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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS			
KEY FINANCIAL PERFORMANCE			
Consolidated Income Statement	Unaudited Six months ended 30 June		
	2020	2019	% of change
	RMB'000	RMB'000	
Revenue	445,498	377,218	18.1%
Operating profit	49,377	30,869	60.0%
Profit attributable to shareholders	50,255	32,011	57.0%
Earnings per share			
— Basic	RMB0.074	RMB0.051	
— Diluted	RMB0.074	RMB0.051	
Consolidated Balance Sheet	Unaudited	Audited	
	30 June	31 December	
	2020	2019	% of change
	RMB'000	RMB'000	
Cash and bank balances	755,380	732,033	3.2%
Bank borrowing	56,730	NIL	N/A
Net current assets	662,572	661,494	0.2%
Net assets	1,217,137	1,146,760	6.1%
KEY FINANCIAL RATIOS			
	30 June	30 June	Change
	2020	2019	(% points)
Gross profit margin	34.6%	32.8%	1.8
Return on equity (annualised)	8.3%	5.8%	2.5
Current ratio (times)	3.6	5.6	
Finished goods turnover days	11 days	10 days	
Trade receivables turnover days	4 days	4 days	

INTERIM FINANCIAL INFORMATION

The Board of Directors of Qinqin Foodstuffs Group (Cayman) Company Limited (the “**Company**”) (the “**Board**”) is pleased to present the unaudited interim condensed consolidated income statement, statement of comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2020, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2020, together with the comparative figures and selected explanatory notes. The interim financial information has been reviewed by the Company’s audit committee and the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited	
		Six months ended 30 June	
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
Revenue	6	445,498	377,218
Cost of goods sold		<u>(291,433)</u>	<u>(253,617)</u>
Gross profit		154,065	123,601
Distribution and selling expenses		(67,043)	(61,016)
Administrative expenses		(44,840)	(42,898)
Net impairment losses on financial assets		(1,933)	—
Other income and other gains — net		<u>9,128</u>	<u>11,182</u>
Operating profit		49,377	30,869
Finance income		18,042	11,942
Finance costs		<u>(144)</u>	<u>(223)</u>
Finance income — net		<u>17,898</u>	<u>11,719</u>
Share of net loss of investments accounted for using the equity method		<u>(1,379)</u>	<u>—</u>
Profit before income tax	7	65,896	42,588
Income tax expense	8	<u>(15,641)</u>	<u>(10,577)</u>
Profit for the period, all attributable to shareholders of the Company		<u>50,255</u>	<u>32,011</u>
Earnings per share for profit attributable to shareholders of the Company			
— Basic earnings per share (expressed in RMB per share)	9	<u>RMB0.074</u>	<u>RMB0.051</u>
— Diluted earnings per share (expressed in RMB per share)	9	<u>RMB0.074</u>	<u>RMB0.051</u>

The notes on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	50,255	32,011
Other comprehensive income		
Fair value gains on financial assets at fair value through other comprehensive income	<u>19,000</u>	<u>—</u>
Other comprehensive income for the period	<u>19,000</u>	<u>—</u>
Total comprehensive income for the period, all attributable to shareholders of the Company	<u>69,255</u>	<u>32,011</u>

The notes on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2020

	<i>Note</i>	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	327,504	247,600
Construction-in-progress	<i>11</i>	62,463	112,075
Right-of-use assets	<i>12</i>	69,624	72,601
Intangible assets	<i>11</i>	2,052	2,179
Prepayments for non-current assets		24,650	3,890
Deferred income tax assets		29,923	28,729
Investments accounted for using the equity method		1,730	3,109
Financial assets at fair value through other comprehensive income	<i>5.3</i>	44,146	23,146
		562,092	493,329
Current assets			
Inventories		73,822	98,161
Trade receivables	<i>13</i>	15,200	5,614
Other receivables, prepayments and deposits		18,219	40,437
Financial assets at fair value through profit and loss	<i>5.3</i>	55,748	—
Cash and bank balances	<i>14</i>	755,380	732,033
		918,369	876,245
Total assets		1,480,461	1,369,574
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	<i>15</i>	5,758	5,758
Other reserves		578,157	553,231
Retained earnings		633,222	587,771
Total equity		1,217,137	1,146,760
LIABILITIES			
Non-current liabilities			
Lease liabilities	<i>12</i>	2,143	3,110
Deferred income tax liabilities		5,384	4,953
		7,527	8,063
Current liabilities			
Trade payables	<i>17</i>	51,686	47,884
Other payables and accrued charges		124,448	100,393
Contract liabilities		8,567	53,885
Current income tax liabilities		13,520	10,613
Borrowings	<i>18</i>	56,730	—
Lease liabilities	<i>12</i>	846	1,976
		255,797	214,751
Total liabilities		263,324	222,814
Total equity and liabilities		1,480,461	1,369,574

The notes on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<i>Note</i>	Unaudited			
		Attributable to the Company's shareholders			
		Share capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2020		5,758	553,231	587,771	1,146,760
Comprehensive income					
Profit for the period		—	—	50,255	50,255
Other comprehensive income					
Fair value gains on financial assets at fair value through other comprehensive income		—	19,000	—	19,000
Total comprehensive income for the period ended 30 June 2020		—	19,000	50,255	69,255
Transaction with equity holders					
Equity-settled share option arrangement	16	—	1,122	—	1,122
Appropriation to statutory reserves		—	4,804	(4,804)	—
Total transaction with equity holders		—	5,926	(4,804)	1,122
Balance at 30 June 2020		5,758	578,157	633,222	1,217,137
Balance at 1 January 2019		4,861	355,751	507,685	868,297
Comprehensive income					
Profit for the period		—	—	32,011	32,011
Total comprehensive income for the period ended 30 June 2019		—	—	32,011	32,011
Transaction with equity holders					
Issue of ordinary shares		897	195,895	—	196,792
Equity-settled share option arrangement	16	—	2,226	—	2,226
Total transaction with equity holders		897	198,121	—	199,018
Balance at 30 June 2019		5,758	553,872	539,696	1,099,326

The notes on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	85,564	76,677
Income tax paid	(13,497)	(4,450)
Net cash generated from operating activities	72,067	72,227
Cash flows from investing activities		
Purchase of property, plant and equipment, including additions of construction-in-progress	(52,919)	(14,334)
Purchase of land use rights	(13,423)	(20,696)
Payments for financial assets at fair value through profit and loss	(56,197)	—
Payments for financial assets at fair value through other comprehensive income	(2,000)	—
Proceeds from disposal of property, plant and equipment	1,820	8,932
Interest received	9,403	6,279
Net cash used in investing activities	(113,316)	(19,819)
Cash flows from financing activities		
Proceeds from borrowings	56,730	—
Proceeds from issues of shares	—	196,792
Pledged bank deposits	(254,738)	—
Repayment of lease liabilities	(773)	(706)
Net cash (used in)/generated from financing activities	(198,781)	196,086
Net (decrease)/increase in cash and cash equivalents	(240,030)	248,494
Cash and cash equivalents at beginning of the period	732,033	566,085
Effect of foreign exchange rate changes in cash and cash equivalents	8,639	5,663
Cash and cash equivalents at 30 June	500,642	820,242

The notes on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION

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

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

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

This interim condensed consolidated financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

This interim condensed consolidated financial information has been approved for issue by the Board of Directors on 14 August 2020.

This interim condensed consolidated financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim financial reporting”. The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”), except for the adoption of the new and amended standards as disclosed in Note 3 below.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this interim condensed consolidated financial information are consistent with those of the annual consolidated financial statements for the year ended 31 December 2019 and the corresponding interim financial period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Standards	Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments) Definition of Material	1 January 2020
HKFRS 3 (Amendments) Definition of a Business	1 January 2020
Revised Conceptual Framework Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments) Interest Rate Benchmark Reform	1 January 2020
HKFRS 16 (Amendments) Covid-19-related Rent Concessions	1 June 2020

(b) New and amended standards that might be relevant to the Group that have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group.

Standards	Effective for annual periods beginning on or after
HKAS 1 (Amendments) Classification of Liabilities as Current or Non-current	1 January 2022
HKAS 16 (Amendments) Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments) Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments) Reference to the Conceptual Framework	1 January 2022
HKFRS 17 Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments) Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018-2020	1 January 2022

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2019.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

There have been no changes in the risk management policies since year end.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation of financial instruments

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 30 June 2020:

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Financial assets		
Financial assets at fair value through other comprehensive income		
— Level 3	44,146	23,146
Financial assets at fair value through profit and loss		
— Level 3	55,748	—
	99,894	23,146

During the six months ended 30 June 2020, there are no transfers among levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

5.3 Fair value estimation of financial instruments *(Continued)*

The following table presents the changes in level 3 instruments for the six months ended 30 June 2020:

	Unaudited 30 June 2020 RMB '000	Audited 31 December 2019 RMB '000
Opening balance	23,146	—
Additions	58,197	23,146
Fair value changes — loss to profit or loss	(449)	—
Fair value changes — gain to comprehensive income	19,000	—
Closing balance	<u>99,894</u>	<u>23,146</u>

5.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet date:

- Trade receivables
- Other receivables, prepayments and deposits
- Cash at bank and in hand
- Trade payables
- Other payables and accrued charges
- Borrowings
- Lease liabilities

6. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has four reportable operating segments as follows:

- i. Jelly Products
- ii. Crackers and Chips
- iii. Seasoning Products
- iv. Confectionery and Other Products

The Board of Directors of the Company monitors the gross profit of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the Board of Directors of the Company for review.

6. SEGMENT INFORMATION (Continued)

The segment information for the six months ended 30 June 2020 is as follows:

	Unaudited				Group RMB'000
	Jelly Products RMB'000	Crackers and Chips RMB'000	Seasoning Products RMB'000	Confectionery and Other Products RMB'000	
Revenue — recognised at a point in time					
Sales to external customers	276,573	119,235	36,003	13,687	445,498
Cost of goods sold	<u>(184,195)</u>	<u>(73,820)</u>	<u>(24,416)</u>	<u>(9,002)</u>	<u>(291,433)</u>
Results of reportable segments	<u>92,378</u>	<u>45,415</u>	<u>11,587</u>	<u>4,685</u>	<u>154,065</u>

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

Results of reportable segments	154,065
Distribution and selling expenses	(67,043)
Administrative expenses	(44,840)
Net impairment losses on financial assets	(1,933)
Other income and other gains — net	9,128
Finance income — net	17,898
Share of net loss of investments accounted for using the equity method	<u>(1,379)</u>
Profit before income tax	65,896
Income tax expense	<u>(15,641)</u>
Profit for the period	<u>50,255</u>

Other segment information is as follows:

Depreciation and amortisation charge					
Allocated	<u>8,305</u>	<u>3,087</u>	<u>1,291</u>	<u>363</u>	13,046
Unallocated					<u>1,984</u>
					<u>15,030</u>
Capital expenditure					
Allocated	<u>16,285</u>	<u>3,661</u>	<u>1,131</u>	<u>—</u>	21,077
Unallocated					<u>43,708</u>
					<u>64,785</u>

6. SEGMENT INFORMATION (Continued)

The segment information for the six months ended 30 June 2019 is as follows:

	Unaudited				Group RMB'000
	Jelly Products RMB'000	Crackers and Chips RMB'000	Seasoning Products RMB'000	Confectionery and Other Products RMB'000	
Revenue — recognised at a point in time					
Sales to external customers	258,586	78,397	33,858	6,377	377,218
Cost of goods sold	(175,058)	(50,095)	(23,266)	(5,198)	(253,617)
Results of reportable segments	83,528	28,302	10,592	1,179	123,601

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

Results of reportable segments	123,601
Distribution and selling expenses	(61,016)
Administrative expenses	(42,898)
Other income and other gains — net	11,182
Finance income — net	11,719
Profit before income tax	42,588
Income tax expense	(10,577)
Profit for the period	32,011

Other segment information is as follows:

Depreciation and amortisation charge					
Allocated	10,314	2,788	1,310	837	15,249
Unallocated					2,078
					17,327
Capital expenditure					
Allocated	10,123	2,966	355	—	13,444
Unallocated					25,630
					39,074

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

Major customer

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

7. PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Crediting		
Government grants	7,417	4,037
Gains on disposal of property, plant and equipment	1,337	5,079
Interest income from banks	9,403	6,279
Exchange gain from financing activities — net	8,639	5,663
Charging		
Depreciation of property, plant and equipment <i>(Note 11)</i>	13,250	15,432
Depreciation of right-of-use assets <i>(Note 12)</i>	1,653	1,504
Amortisation of intangible assets <i>(Note 11)</i>	127	391
Employee benefit expense, including Directors' emoluments	79,815	75,540
Operating lease rentals	3,191	1,606
Provision for decline in value of inventories	2,780	1,685
Net impairment losses on financial assets	1,933	—
Loss from fair value changes of financial assets at fair value through profit or loss <i>(Note 5.3)</i>	449	—
Finance costs	144	223
Exchange loss from operating activities — net	220	198
Miscellaneous taxes and levies	3,099	2,544
	3,099	2,544

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	16,404	8,888
Deferred income tax, net	(763)	1,689
Income tax expense	<u>15,641</u>	<u>10,577</u>

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2018/19 onwards, the Group's first HK\$2 million of assessable profits under Hong Kong profits tax during the six months ended 30 June 2020 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK\$2 million will continue to be subject to a tax rate of 16.5%.

Taxation on Mainland China income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in Mainland China in which the Group operates. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax at the rate of 25% (2019: 25%).

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

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

9. EARNINGS PER SHARE

(a) Basic

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
Profit attributable to shareholders of the Company (RMB'000)	<u>50,255</u>	<u>32,011</u>
Weighted average number of ordinary shares for basic earnings per share	<u>675,096,557</u>	<u>622,896,557</u>
Basic earnings per share	<u>RMB0.074</u>	<u>RMB0.051</u>

(b) Diluted

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
Profit attributable to shareholders of the Company (RMB'000)	<u>50,255</u>	<u>32,011</u>
Weighted average number of ordinary shares in issue	<u>675,096,557</u>	<u>622,896,557</u>
Adjustments for share options	<u>424,478</u>	<u>218,734</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>675,521,035</u>	<u>623,115,291</u>
Diluted earnings per share	<u>RMB0.074</u>	<u>RMB0.051</u>

10. DIVIDENDS

At a meeting of the Board of Directors held on 14 August 2020, the Directors resolved not to declare an interim dividend to shareholders for the six months ended 30 June 2020 (2019: Nil).

11. PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION-IN-PROGRESS AND INTANGIBLE ASSETS

	Unaudited		
	Property, plant and equipment <i>RMB'000</i>	Construction-in progress <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
At 1 January 2020	247,600	112,075	2,179
Additions	5,170	38,855	—
Transfers	88,467	(88,467)	—
Disposals	(483)	—	—
Depreciation/amortisation	(13,250)	—	(127)
At 30 June 2020	<u>327,504</u>	<u>62,463</u>	<u>2,052</u>
At 1 January 2019	264,726	3,995	3,758
Additions	11,206	3,474	—
Transfers	126	(126)	—
Disposals	(3,853)	—	—
Depreciation/amortisation	(15,432)	—	(391)
At 30 June 2019	<u>256,773</u>	<u>7,343</u>	<u>3,367</u>

12. LEASES

(i) Amounts recognised in the consolidated balance sheet

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Right-of-use assets		
Buildings	2,720	4,894
Land use rights	66,904	67,707
	<u>69,624</u>	<u>72,601</u>
Lease liabilities		
Buildings		
— Current	846	1,976
— Non-current	2,143	3,110
	<u>2,989</u>	<u>5,086</u>

As at 30 June 2020, certain land of the Group are still in the process of applying for the ownership certificates. The land lots are located in Jinjiang Industrial Zone, Fujian Province, Mainland China, and have carrying amount of approximately RMB6,487,000 (31 December 2019: RMB6,561,000).

12. LEASES (Continued)

(ii) Amounts recognised in the consolidated income statement

	Unaudited					
	Six months ended 30 June					
	2020			2019		
	Land use		Land use			
	Buildings	rights	Total	Buildings	rights	Total
Amortisation charges on right-of-use assets						
Cost of goods sold	473	—	473	468	—	468
Distribution and selling expenses	—	—	—	34	—	34
Administrative expenses	377	803	1,180	262	740	1,002
	850	803	1,653	764	740	1,504
Interest expense			9			56
Operating lease expenses in respect of buildings (Note 7)			3,191			1,606
Total charges to income statement			4,853			3,166

The total cash outflow for leases during the period was RMB773,000.

13. TRADE RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Trade receivables	17,136	5,617
Less: provision for impairment	(1,936)	(3)
Trade receivables, net	15,200	5,614

13. TRADE RECEIVABLES (Continued)

The credit period of the Group's trade receivables ranges from 60 to 90 days. The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2019 and 30 June 2020 was as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
Within 30 days	10,172	2,299
31 - 180 days	5,028	1,382
181 - 365 days	—	1,936
Over 365 days	1,936	—
	<hr/> 17,136 <hr/>	<hr/> 5,617 <hr/>

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. As the credit terms are short and most of the trade receivables are due for settlement within one year, the carrying value of the trade receivables approximated their fair values as at the balance sheet date.

14. CASH AND BANK BALANCES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
Cash at bank and in hand	755,380	732,033
Pledged bank deposits	(254,738)	—
	<hr/> 500,642 <hr/>	<hr/> 732,033 <hr/>

As at 30 June 2020, the Group pledged the balance in a fixed deposit bank account which had a deposit balance amounted to USD35,983,000 (equivalent to approximately RMB254,738,000) as security for the Group's bank overdraft of USD8,000,000 (equivalent to approximately RMB56,730,000) (Note 18).

15. SHARE CAPITAL

	Unaudited			
	2020 <i>Shares</i>	2020 <i>RMB'000</i>	2019 <i>Shares</i>	2019 <i>RMB'000</i>
As at 1 January	675,096,557	5,758	570,696,557	4,861
Issue of shares	—	—	104,400,000	897
As at 30 June	<u>675,096,557</u>	<u>5,758</u>	<u>675,096,557</u>	<u>5,758</u>

16. SHARE OPTION SCHEME

The Company adopted a share option scheme on 16 May 2017 (the “Scheme”).

On 6 June 2017, 9,630,000 share options to subscribe for a total of 9,630,000 ordinary shares of the Company were granted to a director and certain employees of the Group pursuant to the Scheme. Out of the 9,630,000 options, 9,480,000 options were accepted by the grantees.

On 16 August 2018, 11,000,000 share options to subscribe for a total of 11,000,000 ordinary shares of the Company were granted to two directors and certain employees of the Group pursuant to the Scheme. All options were accepted by the grantees.

Movements in the number of share options outstanding and their exercise prices are as follows:

	Options granted on 16 August 2018	
	Exercise price per share	Number of Options
At 1 January 2020	HK\$2.31	7,620,000
Cancelled/lapsed during the period	HK\$2.31	(510,000)
At 30 June 2020	<u>HK\$2.31</u>	<u>7,110,000</u>
At 1 January 2019	HK\$2.31	10,320,000
Cancelled/lapsed during the period	HK\$2.31	(1,680,000)
At 30 June 2019	<u>HK\$2.31</u>	<u>8,640,000</u>

16. SHARE OPTION SCHEME (Continued)

	Options granted on 6 June 2017	
	Exercise price per share	Number of Options
At 1 January 2020	HK\$2.56	5,350,000
Cancelled/lapsed during the period	HK\$2.56	(170,000)
	<hr/>	<hr/>
At 30 June 2020	HK\$2.56	5,180,000
	<hr/> <hr/>	<hr/> <hr/>
At 1 January 2019	HK\$2.56	7,000,000
Cancelled/lapsed during the period	HK\$2.56	(1,280,000)
	<hr/>	<hr/>
At 30 June 2019	HK\$2.56	5,720,000
	<hr/> <hr/>	<hr/> <hr/>

Share options outstanding as at 30 June 2020 have the following expiry dates and exercise prices:

Grant date	Exercisable date	Expiry date	Exercise price	Number of share options 30 June 2020
6 June 2017	7 June 2019	6 June 2022	HK\$2.56	2,590,000
6 June 2017	7 June 2020	6 June 2022	HK\$2.56	2,590,000
16 August 2018	17 August 2020	16 August 2023	HK\$2.31	3,555,000
16 August 2018	17 August 2021	16 August 2023	HK\$2.31	3,555,000
				<hr/>
Total				12,290,000
				<hr/> <hr/>

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The equity-settled share-based payment expense for the six months ended 30 June 2020 amounted to RMB1,122,000 (for the six months ended 30 June 2019: RMB2,226,000), and the remaining unamortised fair value of share options granted of approximately RMB1,349,000 (30 June 2019: RMB4,852,000) will be charged to the consolidated income statement in the future.

16. SHARE OPTION SCHEME (Continued)

The following assumptions were used to calculate the fair values of share options by using the Binomial Model:

	Options granted on 6 June 2017	Options granted on 16 August 2018
Grant date share price	HK\$2.56	HK\$2.29
Exercise price	HK\$2.56	HK\$2.31
Expected life	5 years	5 years
Expected volatility (Note a)	33%	34%
Risk-free rate (Note b)	0.94%	2.06%
Dividend yield (Note c)	1.49%	1.91%

Notes:

- (a) Expected volatility is estimated with reference to the historical share price of the Company and a set of comparable companies.
- (b) Risk-free rate is determined with reference to the yield of Hong Kong Exchange Fund Notes.
- (c) Dividend yield is estimated by reference to the historical share price and dividend paid of the Company and a set of comparable companies.

17. TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Within 30 days	51,648	43,338
31 - 180 days	—	4,500
Over 365 days	38	46
	<u>51,686</u>	<u>47,884</u>

The carrying amounts of trade payables approximate their fair values as at the balance sheet date due to short-term maturity.

18. BORROWINGS

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Bank overdraft, secured	<u>56,730</u>	<u>—</u>

As at 30 June 2020, the effective interest rate of the Group's bank overdraft was approximately 1.58% per annum. The bank overdraft was secured by the balance in a fixed deposit bank account (Note 14). The bank overdraft had been fully repaid in July 2020.

During the six months ended 30 June 2020, movements in borrowings are analyzed as follows:

	Unaudited 2020	2019
As at 1 January	—	—
Proceeds from borrowings	<u>56,730</u>	<u>—</u>
As at 30 June	<u>56,730</u>	<u>—</u>

19. COMMITMENTS

As at 30 June 2020 and 31 December 2019, the Group had the following commitments:

(a) Capital commitments

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Contracted but not provided for in respect of:		
Machinery and equipment	12,943	24,408
Buildings and land use rights	<u>37,696</u>	<u>63,773</u>
	<u>50,639</u>	<u>88,181</u>

19. COMMITMENTS (Continued)

(b) Commitments under operating leases

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Not later than 1 year	1,105	1,785
Later than 1 year and not later than 5 years	1,085	1,085
	<u>2,190</u>	<u>2,870</u>

As at 30 June 2020 and 31 December 2019, the operating leases were in respect of the lease of SAP system and short-term office leases.

20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties during the periods.

(a) Transactions with related parties

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Leases of offices		
— Lianjie Sports Investments Limited (“Lianjie Sports”)	217	207
— Lianjie Investments Group Limited (“Lianjie Investments”)	1,318	37
	<u>1,535</u>	<u>244</u>

Lianjie Sports is a company wholly owned by Mr Hui Ching Lau (“Mr. Hui”), the Company’s controlling shareholder and Chairman.

Lianjie Investments is a company controlled by Mr. Hui and his associates.

(b) Key management compensation

For the six months ended 30 June 2020, the key management compensation amounted to approximately RMB1,951,000 (2019: RMB1,807,000).

MANAGEMENT DISCUSSION AND ANALYSIS

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

INDUSTRY ENVIRONMENT

In the first half of 2020, under the impact of Coronavirus Disease 2019 (“**COVID-19**”) epidemic, a series of precautionary and control measures have been implemented across the PRC, including but not limited, extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over people travelling and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc. The above measures mainly had a temporary impact on the Group’s transportation and production cost in some regions, but the impact on the Group’s operations and financial performance was not significant during the period.

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

BUSINESS OVERVIEW

The Group's total revenue for the first half of 2020 was approximately RMB445.5 million (first half of 2019: RMB377.2 million), representing an increase of 18.1% over the same period last year. The gross profit for the period was approximately RMB154.1 million (first half of 2019: RMB123.6 million), representing an increase of approximately 24.6% over the same period last year; gross profit margin was 34.6% (first half of 2019: 32.8%), representing an increase of approximately 1.8 percentage points over the same period last year. In the first half of 2020, the profit attributable to the Company's shareholders was approximately RMB50.3 million (first half of 2019: profit attributable to the Company's shareholders of RMB32.0 million), representing an increase of approximately 57.0% over the same period last year.

During the first half of 2020, the Group's overall business returned to its upward trajectory. The increase in total revenue was mainly attributable to the Group's continuous adjustments on product mix and sales strategies, its focus on the development of new products to enrich the product portfolio and to raise the overall sales volume, with the aim to driving its long-term corporate development and profit growth.

During the period, the Group continued to adjust its strategies towards product promotion and other sales expenditures. The overall sales volume increased, resulting in the sharing of production fixed costs also reduced correspondingly. Moreover, the proportion of sales of new and high-margin products to total sales has also continued to increase, leading to the growth in gross profit, gross profit margin, operating profit and consolidated net profit during the period.

In addition, in the first half of 2020, due to the depreciation of RMB against HKD and USD, the Group recorded foreign exchange gain in relation to its cash and cash equivalent denominated in HKD and USD totaling approximately RMB8.6 million (first half of 2019: foreign exchange gain of RMB5.7 million), resulting in an increase of consolidated net profit during the reporting period.

Jelly products

Sales of jelly products for the first half of 2020 were approximately RMB276.6 million (first half of 2019: RMB258.6 million), representing an increase of 7.0% over the same period last year and accounting for 62.1% (first half of 2019: 68.6%) of total revenue of the Group. Gross profit margin was 33.4% (first half of 2019: 32.3%), representing an increase of approximately 1.1 percentage points over the same period last year.

In the first half of 2020, the Group continued to adjust its product mix by, on the basis of its existing products, developing and launching new products, including products such as 「蒟蒻果凍」, 「棒棒冰」 and 「美汁汁」 which are manufactured by the Group's world advanced production line of additive-free filled jelly products introduced from Japan. The addition of new products will further enrich the three existing major product lines including the traditional-flavor jelly product line, functional jelly product line and pudding jelly product line. During the period, with the goal of increasing product sales volume, the Group continued to optimise the strategies on product promotion and other sales expenditures, resulting in an increase in both the sales volume and sales revenue of new and existing products. Since the overall sales volume increased, the sharing of the Group's production fixed costs reduced correspondingly, and the revenue, gross profit and gross profit margin also increased during the period.

The Group will continue to promote 「蒟蒻果凍」 and other flexible pouches packaging jelly products, continue to focus on the development of functional jelly products and pudding jelly, as well as promote 「蘊能+」, a functional jelly product developed with the Institute of Sports Medicine of the General Administration of Sport of China and 「小Q仔」, a pudding jelly product line targeting the children market. The Group believes that the continuous launching and distribution of new products to the market will be beneficial to the continuing development and growth of its jelly product business.

Crackers and Chips

Sales of crackers and chips for the first half of 2020 were approximately RMB119.2 million (first half of 2019: RMB78.4 million), representing an increase of 52.1% over the same period last year and accounting for 26.8% (first half of 2019: 20.8%) of the total revenue of the Group. The gross profit margin was 38.1% (first half of 2019: 36.1%), representing an increase of approximately 2.0 percentage points over the same period last year.

During the period, with the continuous launching and distribution of new products, consumers' acceptance of the Group's products increased. The Group focused on enhancing the expansion and management of its sales channels, while continuing to optimise its strategies on product promotion and other sales expenditures. As a result, the sales volume and sales revenue of both new products and existing products increased during the period. Due to an increase in the overall sales volume, the sharing of the Group's production fixed production costs reduced corresponding, and the revenue, gross profit and gross profit margin all increased during the period. The Group will continue to improve the packaging, production processing and flavour of its crackers and chips and develop more new products of crackers and chips to enrich its product lines, thereby driving the continuous development and growth of its crackers and chips business.

Seasoning Products

Sales of seasoning products for the first half of 2020 were approximately RMB36.0 million (first half of 2019: RMB33.9 million), representing an increase of 6.3% over the same period last year and accounting for 8.1% (first half of 2019: 9.0%) of the total revenue of the Group. The gross profit margin was 32.2% (first half of 2019: 31.3%), representing an increase of approximately 0.9 percentage points over the same period last year. Owing to a significant increase in the prices of certain raw materials, the Group had made price adjustments to some relevant products since last year. Moreover, the gross profit of some of the new products was higher than that of the existing products. As a result, in the first half of 2020, the average selling price of products for the period increased, which led to an increase in both revenue, gross profit and gross profit margin.

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

Confectionery and Other Products

Sales of confectionery and other products for the first half of 2020 were approximately RMB13.7 million (first half of 2019: RMB6.4 million), representing an increase of 114.6% over the same period last year and accounting for 3.1% (first half of 2019: 1.7%) of the total revenue of the Group. Sales of confectionery and other products made a relatively small contribution to the overall sales of the Group.

Development of Sesame Candy and Rice Wine Business

In November 2018, the Group entered into a strategic cooperation agreement with the People's Government of Xiaogan City, the PRC to jointly promote the revitalisation and development of the traditional manufacturing industries of sesame candy (麻糖) and rice wine (米酒) (both being local specialities of Xiaogan City), and in 2019 it successfully won the bid for two parcels of land with a total area of approximately 121,000 square meters located at Xiaogan City and obtained the land use rights certificates of the respective land. The construction of the first phase of Qinqin Healthy Rice Wine Industrial Park (親親健康米酒工業園) on the respective land was completed in the first half of 2020. The installation of equipment was also completed. The industrial park has now entered the final stage of pilot production. Due to the COVID-19 pandemic, the Group's original plan to launch and distribute new products in the first half of 2020 was slightly delayed. The new products are expected to be launched in the second half of 2020. In addition, the Group has also engaged an overseas design company to design a conceptual layout for its tourism factory facilities, as it plans to develop a new project that combines the production of sesame candy and rice wine with tourism elements.

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

Strategic Development Investment Project

The Group has, since last year, invested in a number of projects in accordance with its strategic development plans and business expansion strategies. During the period, the Group made investment in one additional project. The investment focuses on consumer goods companies with fast-growing potential and synergy with the Group's business. These companies mainly engage in the production or sale of food, beverage and alcohol products in the PRC and abroad, which is beneficial to the long-term development and industrial layout of the Group.

Research and Development and Promotion

The Group is committed to developing natural and healthy products with high nutritious value and quality, and to establishing an updated brand image of “national snacks” among consumers. The Group has its own product management centre, where the Group, leveraging its outstanding professional technical talents as well as research and development capabilities for innovative products, has enhanced its creativity in areas such as product development, packaging design and brand marketing, and has also increased its investment in product innovation, thereby ensuring the speed and efficiency of the development and launching of new products.

The Group attaches great importance to the launching, marketing and promotion channels of its new products, and pays close attention to innovative stunts on social media. The Group appointed famous young actor Wei Daxun (魏大勳) as spokesperson for its new strategic products 「蘊能可吸凍」 and up-and-coming actor Jin Haochen (金澔辰) as its brand ambassador to appear in commercials for its 「蒟蒻果凍」 and Qinqin prawn cracker. The Group makes full use of social media including WeChat, Weibo, TikTok, Xiaohongshu and bilibili to establish effective interaction with young consumers. Taking advantage of fan economy, the Group enjoys large-scale marketing exposure and increases its brand awareness. In terms of distribution channels, according to the behavioural changes of contemporary young consumer groups, the Group launched 「蘊能可吸凍」 and 「蒟蒻可吸凍」 mainly through e-commerce and in convenience stores located in first- and second-tier cities, thus gaining a competitive edge in the market countrywide.

Product Upgrade

The Group believes that health-consciousness and food safety are still the major themes during the upgrade and transformation process of the PRC food industry. Any product upgrade must follow the trend of low sugar, low calories, and preservative free.

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

For crackers and chips, while maintaining its leading position in seafood crackers and chips, the Group continued to expand its product lines. It sought to enhance its brand influence and market share through a series of upgrades in terms of production processes, packaging, product and flavour. The Group upgraded its product quality by improving tastes and expanding flavours to cater to the preferences of young consumers and regional features.

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

Channel Expansion

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

As online purchase penetration continued to rise, the Group continued to strengthen its expansion of internet marketing. The Group’s e-commerce division in Shanghai continued to develop products catering to the characteristics of the e-commerce channel to differentiate from its offline products and increase unit price per customer. The Group will continue to focus on developing its business in e-commerce platforms on Tmall and JD.

Production Facilities Improvement

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

- the Group signed an agreement with the People’s Government of Xiantao City, the PRC in November 2019, in respect of the disposal of related land use rights and property of the Group’s existing production base in Xiantao City, the PRC, in which the Group planned to construct a new production base to replace its existing production base in that city. During the period, the Group completed the land auction in respect of the new production base and is currently applying for the land use rights certificate. The construction of the new production base is expected to be completed, and the new production base is expected to be put into operation, in 2021;
- the Group signed a cooperative agreement with the People’s Government of Sishui County, Jining City, Shandong Province, the PRC in December 2019, as the Group planned to construct a new production base in Sishui County, Jining City, Shandong Province, the PRC to replace the Group’s existing production base (as leased properties) in Taian City, Shandong Province, the PRC. The construction of the new production base is expected to be completed, and the new production base is expected to be put into operation, in the first half of 2021;
- the Group continued the gradual upgrade and transformation project for the head office’s production base, office and other supporting facilities in Jinjiang City, Fujian Province, the PRC, so as to increase production and office efficiency; and
- the Group signed an agreement with the People’s Government of Dongbo County, Meishan City, Sichuan Province, the PRC in July 2020, as the Group planned to construct a new production base in Meishan City, Sichuan Province, the PRC, so as to facilitate the Group’s further expansion in the Southwest China market.

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

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

FUTURE PROSPECTS AND STRATEGIES

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

The Group will continue to invest resources to develop an information management system that meets the Company's requirements for sustainable development, in leading the Group's operations management in a scientific, networked and intelligent way and to improve the Group's operating efficiency and core competitiveness.

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

LIQUIDITY AND CAPITAL RESOURCES

The Group maintained a solid financial position and was in a net cash position as at 30 June 2020. As at 30 June 2020, the Group had cash and bank balances of RMB755.4 million (31 December 2019: RMB732.0 million) and bank borrowings of RMB56.7 million (31 December 2019: Nil).

As at 30 June 2020, the Group's working capital or net current assets were RMB662.6 million (31 December 2019: RMB661.5 million). The current ratio, represented by current assets divided by current liabilities, was 3.6 (31 December 2019: 4.1). The Group's total equity was RMB1,217.1 million (31 December 2019: RMB1,146.8 million), representing an increase of 6.1%.

Cash and bank balances were mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Chinese Renminbi ("RMB"). As at 30 June 2020, pledged bank deposits of USD36.0 million (equivalent to RMB 254.7 million) (31 December 2019: Nil) were being used as the security for a banking facility of USD8.0 million (equivalent to RMB 56.7 million) granted by a bank for certain short term credit facility arrangement.

As part of treasury management activities with respect to the Group's surplus cash assets, the Group has invested, at fair value, of RMB55.7 million as at 30 June 2020 (as at 31 December 2019: Nil) in units in investment funds measured at fair value through profit or loss. During the period under review, there was a net deficit of RMB0.5 million (first half of 2019: Nil) recorded in profit or loss due to the fair value change of these investments.

As at 30 June 2020, the Group's bank borrowings were denominated in USD and bore floating annual interest rates of approximately 1.58%. As the Group was in net cash position as at 30 June 2020 and in 31 December 2019, no gearing ratio was presented.

COMMITMENTS AND CONTINGENCIES

As at 30 June 2020, the Group had total capital commitments (contracted but not provided for) of RMB50.6 million (31 December 2019: RMB88.2 million).

As at 30 June 2020, the Group had future aggregate minimum lease payments under non-cancellable operating leases of RMB2.2 million (31 December 2019: RMB2.9 million). As at 30 June 2020, the lessors of our leased properties in Taian city, Shandong province were still in the process of obtaining the relevant title documents to the properties.

The Group had no material contingent liabilities as at 30 June 2020 and 31 December 2019.

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

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

CHARGE ON ASSETS

As at 30 June 2020, the Group had a banking facility of USD8.0 million (equivalent to RMB 56.7 million) (31 December 2019: Nil) granted by a bank for certain short term credit facility arrangement which was pledged by the bank deposits of the Group in the amount of USD36.0 million (equivalent to RMB254.7 million).

HUMAN RESOURCES AND MANAGEMENT

As at 30 June 2020, the Group had approximately 2,400 (31 December 2019: 2,200) employees. For the period under review, total employee benefit expenses, including directors' emoluments, was approximately RMB79.8 million (first half of 2019: RMB75.5 million). The increase in total employee benefit expenses was mainly attributable to the increase in number of employees during the period.

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

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

FOREIGN EXCHANGE RISK

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

During the period under review, RMB devalued against HKD and USD. The Group recorded foreign exchange gain in relation to its cash and cash equivalent in HKD and USD totaling RMB8.6 million (first half of 2019: net foreign exchange gain totaling RMB5.7 million). Save as disclosed above, the Group is exposed to minimal foreign exchange risk exposure as the Group focus its sales and purchase within the PRC market.

INTERIM DIVIDEND

No interim dividend was declared by the Board for the six months ended 30 June 2020 (30 June 2019: Nil).

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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

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

In the opinion of the directors of the Company, the Company has complied with all code provisions as set out in the CG Code throughout the six months ended 30 June 2020 and, where appropriate, the applicable recommended best practices of the CG Code, except for the deviation from code provision A2.1 which is explained below:

Mr. Zhu Hong Bo resigned as Chief Executive Officer (the “CEO”) of the Group with effect from 23 August 2019 due to health reason. The Company is in the process of identifying a suitable candidate to assume the role as CEO. The responsibilities of the CEO are overseen by Mr. Hui Ching Lau, Chairman and executive director of the Company, with the support of the senior management team of the Group. Under the code provision A.2.1 of the CG Code, the roles of the Chairman and the CEO should be separate and should not be performed by the same individual. In view of Mr. Hui Ching Lau is the Chairman and executive director of the Company and he has accumulated over 16 years of experience in the food and snacks business since he became a director of some of the subsidiaries of the Group in April 2003, the Board believes that it is in the best interest of the Group to have Mr. Hui Ching Lau to oversee the responsibilities of the CEO with the support of the senior management team of the Group whilst the Company is still in the process of identifying a suitable candidate to assume the role as CEO. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code, all directors have confirmed that they complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2020.

CHANGES IN DIRECTORS’ AND CHIEF EXECUTIVES’ INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, changes of information of the Directors are set out below:

Executive Director — Mr. Wong Wai Leung

On 13 May 2020, Mr. Wong was appointed as an independent non-executive director of Zhongchang International Holdings Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 859).

RAISING OF FUNDS AND USE OF PROCEEDS

Pursuant to the subscription agreements dated 22 March 2019 entered into between the Company and the subscribers, an aggregate of 104,400,000 ordinary shares of the Company of HKD0.01 each in the share capital of the Company (the “**Shares**”) were issued at HKD2.2 per Share (the “**Subscription Price**”) to the subscribers on 1 April 2019 (the “**Subscription**”). The aggregate nominal value of the Shares under the Subscription is HKD1,044,000. The Subscription Price represented (i) a premium of approximately 1.38% to the closing price of HKD2.17 per Share as quoted on the Stock Exchange on 21 March 2019, the date on which the terms of the subscription agreement were fixed; and (ii) a discount of approximately 1.43% to the average closing price of approximately HKD2.232 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to and including 21 March 2019. The subscribers are independent professional or individual investors. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Subscribers (and their respective ultimate beneficial owners, if applicable) are third parties independent of the Company and its connected persons. Details of the Subscription were disclosed in the Company’s announcements dated 22 March 2019 and 1 April 2019.

The gross and net proceeds of the Subscription were approximately HKD229.68 million (equivalent to approximately RMB197.0 million) and approximately HKD229.48 million (equivalent to approximately RMB196.8 million), respectively. The net subscription price, after deducting such fees, costs and expenses, is therefore approximately HKD2.198 per Share under the Subscription.

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

Intended use of proceeds as announced and actual use of proceeds	Net proceeds (Approximate) (RMB in million)	Amount of proceeds utilised up to 30 June 2020 (Approximate) (RMB in million)	Amount of proceeds unutilised up to 30 June 2020 (Approximate) (RMB in million)
Upgrade of enterprise resource planning (ERP) system of the Group	15.4	4.9	10.5
Purchase of machinery and equipment	29.2	29.2	—
Promotion and marketing campaigns	25.7	25.7	—
Provide funding for land acquisition and development costs of sesame candy and rice wine production facilities in Xiaogan City, Hubei Province, PRC.	126.5	126.5	—
Total	196.8	186.3	10.5

As at the date of this announcement, the Company expects that the unutilised proceeds will be used according to the intended use of proceeds as previously announced. As the Company is in the process of upgrading its ERP system, it is expected that the unutilised proceeds as at 30 June 2020 will be fully utilised in the financial year 2021.

Save as disclosed herein, the Company did not have any other fund raising activity during the six months ended 30 June 2020 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee of the Company, which comprises four independent non-executive directors, has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020 and has recommended their adoption to the Board.

In addition, the Company’s auditor, PricewaterhouseCoopers, has also conducted a review of the aforesaid unaudited interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

ACKNOWLEDGEMENT

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

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

Hong Kong, 14 August 2020

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