



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

2018



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. 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 the 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 are set and maintained by the Group.

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 2018 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 2018 to 31 December 2018 (the “reporting period”, the “fiscal year”), and can be traced back to past years or other important years.

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》), Social Responsibility Reporting Guidelines of the Food Industry issued by Chinese Academy of Social Sciences (《中國企業社會責任報告編寫指南3.0之食品行業》) and ISO 26000 – Guidance on Social Responsibility (2010) issued by International Organization for Standardization. This Report is prepared based on the requirements set out in the abovementioned standards, and proceeded through benchmarking, stakeholder communication, analysis of material issues, collection of relevant information, report preparation and the report reviewing process by the Board, so as to ensure the materiality, quantity, balance and consistency of the content in this Report.

1.1.4 Statement about Information

All information and data used in this Report are extracted from the Company’s formal documents, statistics reports and financial statements. Information 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.

1.1.5 Languages Available

This Report is publicly available in English and Chinese. Should there be any discrepancies 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 Company Introduction

Labixiaoxin Snacks Group Limited (listed on the Main Board of Hong Kong, stock code: HK.01262) was founded in 2004. With a history of more than a decade, the Company now has standard plants of approximately 50,000 square meters and ancillary facilities, over 1,000 employees and nearly 100 professional technicians, and nearly 200 advanced production lines. The Company ranked top 2 in terms of domestic market share of its jelly products, playing a leading role in the domestic jelly industry, and has become a benchmark enterprise in the private sector of Jinjiang City. We primarily engaged in the production of jelly products, confectionary products, beverages and other snack food in over 300 varieties of 9 series.

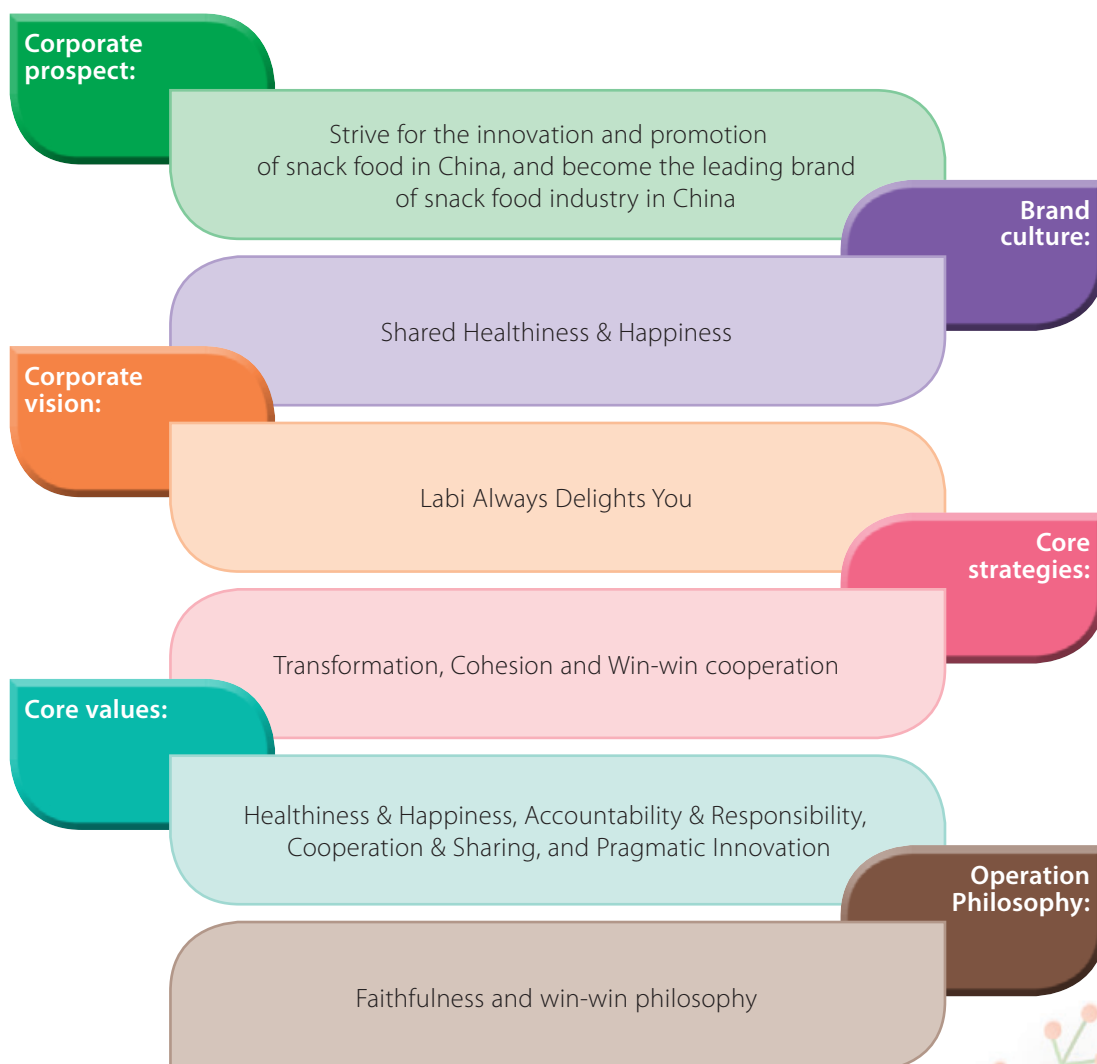
The Company builds an extensive sales network covering 31 provinces and cities across China, which consists of over 600 distributors, over 8,000 distribution outlets and over 30,000 retail terminals in the domestic sales market. We also establishes close partnership with many well-known large retailers both at home and abroad, including Wal-Mart, METRO, Carrefour, Trust-Mart and RT-Mart. Moreover, the Company exports its products to over 30 countries and regions in Europe, America, Southeast Asia and Africa.

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2.2 Corporate Culture and Philosophy

The core values of the Group include healthiness & happiness, accountability & responsibility, cooperation & sharing, and pragmatic innovation. With its high-quality products, the Group establishes a brand culture of “shared healthiness & happiness”. Snacks of Labixiaoxin are labeled with “safety”, “healthiness”, “quality”, “nutritiousness”, and “happiness” (「安全」、「健康」、「優質」、「營養」、「開心」). By upholding the corporate vision “Labi Always Delights You” (「蠟筆一下·天天開心」), operating with faithfulness and a win-win philosophy, the Group is 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. The Group focuses on the core strategies of transformation, cohesion and win-win cooperation, adheres to the requirement of high-quality development and strives for the innovation and promotion of snack food in China. By vigorous promotion of product, brand image and services construction that satisfies customers' requirements from all aspects, the Groups aims to become the leading brand of snack food industry in China.

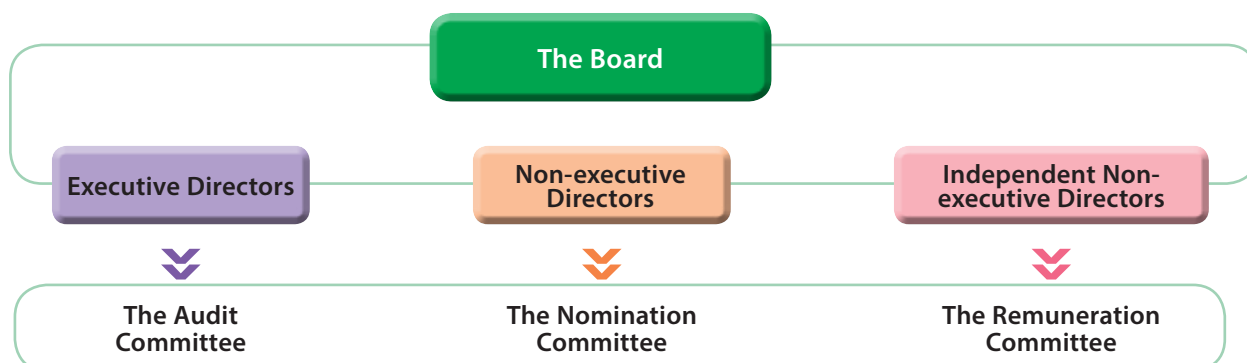
Figure 1: Core corporate culture of Labixiaoxin



2.3 Corporate Governance

2.3.1 Corporate Governance Structure

The Group is committed to maintain 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 strictly complies with the Company Law of the People's Republic of China (《中華人民共和國公司法》), Corporate Internal Control Audit Guidelines (《企業內部控制審計指引》) and relevant PRC laws and regulations to determine relevant audit and internal control laws and regulations on its daily operation. In accordance with the above laws and regulations, the Company has set up and executed internal control and audit standard including 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. Hence fully performs the monitoring function of audit works and effectively procures the situation improvement.

2.3.3 Anti-fraud Mechanism

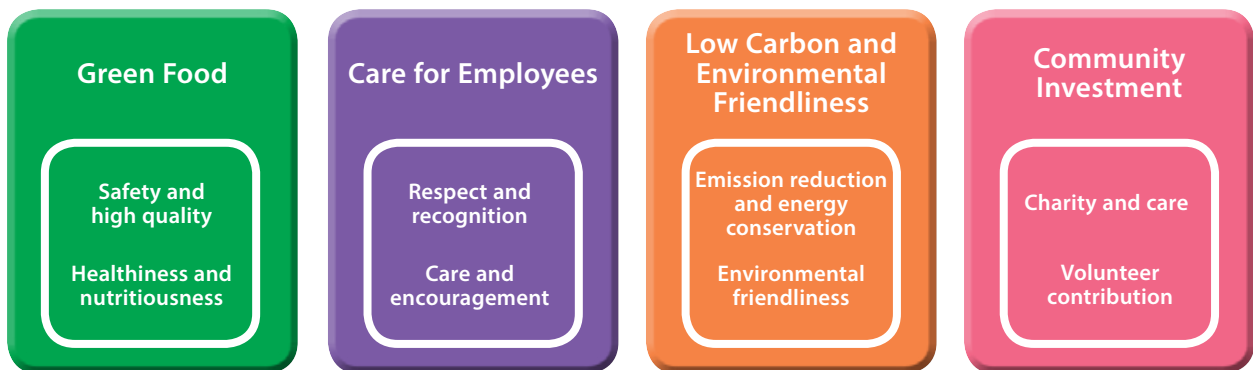
The Group emphasizes on the integrity education and zero-tolerance on corruption. To guarantee the realization of operating objectives and sustainable and sound development of the Company, enhance corporate governance and internal control, we have established a series of effective antifraud mechanisms, 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 continuously implemented to separate development rights, bargaining power, and execution rights, in order to achieve mutual checks and balances of functions, and reduce the possibility of fraud;
- Select buyers through an open and fair tendering process to best prevent the possibility of profit exchange among related personnel on the procurement;
- Notify customers to comply with relevant integrity regulations by the Letter of Integrity Commitment to ensure no direct economic exchange existed between suppliers and business personnel;
- Emphasize the integrity risk education for employees, organize education on clean and risk warning, organize lectures on clean and honest topics by inviting legal professionals, 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 year, we have not found any breach of laws and regulations regarding anti-corruption.

2.4 Environment, 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 the support and caring from the public; therefore, it makes “Repaying Society” (「回饋社會」) as the shared value for its management and employees. The Group maintains close communications with stakeholders and proactively fulfills corporate social responsibilities, continuously discovers and enhances its strategic goals and performances regarding environmental, social and governance aspects, also promotes sustainable social development and work hard for people’s health and happiness.



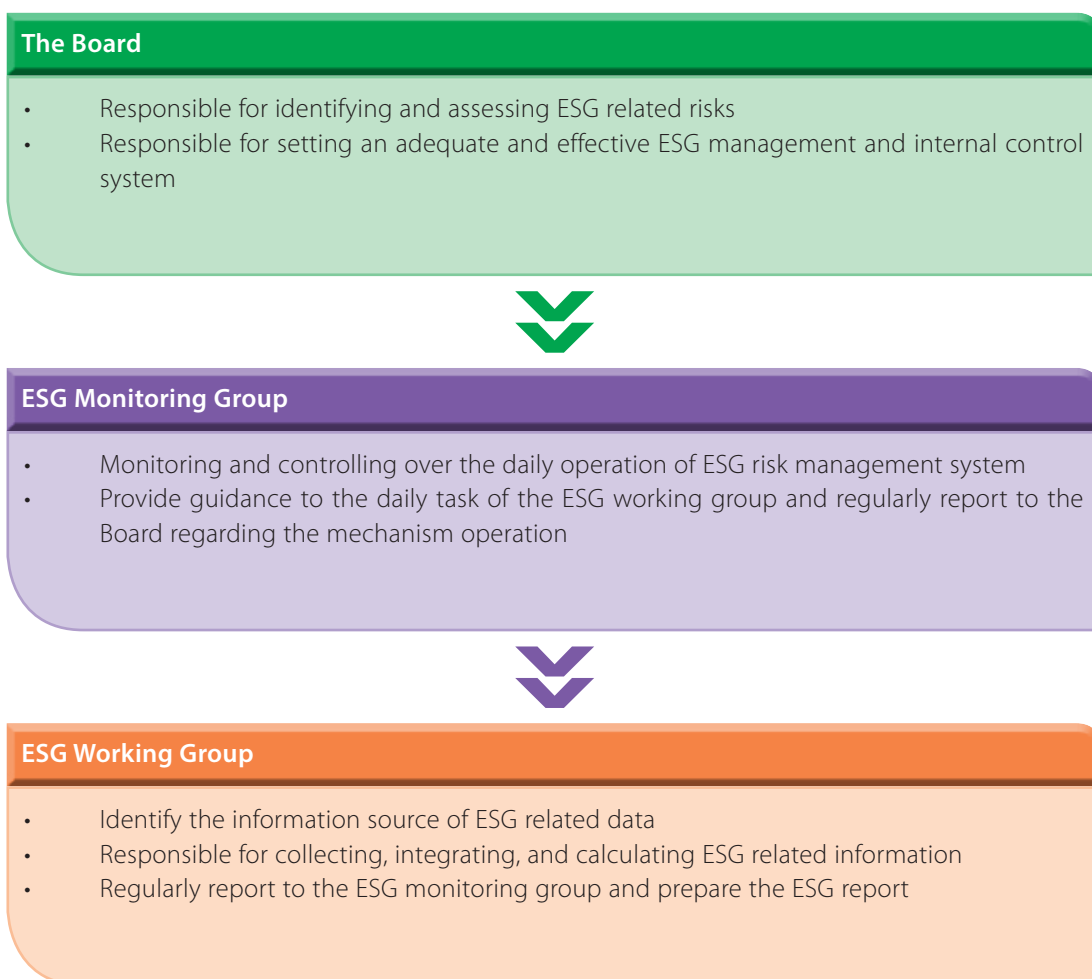
- The Group sticks to the “Green food” management principle to guarantee the safety, quality, healthiness, and nutritiousness of the products it offers;
- The Group never stops offering care and support to its employees. It treasures employees’ respect and recognition, and strives to safeguard employee benefits 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 achieve energy conservation and emission reduction, minimize its effect on the environment, and promote sustainable development;
- The Group makes relentless devotion to charity, delivering care and health to the public and communities, hence contributing to the health development of communities and the public.

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2.4.1 ESG Management Mechanism

A sound ESG management mechanism is the basis to safeguard the ESG work. Labixiaoxin set the Board as the highest decision-making authority for the ESG management mechanism, responsible for identifying and assessing ESG related risks, and ensuring that an adequate and effective ESG management mechanism and internal control system are set within the Group. The ESG monitoring group which consists of management of the Group is responsible for monitoring and controlling over the daily operation of ESG risk management and internal control system, provides guidance to the daily task of the ESG working group, as well as regularly reports to the Board regarding the mechanism operation. Meanwhile, Labixiaoxin establishes the ESG reporting group, which consists of core units including marketing center, human resource & administrative department, technology research & development department, procurement department, and production management department, to identify the information source of ESG related data. This group is also responsible for collecting, integrating, and calculating relevant information to regularly report on the management mechanism operation to the ESG monitoring group, and preparing the ESG report for the Board to assess whether the ESG risk management and internal control system is adequate and effective.

Figure 2: Labixiaoxin ESG Management Mechanism



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2.4.2 Communication with Stakeholders

Effective participation of the stakeholders is crucial to the Group's ESG governance. Setting up a stable, open and transparent communication mechanism with stakeholders is also a key measure for the Group to fulfil and promote social responsibility. By conducting active and effective communication with the stakeholders, the Group can further understand the expectation and demands from respective stakeholders on Labixiaoxin's social responsibility. We strive to fulfill basic social responsibility while satisfying the stakeholders and make corresponding adjustments on our development path.

Table 1: 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 Special meetings News and announcement published on the 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 feedback channels	"Green food" management principle Customer service system Product quality management mechanism
Suppliers	Fair, open and impartial procurement Honesty and trustworthiness Information confidentiality	Supplier tendering Supplier appraisal mechanism Supplier daily communication and annual meeting
Environment	Environmental protection Energy conservation and emission reduction	Regular assessment on environmental effect Technology upgrading Environmental management plan
Employees	Occupational health and safety Wages and benefits and security Construction of development platform	Occupational health and safety management system Employment and employee rights Employees trainings and development
Communities	Public welfare undertaking Volunteer activities	Charity fund Product donation Volunteer activities

2.4.3 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 those with significant or potential impact to stakeholders in its responsibility fulfilment and communication.

Identification of Issues

The Group focus on the characteristics of its business and the features of the industry, while the Board is responsible for identifying and assessing the impact and possible risks bring by the Group's businesses on social, economic and environmental aspects with references to the ESG Guide, further sorted out material issues on environment and society as its basis for analysis of material issues.

Surveys and Researches

With the instruction of ESG monitoring group, the ESG working group is responsible for conducting group discussion and one-on-one interviews with stakeholders for communication and exchange, so as to understand the issues they put priorities and assess the importance of various issues.

Screening and Assessments

Based on the results from surveys and researches, the ESG working group assesses different material issues by considering two perspectives including the importance of the impacts on its internal business and on its external stakeholders and prioritizes the importance of respective issue in order to obtain the materiality matrix. The relative importance of various issues are identified through matrix analysis.

Review and Confirmation

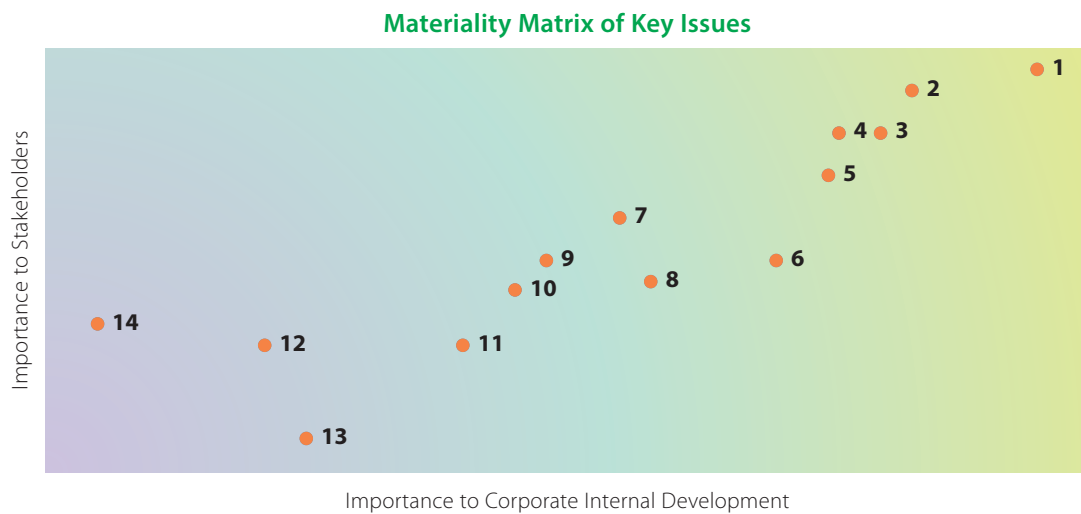
Through the abovementioned assessing process, 14 ESG key issues which are important to the Group are identified and form an integral part of this Report with the review of the Board of the Group and the ESG monitoring group. In other words, we should carry out key monitoring, management and information disclosure on these issues.

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Table 2: Labixiaoxin ESG Key Issues Importance Level

Importance Level	Issue Content
Issues of high importance	1 Ensure food safety and health
	2 Treatment of waste gas, waste water and solid waste
	3 Energy conservation
	4 Reduce impact on environment
	5 Safeguard occupational health and safety of employees
Issues of medium importance	6 Strengthen product quality control system
	7 Strengthen integrity system construction
	8 Regulate supply chain management
	9 Ensure customer communication and services
	10 Safeguard employees' rights on wages and benefits
	11 Safeguard customer privacy
	12 Strict compliance with labor standards
	13 Improve employee development and trainings
	14 Actively participate in public welfare

Figure 3: Materiality Matrix of Labixiaoxin's ESG Key Issues



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,” Labixiaoxin proactively explores and innovates. The Company’s continuous innovation and development has accumulated 171 patents. The Company eliminates 5% of its products and alternatively launches new products to market every year. 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.

2.5.2 *Major Honors of Labixiaoxin*

Labixiaoxin is committed to active development, introduction and improvement of production technology, continuous product innovation and upgrading, and the product quality are widely recognized by the society. Meanwhile, we keep improving the scientific management development. During the reporting year, we obtained the certificate of integration of informationization and industrialization management system issued by the Ministry of Industry and Information Technology. We also obtained a series of subsidies and grants from government related to technological research and development, brand value and technology enhancement.

The major honors and awards won by Labixiaoxin in recent five years are as follows:

- 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);

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- 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;
- May 2018: Integration of Informationization and Industrialization Management System Certificate.

Figure 4: Display of Honorary Certificates



3. GREEN FOOD

3.1 "Green Food" Management Principle

The Group is in strict compliance with a wide range of policies, laws, regulations and rules with respect to food production and operation, food package, food safety and utilization of food additives such as the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》), GB 14881-2013 the National Standard of Food Safety for the General Hygienic Regulation for Food Production (《GB 14881-2013 食品安全國家標準食品生產通用衛生規範》), Food Hygiene Supervision Procedures (《食品衛生監督程序》), GB 12695 the National Standard of Food Safety for the Hygienic Regulation for Beverages Production (《GB 12695 食品安全國家標準飲料生產衛生規範》) and GB 7100 the National Standard of Food Safety for Cookies Production (《GB 7100 食品安全國家標準餅乾》) in an attempt to ensure strict compliance with relevant laws and regulation during the procedures for production and processing, product packaging, product storage and transportation so as to safeguard product quality and safety.

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

- (1) The Company should treasure and improve employees' comprehensive quality, optimize the health management mechanism for employees, ensure employees' occupational health and safety level and improve product quality and plant environment;
- (2) In daily production and operating activities, the Company should apply advanced process and technologies, and follow high-standard quality and technique requirements. Every product must be produced in strict compliance with relevant requirements and should be carefully crafted in each process;
- (3) The Company should carry out systematical management regarding employees, capital, management, technology, equipment, information and environmental protection, so as to effectively prevent substandard products, environmental pollution and food safety incidents;
- (4) The Company should provide employees with working environment and living places that meet food safety and occupational health requirements, provide the production facilities that meet the safety standard, 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 the competition of the same type products. 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 products, expand product categories, enrich product mix and maintain our competitiveness in China's snack food industry.

To satisfy and cater to consumers' needs and flavor, the Group significantly increased the production volume of pudding in 2018, developed pudding with various specifications, while launching lactic acid bacteria juice and juice beverages, thereby further boosting the nutrition value of products.

Figure 5: Display of the Partial New Products of Labixiaoxin



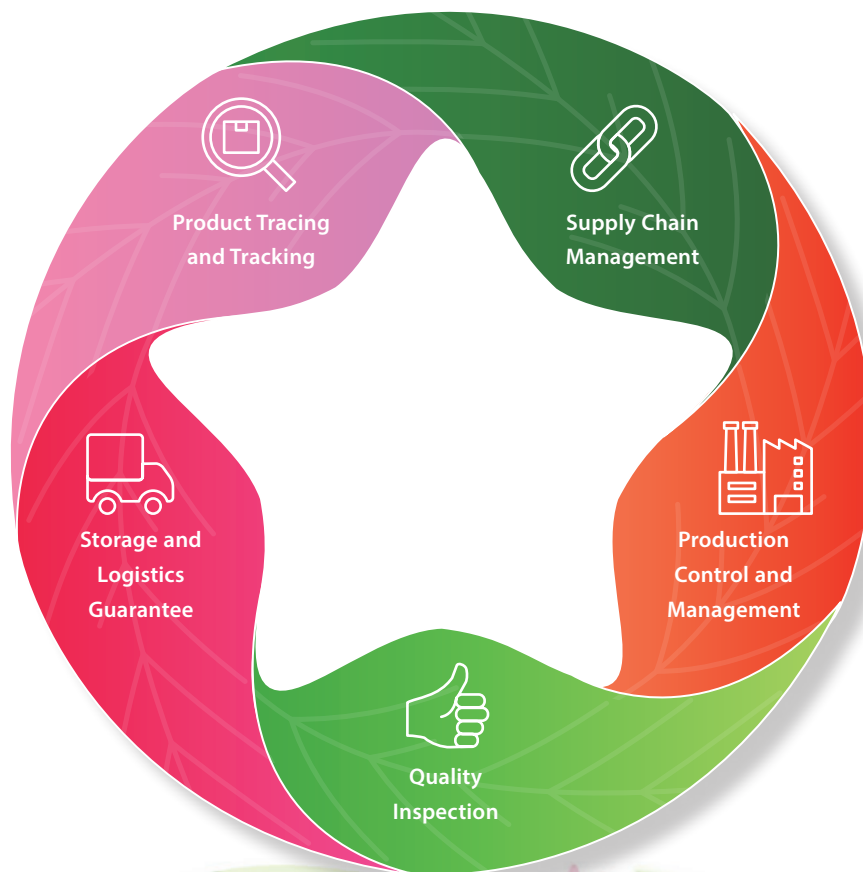
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3.3 Product Quality Control System

The Group has always attached utmost importance to product quality, and has regarded it as the cornerstone of the corporate development. The Group has been committed to 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 an IT-oriented, systematical and international whole-chain quality control system focusing on food safety, to perform whole-cycle quality management covering supply chain management, production control and management, quality monitoring, warehousing and logistics and product tracing, and to realize comprehensive product quality control and to ensure stable product quality.

The Company promotes and implements quality and safety system certifications in a proactive manner and entrusts third-party professional certification institutions to send experienced audit experts to conduct review and audit. During the reporting year, the Company passed GB/T19001/ISO9001 Quality Management System Certification, ISO22000 Food Safety Management System Certification, HACCP (Food Safety Hazard Analysis and Critical Control Points) certification (of which the updates on the food fraud prevention plan was completed in accordance with the HACCP System Certification Supplemental Requirements 1.0), BRC Global Standard for Food Safety Standards certification and HALAL Certification.

Figure 6: Labixiaoxin Product Quality Control System



3.3.1 Supply Chain Management

Labixiaoxin always focuses on the assessment and selection of its cooperative suppliers in combination with the core requirements regarding the material production of the Company with a view to selecting a quality of source of materials that meet the standards. The Group adopted two procurement models in 2018, aiming to safeguard the product quality and safety of the Company and control and risks from the source. The group centralized procurement model indicates that the procurement department of the Group shall be responsible for the procurement of respective production base and the headquarters of the Group. The other model suggests that the procurement department of the Group shall formulate the procurement standards, and the procurement staff of each production base shall conduct procurement in accordance with relevant standards formulated by the headquarters. In order to strengthen the supervision of the raw materials procurement on an on-going basis, the Group continued to adopt 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 safeguard the food safety from the source.

The Group has established a comprehensive supplier management system and implemented full-process supervision and management from suppliers' entry investigations, screening and introduction to regular audits and performance evaluations.

Figure 7: Diagram of the Supplier Management Procedures of Labixiaoxin

Assessment and Selection

- Supplier Quality Survey
- Supplier Production Environment Survey
- Material Price Assessment
- Material Quality Assessment



Assessment and Elimination

- Product Quality and Price Assessment
- Product Delivery Time Assessment
- Service Assessment
- Suppliers Elimination System



Reward, Penalty and Guidance

- Reward and Penalty For Suppliers
- Suppliers Communication Meetings
- Suppliers Technical Consultancy
- Procurement Strategies Communication Channels

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Prior to listing a supplier as a qualified supplier, the Group will follow strict investigation procedures including, but not limited to, technical standards, qualification certification, quality inspection standards, equipment status, brand recognition, business scale 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 quality issues, delivery dates, prices and services. During the year, the Group selected quality suppliers through bidding. The bidding assessment team, which is composed of each functional department, conducted assessment on the tenders with respect to material quality, price, service and other aspects. The Group strives to enhance the risk resistance capacity of itself and its cooperating suppliers, ensure the fairness of purchaser selection procedures and safeguard the material quality in an all-round manner through high-standard and strict requirements.

The Group implements comprehensive performance evaluation system on suppliers. Each functional department evaluates and scores suppliers based on the four modules of quality, price, delivery and service, respectively. The Group adjusts the proportion of supply quantity at any time for suppliers with lower scoring, while conducting leveled management on suppliers, and establishing a reward and penalty for suppliers to eliminate substandard suppliers. The Group also attaches great importance to establishing long-term and good cooperation relationship with suppliers, and regularly provides guidance and assistance to lower-rated suppliers. The Group plans to arrange a face-to-face meeting with suppliers in the middle of the year commencing from 2019 with a view to providing feedback regarding the quality data of the purchased products and communicating with suppliers concerning the procurement strategies of the Group in the years to come.

Table 3: Statistics on the Number of Suppliers by Region

Province	Number of suppliers in 2018	Percentage
Anhui	12	6.5%
Beijing	3	1.6%
Sichuan	11	5.9%
Liaoning	2	1.1%
Fujian	76	40.9%
Guangdong	27	14.5%
Hainan	3	1.6%
Hebei	2	1.1%
Henan	1	0.5%
Hubei	3	1.6%
Hunan	1	0.5%
Jiangsu	9	4.8%
Jiangxi	2	1.1%
Inner Mongolia	1	0.5%
Shandong	3	1.6%
Shanghai	9	4.8%
Tianjin	8	4.3%
Zhejiang	11	5.9%
Gansu	1	0.5%
Chongqing	1	0.5%

3.3.2 *Production Control and Management*

In order to continuously improve product quality, each production base of the Group nationwide not only strictly abides by relevant domestic laws, regulations in respect of food production and processing and fulfills a series of requirements regarding the production control and management system within the Group, but also focuses on the continuous improvement in quality, efficiency, energy, costs, innovation and other aspects, aiming to persistently enhancing product quality and safety and market competitiveness through sustained efforts made by all employees.

To ensure the production quality, the Group formulates a series of production control and management system for the production control and management, including the operational prerequisite program, HACCP plan and the Good Manufacturing Practice (GMP) in consideration of the actual development of the Company and in compliance with the latest requirements of the respective certifications pursuant to relevant laws and regulations.

1) *Operational prerequisite program*

The Company strictly abides by the relevant laws and regulations, caters for customer requirements, takes the internationally accepted guidelines as well as principles and operation standards of Codex Alimentarius Commission as reference, and refers to the information of domestic, international or industry standards, 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.

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2) *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 applicable to the production and safety management for the Company's products such as jelly, beverages, confectionary and cookies.

The HACCP plan stipulates the organizational structure of the food safety team, product description, production process flow chart, production process description, hazard analysis worksheet, HACCP plan table, corrective procedures, verification procedures. Relevant requirements regarding the food fraud prevention plan was also adopted during the year, which 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.

Relevant requirements of the HACCP plan are strictly implemented during the production process and processing in the workshop, and strict monitoring and verification are also carried out on the critical control points and other key procedures in the production process.

3) *GMP*

The Group compiles the GMP in combination with the Company's actual conditions in accordance with a series of laws and regulations including the General Hygienic Regulation for Corporate Food Production (《食品生產企業通用衛生規範》(GB14881-2013)), Standards for Quality Water Drinking (《生活飲用水衛生標準》(GB5749-2006)), CAC/RCP 1 the General Rules for Food Hygiene (《食品衛生通則》) and CAC/RCP 1 HACCP System and its Applications Guidelines (《HACCP體系及其應用準則》). The GMP is applicable to the production and safety management of the Company's products such as jelly, beverages, confectionary and cookies, and regulates a series of the production requirement standards on the production, occupational health of the quality management personnel, plant environment hygiene, workshop and facilities hygiene and material and auxiliary material hygiene, ensuring health and safety of food from the source of the production.

3.3.3 Quality Inspection

The quality inspection department is in charge of the preparation of the guidelines on QC standard operation, which specify regulated and standard operation regarding the quality inspection in the boiling and packaging process of QC staff and display inspection procedures by pictures to help staff better understand and control. In addition, the Group is equipped with advanced quality inspection facilities such as atomic spectrophotometer, BROOKFIELD viscosimeter and liquid chromatography, thus further ensure product quality.

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.

1) *Inspection on raw materials*

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, inspection shall be made in accordance with specified standards and inspection methods, and substandard products shall be returned; the quality inspection department shall arrange a third party professional inspection institution to carry out inspection on key materials such as milk powder.

2) *Inspection in the production process*

QC staff carries out a series of inspections before production, including the inspections on billboards, equipment, machine hygiene, water, electricity and gas as well as ingredient mixing, parameter, main materials, auxiliary materials and filtering device

In the production process, QC is in charge of providing respective position with inspection guidelines. In the building and filling positions, operators perform self-inspection while leaders, workshop team and QC administrator conduct inspection with a view to ensuring all products are manufactured in accordance with process standards.

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 cover 3 product series, involving 10 procedures and 21 inspected items.

3) *Final product inspection*

The testing lab performs random sampling inspections on each batch of finished products. The inspections generally include microorganism inspection, microorganism inspection for raw materials, the appearance of raw materials, physical and chemical inspection, specific physical and chemical inspection before issuing relevant inspection reports. Meanwhile, QC staff also commences sampling inspection for soluble solid, PH value, the degree of coagulation, the color, aroma and taste, water quality (sent for external inspection every year), appearance and labeling of packaging materials and hand hygiene of employees and disinfection of the finished products manufacture in the workshop.

3.3.4 *Warehousing and Logistics Guarantee*

The Group pays utmost attention to the quality management in the product storage and transportation process, striving to safeguard product quality and food safety:

- 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;
- The logistics department also commences inspection on the cleanness of transportation vehicles, vehicle conditions and the quality of drivers. Substandard vehicles are not used for delivery; logistics safety responsibility statement shall be signed with the logistics company.

3.3.5 *Product Tracing and Tracking*

The Group implements strict control and tracking on product distribution:

- The Group actively responded to the call of the National Food Quality Supervision and Inspection Center, and adopted a “one product, one Bar-code” product information traceability system during the reporting year. All product information including raw material suppliers, production date and other product information in all supply chain has been uploaded to the Food and Drug Administration System for product tracing by the Food Quality Supervision and Inspection Center in each province. The whole-cycle supply chain traceability system is able to better protect the health and safety of the general public, thereby enhancing degree of satisfaction and perception of the public towards food safety. During the reporting year, the Group recorded approximately 20,000 data regarding products, raw materials and suppliers;
- 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 the communication of food safety issues with external related parties;
- The Group defines quality issues, specifies classification standards, formulates countermeasures for quality issues of each category, builds an effective recall system and implements hierarchical recall management, setting out details about recall time, work procedures and information disclosure in accordance with relevant laws such as the Food Safety Law and the Group’s internal Quality Issues Management Standards.

3.3.6 *Product Quality*

The whole-cycle product management systematically guarantees the product quality. During the reporting year, 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. The impaired product ratio is controlled at 1 gram/per kiloton products, and the market client complaint ratio is control at 2.3 complaints/per kiloton products.

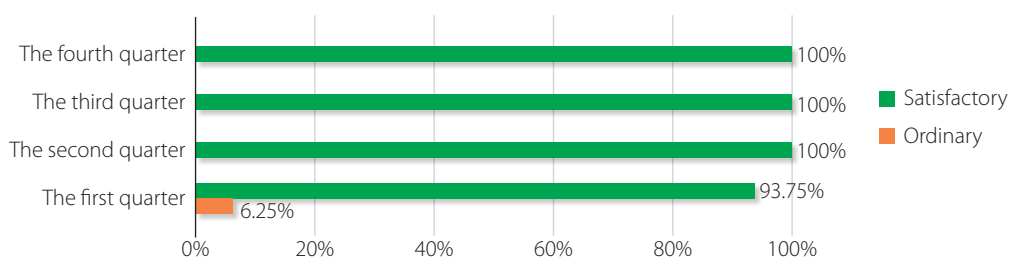
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Table 4: Product Quality Performance in 2015-2018

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%
2018	99.75%	100%	0%

During the reporting period, the Group further strengthened the monitoring of product quality, and regularly performed feedback exchange mechanism with its distributors. In 2018, we received a total of 148 feedback from 18 provinces including Hunan, Guizhou, Fujian, Guangdong, Hebei, Shandong, Jiangsu and Sichuan. In the first quarter, 93.75% distributors were satisfied with product quality, while 6.25% distributors consider product quality ordinary. In the remaining three quarters, all distributors were satisfied with product quality.

Figure 8: Distributors' Satisfaction Survey on Product Quality in each Quarter of 2018



3.4 Customer Service System

Labixiaoxin takes account of customer service quality and adheres to customer-oriented service approach. In order to continuously increase the customer satisfaction level, we have formulated Customer Complaint Management System (《顧客投訴管理制度》) in accordance with the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) to specify responsibility scope of customer service management, relevant work procedures and accountability and rectification measures, thus ensuring proper response to the 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. The designated personnel contacts the relevant person in charge in the production department, quality inspection department and R&D department to jointly supervise the implementation of rectification measures in the responsible workshop, provides assistance to the reply letter of customer complaints and maintains strict control on the timeline for responding to customer complaints.

The Group attaches great importance to customer privacy protection, requires all employees to keep strictly confidential the customers' information and strictly prevent any customer information leakage. 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.

During the reporting year, Labixiaoxin customer representatives handled a total of 42 customer complaints, none of which were major batch-type complaints. All complaints were properly handled during the reporting year.

3.5 Intellectual Property Management System

The Group attaches great importance to the maintenance and management of intellectual property rights, strictly abides by relevant laws and regulation of the Patent Law of the People's Republic of China (《中華人民共和國專利法》), 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 year, 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 (《企業知識產權管理規範》) 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

Labixiaoxin adheres to the people-oriented management concept and regards the interests of all employees as the starting point and foothold of all work. We respect every employee to ensure that all employees are treated fairly and justly. By creating a safe and healthy working environment for employees and improving the talent development strategy, we strive to achieve the concept of "recruiting the talented people and making the best use of the talents", so that our employees can grow up together with the Company.

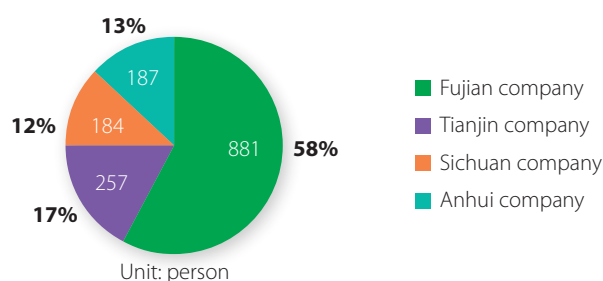
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4.2 Our Staff

Our employees are mostly based in Fujian, Tianjin, Sichuan and Anhui. As of 31 December 2018, the Group has 1,509 full-time employees, among which:

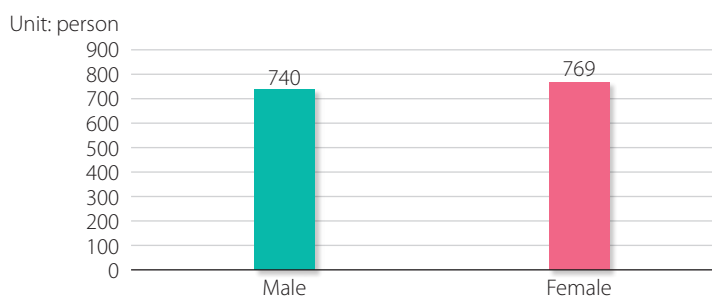
- the number of employees located in Fujian Headquarters is relatively large, and the numbers of employees in Tianjin base, Sichuan base and Anhui base are relatively even, accounting for approximately 12%-17% of the total number of employees respectively;

Figure 9: Distribution Chart of Labixiaoxin's Employees by Region



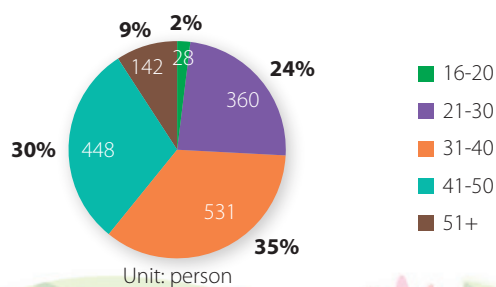
- The Group has a balanced distribution of male and female employees. As of 31 December 2018, the Group has 740 male employees and 769 female employees;

Figure 10: Distribution Chart of Labixiaoxin's Employees by Gender



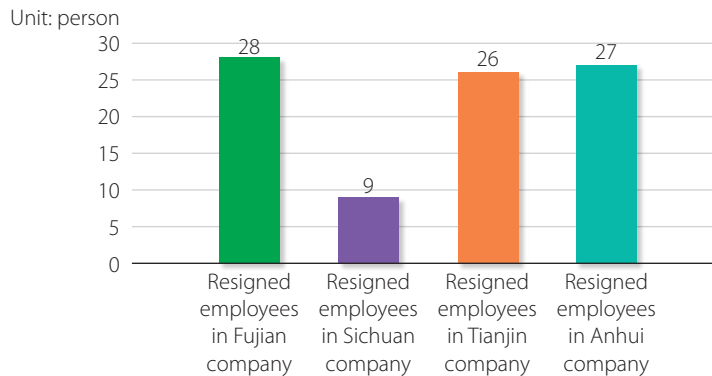
- The employees of the Group are mostly aged from 21 to 50. As of 31 December 2018, the number of employees in the 31-40 age group is the largest, totaling 531.

Figure 11: Distribution Chart of Labixiaoxin's Employees by Age



- The Group has started to conduct annual statistics for the employee turnover rate since this year. During the reporting year, a total of 90 full-time employees left the Company, of which the turnover rate of Fujian company, Sichuan company, Tianjin company and Anhui company was 3.17%, 4.8%, 10.12% and 14.43%, respectively, all of which were within the range of regular personnel changes.

Figure 12: Distribution Chart of Labixiaoxin's Employee Turnover Rate by Region



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. The Group actively identifies and complies with laws, regulations and relevant management regulations concerning employment and employee rights, such as Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and Prohibition of Using Child Labor in its operations. In accordance with the above laws and regulations, we have formulated the "Human Resource Management Handbook" and a series of human resource-related systems and policies to clarify the processes, management policies concerning employee recruitment, compensation and benefits, health and safety, development and training as well as performance evaluation. Meanwhile, we have actively created a quality working environment, which provides our employees with a safe and healthy workplace, as well as a good career development platform, so that each employee can grow up together with Labixiaoxin, and the rights and interests of employees can be 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, marital status, health or other characteristics protected by law. It remains impartial in hiring, 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 Group has strictly complied with rules and regulatory requirements on child labor and forced labor promulgated by China, Hong Kong and other applicable jurisdictions, to effectively forestall the employment of child labor and forced labor. We have also strictly prohibited to employ staff under 18 and prevented forced labor.

The Group complies 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 candidates' 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 has signed labor contracts with all its employees and paid social insurance for employees according to the requirements of laws and regulations.

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

4.3.3 Staff Salary and Benefits

The Group pays utmost attention to improve our employees' well-being. By providing reasonable holidays and competitive salary and benefits according to relevant laws and regulations, and awarding outstanding employees each year, we aim to mobilize the enthusiasm of our employees.

During the reporting year, the basic wages of front-line production employees have been steadily improved. The Group has also added the seniority award into the annual bonus and raised employee performance subsidies by 30% to fully motivate and guide our employees.

The headquarters and its subsidiaries hold a variety of staff activities each year, including garden parties, a series of sport meetings and entertainment activities during important festivals. Through these multi-level and multi-directional group activities, we effectively enriched the life of our employees, enhanced the cohesion among the Group, and boosted the sense of identification with our corporate culture.

The Group has also been committed to improving the daily living environment of our employees, continuously updating the staff dormitories, canteens and various recreational and fitness facilities, to enable our employees to have a better experience on life and corporate culture, and create a harmonious working and living atmosphere.

Figure 13: Photo of Annual Outstanding Employees in Labixiaoxin



4.3.4 Active Establishment of Talent Echelon

In order to achieve the diversified development of the Group and strengthen the management capabilities of the middle and senior management, the Company actively cultivate professional talents and managerial talents to enrich the Company's talent pool. In addition to the "Management Trainee Program" that aims to select a group of high-potential talents from the fresh graduates as the reserve force for the future development, the Company also introduced three "excellent talents" selected by the Jinjiang Municipal Government, to build a high-quality talent echelon covering all levels.

4.4 Staff Development and Training

In order to meet the requirements of our development strategy, capacity and employees' career development, we have established an open learning platform to promote knowledge accumulation and sharing. The Group develops an open learning platform to promote knowledge reserve and sharing. By 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 a 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.

The Group has adopted a three-tier training system, namely orientation training, job skills training and management training. The training forms include classroom training, experience exchange, tutor counseling, on-job training and external expert training. Orientation training includes training for daily administrative rules and the promotion of our corporate culture. We carry out job skills training for employees by positions. For front-line production employees, we carry out production management, quality management and other front-line production related training; for sales, we organize marketing front-line training and invite marketing experts to conduct marketing skills training; for procurement staff, we invite procurement experts to carry out the corresponding training of each module; for the management, we organize relevant management to attend a series of management training organized by external professional management training institutions.

According to statistics, the training hours amounts to more than 30 hours per employee each year.

4.5 Occupational Health and Safety

Employee safety and health is our first priority, and we have strictly complied with relevant laws and regulations such as Work Safety Law of the People's Republic of China and Prevention and Control Law of Occupational Diseases of the People's Republic of China, to build a safe and healthy working environment. The Company has adopted GB/T 28000 Occupational Health and Safety Management System (GB/T 28000 《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 implement its social responsibilities featured with human-based management.

We provide employees in all business departments with training 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. 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. Meanwhile, the government safety management office conducts inspections on fire-fighting, labor insurance and health as well as other aspects regularly. On the other hand, we provide a free physical examination to all employees each year to guarantee their health.

Furthermore, instead of traditional coal-fired boilers, the Group has fully used centralized gas supply for steam production since 2018, thereby avoiding a series of problems such as dust pollution and noise pollution caused by coal-fired boilers, and the health and safety of front-line production employees have been further improved and protected.

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. ENVIRONMENT FRIENDLINESS

The Group has strictly abided by the Environmental Protection Law of the People's Republic of China, the Prevention and Control of Air Pollution Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Water Law of the People's Republic of China and other relevant laws and regulations, and has comprehensively introduced ISO14001 Environmental Management System to continuously enhance the control and management of emission of greenhouse gas, waste gas, waste water and hazardous waste according to the requirements of the relevant laws and regulations and local environmental protection authorities. The Group 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 of the Company 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 we have effectively implemented the management concept of green environmental protection with sustainable development.

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 and strictly implement relevant management systems so as to meet the relevant statutory requirements. During the reporting period, the Group has not noticed any violations of environmental laws and regulations.

5.1 Emissions

5.1.1 Waste Gas, Waste Water, Solid Waste

The Group continuously improves the production process technology and upgrades the treatment equipment for waste gas, waste water and solid waste, and the Group has formulated a comprehensive management system for waste gas/waste water/waste generated during the production and operation process. In strict accordance with the national emission standards, effective measures were taken to reduce emissions and properly dispose of waste, with a view to ensure that the relevant emissions meet the national emission standards and requirements.

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During the reporting year, the Group's testing results for emissions such as waste gas and sewage reached the local environmental standards.

Chart 14: Diagram of specific measures to reduce waste gas, waste water and solid waste

Waste Gas Management

- Due to the completion of upgrading coal-fueled boilers to natural gas-fueled boilers in 2018, no coal-related waste gas such as sulfides and particles would be emitted.
- In terms of the boiler facilities, we arrange internal working staff and the professionals from the inspection center to conduct waste gas detection every year to ensure that the waste gas emissions meet the national emission standards

Waste Water Management

- The Group invested RMB1 million to construct a new sewage disposal tank, which was officially put into use in March 2018;
- Arranged the commissioner to crush the raw materials generating the waste gas, which would then be discharged into the sewage treatment tank for sewage treatment

Solid Waste Management

- Packing scrap wastes and waste paper products would be collected by the specific factories contacted by the Group;
- 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;
- Domestic waste is collected and handled under the daily arrangement by the Bureau for Environmental Health

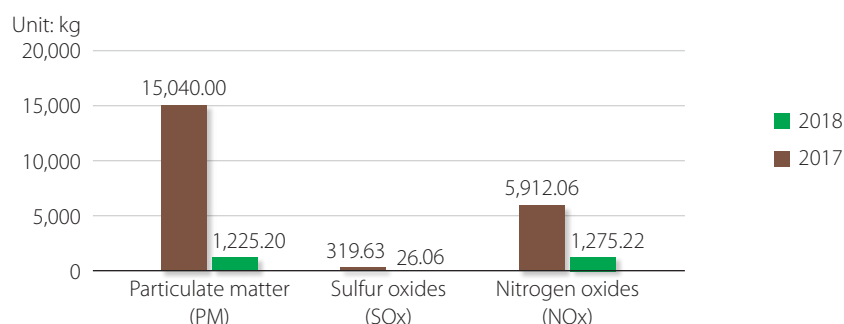
Given the abovementioned series of measures taken by the Group to reduce the waste gas emissions, different types of waste gas emissions generated in 2018 have been significantly reduced compared to that of in 2017, meeting the requirements of green environmental protection with sustainable development emphasized by the Company.

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Table 5 : Statistics on Emission Type and Amount of Waste Gas in 2018

Emission type	Final emission (kg) ¹
Particulate matter (PM)	1225.20
Sulfur oxides (SOx)	26.06
Nitrogen oxides (NOx)	1275.22

Chart 15: Comparison of Amount of Waste Gas Emissions



Each of the production base under Labixiaoxin used data of monitoring tools and waste management contract ledgers to collect statistics on the discharge amount of waste water and solid waste. During the reporting year, the statistics on the discharge amount of waste water and solid waste are set out in the follow table:

Table 6: Statistics on the Discharge Amount of Waste Water and Solid Waste in 2018

Name of waste	Total discharge amount (ton)	Density
Paper cartons	177	0.003 ton/ton product
Packing scrap wastes	212	0.003 ton/ton product
Canned food	128	0.002 ton/ton product
Waste water	94000	1.450 ton/ton product

5.1.2 Carbon Emission

Our carbon emissions mainly come from electricity consumption and the utilization of natural gas. The carbon dioxide (CO₂) generated by our operations was 11953.29 tons and the density was 0.18 tons (CO₂e)/ton product. We have implemented various energy-saving measures to help reduce the corresponding carbon emissions. For details, please refer to the Energy Consumption section below.

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, but do not include the waste gas emissions generated from the steam used for production;

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5.2 Resource Utilization

As one of the representative outstanding enterprises of Quanzhou City, the Group has always been strictly complying with the Energy Conservation Law of the People's Republic of China and other relevant laws and regulations and has taken environmental, social and government into consideration in its core operating practices ° The Group is committed to utilizing more efficient and more environmentally-friendly energy to carry out production and operating activities, with an aim to contribute to the sustainable development of the society. During the reporting year, the Group's main energy consumption was electricity, natural gas, steam and coal. Compared with 2017, the Group completely stopped using coal-fueled boilers for production in this year, instead, it employed the more environmentally-friendly and efficient natural gas and the steam from centralized gas supply for production. The consumption of raw coal was reduced from 4,795 tons in 2016 to 79.78 tons in 2018, demonstrating the Group's determination to utilize clean and efficient energy.

Chart 16: Bar Chart of Total Consumption of Raw Coal

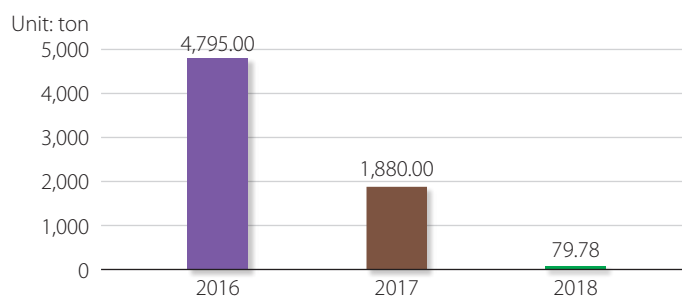


Chart 17: Bar Chart of Total Consumption of Natural Gas

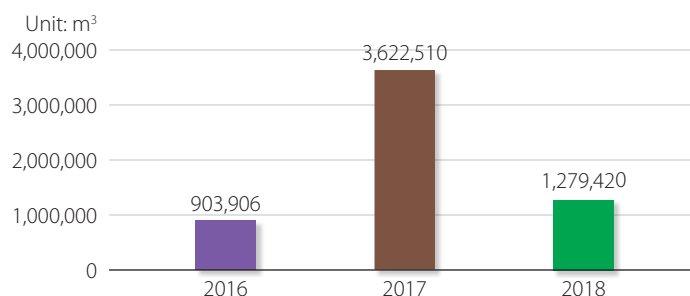
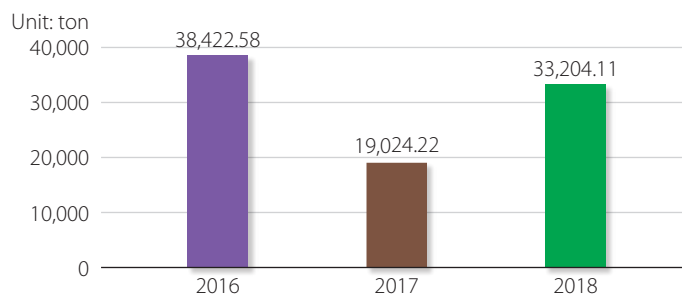


Chart 18: Bar Chart of Total Consumption of Steam



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

Table 7: Resource Consumption and Density Statistics in 2018

Resource category	Total consumption	Density
Electricity	9,928,407.6 Kwh	153.15 Kwh/ton product
Raw coal	79.78 ton	0.009 ton raw coal/ton product
Natural gas	1279420.03 m ³	19.74 m ³ /ton product
Steam	33204.11 ton	0.51 ton steam/ton product
Water	776544.48 ton	11.98 ton water/ton product
Packaging materials	9545.44 ton	0.15 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 in this year are listed in the following:

- 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;
- We make efforts to improve employees' awareness of energy conservation, and help them cultivate good habits in terms of water and electricity utilization. The employees are required to save water and electricity in their daily life;
- In 2018, the Group started to use the paper cartons in the same size in a aligned manner, which can improve their universality and thereby reduce the waste of the packaging materials of the products;
- Improve and upgrade the production equipment, including: a. Use frequency air compressors to reduce production power consumption by 30%; b. Improve the steam pipeline in a progressive manner, enabling it to adjust automatically according to the flows of the production demands.

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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 systems and 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 its continuous community investment. The Group has been proactively fulfilling our social responsibilities and actively taking part in various social charity events, in the hope of sparing no efforts to create a better social environment by joining hands with the public.

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

6.1 Charity Fund

Since its establishment and development, 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.

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. During the reporting year, the Group donated a total of RMB1,000,000 to Jinjiang Luoshan Yude Primary School and donated RMB50,000 to Jinjiang Sixth Experimental Primary School.

At the same time, the Group also cooperates with related colleges and universities so they can send students for visits and internships 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 actively cares for the vulnerable groups and exercise its due diligence to devotes itself to the society. The Group has close collaboration with local volunteer service organizations. It participates in and arranges 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. During the reporting year, the Group organized 32 employees in total to participate in the volunteer activities. In the Double Ninth Festival of the year 2018, we donated RMB80,000 to the elderly within the local community.

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APPENDIX: HKEX ESG GUIDE CONTENT INDEX AND AN OVERVIEW OF DISCLOSURE

Aspect	Key Performance Index	Relevant headings in the report
A Environment		
A1: Emissions		
General Disclosure		
Information on (a) the policies (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	The Group has strictly abided by the Environmental Protection Law of the People's Republic of China, the Prevention and Control of Air Pollution Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Water Law of the People's Republic of China and other relevant laws and Regulations	5. ENVIRONMENT FRIENDLINESS
A1.1 Types of emissions and respective emissions data	Particulate matter (PM), Sulfur oxides (SOx) and Nitrogen oxides (NOx) generated in our production process were 1,225.2kg, 26.06kg and 1,275.22kg respectively	5.1 Emissions
A1.2 Greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	The carbon dioxide (CO ₂) generated by our operations was 11,953.29 tons and the density was 0.18 tons (CO ₂ e)/ton product	5.1 Emissions
A1.3 Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	No disclosure of hazardous waste as seldom hazardous waste produced from our main products, not constituting key impacts to the Group	

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Aspect	Key Performance Index	Relevant headings in the report
A1.4 Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	<p>The total amount of paper cartons discharged was 177 tons and the density was 0.003 ton/ton_{product};</p> <p>the total amount of packing scrap wastes discharged was 212 tons and the density was 0.003 ton/ton_{product}, the total amount of canned food discharged was 128 tons and the density was 0.002 ton/ton_{product};</p> <p>the total amount of waste water discharged was 94,000 tons and the density was 1.450 ton/ton_{product}</p>	5.1 Emissions
A1.5 Description of measures to mitigate emissions and results achieved	<p>Enhance the education of the staff on resources conservation;</p> <p>Improve and upgrade the production equipment; each production workshop has signed performance contracts and conduct energy utilization assessment every month; use the paper cartons in the same size in a aligned manner for packaging</p>	5.2 Resource Utilization
A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	No disclosure of hazardous waste as seldom hazardous waste produced from our main products, not constituting key impacts to the Group	

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Aspect	Key Performance Index	Relevant headings in the report
A2:Use of Resources		
General Disclosure:		
Policies on the efficient use of resources, including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	The Group has strictly abided by the Environmental Protection Law of the People's Republic of China, the Prevention and Control of Air Pollution Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Water Law of the People's Republic of China and other relevant laws and Regulations	5.2 Resource Utilization
A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production	<p>Total amount of electricity consumed was 9,928,407.6 Kwh and the density was 153.15 Kwh/ton_{product};</p> <p>Total amount of natural gas consumed was 1,279,420.03 m³ and the density was 19.74 m³/ton_{product};</p> <p>Total amount of steam consumed was 33,204.11 ton and the density was 0.51 ton/ton_{product}</p>	5.2 Resource Utilization
A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Total amount of water consumed was 776,544.48 ton and the density was 11.98 ton/ton _{product}	5.2 Resource Utilization
A2.3 Description of energy use efficiency initiatives and results achieved	The Group completely stopped using coal-fueled boilers for production in this year. Instead, it employed the more environmentally-friendly and efficient natural gas and the steam from centralized gas supply for production. The consumption of raw coal was reduced from 1,880 tons in 2017 to 79.78 tons in 2018	5.2 Resource Utilization
A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	The Group focuses on domestic water conservation and help the employees cultivate good habits in terms of water utilization, so that the amount of water consumed will be further reduced	5.2 Resource Utilization
A2.5 Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced	Total amount of packaging materials consumed was 9,545.44 ton and the density was 0.15 ton/ton _{product}	5.2 Resource Utilization

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Aspect	Key Performance Index	Relevant headings in the report
A3: The Environment and Natural Resources		
General Disclosure		
Policies on minimizing the issuer's significant impact on the environment and natural resources	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 systems and 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	5.3 Environmental Impact Management
A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	No significant impacts of the Group's ordinary operation on the environment and natural resources and thus no disclosure is made.	5.3 Environmental Impact Management
B Social		
B1: Employment		
B1.1 Total workforce by gender, employment type, age group and geographical region	During the reporting year, the Group has 1,509 full-time employees. Specific data of other employees, such as statistics by age group, geographical region and others are disclosed in detailed data under 4.2 Our Staff	4.2 Our Staff
B1.2 Employee turnover rate by gender, age group and geographical region	The Group has started to conduct annual statistics for the employee turnover rate since 2018. During the reporting year, a total of 90 full-time employees left the Group. The statistics of employee turnover rate by age group and geographical region are disclosed in detailed data under 4.2 Our Staff	4.2 Our Staff

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Aspect	Key Performance Index	Relevant headings in the report
B2: Health and Safety		
General Disclosure	The Group has strictly complied with relevant laws and regulations such as Work Safety Law of the People's Republic of China and Prevention and Control Law of Occupational Diseases of the People's Republic of China;	4.5 Occupational Health and Safety
(a) the policies		
(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	The Group has adopted GB/T 28000 Occupational Health and Safety Management System (GB/T 28000 《職業健康安全管理體系》)	
B2.1 Lost days due to work injury	During the reporting period, the Group has no work-related injury or death	4.5 Occupational Health and Safety
B3: Development and Training		
General Disclosure		
Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	The Group has prepared Human Resources Management Handbook to regulate the development and training scheme of the employee. The Group has adopted a three-tier training system, namely orientation training, job skills training and management training. The training forms include classroom training, experience exchange, tutor counseling, on-job training and external expert training	4.4 Staff Development and Training
B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	According to statistics, the training hours amounts to more than 30 hours per employee each year	4.4 Staff Development and Training
B3.2 The average training hours completed per employee by gender and employee category	Statistic has not included data by gender and category of employees; relevant data will be disclosed once the statistics are improved	4.4 Staff Development and Training

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Aspect	Key Performance Index	Relevant headings in the report
B4: Labor Standards		
General Disclosure		
Information on (a) the policies (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	The Group complies with Disney's Human Rights Social Responsibility audit requirements.	4.3 Employment and Employee Rights
B4.1 Description of measures to review employment practices to avoid child and forced labor	The Group's human resources department will confirm the accuracy of the candidates' age and identity by verifying the identity and qualification of the candidates	4.3 Employment and Employee Rights
B4.2 Description of steps taken to eliminate such practices when discovered	During the reporting year, the Group has not aware of non-compliance of laws and regulations related to labor standards	4.3 Employment and Employee Rights
B5: Supply Chain Management		
General Disclosure		
Policies on managing environmental and social risks of the supply chain	The Group continued to adopt the "Management Regulations for Procurement" and "Management System for Suppliers", so as to clearly define procurement practices	3.3 Product Quality Control System
B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	<p>The Group selects suppliers through bidding. Companies participating in the bidding will be selected by the Group from existing qualified suppliers and one or two external suppliers to ensure that at least four companies will participate in the bidding.</p> <p>For details of supplier data, please see Table 3: Statistics on the Number of Suppliers by Region</p>	3.3 Product Quality Control System

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Aspect	Key Performance Index	Relevant headings in the report
B6: Product Responsibility		
General Disclosure		
Information on (a) the policies (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	During the reporting year, the Company passed GB/T19001/ISO9001 Quality Management System Certification, ISO22000 Food Safety Management System Certification, HACCP (Food Safety Hazard Analysis and Critical Control Points) certification (of which the updates on the food fraud prevention plan was completed in accordance with the HACCP System Certification Supplemental Requirements 1.0), BRC Global Standard for Food Safety Standards certification and HALAL Certification	3.1 "Green Food" Management Principle
B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons	During the reporting year, there were no products which were required to be recalled by the Group due to safety and health reason	3.3 Product Quality Control System
B6.2 Number of products and service related complaints received and how they are dealt with	The Company have formulated Customer Complaint Management System (《顧客投訴管理制度》) in accordance with the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) to specify responsibility scope of customer service management, relevant work procedures and accountability and rectification measures	3.4 Customer Service System
B6.3 Description of practices relating to observing and protecting intellectual property rights	During the reporting year, 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 (《企業知識產權管理規範》) GB/T 29490:2013, and successfully passed the external review of third-party certification institute to obtain the intellectual property rights management system certification	3.5 Intellectual Property Protection System
B6.4 Description of quality assurance process and recall procedures	The product quality assurance process of the Group is consisted of raw materials inspection, inspection during production and finished products inspection; The Group has established recall procedures	3.3 Product Quality Control System
B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored	The Group record customer-related business 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	3.4 Customer Service System

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Aspect	Key Performance Index	Relevant headings in the report
B7: Anti-corruption		
General Disclosure		
Information on	The Group 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	2.3 Corporate Governance
(a) the policies		
(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering		
B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	During the reporting year, there were no legal cases regarding corrupt practices	2.3 Corporate Governance
B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	<p>The Group has adopted the following preventive measures and whistle-blowing procedures and ways of implementation and monitoring to prevent corruption</p> <p>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》);</p> <p>The Management of Supervisory Work (《督導工作管理辦法》) is formulated;</p> <p>A "tripartite" procurement organization structure is continuously implemented;</p> <p>Select buyers through an open and fair tendering process;</p> <p>Notify customers to comply with relevant integrity regulations by the Letter of Integrity Commitment;</p> <p>Emphasize the integrity risk education for employees;</p> <p>Establish smooth inspection channels</p>	2.3 Corporate Governance

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Aspect	Key Performance Index	Relevant headings in the report
B8: Community Investment		
General Disclosure		
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	The Group has been proactively fulfilling our social responsibilities and actively taking part in various social charity events	6 Community Investment
B8.1 Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	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	6.2 Educational Support
B8.2 Resources contributed (e.g. money or time) to the focus area	During the reporting year, the Group donated a total of RMB1,000,000 to Jinjiang Luoshan Yude Primary School and donated RMB50,000 to Jinjiang Sixth Experimental Primary School	6.2 Educational Support