



Labixiaoxin Snacks Group Limited
蜡笔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 2020

Environmental, Social and Governance Report

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Environmental, Social and Governance Report

1. ABOUT THIS REPORT

1.1 Reporting Scope

To help the stakeholders understand the environmental, social and governance (“ESG”) policies, measures and performance of Labixiaoxin Snacks Group Limited, this Environmental, Social and Governance Report (the “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 complying 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.

The Report mainly summarizes policies, initiatives and performance in relation to environmental and social aspects. 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 2020 of the Group.

1.1.1 Reporting Period

The Report covers the Group’s environmental, social and governance matters in China from 1 January 2020 to 31 December 2020 (the “Reporting Period”, the “Financial Year”), and, if appropriate, can be traced back or extended to other important years.

1.1.2 Organization Scope

The Report mainly covers Labixiaoxin Snacks Group Limited (stock code 1262) and its three subsidiaries in Fujian, Sichuan and Anhui.

1.1.3 Basis of Preparation

The preparation of the Report is based on the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange, with reference to GRI Standards of Global Reporting Initiative, Guidelines on Preparation of Corporate Social Responsibility Report for Corporations in China (CASS-CSR4.0), Guidelines on Preparation of Corporate Social Responsibility Report for Corporations in China 3.0 – Food Industry (《中國企業社會責任報告編寫指南3.0之食品行業》) issued by Chinese Academy of Social Sciences and ISO 26000: Guidance on Social Responsibility (2010) issued by International Organization for Standardization.

The 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 and data, report preparation and the report reviewing process by the Board, so as to ensure the materiality, quantification, balance and consistency of the content in the Report.

1.1.4 Statement about Information

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

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1.1.5 Reporting Specification

"Labixiaoxin", "the Group", "the Company" and "we" in the Report all represent Labixiaoxin Snacks Group Limited.

1.1.6 Languages Available

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

1.1.7 Feedback on the Report

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

Address: Unit 8, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong
 Tel: 2536 9669
 Fax: 2536 0960
 E-mail: admin@lbxxgroup.com
 Website: www.lbxxgroup.com

2. INFORMATION OF LABIXIAOXIN

2.1 Company Introduction

Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. (listed on the Main Board of Hong Kong, stock code: HK.01262) was established in 2000. With a history of two decades, the Group has become one of the leading snack food producers in China. We have three production bases in Fujian, Anhui and Sichuan, and the standard plants of these production bases together with their supporting facilities cover over 300 mu. We have over 1,000 employees. We primarily produce jelly, puddings, candies, baked products, beverages, cooked food, fast food and others, and our products include more than 300 kinds that are divided into six categories. Our jelly products secure one of the top two largest market shares in the domestic market, and puddings, drinks, popsicles and snack food all enjoy a good reputation among consumers.

2.2 Corporate Culture and Philosophy

Labixiaoxin is committed to providing consumers with healthy and nutritious products by upholding the corporate mission of "creating a great health undertaking and building a century-old brand", establishing the attitude of "Hard work and struggle, innovation-driven, rigorous self-discipline, co-creation and co-sharing", enriching its brand concept of "Stick to high-quality snacks, every bite is carefully selected" and adhering to the operation philosophy of "reaching and understanding customers' needs is the origin of our management", and embracing the vision of "A leading brand in China's snack industry".

Core values:

- Hard work and struggle (new concept): Establish the culture of hard work and struggle for all employees, integrate the diligent culture into the organizations, and be practical, and down-to-earth;
- Innovation-driven (new model): Implement structural reforms to develop new channels, optimize new products, adopt innovative sales models, comprehensively establish new mechanisms, and strive to demonstrate a new brand image;





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- Rigorous self-discipline (new motivation): Establish a management team which includes senior management, middle management and first-line management, set up management systems such as top ten key rules for senior management and adopt military management for middle management to establish a scientific and rigorous management style;
- Co-creation and co-sharing (new value): Understand each other through cooperation, support each other with trust, reach an agreement through communication, realize win-win situation by offering mutual benefits, and help each other to succeed by providing mutual aid.

2.3 Diverse Products

Labixiaoxin constantly focuses on the consumers to innovate and develop healthier and more nutritious products on the basis of ensuring food quality and safety, and launch diverse products to satisfy demands of various consumer groups following the trend of consumption upgrade. We have established a rich and mature snack brand portfolio with “Labixiaoxin” jelly series, “Smoothie” popsicle series, “Original Life” pudding series, “Labixiaoxin” snack series, “F&BAKE” baked series and “Top Grade” candy series. The featured product series of 2020 are as follows:

- Jelly series: fruit pulp jelly, lactic acid bacteria jelly, fruit-flavored jelly, drinkable jelly, pudding jelly, yoghurt jelly;
- Pudding series: lactic acid bacteria, cheese pudding, yoghurt pudding, milk pudding;
- Popsicle series: lactic acid bacteria popsicle, baking soda popsicle, smoothie;
- Candy series: snowflake flaky pastry, nougat, lollipop, gummy candy, floral flavored mints, oat chocolate;
- Baked series: cheese bread, meat floss bread, toast, pull up bread;
- Cooked food: kelp knot, konjac, fish tofu, scallop, saury;
- Fast food: oden, scallop vermicelli, instant hotpot;
- Other series: finger biscuit, wafer biscuit.

Since its establishment, Labixiaoxin has been growing with the gene of “keeping innovative”, and innovation has become its core competitiveness. The innovation spirit of Labixiaoxin can be reflected by the continuous launching of high-quality products that align with market development trends and satisfy consumers’ demands. In 2020, our products are further heading towards nutritious and healthy development. The Group focuses on conveying health concepts to our customers and noticing the demand of various functional products from different consumer groups. For example, the products of the Children Growing Up series contain dietary fiber, which can help children improve intestinal health, promote digestion, so as to facilitate the absorption of food and nutrition intake.

Labixiaoxin continues to develop a series of functional products with good taste and flavour, so as to cater to modern urban consumers who have desires and demands for high-quality foods. The pudding and popsicles recorded outstanding performance in the market for delicate taste and high nutrition. We develop products from the aspects of organic nutrition, functional health and green packaging and widely were recognized by consumers. Therefore, various products became the top-selling snack products in 2020.

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Top-selling Puddings



Top-selling Popsicles



Labixiaoxin has reviewed and optimized the marketing strategies during the reporting period, strengthened our promotional efforts on new media, expanded new retail channels comprehensively, identified target young consumers with the aid of big data, strengthened online interactive communication with consumers, and cooperated with top KOL (key opinion leader) in PRC to sell products, so as to further improve our brand recognition. All of our self-operated shops on major e-commerce platforms have carried out the live streaming business and invited some e-commerce live-streamers to promote and sell products. Our online and offline marketing strategies have led us to record outstanding performance in the market. Our jelly series secure second-rank for the market share and the brand recognition in the domestic market, while the new series such as popsicles became the second-class brand in the industry.

Live Streaming





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2.4 Patents, Innovations and Honors

2.4.1 Labixiaoxin's Patents and Innovations

On the way to the innovation and promotion of Chinese snack foods, Labixiaoxin never stops the pace of self-reform. By relying on the National Health and Production Commission Functional Food Research Institute (全國健產委功能食品研究院) and the Enterprise Technology Research and Development Center, we have set up a sound technology research and innovation system, establish a think-tank integrating National Health and Production Commission and the Secretariat of the Functional Food Association, adopt the human resources development model which "introducing high-tech talents, cultivating and enhancing the level of corporate technological personnel" on the basis of "cooperation with universities and scientific research institutes" to launch high-quality and diversified new products with innovation.

Patent certificates and awards in recent five years:

- March 2015: Patent for Invention "Two-layer Mousse Jelly and Preparation Process";
- March 2016: Patent for Invention "A Preparation Process for Vitamin Jelly";
- December 2016: Second Class Prize of The State Scientific and Technological Progress Award;
- September 2019: First Class Prize of Fujian Provincial Technological Progress Award 2018.

2.4.2 Labixiaoxin's Major Honors in Recent Five Years

Social recognition:

- July 2016: Provincial-level Key Leading Enterprise of Fujian's 8th Agricultural Industrialization;
- December 2016: Second Class Prize of The State Scientific and Technological Progress Award;
- May 2018: MIIT Certification for the Integration of Informatization and Industrialization Management System;
- May 2019: "Outstanding Enterprise" of Bakery & Confectionery Industry at the 40th Anniversary of China's Reform and Opening-up;
- September 2019: Outstanding Enterprise at the 40th Anniversary of China's Reform and Opening-up;
- October 2019: Municipal-level Key Leading Enterprise of Quanzhou's 9th Agricultural Industrialization.

Brand reputation:

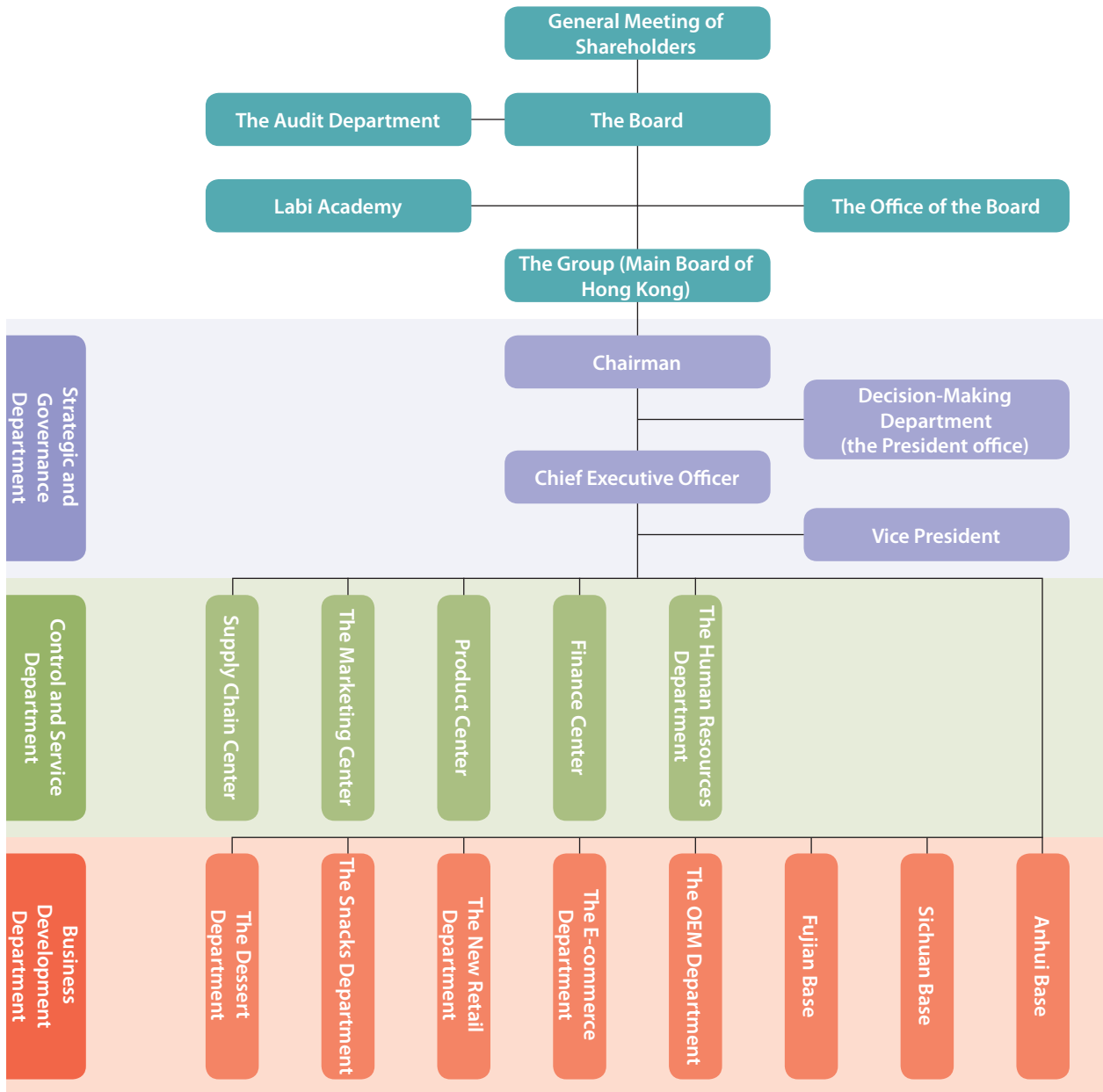
- May 2014: 2013 CIEBC Top 100 Companies;
- November 2014: Well-known Trademark of Fujian Province (November 2014 to November 2017);
- June 2015: China Association of Bakery & Confectionery Industry Top 10 Companies (Jelly);
- May 2020: "Labixiaoxin" brand value amounting to RMB2.941 billion based on the evaluation of China Council for Brand Development.

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2.5 Corporate Governance

2.5.1 Corporate Governance Structure

The Group is committed to maintaining a high-standard governance structure. The Board is the highest authority of the Group, responsible for the Group’s strategic planning and the daily operational management, so that the healthy development of the Company and the win-win situation with all stakeholders can be guaranteed.



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The Board currently comprises 7 members, including 3 executive directors, 1 non-executive director 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*)

Independent Non-executive Directors:

Mr. Li Biao

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.

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2.5.2 Integrity Management

The Group and employees strictly comply with the Criminal Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China and other relevant laws and regulations, resolutely eradicate bribery, extortion, fraud and money laundering acts, values the integrity culture education and construction and adopt the zero-tolerance attitude toward any act that will violate any professional codes or business ethics. During the Reporting Period, there was no lawsuit due to the violation of laws and regulations in relation to anti-corruption, anti-bribery, anti-fraud and anti-money laundering.

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 focus on procurement, marketing and other high-risk areas, so as to prevent and discover fraud practices in time. In the meantime, we further improve employees' integrity awareness through the promotion of integrity culture.

Improvement of supervision mechanism:

- The Group establishes the corruption detection point, which imposes punishments including warning, removal and termination of labor contract based on the seriousness of relevant cases when it discovers employees' violation of business ethics and labor discipline;
- Supervision and reporting channels are established, including whistleblowing hotline, general manager suggestion boxes, and letters and petitions;
- Confidentiality agreements and anti-corruption agreements are signed with suppliers and distributors, and the head of the procurement department and the chairman of the Group directly manage relevant information, so that the fraud risk can be controlled at source;
- The Group has set up a digitalized intelligent procurement system, which automatically evaluated and rated the evaluation factors such as price, quality and delivery provided by suppliers, effectively reducing human intervention, so as to improve the transparency and fairness of procurement;

Creation of integrity culture:

- New employees are required to sign the Letter of Integrity and Self-discipline, which regulates the behaviors of employees and clarifies employees' responsibility of conducting honest business practices;
- The Group values the corruption risk education to employees, organizes corruption risk warning education activities, invites experts from the judicial system and the public security system to give lectures on integrity, so as to improve employees' integrity awareness;
- The Group realized visual management of employees' field affairs, and required all employees to carry out various tasks with fairness, integrity and honesty;
- Legal departments are invited to offer training on legal knowledge to the Board and middle and senior management members of the Group, thereby creating a clean and honest corporate environment.





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2.5.3 Internal Audit Standards

The Company strictly complies with the Company Law of the People's Republic of China, the Corporate Internal Control Audit Guidelines (《企業內部控制審計指引》) and relevant laws and regulations of the State. In accordance with the said laws and regulations, it has set up the internal control audit standards, and ensures the smooth and effective business operation, the reliability of financial reports and the compliance with relevant laws and regulations through 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. We also carry out special audit projects on a regular basis, give full play to the supervision function of audit works, and effectively monitor the rectification of relevant issues, so as to ensure that the internal operation of the Group complies with laws and regulations.

2.6 Focus: Work Together To Fight Against COVID-19

At the beginning of 2020, COVID-19 spread across the country. The Group actively took up corporate social responsibilities and tided over hardship with people of the country, worked with joint efforts to fight against COVID-19. After the outbreak of pandemic, the Group actively donated necessities to relevant institutions in Quanzhou. At the same time, in order to protect health and safety of employees, all departments established leadership teams for pandemic prevention to combat the pandemic. A defense line against COVID-19 was established through the concerted effort from management to employees.

While preventing and help to control the pandemic, the Group promoted the resumption of work and production in an orderly manner according to government requests. The Company stayed committed to fully resume production and supply and ensure products can be delivered to consumers in need. Facing the outbreak of COVID-19, we fulfilled corporate responsibility through actions.

2.6.1 Relevant Pandemic Prevention Measures

After the outbreak of COVID-19, the Group immediately gathered over 100 employees who stayed in the plants to convene pandemic management meeting and implemented centralized management for all employees. In addition, we purchased pandemic prevention supplies promptly, appointed leadership teams to distributed masks, prevention-based flu medicine and other pandemic prevention materials to employees. We also disinfect working environment on a daily basis.

Labixiaoxin responded actively to the call of the government, under the premise of ensuring the health and safety of its employees, we were one of the first enterprises to resume work and production. As the first batch of enterprises that passed the inspection and acceptance of the resumption of work by the Quanzhou local government, we worked with upstream and downstream partners to fully resume production capacity and meet market demand.

In order to allow employees to resume work and production at ease, we sent special cars to pick up employees who stayed in Yunnan, Guizhou and Sichuan Province due to the pandemic during the normalized pandemic prevention and control stage, so as to further ensure the normal operation of the production operations of the Group.

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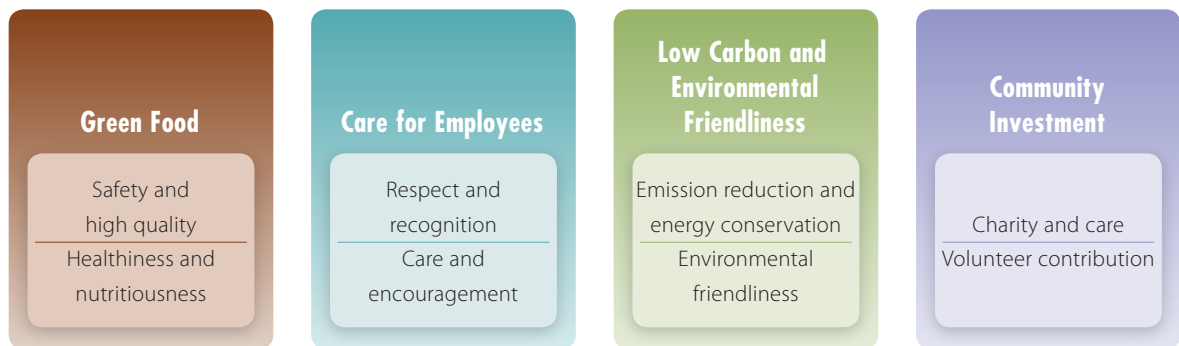
2.6.2 Social Assistance

In March to April 2020, due to the increase in market orders, the Company adopted a policy of “employment adjustments” and seconded approximately 150 employees from service industries such as catering and hotel industries that were completely suspended due to the pandemic. Such policy reduced the cost burden of service enterprises, provided employees with a steady source of income, and satisfy the internal demand for production. We were also reported and recognized by CCTV and Quanzhou local media due to the successful policy.

As a food enterprise with strong sense of social responsibility and dedication, Labixiaoxin actively dedicated to society, especially the medical and supporting personnel who fought hard on the front line of pandemic prevention. LBXX Fujian donated total value amounted to RMB0.2 million of bread, fast food and other necessities to hospitals, inoculation centers and isolation spots in Quanzhou, so as to satisfy the needs of the personnels who are working on the anti-pandemic front line. LBXX Sichuan donated amount of RMB100,000 to Red Cross in Pujiang, Chengdu to support local government in prevention and control of pandemic caused by new coronavirus, and make our own contribution for prevention and control of pandemic.

3. ESG MANAGEMENT

While focusing on production, the Group makes repaying society as the shared value for its management and employees. We consider sustainable development as an important factor for the Group’s progress, fulfill social responsibilities actively, stay dedicated to the health of consumers and the win-win cooperation with shareholders, employees and partners, and play a part in the development of the society.



- 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, resolutely safeguard employees’ benefits, and ensures that employees work happily and realize continuous development;
- The Group strictly follows low-carbon and environmental friendliness rules in every aspect. It works hard to achieve energy conservation and emission reduction, minimize the impact on the environment, and promote sustainable development;
- The Group makes relentless devotion to charity cause, delivers care and health to the public and communities and contributes to the healthy development of communities and the public.





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3.1 ESG Management Mechanism

To further promote the implementation of Labixiaoxin's ESG management strategies and strengthen the management of ESG related affairs, the Group establishes a three-tier ESG management system, the core of which consists of the Board, the ESG Management Group and the ESG Working Group.

Top decision maker: The Board is the top decision maker of the ESG management system of the Group and responsible for identifying and assessing ESG related risks, ensuring that the Group has set up appropriate and effective ESG risk management system and internal control system, and reviewing the annual ESG report and work plan.

Management and monitoring level: The management of the Group forms the ESG Management Group and serves as the supervision function in the ESG management system. It is responsible for monitoring and managing the daily operation of ESG risk management and internal control systems, guiding the daily work of ESG Working Group and reporting the operation of the system to the Board on a regular basis.

Actual execution level: The ESG Reporting Group is formed by core departments including the Sales Department, the Human Resources Department, the Procurement Department, the Quality Inspection Department and production bases. It is responsible for executing all ESG related works, including collecting data, preparing report, communicating with stakeholders, arranging exchange and training activities, thus helping the Board and the ESG Management Group to assess whether the Group's ESG management system is appropriate and effective.

3.2 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 for stakeholders is also a key measure for us to fulfill and promote social responsibility. By conducting active and effective communication with the stakeholders, we can further understand stakeholders' expectations and demands on Labixiaoxin's assuming social responsibility. While striving to fulfill the basic social responsibility, we endeavor to satisfy stakeholders' demands and make corresponding adjustments to our development direction.

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Table 1: Communication Mechanism for Stakeholders

Stakeholder	Shared Targets	Communication and Feedback Channels
Shareholders and investors	Assets preservation and appreciation Steady growth in return on investment Operational 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 Diverse product choices	“Green food” management principle Customer service hotline WeChat official account/official Weibo Online mall Product quality management mechanism
Suppliers	Fair, open and impartial procurement Long-term and stable cooperative relationship	Supplier site visits Supplier tendering Supplier communication meetings
Environment	Environmental protection Energy conservation and emission reduction	Regular environmental assessment Technology upgrading Environmental management plan
Employees	Occupational health and safety Wages, benefits and security Occupational growth platform	Occupational health and safety management system Employment and employees’ rights Employee training and development Labi Academy
Communities	Public charities Activities for repaying the community Contribution to local economic development	Support development of education industry Products donation Be warmhearted to public service Stimulation of local industrial development





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3.3 Management of Material Issues

Since its establishment, Labixiaoxin has been keeping communication with stakeholders, actively responding to stakeholders' requirements and constantly improving its sustainable development ability. On the basis of requirements of the ESG Guide of the Stock Exchange and with reference to practices of leading enterprises at home and abroad, Labixiaoxin analyzes, classifies, selects and ranks issues that reflect the Group's economy, the significant environmental and social impact and those have material impact on stakeholders' assessment and decision making, which is taken as the important basis of managing and disclosing ESG information.

Identification of Issues

The Group focuses on characteristics of its business and key areas of the industry. The Board is responsible for identifying and assessing the impact and possible risks the Group's businesses may bring to the society, the economy and the environment, identifying material environmental and social issues after the consolidation in accordance with the ESG Guide, and taking such identification and assessment as the basis to analyze material issues.

Surveys and Researches

The ESG Working Group is responsible for conducting group discussion and one-to-one interviews with stakeholders for communication and exchange, so as to understand the issues stakeholders prioritize and assess the materiality of various issues.

Questionnaire Surveys

The ESG working Group allows stakeholders to evaluate the materiality of all issues by way of questionnaire, so as to collect accurate and specific data, and further measure and analyze stakeholders' judgments on importance to material issues.

Screening and Assessments

Based on the results of surveys and researches, the ESG Working Group assesses different material issues from two perspectives, i.e. the importance of the impact on internal businesses and the importance of the impact on external stakeholders, and prioritizes the importance of respective issue in order to obtain the materiality matrix. The relative importance of various issues is identified through matrix analysis.

Review and Confirmation

Through the abovementioned assessing process, 15 key ESG issues are identified; by the review of the Board and the ESG Management Group, they become the core part of the Report, which means that we should focus on the monitoring and management of such issues and disclose relevant information.

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Environmental issues:

1. Environmental protection
2. Use of resource
3. Waste treatment

Social issues:

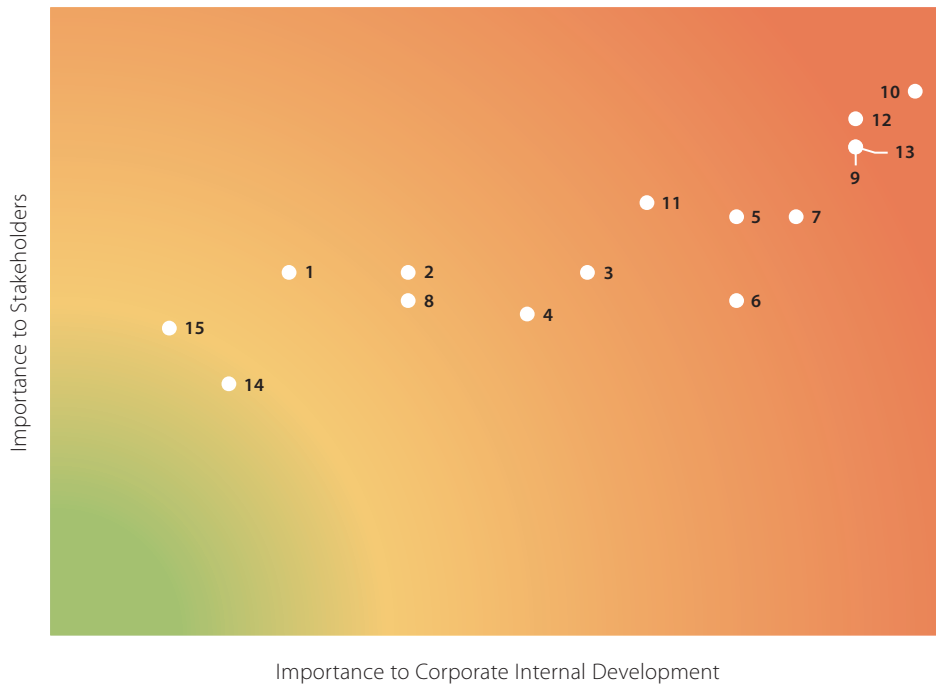
4. Employees' salary and benefits
5. Employees' occupational health and safety
6. Employee development and training

Operational issues:

7. Supply chain risk management
8. Promote supply chain to perform social responsibility
9. Product safety and nutritiousness
10. Product quality management
11. Customer service
12. Intellectual property protection
13. Anti-Corruption
14. Community Activity
15. Public welfare undertaking

Matrix of Labixiaoxin's ESG Material Issues

Materiality Matrix of Key Issues

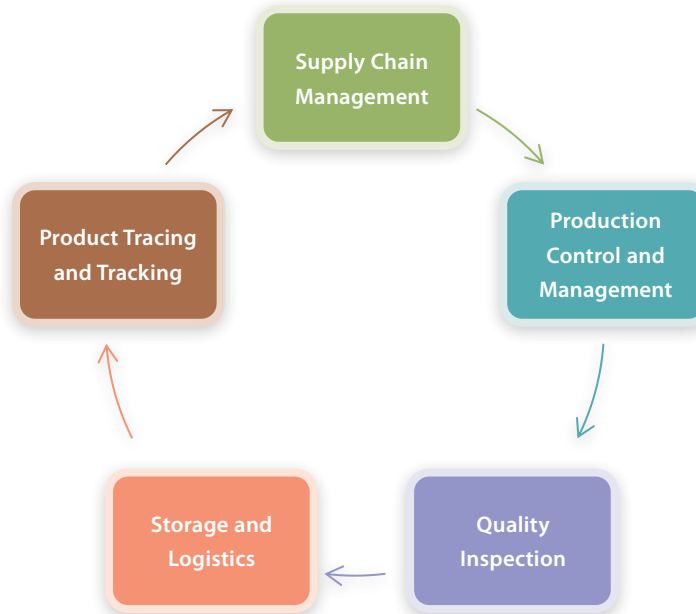




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4. COMMITMENT TO HEALTH AND NUTRITION FOR CONSUMERS

The Group consistently adheres to the “green food” management principle, stays consumer-centric, aims to provide consumers with high-quality, safe and nutritious foods and strives to make contribution to people’s healthy lifestyle. The Group strictly complies with a series of laws and regulations on food production and operation, food package, food safety and utilization of food additives, including the Food Safety Law of the People’s Republic of China, GB 14881-2013 National Standard of Food Safety – 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 National Standard of Food Safety – 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 National Standard of Food Safety – Cookies (《GB 7100 食品安全國家標準餅乾》), so as to ensure strict compliance with relevant laws and regulation during the process of production and processing, product packaging, product storage and transportation and to effectively guarantee the product quality and safety. During the Reporting Period, the Group recorded no violation of laws and regulations related to food safety.



4.1 Product Quality Management System

Labixiaoxin regards quality as the lifeline of brand, executes strict quality control from the source of supply chain to the marketing terminal, and makes every product with “craftsmanship spirit” that relentlessly seeks for ever greater perfection. We actively promote the certification of quality and safety systems, which is subject to review of experienced experts designated by third-party professional certification institutions. During the Reporting Period, the Company continuously passed GB/T19001/ISO9001 Quality Management System Certification, ISO22000 Food Safety Management System Certification, and BRC Food Safety Global Standard Certification, and set up a series of quality management regulations and operation manual that fit for its own products in accordance with the said standardized management systems. We also conduct internal review and self-inspection in respect of relevant systems every year, organize system training, legal and regulatory training, quality inspection training and other trainings for the management and all staff and convene quality risk meeting every week, so as to ensure that we have fully guaranteed the quality of our products throughout their life cycle. With years of development and experience accumulation, we have established a set of mature and effective product quality management system.

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4.2 Supply Chain Management

The Group has been adhering to the faithfulness and win-win philosophy in operation and continuously improving the supply chain management. Through the scientific and strict supplier selection and assessment system, the complete supplier performance appraisal mechanism and the fair and square evaluation system, the Group creates a favorable competition environment for suppliers and guarantees the quality of products from source.

In accordance with the Procurement Management Regulations and the Supplier Management System of the Group, we made procurement by the way of Group's centralized procurement based on the principle of the 80/20 Rule and selected high-quality suppliers through tendering. In 2020, the Group's procurement department was divided into a supplier management group and a procurement execution group. The management group was responsible for supplier development, new product testing, standard assessment and bargaining; the execution group was responsible for order, order chasing and quality control. Through the form of separation of power and responsibility management, procurement costs and risks were effectively reduced and the stability of procurement quality was guaranteed.

In order to ensure that the qualifications of our approved suppliers meet Labixiaoxin's requirements, we implement a comprehensive supplier site visit policy to conduct a comprehensive investigation into the suppliers' technical standards, proof of qualifications, enterprise scale, equipment status, reputation, brand awareness and other aspects. Meanwhile, in order to better assess the actual situation of our suppliers in terms of their performance of social responsibility, we also examine their production environment, packaging materials, staff management and other social benefit factors, so as to lay the foundation for the promotion of their better performance of social responsibility during future cooperation.

In 2020, we optimised our intelligent procurement system, with the intelligent system determining and grading the basic assessment factors for suppliers and procurement staff assisting in the management, which will effectively reduce human intervention and improve selection efficiency. We assess and grade suppliers based on the four dimensions of quality, price, delivery and service, and manage suppliers in a hierarchical manner based on performance assessment results, thereby establishing stable partnerships with excellent and responsible A-grade suppliers and providing coaching and support to potential B-grade suppliers. We continuously adjust the supplier structure by eliminating unqualified suppliers, so that the Group's cooperation with suppliers can develop positively and long-term strategic partnership can be established, in order to achieve the ultimate goal of reducing the Group's supply chain management risk.

The Group also values the long-term and positive cooperative relationship with suppliers. It holds communication meetings with suppliers on a monthly basis to discuss about procurement strategies, product quality and other issues. By maintaining long-term stable cooperation, suppliers can realize development and progress together with us; in return, suppliers who have long-term cooperation with us can obtain guaranteed stable order volume and thus maintain the sound development of their own. In the meantime, we also provide suppliers who have lower grades in the assessment with support in terms of management experience, production technology, equipment and facilities.



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Regional Distribution of Suppliers

Province	Number of suppliers in 2020	Percentage
Fujian	88	38.4%
Guangdong	34	14.8%
Anhui	18	7.9%
Zhejiang	14	6.1%
Sichuan	14	6.1%
Jiangsu	10	4.4%
Shanghai	10	4.4%
Shandong	8	3.5%
Hubei	6	2.6%
Henan	5	2.2%
Hebei	4	1.7%
Jiangxi	4	1.7%
Tianjin	4	1.7%
Beijing	3	1.3%
Hainan	3	1.3%
Other provinces and overseas area	4	1.7%
Total	229	100%

4.2.1 Production Control and Management

To maintain better quality control in each production process, the Group formulates a series of system and regulations for the production control and management, including the HACCP Program and the Hygiene Standard Operation Procedures (《衛生標準操作程序》), in accordance with relevant laws, regulations and the requirements of respective quality management systems and by taking into consideration the actual development of the Company, so that it can ensure the standardization and professionalism of production procedures, production process and operation.

1) HACCP Program

The HACCP (Hazard Analysis and Critical Control Point) Program stipulates the organizational structure of the food safety team of the Company, product description, production process flow chart, production process description, hazard analysis worksheet, HACCP plan table, corrective procedures and verification procedures. It defines the process composition, the process sequence, and the interaction between processes necessary for the HACCP Program, and the guidelines and methods for effective control of critical control points. Through monitoring, measurement and analysis, it takes necessary improvement measures to ensure the implementation of the Company's food safety policies and objectives.

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2) *Hygiene Standard Operation Procedures*

Hygiene Standard Operation Procedures set out the details of performing cleaning, disinfection and hygiene procedures in the course of food processing, and clarifies the monitoring of eight key production elements, i.e. 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, therefore further ensuring the healthiness and hygiene of products.

Through high, medium and low risk grading, the risk of product quality is controlled in an informatized way from four dimensions, namely raw material inspection, production process, product delivery and SOP testing, with each functional department controlling different risk levels. Through the display of quantitative indicators of the system, it is possible to give real and fast feedback and focus on catching the key points. The 8D quality improvement project is implemented during the implementation process. In response to the problems found, we set up a quality improvement team to analyse and investigate the causes of the problems found, and then develop countermeasures to solve the problems, thus enabling inter-departmental information sharing and joint solutions to the problems found.

4.2.2 *Quality Inspection*

The Group continuously improves the product quality inspection system and formulates the Regulations on Management of Annual Quality Objectives (《年度質量目標管理規定》) every year to ensure the high quality of products. After years of development, we have currently established a stable product quality inspection system:

1) *Inspection on raw materials*

Materials must be delivered to the Company together with a delivery inspection report provided by relevant vendor. We collect samples in accordance with relevant requirements and conduct inspections, and substandard materials 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 carry 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 devices, so as to ensure that ingredients are prepared according to standard recipes.

In the production process, QC staff are in charge of providing respective positions with inspection guidelines. In the building and filling positions, operators perform self-inspections, while team leaders, workshop directors and QC staff conduct tour inspections and the sterilization workers are responsible for real-time supervision of the fully automated sterilization process, so as to ensure all products are produced and sterilized in accordance with process standards.





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3) *Final product inspection*

The Company has formulated the “Product Delivery Inspection Management System”. The process team or finished product inspector is responsible for taking samples according to the specified requirements and filling in the sampling registration form. The testing lab then performs random sampling inspections on each batch of finished products, which generally include microorganism inspection, the appearance of raw materials, special physical and chemical inspection, and issues relevant inspection reports. Meanwhile, QC staff also perform inspections on finished products produced in the workshop, which cover 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.

In addition to regular quality inspections, the Group also organizes production bases to launch special quality improvement activities by applying new processes and new technologies to upgrade our technologies, so as to ensure that we are able to maintain the production of high-quality products.

4.2.3 *Warehousing and Logistics*

We adopt strict management for the warehousing and logistics of products and make great efforts to protect products in these two parts to guarantee the quality of products:

- When finished products are rated as qualified, they are sorted and stored by product category and production date in strict compliance with the Group’s warehousing management requirements. The principles “keeping away from the ground and the wall” and “avoiding mouse and guarding against damp” must be strictly implemented, and products must be stored in an environment with appropriate humidity and temperature. In addition, external professional teams are engaged every month to identify potential hygiene and safety risks in the warehouse and offer relevant solutions;
- The logistics department checks the hygiene conditions of vehicles delivering products and the qualification of drivers, only qualified vehicles and drivers are allowed to transport goods. The Group checks the qualifications of logistics companies every year and launches receivers’ satisfaction survey to collect feedbacks. If there is any issue in the logistics process, the Group will coordinate with relevant logistics company to deal with such issues.
- In 2020, we also optimized our delivery routes by adjusting the radius of delivery region and reducing its turnaround times, thus effectively reducing freight costs, transport times and the risk of loss of goods. We have achieved centralized delivery of products to reduce the transfer of goods and reduce the negotiation with logistics providers. In addition, we have built an e-commerce platform (dropshipping) to provide support for online business.

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4.2.4 Product Tracing and Tracking

Labixiaoxin establishes the digitalized traceability system and renders all products “ID card”. Relying on the “one product, one code” information traceability system, the Company realizes the informatization, visualization and precision of product tracing and tracking and further improves the quality management system. With the relating code, information about the whole product lifecycle from production, processing, logistics and consumption is available. In addition, the function of point inspection through code scanning can help customers to check the quality inspection we have performed in each key production process, meet the basic requirement that “the source can be traced back, the production can be visualized, the circulation can be tracking, the risk can be controlled, and the public can get involved”, and achieve the end-to-end and informatized trace of the whole chain.

The Group also formulates the Quality Issues Management Standards (《質量事故管理標準》) and Recall and Withdrawal Control Procedures (《召回和撤回控制程序》) internally, which provides details of the definition of quality issues, the classification standards, the countermeasures for each category of quality issues and the product recall and withdrawal procedures. Once the product recall is necessary, we will implement hierarchical recall management in accordance with relevant requirements, and disclose information such as the batch of products recalled, the time when the recall commences and the work procedures. During the Reporting Period, the Group did not record any product recall.

4.2.5 Product Quality

The comprehensive product quality management system is the fundamental guarantee of the high quality of our products. During the Reporting Period, our products maintained consistently high quality and realized 100% food safety qualification, and the total number of products sold or shipped subject to recalls for safety and health reasons was zero.

Product Quality Data for 2018-2020

Year	Product qualification ratio	Food safety compliance ratio	Percentage of products sold or shipped subject to recalls for safety and health reasons
2018	99.75%	100%	0%
2019	99.79%	100%	0%
2020	99.79%	100%	0%

4.3 Customer Service System

The Group has always adhered to the operation philosophy of “being close to our customers and understanding their needs as the origin of our management”, and is committed to creating superior and complete consumption experience for consumers by implementing a customer-focused service attitude. We have formulated the Customer Complaint Management System (《顧客投訴管理制度》) in accordance with the Consumer Protection Law of the People’s Republic of China and other laws and regulations to specify responsibility scope of customer service management, relevant work procedures and accountability and rectification measures, thus ensuring proper response to customer complaints.





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Currently, the Group has established multiple communication channels for consumers to express their opinions and feedbacks. Consumers can express their opinions and feedbacks by the national customer service hotline, the WeChat official account and the official Weibo; they can also adopt the offline channel and directly communicate with local business teams. The Group is equipped with professionally trained customer complaints specialists who are responsible for communicating with customers in the first instance to ensure that consumer complaints and feedback are handled appropriately.

Labixiaoxin fully protects customers' rights and interests, properly deal with customers' private information received through shopping channels, and requires all employees to keep customer information strictly confidential. The Group currently adopts the decentralized and authorized management, under which, relevant personnel can only get access to information and data within their authority scope. In the meantime, we require all personnel who have access to key information to sign confidentiality agreements, and encourage employees to transmit data via the Group's internal information platform as far as possible, thereby preventing the unauthorized disclosure of customer information to the greatest extent.

During the Reporting Period, the Company received a total of 46 customer complaints, which were mainly about minor damage to the external packaging of the products during transportation. There were no complaints about the health of the food of the products, nor were there any complaints about the infringement of customers' privacy and loss of customer information, and all complaints were handled properly during the Reporting Period.

4.4 Intellectual Property Management System

4.4.1 Intellectual Property Protection

The Group attaches great importance to the protection and management of intellectual property, strictly abides by relevant laws and regulations including the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China and the Copyright Law of the People's Republic of China, and has developed and implemented strategies for new product research and development and patent application by taking account of its own conditions. We believe that the protection of intellectual property rights is to protect innovation, which in turn can better support innovation-driven development. In order to strengthen the management of intellectual property rights, we have 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 for the purpose of improving the Group's overall intellectual property management. During the Reporting Period, we did not record any lawsuit caused by intellectual property infringement.

4.4.2 Eradication of False Publicity

The Group strictly complies with the Advertising Law of the People's Republic of China and other relevant laws and regulations. Holding the attitude of being responsible to consumers, we follow the internal review procedures strictly and obtain the approval before releasing advertisement and other information through official channels.

5. ENVIRONMENTAL PROTECTION IS OUR PROMISE TO NATURE

Labixiaoxin actively responds to the national goal of “Achieving Carbon Neutrality before 2060” by promoting the development concept of “green production, green consumption, and green development”, and it is committed to building a healthy food company being in harmony with the environment. The Group strictly abides by the Environmental Protection Law of the People’s Republic of China, the Atmospheric Pollution Prevention and Control Law of the People’s Republic of China, the Water Pollution Prevention and Control Law of the People’s Republic of China, the Law of the People’s Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes and other relevant laws, regulations and standards for emission management requirements. It has also developed the Environmental Management Plan and continuously strengthened the control and management of greenhouse gas, waste gas, waste water and wastes, therefore making contribution to the development of national green ecological construction. During the Reporting Period, the Group did not record any violation of laws and regulations related to environmental protection.

5.1 Emissions

In 2020, the Group continued to optimize process technology, updated high-performance environment-friendly production facilities, and upgraded and maintained facilities for disposing of emissions including waste water and waste gas, thereby effectively ensuring that wastes were disposed in a way that complies with laws and regulations and constantly reducing the environmental impact from production and operation.

Waste Gas

- In strict compliance with requirements of the local environmental protection bureau, the Group designates professionals every year to measure the emission of waste gas, and therefore ensures that the emission of waste gas meets national emission standards.

Waste Water

- Wastes and waste water produced during the production are mixed and grinded first, and then automatically gathered in the waste water treatment system through the pipeline, and discharged after reaching the emission standard;
- In 2020, the ink jet anchor process used in the production base was transformed into laser printing, which effectively reduced the environmental pollution caused by ink discharge.

Solid Wastes

- Solid wastes treatment is mainly carried out by garbage classification;
- Domestic wastes are collected and handled by local city sanitation departments;
- Recyclable wastes are collected by specialized plants;
- Other solid wastes including used batteries and luminous tubes are sorted and stored by type and then collectively collected and treated by third parties.





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During the Reporting Period, emissions mainly included greenhouse gas generated by energy consumption and waste gas, waste water and solid wastes produced in the course of production and operation. As the total number of our products increased from the level of prior reporting period, the overall data of waste gas emissions, cartons, and waste water recorded certain increase. As we have improved the packaging process and reduced the production volume of canned products, the emission data of packing scrap wastes and cans has decreased to a certain extent year-on-year. Details of which are set out below:

Emission of Greenhouse Gas and Waste Gas

Emission type	Emission in 2019	Emission in 2020 ¹
Nitrogen oxides (NO _x)	363.43 kg	401.79 kg
Scope 1 ² Carbon dioxide (CO ₂)	883.51 ton	976.32 ton
Scope 2 ² Carbon dioxide (CO ₂)	9650.96 ton	9,770.23 ton
Density of carbon dioxide (CO ₂)	0.17 tons (CO ₂ e)/ton _{product}	0.17 tons (CO ₂ e)/ton _{product}

Discharge of Waste Water and Solid Wastes

Name of waste	Total discharge in 2019 (ton)	Total discharge in 2020 (ton)	Density of discharge for 2020
Cartons	146	147	0.002 tons/ton _{product}
Packing scrap wastes	163	144	0.002 tons/ton _{product}
Cans	103	60	0.001 tons/ton _{product}
Waste water	85000	100000	1.664 tons/ton _{product}

¹ The data cover the emission of the Group's headquarters in Fujian and subsidiaries in Anhui and Sichuan

² Scope 1: Covers the carbon dioxide emissions from the Group's use of natural gas combustion

³ Scope 2: Covers the carbon dioxide emissions generated indirectly from the Group's outsourcing power

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5.2 Use of Resources

Labixiaoxin has been strictly abiding by the Energy Conservation Law of the People's Republic of China, actively adjusting its own energy structure, constantly integrating the environment and the expectations from the society and the government in its core operation practices, and put efforts in achieving social sustainability. We vigorously promote the measures for energy conservation and emission reduction, continuously improve the resource management regulations and system, develop employees' awareness of resource conservation, and improve energy utilization. We plan to gradually develop more detailed quantitative targets for key production resources, such as electricity, water, and packaging materials in the future.

Set out below are measures the Group promoted in the year to improve energy and resource efficiency:

Electricity saving:

- The air compressor which accounts for about 30% of the electricity consumption in the production base is transformed with frequency conversion, and the high energy consumption equipment is adjusted to turn on at night, which effectively reduces the electricity loss by about 5%-10%;
- We gradually optimizes the steam pipeline in the production base by adopting specific measures such as appointing staff to monitor the safety valve in the daytime and night time and conduct regularly check and repair. By automatically adjusting the required flow rate through the safety valve, the leakage and loss of steam can be effectively prevented;
- Production units are subject to monthly energy use assessment, which strictly assesses each workshop's use of energy and identifies exceptional use of energy in a timely manner by analyzing energy consumption, so as to prevent wasting energy;
- Production units are encouraged to conduct production in off-peak hours to avoid the peak demand for electricity.

Water saving:

- More labels for saving water are added in the factory to strengthen the promotion and education of water saving;
- The recycling efficiency of domestic water is further improved by dredging the water pipes and optimizing the water treatment process. The recycled water is used in restrooms and for cleaning the plant site;
- Toilets, taps and domestic water facilities in the Group are gradually upgraded to improve the water saving efficiency.





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Packaging material saving:

- All-purpose cartons are adopted for all products, by adjusting the carton size, and then adjusting its moisture resistance value, so as to improve the utilization and circulation efficiency of cartons and effectively prevent wasting cartons.

During the Reporting Period, the Group promoted measures to improve energy and resource efficiency in all aspects, but due to the total number of products increased, the primary resources (other than water and gasoline¹) recorded increase slightly from the level of prior reporting period. Details of the data are set out below:

Table of Resource Consumption and Density

Resource category	Total resource consumption in 2019	Total resource consumption in 2020	Density
Electricity	10,242,801.47kWh	10,434,757.61kWh	173.68 kWh/ton _{product}
Natural gas	449,850.64 m ³	497,112.00 m ³	58.86 m ³ /ton _{product}
Steam	44,549.71tons	48,828.44tons	0.81 ton _{steam} /ton _{product}
Water	575,709.62tons	511,250.79tons	8.51 ton _{water} /ton _{product}
Gasoline	34,135.88tons	30,796.06tons	0.51 ton _{gasoline} /ton _{product}
Packaging materials	8,958.82tons	10,288.83tons	0.17 ton _{packaging material} /ton _{product}

5.3 Environmental Impact Management

Labixiaoxin consistently sticks to the sustainable development concept that highlights the green development and environmental friendliness. We attach great importance to environmental protection and resource conservation, incorporate the concept of energy conservation and emission reduction into production, operation and management, make every effort to minimize the impact of our businesses bring on the environment, and strive to solve practical or potential environmental problems. In view of its business nature, the Group had not brought significant impact on the environment and natural resources because of the emission of slight nitrogen oxides and carbon dioxide generated in coal firing for production and the discharge of waste water and solid wastes produced in production. For emissions generated, we have adopted appropriate treatment procedures, and the emission meets the requirements of national laws, regulations and policies on environmental protection. In addition, we have developed the Environmental Protection Management System, the Environmental and Occupational Health and Safety Management, Operation and Control Procedures, the Emergency Plans for Environmental Pollution and Damage Incidents, the Environmental and Occupational Health and Safety Emergency Response and Control Procedures and other system documents, so as 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.

¹ The decrease in water use was mainly due to the significant results of the water recycling measures promoted by the Group, while the decrease in gasoline consumption was mainly due to the reduction in the use of buses by the Group

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5.4 Tackling Climate Change

Labixiaoxin is profoundly aware that climate change will have a great impact on the natural environment and corporate development. Although we have not yet formulated management regulations that are directly related to climate change, we strictly implement regulations and arrangements on extreme weather stipulated by local government to ensure the life and health of employees and the safety and stability of corporate assets. We will also constantly pay attention to the risks and opportunities brought by climate change and formulate effective and feasible management guidelines and mechanisms in the future.

6. UPHOLDING PEOPLE-ORIENTED PHILOSOPHY IS OUR COMMITMENT TO OUR EMPLOYEES

6.1 Our Values

Labixiaoxin views employees as our most valuable asset and believes that people are the primary resources of enterprises. We place people first and strive to achieve mutual respect, candid communication, fair evaluation and common development. We endeavor to create a safe and healthy working environment for our employees, provide them with a platform to give full play to their personal talents, and improve our talent development strategy, hoping that each employee can develop well in Labixiaoxin and work together to create a better life.

6.2 Employment and Interests of Employees

6.2.1 Employment

While strictly following the requirements stipulated in the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and relevant laws and regulations, the Group standardizes recruitment procedures and criteria based on its actual development, establishes a comprehensive remuneration and benefit system, improves the employee promotion mechanism, prohibits the recruitment of child labor and forced labor, respects the culture and religious belief of different ethnic groups, ensures employees of different genders, ages, skills, educational background enjoy equal rights, and protects employees' rights and interests in recruitment, promotion, dismissal, working hours, holidays and other aspects. We also establish feedback channels in respect of labor relation, remuneration and benefits, and performance appraisal results to further safeguard employees' rights and interests. During the Reporting Period, the Group did not record any violation of relevant labor laws and regulations.

As at the end of 2020, our employees are mainly based in Fujian, Sichuan and Anhui. The Group currently has a total of 1168 employees, among which:

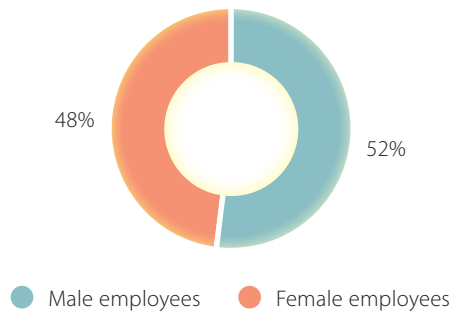


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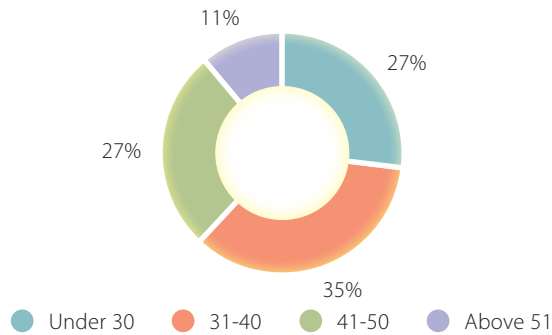
There is a relative balance between male and female employees, with 602 male employees and 566 female employees:

Distribution by Gender



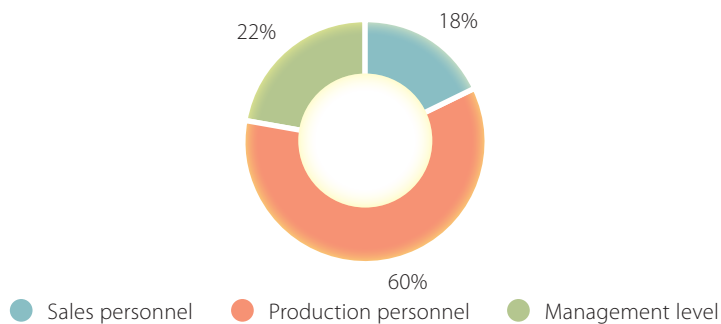
Most employees fall in the age group of 31-40 based on distribution by age:

Distribution by Age



In terms of employment type, production personnel of the Group account for the largest proportion:

Distribution by Employment Type



During the Reporting Period, in 2020, the average turnover rate of management level and production personnel was 42.0% and 30%, respectively. Due to the impact of the COVID-19 epidemic and internal positions adjustment, our employee turnover rate has increased as compared with that of the previous reporting period, however, overall turnover rate levels remained within the average range of traditionally labor-intensive industries.

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6.2.2 Employees' Rights

The Group pays close attention to employees' sense of happiness, cares about their work and life and ensures that employees enjoy the benefits they are entitled to. We value the establishment of its talent echelon and employees are divided into those with outstanding business volume, those at middle level and those in need of improvement based on their performance. Leveraging on a remuneration system that is based on employees' ability and performance, the Group effectively motivates employees' initiative. We strictly follow national regulations and ensure that employees enjoy statutory holidays, annual leave, marriage leave and other holidays and benefits. At the same time, as the industry we operate in is a labor-intensive industry, a large number of manpower are needed to maintain the stable operation of the production line every day. We are committed to providing our employees with a safe and comfortable working environment. During the Reporting Period, we have built a new staff canteen and improved and upgraded the staff dormitory, aiming to create a comfortable and harmonious work and life environment for our employees.

Newly-built Staff Canteen



The headquarters and subsidiaries organize various activities every year to promote communication and exchange among employees, which include basketball matches, outdoor activities, employee birthday party and other sports and cultural activities. With these multi-level and multi-dimensional activities, we greatly enrich employees' life and strengthen the cohesion within the Company.

Employee Birthday Party





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6.3 Health and Safety

We strictly observe the Work Safety Law of the People’s Republic of China, the Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases, the Measures for the Administration of Contingency Plans for Work Safety Accidents and other relevant national laws and regulations, and ensure that works related to work safety and prevention and control of occupational diseases are effectively carried out. 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 and other parties may be exposed to because of production activities organized by the Company, and implement its people-oriented management concept, striving to provide a safe and healthy working environment.

During the Reporting Period, we accomplished the renovation of the plant and reasonably delineated the production and non-production areas, with clear functional zoning. The layout of roads within the plant took into account the requirements of logistics and transportation, environmental protection and subsequent development, and marked the sidewalks, etc., so as to create a safe and orderly working environment for our employees.

Production base after renovation



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We provide all employees with training on occupational safety, through which, employees are equipped with work safety knowledge that is necessary to their work, improve their operational skills, and enhance their capabilities of accident prevention and emergency response. All frontline production personnel are required to take pre-job trainings every day before they commence work, so as to further improve the awareness of occupational safety risk prevention. We organize fire-fighting exercises every year, for the purpose of improving employees' safety awareness and basic fire-fighting skills. In 2020, we renovated production lines to further improve the level of automation of our facilities' with an aim to reduce the health risk of employees brought by operating environment from the source. Every month, the Company also conducts safety inspections and facilities inspection and maintenance to thoroughly check the conditions of production facilities, the working environment in workshops and safety/health protecting facilities, and asking employees to rectify any unqualified areas in the first instance. Meanwhile, for every year, we accept regular inspections of the safety management office of local government on fire-fighting, labor protection and hygiene and other aspects in our offices, and regular inspections of the environmental protection bureau in respect of organic gas, noise, waste gas and waste water of our workshops. In our daily work life, we implement "5S" inspection and advocate our employees to consciously organize, tidy, sweep and clean their work and living areas and help them develop good hygiene habits. In addition, we provide physical examination to all employees each year to guarantee their health.

In the past three years (including the Reporting Period), the Group had no work-related injury or death, nor did it record violation of laws and regulations in relation to occupational health and safety.

6.4 Development and Training

Labixiaoxin upholds the concept of staying people oriented and making everyone fully display their talent. We regard employee as one of the most important factors in achieving sustainable development and closely integrate training and education with employees' career development, and strives to offer employees diversified and multi-channel training resources. Affected by the epidemic in 2020, the Group organized less centralized offline training, but conducted online training, assignments after class and examinations for all personnel by establishing the "Labi Academy" (蠟筆學院) online learning platform to promote knowledge accumulation and sharing. We advocate the on-the-job training and performance coaching that emphasizes growth in the practice, adopt "training and practice integration" to help employees enhance professional knowledge, techniques and skills and corporate culture adaptability, thereby improving employees' performance and career development potential.

At present, the training programs of "Labi Academy" (蠟筆學院) are mainly divided into management line and technical line, and the target participants involve all employees. The trainees are encouraged to complete the learning online with points as awards and the frequency is basically maintained at once every two months. And there are different class requirements for each position. The training instructors are experienced instructors within the Group. At present, the Group has about 30 internal trainers and 70 to 80 courses, which mainly include induction training, professional empowerment training and leadership improvement training, etc. In addition, the academy also introduced some external courses to share the experience of successful people in the industry to provide systematic learning channels for employees in different positions. Data shows that during the Reporting Period, the average training hours per new employee of Labixiaoxin were over 20 hours.





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Labi Academy Instructor Training



In 2020, in terms of talent system construction, the Group strengthened the selection of middle-level personnel, and the human resources department entered into the business system to conduct talent review, and interviews with employees were conducted on the basis of one person for one position to identify experienced senior staff. In addition, the Group has also recruit external professionals appropriately to inject fresh blood into the Company, and is committed to achieving the concept of making everyone fully display their talent. In 2020, the Group has improved the training system for management trainees, launched campus recruitment in October, strengthened the guidance for newcomers, attached importance to talent training and strengthened the dissemination of corporate culture. At present, the Group recruited 11 management trainees in the first phase.

On-campus information session



6.5 Labor Standards

The Group strictly complies with the Labor Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China, the Provisions on the Prohibition of Using Child Labor and other relevant laws and regulations, and implements the relevant requirements of the BRC and the U.S. FDA on labor guidelines. In 2020, the human resources department optimized the recruitment process, improved the process of recruitment information collection and the recruitment, required candidates to present identity documents in the course of recruitment, and reviewed the information they provide to prevent employment of child labor and forced labor. We sign labor contracts with all employees in accordance with laws, make contributions to social insurance schemes for employees according to relevant regulations. For those who do not want to pay social insurance, the Company will not sign contracts with them.

During the Reporting Period, the Group did not record any violation of laws, regulations and international standards on child labor and forced labor.

7. SINCERELY GIVING BACK-OUR COMMITMENT TO THE COMMUNITY

In its 20-year history, Labixiaoxin has taking “social responsibility” as an important part of its corporate development strategy, actively participating in social construction, engaging in charity, and building an image of responsible enterprise that is ready to shoulder duties. We strictly comply with the Charity Law of the People’s Republic of China and other relevant laws and regulations, actively respond to the targeted poverty alleviation policy proposed by the State, focus on social services, educational support, charitable donations and other aspects, actively participate in charity activities, and make our own contribution to helping people realize happy life.

7.1 Social Services

Labixiaoxin is always concerned about the needs of the community and actively participates in community building, committed to achieving synergistic development between the Company and the society. We actively care for the underprivileged and do our best to give love and care. We have close collaboration with local volunteer service organizations, and participate in various community services, including environmental protection campaigns, visiting those in need and assisting in organizing large social activities. Every year, the Company organizes its staff to pay visit to the elderly who live alone on traditional festivals. Through practical actions, we joint the rank of respecting, honoring and helping the elderly, which is a move that inherits the Chinese traditional virtue.

During the Reporting Period, the Group organized its staff to participate in two volunteer activities of community and street environmental protection.

7.2 Community Investment

The Group donated RMB2,000,000 to establish Labixiaoxin Charity Fund in 2007, and increased donations in succession in subsequent years. Currently, Labixiaoxin Charity Fund is managed by Jinjiang Charity Federation, which is responsible for donations of the fund. In 2019, Mr. Zheng Yu Long, director of the Group, was named the “honorary president” of Jinjiang Charity Federation, which reflected the appreciation and recognition of the society to Labixiaoxin’s contribution to charitable cause. On the Double Ninth Festival in 2020, we also donated RMB10,000 worth of supplies to the elderly community, hoping to do our part for more elderly people to live a harmonious, happy and healthy life in their old age.

Labixiaoxin regards support to education development as the key task of its public welfare undertaking, takes tangible actions to help stay-at-home children and poverty-stricken children with a caring and warm heart, continuously pays emphasis on the growth of young people and makes great contribution to the construction of basic educational infrastructure, school construction plans and financial support to poverty-stricken students. During the Reporting Period, the Group donated RMB150,000 worth of food and gifts in aggregate to two local primary schools of Quanzhou City and RMB2,130,000 to Yude Primary School of Jinjiang City.

At the same time, the Group also cooperates with related local colleges and universities, so that 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. We will send professional and technical personnel to conduct teaching and coaching, so as to lay a good foundation for students to serve the society after graduation. We will continue to reinforce college-enterprise cooperation and constantly promote the development of education in the future.





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HKEX ESG INDICATOR INDEX

Disclosure Index	Relevant Section
Aspect: Environment	
A1: Emissions	
General Disclosure	
Information on	5 ENVIRONMENTAL PROTECTION IS OUR PROMISE TO NATURE
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.	
A1.1 Types of emissions and respective emissions data.	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).	5.1 Emissions
A1.3 Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.1 Emissions
A1.4 Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.1 Emissions
A1.5 Description of measures to mitigate emissions and results achieved.	5.1 Emissions
A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	5.1 Emissions

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Disclosure Index	Relevant Section
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.	5.2 Use of Resources
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 volume, per facility).	5.2 Use of Resources
A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	5.2 Use of Resources
A2.3 Description of energy use efficiency initiatives and results achieved.	5.2 Use of Resources
A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.2 Use of Resources
A2.5 Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	5.2 Use of Resources
A3: The Environment and Natural Resources	
General Disclosure	
Policies on minimizing the issuer' significant impact on the environment and natural resources.	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	5.3 Environmental Impact Management
A4: Climate Change	
General Disclosure	
Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	5.4 Tackling Climate Change
A4.1 Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	5.4 Tackling Climate Change





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Disclosure Index	Relevant Section
Aspect: Social	
B1: Employment	
General Disclosure	
Information on a) the policies b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	6. UPHOLDING PEOPLE-ORIENTED PHILOSOPHY IS OUR COMMITMENT TO OUR EMPLOYEES
B1.1 Total workforce by gender, employment type, age group and geographical region.	6.2 Employment and Interests of Employees
B1.2 Employee turnover rate by gender, age group and geographical region.	6.2 Employment and Interests of Employees

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Disclosure Index	Relevant Section
B2: Health and Safety	
General Disclosure	
Information on 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.	6.3 Health and Safety
B2.1 Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	6.3 Health and Safety
B2.2 Lost days due to work injury.	6.3 Health and Safety
B2.3 Description of occupational health and safety measures adopted, and how they are implemented and monitored.	6.3 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.	6.4 Development and Training
B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	6.4 Development and Training
B3.2 The average training hours completed per employee by gender and employee category.	6.4 Development and Training
B4: Labor Standards	
General Disclosure	
Information on	6.5 Labor Standards
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.	
B4.1 Description of measures to review employment practices to avoid child and forced labor.	6.5 Labor Standards
B4.2 Description of steps taken to eliminate such practices when discovered.	6.5 Labor Standards





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Disclosure Index	Relevant Section
B5: Supply Chain Management	
General Disclosure	
Policies on managing environmental and social risks of the supply chain.	4.2 Supply Chain Management
B5.1 Number of suppliers by geographical region.	4.2 Supply Chain Management
B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	4.2 Supply Chain Management
B5.3 Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	4.2 Supply Chain Management
B5.4 Description of practices used to promote environmental preferable products and services when selecting suppliers, and how relevant practices are implemented and monitored.	4.2 Supply Chain Management
B6: Product Responsibility	
General Disclosure	
Information on	4.4 Intellectual Property Management System
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.	
B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.25 Product Quality
B6.2 Number of products and service related complaints received and how they are dealt with.	4.3 Customer Service System
B6.3 Description of practices relating to observing and protecting intellectual property rights.	4.4 Intellectual Property Management System
B6.4 Description of quality assurance process and recall procedures.	4.24 Product Tracing and Tracking
B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	4.3 Customer Service System

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Disclosure Index	Relevant Section
B7: Anti-corruption	
General Disclosure	
Information on	252 Integrity Management
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.	252 Integrity Management
B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	252 Integrity Management
B7.3 Description of anti-corruption training provided to directors and staff.	252 Integrity Management
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.	7. SINCERELY GIVING BACK-OUR COMMITMENT TO THE COMMUNITY
B8.1 Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	7. SINCERELY GIVING BACK-OUR COMMITMENT TO THE COMMUNITY
B8.2 Resources contributed (e.g. money or time) to the focus area.	7. SINCERELY GIVING BACK-OUR COMMITMENT TO THE COMMUNITY

