of contact;
- It builds sufficient communication channels for related parties (including distributors, wholesalers, retailers, and consumers) to facilitate delivering food safety information to external organizations and related parties;
- It builds an effective recall system and implements hierarchical recall management, setting out details about recall time, work procedures and information disclosure.

3.3.6 Product Qualification Ratio

The whole-cycle product management systematically guarantees the stability and enhancement of product quality. During the reporting period, the Company still maintained a consistent high-quality output, achieving 100% compliance with food safety, and zero product recovery for safety or health reasons for all the products sold or shipped.

Table 4 : Product Quality Performance in 2015-2017

Year	Product qualification ratio	Food safety compliance ratio	Percentage of products sold or delivered that are recalled due to safety and health reason
2015	99.70%	100%	0%
2016	99.81%	100%	0%
2017	99.81%	100%	0%

3.4. Customer Service System

We have formulated Customer Complaint Management System (《顧客投訴管理制度》) to specify responsibility scope of customer complaint management, relevant work procedures, and accountability and rectification measures, thus ensuring prompt response to customer complaints, improving product and service quality, and maintaining the Company's reputation. The Group has specified customer services personnel who is responsible for recording, transferring and dealing with customer complaints, inquiries, suggestions and other information in order to maintain good relationship with customers. We implement hierarchical customer complaint management, under which, complaints categorized as A Class or a serious one, B Class must be reported to the Group's general manager. In the meantime, we have strict control on the timeline for responding to customer complaints.

For the protection of consumer information, we record customer-related business information such as order release and delivery information in customer management system. The IT department will set permission for customer data viewing, so only authorized personnel can perform information review and maintenance, which effectively protect the customer data and privacy. At the same time, we require each enrolled employee to sign a confidentiality agreement, which clarifies the employee's regulations regarding the confidentiality of company information and the responsibility for violating the relevant confidentiality agreement.

In 2017, Labixiaoxin customer representatives handled a total of 56 customer complaints, none of which were major batch-type complaints. All complaints were properly handled during the reporting period.

3.5. Intellectual Property Protection System

The Company attaches great importance to the research and development and innovation of high-tech products as well as the protection of intellectual property rights, and it has formulated and implemented strategies for new product research and development and patent implementation. We believe that the protection of intellectual property rights can protect innovation, which in turn can better support innovation-driven development. During the reporting period, in order to strengthen the management of intellectual property rights, the Company has established an intellectual property management system in accordance with the requirements of the "Standards for the Management of Corporate Intellectual Property Rights" GB/T 29490:2013, and successfully passed the external review of third-party certification institute to obtain the intellectual property rights management system certification.

4. CARE FOR EMPLOYEES

4.1. Our Value

The Company adheres to the "people-oriented" guideline, regards the interests of all employees as the starting point and foothold of all work, regards employees as the main body promoting the development of the Company, and continuously meets the various needs of employees and realizes the all-round development of employees. The Company keeps the commitment to realize mutual development with employees and to make sure that employees feel they are "respected, recognized, cared, appreciated and encouraged".

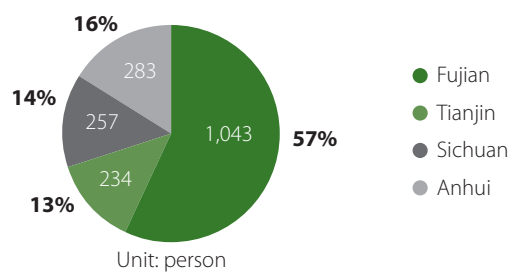
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4.2. Our Staff

Our staffs are mostly based in Fujian, Tianjin, Sichuan and Anhui. As at 31 December 2017, the Group has 1,817 full-time employees, which include:

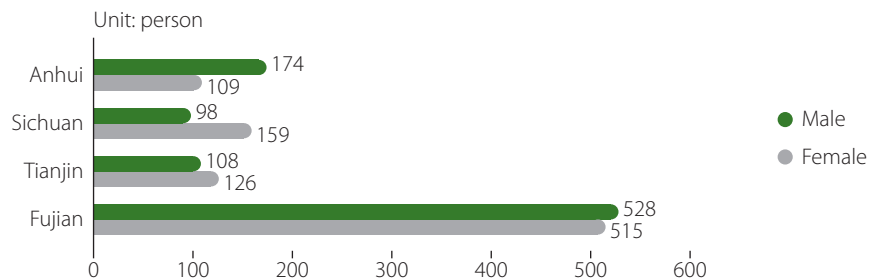
- The number of employees located in Fujian Headquarters is relatively large, and the number of employees in Tianjin base, Sichuan base and Anhui base is relatively even, accounting for approximately 13%-16% of the total number of employees respectively:

Figure 1: Distribution Pie Chart of Labixiaoxin Employees Grouped by Region



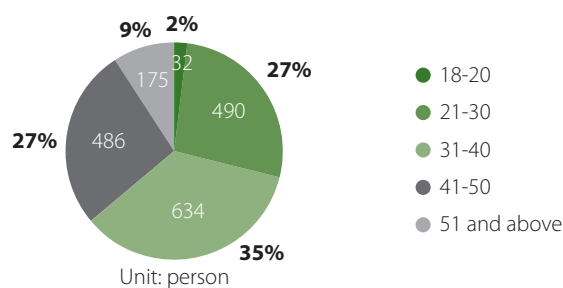
- The Group has a balanced distribution of male and female employees. The total number of male employees is 908. The total number of female employees is 909. The gender distribution of employees in each region is as follows:

Figure 2: Gender Distribution Histogram of Labixiaoxin Employees



- The age distribution of employees in the Group concentrates on aging 21-50 years old. Among them, the number of employees in the 31-40 age group is the largest, totaling 634:

Figure 3: Age Distribution Pie Chart of Labixiaoxin's Employees



4.3. Employment and Employee Rights

Labixiaoxin firmly believes that excellent talents are the Company's most valuable asset and the foundation for the Company's sustainable development. In the course of its operations, the Group actively identifies and complies with laws and regulations concerning employment and employee rights, such as Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China. We have formulated the "Human Resource Management Handbook" and a series of human resource-related systems and policies to clarify the processes, management principles and regulations concerning employee recruitment, compensation and benefits, health and safety, development and training and performance evaluation, so that the rights and interests of employees are effectively guaranteed.

4.3.1 *Fairness and Anti-discrimination*

The Group does not tolerate any discrimination to employees or candidates, and ensures that employees will not suffer from any form of discrimination because of their ethnic nationality, race, gender, religious belief, marriage status, health or other characteristics protected by law. It remains impartial in hire, training, salaries and benefits, promotion and redeployment, and adopts vigorous measures to safeguard such objective on the condition that it has complied with relevant laws and regulations and labor contract provisions.

4.3.2 *Strict Compliance with Labor Standards*

The Company is in compliance with Disney's Human Rights Social Responsibility audit requirements and meets the assessment requirements in five aspects: Corporate Social Responsibility Management System Guidelines, Written Personnel Policies and Implementation Procedures, Salary and Working Hours, Contract and Supplier Agreements, and health and safety. In the process of employee recruitment, the Group's human resources department will confirm the accuracy of the candidate's age and identity by verifying the identity and qualification of the candidates, and the information of successful candidates will be recorded and saved for regular maintenance. The Group have signed labor contracts with all its employees and paid social insurance for employees according to the requirements of laws and regulations.

During the reporting period, the Group has strictly complied with rules and regulatory requirements on child labor and forced labor issued by China, Hong Kong and other applicable jurisdictions, to effectively forestall the employment of child labor and forced labor.

During the reporting period, the Group has not noticed any violations of labor standards, and relevant laws and regulations.

4.3.3 Guarantee for Staff Benefits

The Group pays utmost attention to employees' sense of happiness and offers them statutory holidays and benefits in accordance with laws and regulations. It also provides employees with other supplementary benefits, and therefore, it wins recognition from employees for its humanistic care.

The Group also takes account of employees' health and life, and strongly believes that it is very important to provide employees who are from other provinces and now living in the dorms of production plants with the sense of belonging and make them feel at home. Therefore, it makes continuous upgrading in dorms, canteens and recreation facilities to offer employees a better living environment.

With an aim to nurture employees' initiative, sense of pleasure and team spirit, the Group encourages all departments to organize social and team building activities and monitor such activities. During the reporting period, we held various activities for employees, including recreational activities, parties, basketball games and table tennis games. We also offered other facilities that are of education value and would help employees better accomplish their tasks, which include staff library, training room and Labixiaoxin Management College.

4.3.4 Active Establishment of Talent Team

In order to meet the diversified development of the Company and strengthen the construction of mid-to high-level management talents and echelons, the Company actively promotes the cultivation of professional talents and managerial talents to increase the Company's talent pool. This year, the Company has created a "Management Trainee Program" that aims to select a group of high-potential talents from the graduating college students as the reserve force for the future development of the Company.

4.4. Staff Training and Development

Talent is the most important source of the Group's competitive advantage, and also one of the most important guarantees for the Group's sustainable development. The Group establishes an open learning platform to promote knowledge reserve and sharing. Building an effective, continuous and orderly learning system, promoting on-job training that is conducive to growth through practice and introducing performance coaching, the Group helps its employees improve knowledge reserve, skills, and organizational and cultural adaptability, thus improving their performance and broadening career development opportunities. It firmly believes that training should be guided by the target of being conducive to improving business performance. It also holds that internal training and group learning should predominate, and external training should serve as supplement, stressing the timely sharing and effective application of training. Every year, the Group works out special training budget for the purpose of helping employees improve knowledge reserve, skills, organizational and cultural adaptability, and leadership.

Trainings for each year include on-boarding training, on-job skill training and management training, in the form of centralized training sessions, experience exchanges, mentor coaching, on-job training and external expert training.

Statistics show that training hours each of Labixiaoxin's employees has taken are averaged above 25 hours every year.

4.5. Occupational Health and Safety

Employee safety and health is our first priority, and we have strictly followed relevant laws and regulations to build a safe and healthy working environment. The Company has introduced GB/T 28000 Occupational Health and Safety Management System (GB/T28000《職業健康安全管理體系》) to effectively control occupational health and safety risks, eliminate or reduce occupational health and safety risks employees may be exposed to because of production activities and other affairs and enhance its social responsibilities featured with human-based management.

In addition, we provide employees in all business departments with trainings on occupational safety, through which, employees are equipped with production safety knowledge as necessary to their work, improve their production safety skills, and enhance their capabilities of accident prevention and emergency response. We organize fire-fighting exercises every year, for the purpose of improving employees' safety awareness and basic fire-fighting skills. For every year, the Company has thorough safety inspections in spring and autumn respectively, checking the status of production facilities, safety measures to protect employees from danger, and occupational health, safety and hygiene conditions of each unit.

During the reporting period, the Group has no work-related injury or death, nor has it discovered any violation of laws and regulations in relation to occupational health and safety.

5. LOW CARBON AND ENVIRONMENT FRIENDLINESS

The Group actively implements requirements of environmental laws and local environmental protection authorities, and has comprehensively introduced ISO14001 Environmental Management System to effectively control emission of greenhouse gas, waste gas, waste water and hazardous waste. It has included environmental protection into its ordinary management agenda, and has established general-manager responsibility system. Special environmental protection department and Environmental Management Plan has been set up to conduct environmental management planning and monitoring. The administration center appoints environmental management personnel to ensure the implementation and management of environmental protection measures. We believe that compliance with relevant environmental rules and regulations is critical to the long-term development and success of our business. Therefore, we will continue to understand the industry's policy orientation, analyze the latest applicable environmental laws, regulations, policies, and domestic and foreign industry best practices, and update our environmental protection-related management systems in a timely manner to ensure that our environmental management is advancing with the times.

The Group actively practices environmental protection. All subsidiaries of the Group must strictly abide by the Group's internal management system related to environmental protection, strictly implement relevant management systems, and meet relevant statutory requirements. During the reporting period, the Group has not noticed any violations of environmental laws and regulations.

Environmental, Social and Governance Report

5.1. Emissions

5.1.1 Waste Gas, Waste Water, and Solid Waste

Waste gas

At present, the waste gas generated by the Group mainly comes from the coal and the gasoline consumption for production use. In view of the gas emissions, we gradually replaced the coal with the more environmentally friendly natural gas that burns more completely. By doing so, the emission of nitrogen oxides, sulfur oxides and particles can also be reduced to lower the impact on the environment. For the details of this year's energy use compared to that of 2016, refer to "Section 5.2 Resource Utilization". In the future, we will respond to the call of the municipal government to gradually adopt the government's collective gas supply and reduce the direct waste gas emission caused by direct energy consumption. In terms of vehicle management, we also try to use EFI-type vehicles or install filtration devices on vehicles, and use unleaded gasoline to reduce pollution caused by waste gas.

During the reporting period, the total emissions of waste gas are summarized as follows:

Table 5 : Emission Type and Amount of Waste Gas in 2017

Emission type	Final emission (kg) ¹
Particulate matter (PM)	15,040.00 ²
Sulfur oxides (SOx)	319.63
Nitrogen oxides (NOx)	5,912.06

Wastewater and solid waste

With constantly updated processing technologies, the Group has formulated a comprehensive management system for wastewater/waste generated during the production and operation process. In strict accordance with national emission standards, effective measures were taken to reduce emissions and properly dispose of waste. We have strengthened production and operation management, improved production technology and technology standards, and vigorously enhanced various types of comprehensive energy utilization. At the same time, we have actively implemented the management of environmental protection equipment, eliminated different risks such as dripping and leaking to avoid production accidents. We have met the requirements of a clean and civilized company, and reduced the emission of "three wastes".

In response to the discharged wastewater, we have established a fermentation pool to treat the production wastewater, which uses microorganism to effectively neutralize the acidity and alkalinity of the discharged wastewater, minimizing the impact on the environment; for the waste paper, waste residue, cinders and waste plastics generated during the production process, we will sell them to third parties for recycling; for waste not applicable for direct use, such as waste oil, waste batteries, waste lamp tubes, waste wires, etc., each department shall place them in designated areas for designated departments to handle, so as to avoid environmental pollution.

¹ The statistics cover the direct emission data of the Group's Fujian Headquarters, and subsidiaries in Anhui, Tianjin, and Sichuan. The waste gas emissions include emissions generated by production coal, gasoline, and natural gas consumption for production use;

² As the vehicle mileage statistics are incomplete, there is no data on the emission of particulates generated by vehicle gasoline. The data only covers the particulate emissions generated by coal for production use;

Labixiaoxin Fujian Headquarters used data of monitoring tools and waste management contract ledgers to collect statistics on the discharge amount of waste water and solid waste. It plans to extend the statistics to cover factories in Tianjin, Sichuan, and Anhui. During the reporting period, due to the fact that the data on the discharge of waste water and solid waste from the other three bases has not yet been fully calculated, we will not disclose the relevant emission data for the time being. The data will be fully disclosed upon the completion of statistics.

5.1.2 Carbon Emission

The carbon emissions mainly come from electricity consumption and the burning of natural gas. During the reporting period, the carbon dioxide equivalent (CO₂e) generated by our operations was 26,225.69 tons³ and the density was 0.22 tons (CO₂e)/ton (food production). We have implemented various energy-saving measures to help reduce the corresponding carbon emissions. For details, please refer to the Energy Consumption section.

5.2. Resource Utilization

As one of the representative outstanding enterprises of Quanzhou City, the Group has always taken environmental, social and government into consideration in its core operating practices, and strictly controlled the consumption of resources in accordance with the economic operation principles for each project. The Group is committed to cleaner energy with higher utilization rates. During the reporting period, the Group's main energy consumption was electricity, natural gas and coal. Compared with 2016, we significantly reduced the use of coal and replaced it with natural gas, which is more environmentally friendly and efficient. In the future, we will respond to the call of the municipal government to gradually adopt collective gas supply and reduce direct energy consumption.

Chart 4: Bar Chart of Total Consumption of Raw Coal

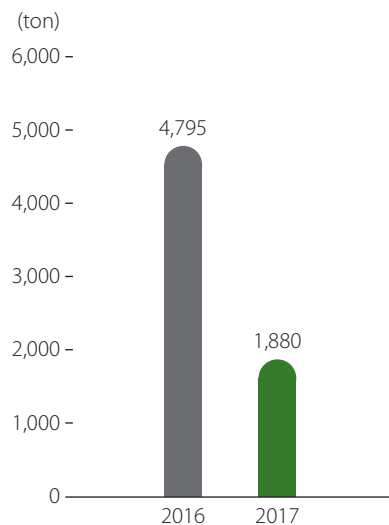
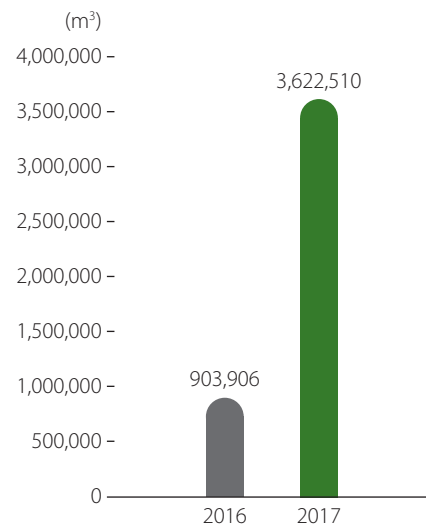


Chart 5: Bar Chart of Total Consumption of Natural Gas



³ The coverage of carbon dioxide emission here is more complete compared with the data disclosed in 2016. The data disclosed in 2016 only covers the indirect emission arising from power consumption but the data in this year also covers the direct carbon dioxide emission arising from the usage of coal, gasoline and natural gas.

Environmental, Social and Governance Report

During the reporting period, the audited consumption and density of resources were as follows:

Table 6: Resource Consumption and Density Statistics in 2017

Resource category	Total consumption	Density
Electricity	16,365,035.44 Kwh	134.71 Kwh/ton _{product}
Raw coal	1,880.00 ton	0.02 ton _{raw coal} /ton _{product}
Natural gas	3,622,509.76 m ³	29.82 m ³ /ton _{product}
Water	1,231,568.14 ton	10.14 m ³ /ton _{product}
Packaging materials	19,971.99 ton	0.16 ton _{packaging materials} /ton _{product}

We treasure natural resources and hope to minimize natural resource consumption while expanding our business. Our initiatives to promote efficient energy utilization are listed in the following:

- We plan and manage utilization of water, electricity and gas, install measurement meters as necessary to regularly record utilization and ensure effective monitoring on energy consumption.
- Each production workshop has signed performance contracts and conduct energy utilization assessment every month to monitor the difference between actual monthly consumption and theoretical consumption, thus strictly controlling energy consumption.
- Technical renovations, including: a. Use frequency converters to reduce power consumption of air compressors; b. Use transformers to reduce power transmission consumption; c. Use twin-screw air compressors to replace old air compressors, so as to increase the gas production per unit power consumption and reduce power consumption; d. add a water circulation system in the cooling process to increase the water cyclicity, thereby improving the efficiency of water utilization; e. Improve the thermal cycle equipment and water cycle equipment to reduce the consumption of raw coal in the production process; f. Continue to promote the use of LED energy-saving lamps, with more than 3,000 lamps replaced by now.
- We make efforts to improve employees' awareness of environmental protection, and help them cultivate good habits in terms of water and electricity utilization, thus realize energy conservation.

5.3. Environmental Impact Management

Based on the business nature of the Group, the daily production and operation may affect environment and natural resources, mainly from coal exhaust gas and waste water/solid waste generated during the production process, but none of these constitutes significant impact on environment and natural resources. In response to the “three wastes” that have been generated, we have adopted corresponding treatment procedures and our emissions comply with the requirements of national laws and regulations and related environmental protection policies. In addition, the Group has also formulated the “Environmental Protection Management System”, “Environmental and Occupational Health and Safety Management Operation Control Procedures”, “Emergency Plans for Environmental Pollution and Damage Incidents” and “Environmental and Occupational Health and Safety Emergency Response and Control Procedures” and other documents to prevent the occurrence of risk events that may have a significant impact on the environment and natural resources, and clarify the emergency plans and procedures in case of such incidents.

6. COMMUNITY INVESTMENT

The Group’s vision “Labi Always Delights You” (「蠟筆一下·天天開心」) is not only incorporated into its products, but also in public welfare undertakings. We join hands with investors and partners, with government, media, and with employees and consumers, to promote sustainable social development and to work hard for people’s health and happiness. We have been fulfilling our social responsibilities, repaying the society to support those in need and actively taking part in various corporate social responsibility activities to promote sustainable development concept.

During the reporting period, the Group’s corporate social responsibility activities mainly include charity fund, educational support and volunteer activities.

6.1. Charity Fund

Since its establishment, the Group has been repaying the society and devoting itself to charity and benevolence. It donated RMB2,000,000 to establish Labixiaoxin Charity Fund in 2007, and increased donations in succession subsequently. Currently, Labixiaoxin Charity Fund is managed by Jinjiang Charity Federation, which is responsible for ordinary donations of the fund. In October 2017, the Group donated RMB500,000 to Jinjiang Luoshan Yude Primary School.

6.2. Educational Support

Support to education development has always been the focus of the Group’s public welfare undertaking, and the Group has made great contribution to educational infrastructure construction, school construction plans and assisting impoverished students. In June 2017, the Group donated jelly products worth RMB30,000 to primary schools and kindergartens on the Children’s Day. In October 2017, the Group donated RMB1,000,000 to Jinjiang Luoshan Yude Primary School.

At the same time, the Group also cooperates with related colleges and universities so they can send students for internships and visits according to the requirements of the teaching plan and curriculum syllabus, on the premise of not affecting the normal production of the Group. The Group will send professional and technical personnel to conduct teaching and training, so as to lay a good foundation for students to serve the community after graduation.

6.3. Volunteer Activities

The Group is committed to maintaining relationship with local social organizations adjacent to communities where our businesses are located, and it has close collaboration with local volunteer service organizations. It arranges and participates in various community services, including environmental protection campaigns, visiting those in need and assisting in organizing large social activities. For every year, the Company pays visit to the elderly who live alone on traditional festivals, delivering its care to the elderly. In the Double Ninth Festival of the year 2017, we donated RMB30,000 in cash to the elderly associations in the community.