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LABIXIAOXIN SNACKS GROUP LIMITED
蠟筆小新休閒食品集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1262)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2022	2021	Change
	RMB'million	*RMB'million*	+/(-)%
Key income statement items			
Revenue	**684.3**	648.1	+5.6%
Gross Profit	**244.2**	224.3	+8.9%
EBITDA[1]	**69.9**	101.1	-30.9%
Loss for the year	**(75.3)**	(65.2)	+15.5%
Key performance indicators			
Gross profit margin	**35.7%**	34.6%	+1.1%pts
EBITDA margin	**10.2%**	15.6%	-5.4%pts
Net loss margin	**-11.0%**	-10.1%	+0.9%pts
Return on equity[2]	**-19.2%**	-13.6%	+5.6%pts
Loss per share – Basic	**RMB(0.06)**	RMB(0.05)	+20.0%
– Diluted	**RMB(0.06)**	RMB(0.05)	+20.0%

1. EBITDA refers to loss before interests, income tax, depreciation, amortisation, allowance for expected credit losses, gain/loss on disposal of asset classified as held for sale and written-off of property, plant and equipment.

2. Return on equity is calculated using loss and total comprehensive loss for the year divided by average of monthly ending equity balance for the year.

The board of directors (the "Board") of Labixiaoxin Snacks Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022, together with comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	3	**684,263**	648,066
Cost of sales		**(440,071)**	(423,785)
Gross profit		**244,192**	224,281
Other income	4	**6,915**	11,270
Other (loss)/gain, net	5	**(21,528)**	13,247
Allowance for expected credit losses, net		**(47,521)**	(20,117)
Written-off of property, plant and equipment	7	**(1,133)**	(2,921)
Selling and distribution expenses		**(116,259)**	(87,146)
Administrative expenses		**(104,987)**	(91,128)
Operating (loss)/profit		**(40,321)**	47,486
Finance income		**378**	822
Finance costs		**(27,728)**	(31,312)
Finance costs, net	6	**(27,350)**	(30,490)
(Loss)/profit before taxation	7	**(67,671)**	16,996
Taxation	8	**(7,657)**	(82,200)
Loss and total comprehensive loss for the year		**(75,328)**	(65,204)
Loss per share attributable to equity holders of the Company *(RMB per share)*	9		
– Basic and diluted		**(0.06)**	(0.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		**89,280**	92,097
Property, plant and equipment		**248,183**	274,263
Deposits for property, plant and equipment		**15,198**	47,595
Deferred tax assets		**–**	7,657
		352,661	421,612
Current assets			
Inventories		**75,382**	67,467
Trade receivables	*11*	**321,876**	383,923
Prepayments and other receivables		**155,516**	156,485
Cash and cash equivalents		**71,876**	80,567
		624,650	688,442
Asset classified as held for sale	*12*	**–**	180,000
		624,650	868,442
Total assets		**977,311**	1,290,054
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**470,030**	470,030
Reserves		**(142,718)**	(67,390)
Total equity		**327,312**	402,640

	Notes	**2022** *RMB'000*	2021 *RMB'000*
LIABILITIES			
Non-current liability			
Deferred tax liabilities		**15,846**	15,846
		15,846	15,846
Current liabilities			
Trade and other payables	*13*	**163,513**	342,071
Bank borrowings	*14*	**470,640**	529,150
Lease liabilities		**–**	347
		634,153	871,568
Total liabilities		**649,999**	887,414
Total equity and liabilities		**977,311**	1,290,054
Net current liabilities		**(9,503)**	(3,126)
Total assets less current liabilities		**343,158**	418,486

NOTES:

1 General information

Labixiaoxin Snacks Group Limited (the "Company") was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company's immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands (the "BVI"). The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Wuli Industrial Area, Jinjiang, Fujian, the People's Republic of China (the "PRC")(中國福建省晉江市五里工業園區).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are manufacturing and sales of jelly products, confectionary products, beverages products and other snacks products.

The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000"), which is also the functional currency of the Company, unless otherwise stated.

2 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

Going concern basis

The Group incurred a net loss of approximately RMB75,328,000 (2021: approximately RMB65,204,000) for the year ended 31 December 2022. As at 31 December 2022, the Group's current liabilities exceeded its current assets by approximately RMB9,503,000 (2021: approximately RMB3,126,000).

The directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of twelve months from 31 December 2022. They are of the opinion that, taking into account the plans and measures as stated below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(1) Financial support from substantial shareholder

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB41,798,000 loan from a loan facility of RMB60,000,000 to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2022.

(2) Alternative sources of external funding

The Group will take steps to obtain external funding in order to improve the working capital and liquidity and cash flow position of the Group.

(3) Cost control measurements

The Group has taken measures to tighten cost controls over production costs and expenses with the aim of attaining profitable and positive ash flow operations.

(4) Business reorganisation

The Group may consider to dispose non-core business and/or financial assets if required.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. The effect of these adjustments has not been reflected in the consolidated financial statements.

Amendment to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the Group's annual periods beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs in issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2024.

The directors anticipate that the application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3 Segment information

The Group is principally engaged in the manufacturing and sale of jelly products, confectionary products, beverages products and other snacks products.

The chief operating decision-maker (the "CODM") has been identified as the executive directors of the Company. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business by products and assesses the performance of the following operating segments:

i. Jelly products
ii. Confectionary products
iii. Beverages products
iv. Other snacks products

The CODM assesses the performance of the operating segments based on measure of segment results without allocation of corporate income (included the other income and other gain) and corporate expenses including the administrative expenses, allowance for expected credit losses, written-off of property, plant and equipment and other loss. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements. The Company's executive directors make decisions based on the operating results of each segment and review reports on the aging analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of operating segments. Therefore, only the segment revenue and segment results are presented.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

Geographic information

No geographic information has been presented as all of the Group's operating activities are carried out in PRC.

During the years ended 31 December 2022 and 2021, none of the individual customer accounted for 10% or more of the Group's external revenue. As at 31 December 2022 and 2021, majority of the Group's assets, liabilities and capital expenditure were located or utilised in the PRC.

Segment revenue and results

	Year ended 31 December 2022				
	Jelly products *RMB'000*	Confectionary products *RMB'000*	Beverages products *RMB'000*	Other snacks products *RMB'000*	Reportable segments total *RMB'000*
Revenue					
Sales to external customers	**592,196**	**72,992**	**5,125**	**13,950**	**684,263**
Cost of sales	**(374,863)**	**(50,619)**	**(7,174)**	**(7,415)**	**(440,071)**
Gross profit/(loss)	**217,333**	**22,373**	**(2,049)**	**6,535**	**244,192**
Results of reportable segments	**41,263**	**5,237**	**(10,997)**	**3,173**	**38,676**

Note: For sales to external customer, the revenue is recognised at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	2022 *RMB'000*
Results of reportable segments	**38,676**
Corporate income	**6,915**
Corporate expenses	**(85,912)**
Operating loss	**(40,321)**
Finance income	**378**
Finance costs	**(27,728)**
Loss before taxation	**(67,671)**
Taxation	**(7,657)**
Loss for the year	**(75,328)**

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2022				
	Jelly products *RMB'000*	**Confectionary products** *RMB'000*	**Beverages products** *RMB'000*	**Other snacks products** *RMB'000*	**Reportable segments total** *RMB'000*
Capital expenditure	**12,837**	**–**	**–**	**–**	**12,837**
Depreciation of right-of-use assets	**1,881**	**–**	**936**	**–**	**2,817**
Depreciation of property, plant and equipment	**31,381**	**–**	**6,226**	**177**	**37,784**
Written-off of property, plant and equipment	**647**	**–**	**486**	**–**	**1,133**
Allowance for expected credit losses on trade receivables, net	**41,107**	**5,085**	**380**	**951**	**47,523**

	Year ended 31 December 2021				
	Jelly products *RMB'000*	Confectionary products *RMB'000*	Beverages products *RMB'000*	Other snacks products *RMB'000*	Reportable segments total *RMB'000*
Revenue					
Sales to external customers	517,363	97,427	3,039	30,237	648,066
Cost of sales	(341,551)	(61,339)	(2,459)	(18,436)	(423,785)
Gross profit	175,812	36,088	580	11,801	224,281
Results of reportable segments	33,738	18,282	(6,169)	5,276	51,127

Note: For sales to external customer, the revenue is recognised at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	2021 *RMB'000*
Results of reportable segments	51,127
Corporate income	24,517
Corporate expenses	(28,158)
Operating profit	47,486
Finance income	822
Finance costs	(31,312)
Profit before taxation	16,996
Taxation	(82,200)
Loss for the year	(65,204)

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2021				
	Jelly products *RMB'000*	Confectionary products *RMB'000*	Beverages products *RMB'000*	Other snacks products *RMB'000*	Reportable segments total *RMB'000*
Capital expenditure	20,108	–	–	–	20,108
Depreciation of right-of-use assets	1,880	–	936	–	2,816
Depreciation of property, plant and equipment	34,864	–	5,402	745	41,011
Written-off of property, plant and equipment	2,921	–	–	–	2,921
Allowance for expected credit losses on trade receivables	16,961	2,283	94	709	20,047

4 Other income

	2022	2021
	RMB'000	*RMB'000*
Rental income	**2,884**	3,162
Sundry income	**1,844**	4,206
Government grants *(Note)*	**2,187**	3,902
	6,915	11,270

Note: During the year ended 31 December 2022, the Group recognised government grants which comprise COVID-19 related subsides of approximately RMB2,089,000 (2021: RMB3,902,000) provided by the PRC government and approximately RMB98,000 of Employment Support Scheme (2021: Nil) provided by the Hong Kong Government.

5 Other (loss)/gain, net

	2022	2021
	RMB'000	*RMB'000*
(Loss)/gain on disposal of asset classified as held for sale *(Note 12)*	**(20,923)**	13,257
Net exchange loss	**(439)**	(114)
(Loss)/gain on sales of raw meterials and scrap materials	**(166)**	104
	(21,528)	13,247

6 Finance costs, net

	2022	2021
	RMB'000	*RMB'000*
Finance costs:		
Interest expenses on bank borrowings	**(26,933)**	(30,549)
Interest expenses on loan from a director	**(786)**	(735)
Interest expenses on lease liabilities	**(9)**	(28)
Total finance costs	**(27,728)**	(31,312)
Finance income:		
Interest income on bank deposits	**378**	822
Total finance income	**378**	822
Finance costs, net	**(27,350)**	(30,490)

7 (Loss)/profit before taxation

	2022	2021
	RMB'000	*RMB'000*
The Group's (loss)/profit before taxation is arrived at after charging/(crediting):		
Auditors' remuneration		
– Audit service	**979**	1,052
Staff costs (including directors' remuneration)		
– Salaries and bonuses	**95,906**	95,449
– Employer's contribution to defined contribution plans	**4,689**	3,863
Advertising and promotion expenses	**92,034**	48,695
Depreciation of right-of-use assets	**2,817**	2,816
Depreciation of property, plant and equipment	**37,784**	41,011
Allowance for expected credit losses on trade receivables, net	**47,523**	20,047
(Reversal of allowance)/allowance for expected credit losses on other receivables, net	**(2)**	70
Cost of inventories sold	**386,264**	340,339
Written-off of property, plant and equipment	**1,133**	2,921
Freight and transportation expenses	**6,119**	4,851

8 Taxation

	2022	2021
	RMB'000	*RMB'000*
Current income tax – PRC Enterprise Income Tax	**–**	4,467
Deferred tax, net	**7,657**	77,733
	7,657	82,200

Hong Kong Profits Tax, Bermuda and BVI Income Tax

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

No provision of Hong Kong Profits Tax, Bermuda and BVI Income Tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the years ended 31 December 2022 and 2021.

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at the rate of 25% (2021: 25%) on taxable profits of the Group's PRC subsidiaries during the year.

9 Loss per share

(a) Basic loss per share

Basic loss per share is calculated by dividing the net loss attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Net loss attributable to the equity holders of the Company (*RMB'000*)	**(75,328)**	(65,204)
Weighted average number of ordinary shares in issue for basic loss per share (*'000*)	**1,328,977**	1,328,977
Basic loss per share (*RMB per share*)	**(0.06)**	(0.05)

(b) Diluted loss per share

The computation of diluted loss per share does not include the Company's outstanding share options and the outstanding warrants because the effect were anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

10 Dividends

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

11 Trade receivables

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**411,148**	425,672
Less: Allowance for expected credit losses	**(89,272)**	(41,749)
	321,876	383,923

As at 1 January 2021, trade receivables from contracts with customers (net of the allowance for expected credit losses) of approximately RMB297,633,000.

For the year ended 31 December 2022, the Group's revenue are generally on credit term of 180 days (2021: 180 days). As at 31 December 2022 and 2021, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Less than 30 days	**63,121**	64,605
31 days to 90 days	**68,586**	42,179
91 days to 180 days	**108,093**	67,728
Over 180 days	**82,076**	209,411
	321,876	383,923

Included in the above allowance for expected credit losses on trade receivables is approximately RMB89,272,000 (2021: RMB41,749,000). The individually impaired trade receivable relates to consumers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The carrying amounts of trade receivables approximate their fair values.

12 Asset classified as held for sale

(a) On 15 May 2019, an indirect wholly-owned subsidiary of the Company (the "Vendor") and an independent third party (the "Purchaser") entered into the transfer agreement (the "Transfer Agreement"), pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the right-of-use asset located in Jinjiang Food Industrial Park in Jinjiang City, Fujian Province, the PRC (the "FJ Land Right") for a consideration of RMB180,000,000. Pursuant to the Transfer Agreement, both the Vendor and the Purchaser will liaise with Fujian Jinjiang Industrial Park Construction and Development Company Limited (the "Jinjiang Construction"), a company controlled by Jinjiang City People's Government, regarding the transfer of the FJ Land Right. The Vendor will arrange for the termination of the FJ Land Right with Jinjiang Construction and the Purchaser will enter into an agreement with Jinjiang Construction regarding the new pre-registration contractual right to acquire the FJ Land Right. For more details, please refer to the announcement dated 15 May 2019.

Pursuant to the Extension Announcement dated on 31 December 2021, as additional time is required by the Purchaser and Vendor for the fulfilment of the conditions precedent to the Transfer Agreement, the long stop date shall be further extended to 30 June 2022.

The Purchaser had fully settled the consideration of RMB180,000,000 in accordance with the Transfer Agreement and Jinjiang Construction had fully refunded the RMB40,000,000 land deposit to the Vendor. All the conditions precedent to the Transfer Agreement had been fulfilled, and the completion took place on 6 May 2022. Upon completion, the Vendor ceased to have any interest in the FJ Land Right.

After taking into account the estimated transaction costs directly attributable to the completion of disposal, a loss on disposal of asset classified as held for sale of RMB20,923,000 was recorded during the year ended 31 December 2022.

(b) On 10 November 2020, an indirect wholly-owned subsidiary of the Company (the "Vendor"), entered into the first provisional agreement (the "First Provisional Agreement") with first purchaser (the "First Purchaser"), pursuant to which the Vendor has agreed to sell, and the First Purchaser has agreed to purchase, the first property (the "First Property") at a consideration of HK$11,500,000 (equivalent to approximately RMB10,000,000); and the Vendor entered into the second provisional agreement (the "Second Provisional Agreement") with the second purchaser (the "Second Purchaser"), pursuant to which the Vendor has agreed to sell, and the Second Purchaser has agreed to purchase, the second property (the "Second Property") at a consideration of HK$11,500,000 (equivalent to approximately RMB10,000,000). The disposal transactions have been completed on 29 January 2021 and the gain on disposal of asset classified as held for sale of RMB13,257,000 was recognised during the year ended 31 December 2021. For more details, please refer to the announcement of the Company dated 10 November 2020.

13 Trade and other payables

Included in the trade and other payables, as of the end of the reporting period, the trade payables were approximately RMB27,912,000 (2021: RMB21,654,000).

The credit periods granted by suppliers generally range from 30 to 60 days (2021: 30 to 60 days). The ageing analysis of trade payables based on invoice date is as follows:

	2022	2021
	RMB'000	*RMB'000*
Less than 30 days	**19,092**	14,450
31 days to 90 days	**7,250**	5,362
Over 90 days	**1,570**	1,842
	27,912	21,654

The carrying amounts of trade and other payables approximate their fair values.

14 Bank borrowings

	2022	2021
	RMB'000	*RMB'000*
Secured bank borrowings	**470,640**	468,200
Unsecured bank borrowings	**–**	60,950
Total bank borrowings	**470,640**	529,150

Carrying amount of bank borrowings wholly repayable:

	2022	2021
	RMB'000	*RMB'000*
On demand or within 1 year	**470,640**	529,150

15 Events after the reporting period

There were no significant events that have occurred subsequent to the end of the reporting period.

16 Comparatives

Certain comparative figures have been reclassified to be consistent with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2022, the Group has reported revenue of RMB684.3 million, representing an increase of approximately 5.6% as compared with year 2021 mainly due to increase in sales of jelly products by 14.5%. In the past three years, the Group had put immense efforts in expanding its new retail, e-commerce, social media and society distribution channels (collectively the "New Sales Channels"). The expansion of these New Sales Channels started to pay off during the year ended 31 December 2022 and mainly boosted the sales of our jelly products.

During the year ended 31 December 2022, the consumer sentiment in the PRC had gradually recovered from the hit by the Novel Coronavirus ("COVID-19") outbreak. The Group's sales was positively affected by the gradual recovery of the consumer sentiment and the removal of lock-up measures in most areas of the PRC. However, there were still several COVID-19 surges in certain cities or provinces in the PRC e.g. Shanghai, Jinjiang and Jilin, following the 2022 Lunar New Year to May 2022. Local governments in these areas had taken measures to minimize the impact of the COVID-19 pandemic, including but not limited to: mandatory quarantine of infected personnel and their close contacts, compulsory quarantine of visitors and travelers and lockdowns of high risk areas (collectively, the "Governments' Measures"). Due to the Governments' Measures, the Group's major subsidiary in Jinjiang, Fujian was required to stop its production and operation temporarily in March and April 2022. As a result, the sales performance of the Group was negatively affected during March and April 2022. The sales of the Group had gradually picked up after July 2022 following the stablisation of the COVID-19 pandemic in the second half of year 2022 and resulted in the increase in sales for the year ended 31 December 2022 as compared with year 2021.

Although the sales performance of the Group had gradually recovered from the COVID-19 pandemic, much of the PRC's economy and our distributors were bruised by COVID-19 control measures in year 2022, from full-scale lockdowns in places like Shanghai to restrictions that made it difficult for locals to travel and factories to move their goods when infections spiked. Some of these distributors suffered from great financial difficulties that our Group encountered slow settlements from or default by these distributors. As a result, the allowance for expected credit losses of the Group increased by approximately 136.2% to RMB47.5 million as compared with year 2021.

For the year ended 31 December 2022, the Group recorded a net loss of RMB75.3 million, as compared with RMB65.2 million in last year. The main reasons for the increase in the Group's net loss during the year ended 31 December 2022 was mainly due to (i) increase in allowance for expected credit losses to approximately RMB47.5 million due to slow settlements from or default by the distributors and (ii) there was a loss on disposal of asset classified as held for sale of RMB20.9 million in the year ended 31 December 2022 (2021: gain of RMB13.3 million) and offset by the increase in gross profit for the year ended 31 December 2022 as compared with year 2021.

REVENUE

Revenue increased by approximately 5.6% to RMB684.3 million during the year ended 31 December 2022 when compared with the same period in year 2021. During the year ended 31 December 2022, the Group's sales performance has been positively impacted by the recovery of consumer sentiments and the removal of lock-up measures in most areas of the PRC. In addition, the Group had put immense efforts in expanding its New Sales Channels in the past three years which started to boost the sales of the Group during the year ended 31 December 2022. As at 31 December 2022, the Group had a total number of 1,095 distributors (31 December 2021: 1,206).

Jelly products

Revenue of jelly products increased by approximately 14.5% from RMB517.4 million in the year ended 31 December 2021 to RMB592.2 million in the year ended 31 December 2022 mainly due to the expansion of the New Sales Channels as disclosed above.

During the year ended 31 December 2022, revenue attributable to jelly snacks increased by approximately 16.7% to RMB333.7 million while sales attributable to jelly beverages increased by approximately 11.7% to RMB258.5 million.

Confectionary products

Confectionary products recorded a decrease in revenue during the year ended 31 December 2022. Sales of confectionary products decreased by approximately 25.1% from RMB97.4 million in the year ended 31 December 2021 to RMB73.0 million in the year ended 31 December 2022. The decrease was mainly due to (i) temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022 and (ii) the distributors purchased less festive products in the last quarter of 2022 as they expect there will be a surge in COVID-19 cases before the 2023 Lunar New Year.

Beverage products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue of beverages products of the Group increased by approximately 70.0% to RMB5.1 million in the year ended 31 December 2022. While there was a rebound in sales of beverages products in the year ended 31 December 2022, the Group will continue to shift its focus from beverages products to core and more profitable jelly and bean curd products in the coming year.

Other snacks products

Revenue of other snacks products decreased by approximately 53.9% to RMB14.0 million during the year ended 31 December 2022. The decrease was mainly due to (i) temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022 and (ii) the distributors purchased less festive products in the last quarter of 2022 as they expect there will be a surge in COVID-19 cases before the 2023 Lunar New Year.

COST OF SALES AND GROSS PROFIT

Cost of sales increased by approximately 3.8% to RMB440.1 million in the year ended 31 December 2022, mainly attributable to the corresponding increase in sales. The gross profit increased by approximately 8.9% to RMB244.2 million in the year ended 31 December 2022. The gross profit margin increased slightly from 34.6% for the year ended 31 December 2021 to 35.7% for the year ended 31 December 2022.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately 33.4% to RMB116.3 million in the year ended 31 December 2022 primarily due to an increase in advertising and promotion expenses by approximately 89.0% to RMB92.0 million during the period under review to promote its New Sales Channels.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 15.2% to RMB105.0 million in the year ended 31 December 2022 as compared with the same period in 2021, mainly due to increase in payroll expenses and inflation.

INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Bermuda and British Virgin Islands ("BVI") are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income currently arising in Hong Kong for the year ended 31 December 2022 and 2021. The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the year.

The income tax expense during the year ended 31 December 2022 was mainly due to PRC income tax for the year net of the movements in deferred tax assets.

NET LOSS FOR THE YEAR

For the year ended 31 December 2022, the Group recorded a net loss of RMB75.3 million, an increase of approximately 15.5% from the net loss of RMB65.2 million in last year. The main reasons for the increase in the Group's net loss during the year ended 31 December 2022 was mainly due to (i) increase in allowance for expected credit losses to approximately RMB47.5 million due to slow settlements from or default by the distributors and (ii) there was a loss on disposal of asset classified as held for sale of approximately RMB20.9 million in the year ended 31 December 2022 (2021: gain on disposal of asset classified as held for sale of approximately RMB13.3 million) and offset by the increase in gross profit for the year ended 31 December 2022 as compared with year 2021.

FINANCIAL REVIEW

Financial resources and liquidity

The Group mainly finances its operations and capital expenditures by cash and bank balances, operating cash flows, bank borrowings and loan from a director.

As at 31 December 2022, the cash and bank balances amounted to RMB71.9 million (As at 31 December 2021: RMB80.6 million). The decrease in cash and bank balances was mainly due to repayment of bank borrowings and payment of interests. The bank borrowings of the Group decreased by RMB58.5 million during the year ended 31 December 2022.

As at 31 December 2022, the Group's gearing ratio (total of borrowings, lease liabilities and loan from a director divided by total equity) was 156.6% (As at 31 December 2021: 140.5%). The Group maintained sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash inflow from operating activities of RMB14.4 million for the year ended 31 December 2022 (2021: net cash outflow of RMB135.3 million). The Group has spent RMB12.8 million during the year ended 31 December 2022 for the upgrade of production lines of the production plants. The Group has net cash outflow from financing activities of RMB80.1 million for the year ended 31 December 2022 which was mainly due to repayment of matured bank borrowings and payment of interest expenses.

Capital expenditure

During the year ended 31 December 2022, the Group incurred RMB12.8 million in capital expenditure mainly for the upgrade of production lines of the production plants.

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2022, the balance increased by RMB7.9 million from the beginning of the year. The increase in inventory level was mainly due to improvement in sales performance through New Sales Channels that more inventories were prepared by the Group to meet the demand of Lunar New Year sales in late January 2023. The inventories turnover days for the years ended 31 December 2022 and 2021 were 53 days and 72 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors and New Sales Channels customers. The Group typically sells its products on credit and grant 180 days credit to most of the wholesale distributors and New Sales Channels customers. The balance decreased by RMB62.0 million or 16.2% from the beginning of the year mainly due to increase in allowance for expected credit losses to approximately RMB47.5 million due to slow settlements from or default by certain wholesale distributors. The trade receivable turnover days for the years ended 31 December 2022 and 2021 were 200 days and 205 days, respectively. Subsequent to the year ended 31 December 2022 and up to the date of this announcement, approximately RMB192.0 million of the trade receivables were settled by the wholesale distributors and New Sales Channels customers.

Asset classified as held for sale

On 15 May 2019, an indirect wholly-owned subsidiary of the Company (the "Vendor") and an independent third party (the "Purchaser") entered into the transfer agreement (the "Transfer Agreement"), pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the land use right located in Jinjiang Food Industrial Park in Jinjiang City, Fujian Province, the PRC (the "FJ Land Right") for a consideration of RMB180,000,000. Pursuant to the Transfer Agreement, both the Vendor and the Purchaser will liaise with Fujian Jinjiang Industrial Park Construction and Development Company Limited (the "Jinjiang Construction"), a company controlled by Jinjiang City People's Government, regarding the transfer of the FJ Land Right. The Vendor will arrange for the termination of the FJ Land Right with Jinjiang Construction and the Purchaser will enter into an agreement with Jinjiang Construction regarding the new pre-registration contractual right to acquire the FJ Land Right. For more details, please refer to the announcement dated 15 May 2019.

The Purchaser had fully settled the consideration of RMB180,000,000 in accordance with the Transfer Agreement and Jinjiang Construction had fully refunded the RMB40,000,000 land deposit to the Vendor. All the conditions precedent to the Transfer Agreement had been fulfilled, and the completion took place on 6 May 2022. Upon completion, the Vendor ceased to have any interest in the FJ Land Right.

After taking into account the estimated transaction costs directly attributable to the completion of disposal, a loss on disposal of asset classified as held for sale of RMB20,923,000 was recorded during the year ended 31 December 2022.

Trade payables

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days to 60 days to the Group.

Trade payables turnover days for the years ended 31 December 2022 and 2021 were 29 days and 64 days respectively.

Foreign exchange fluctuations

The Group earns revenue and incur costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the year ended 31 December 2022, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered the financial benefits of such forward contracts may not outweigh their costs. The Company will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charges on assets

As at 31 December 2022, land use rights and buildings of the Group with carrying values of RMB89,280,000 (31 December 2021: RMB91,759,000) and RMB107,195,000 (31 December 2021: RMB63,989,000) respectively, were pledged to banks as securities for banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2022, the Group had no contingent liabilities (31 December 2021: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 1,300 employees (including part-time employees) (2021: 1,170 employees) and the total remuneration expenses for the year ended 31 December 2022 amounted to RMB100.6 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2022. Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this announcement.

PROSPECTS

At the end of year 2022, the PRC government announced to uplift quarantine requirements for locals in December 2022 and international arrivals starting from 8 January 2023, which marks a significant move in returning to normally. This important move will likely boost the consumer sentiment in the PRC and the market demand for the Group's snack products is expected to increase during the year ending 31 December 2023. The Directors considered that there may be surges in COVID-19 cases in the first half of year 2023 in the PRC and have short-term pressure on the Group's business. However, the PRC economy and snacks industry will rapidly rebound in the second half of year 2023. The Directors considered that a steady and healthy recovery of PRC's economy and our business may happen in the short to medium term. To build a solid foundation for mid-to-long term growth, the Group will continue committing to (i) take proactive steps in marketing its brand image and products in 2023 and onwards, (ii) launch new snacks products from time to time to offer better choices to the consumers and (iii) restructure and consolidating its production facilities to enhance its production and logistic efficiency. The Directors believe that these measures will bring positive impacts to the Group's financial performance in the longer run.

While the near-term outlook for the snacks products sector of the PRC remains challenging, the country's ongoing economic reforms and the continuous expansion of middle and upper class population will propel growth in retail consumption in the long run. Therefore, the Directors are cautiously optimistic to the long term development of the Group's business.

FINAL DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: Nil).

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in compliance with Rule 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code Provision on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chung Yau Tong (chairman), Mr. Li Biao and Ms. Guo Li. The Audit Committee has reviewed with auditor and management the annual results for the year ended 31 December 2022, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters for the year ended 31 December 2022.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures contained in the preliminary announcement of the Group's results for the year ended 31 December 2022 have been agreed by the Group's auditor, HLB Hodgson Impey Cheng Limited ("HLB"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, the Hong Kong Standards on Review Engagements, or the Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by HLB on the preliminary announcement.

The audited consolidated financial statements of the Group for the year ended 31 December 2022 set out in the 2022 Annual Report of the Company will be an unqualified audit opinion.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's audited consolidated financial statements for the year ended 31 December 2022. The report includes paragraphs of material uncertainty related to going concern, without modification:

Material Uncertainty Related To Going Concern

"We draw attention to Note 3 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB75,328,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB9,503,000. As stated in Note 3, these conditions, along with other matters as set forth in Note 3 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

Going concern basis

As disclosed in note 3 to the consolidated financial statements, the directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of twelve months from 31 December 2022. They are of the opinion that, taking into account the plans and measures as stated below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(1) Financial support from substantial shareholder

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB41,798,000 loan from a loan facility of RMB60,000,000 to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2022.

(2) Alternative sources of external funding

The Group will take steps to obtain external funding in order to improve the working capital and liquidity and cash flow position of the Group.

(3) Cost control measurements

The Group has taken measures to tighten cost controls over production costs and expenses with the aim of attaining profitable and positive cash flow operations.

(4) Business reorganisation

The Group may consider to dispose non-core business and/or financial assets if required.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. The effect of these adjustments has not been reflected in the consolidated financial statements.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promote stringent corporate governance practices and procedures with a view to safeguard the interests of shareholders and enhance investor confidence and the Company's accountability and transparency. The Company sets out its corporate governance practices by reference to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2022, the Company has complied with all the code provisions set forth under Part 2 of the CG Code and there has been no deviation from the code provisions throughout the year ended 31 December 2022.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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 as its own code of conduct for securities transactions. The Company has made specific enquiry of all Directors and all the Directors have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year under review.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement of the Company for the year ended 31 December 2022 is published on the website of the Company at www.lbxxgroup.com and the website of the Stock Exchange at www.hkexnews.hk. The annual report of the Company for the year ended 31 December 2022 will be dispatched to shareholders and available at the same websites in due course.

For and on behalf of the Board
Labixiaoxin Snacks Group Limited
Zheng Yu Huan
Chairman

Hong Kong, 30 March 2023

As at the date of this announcement, the Directors of the Company are Zheng Yu Long, Zheng Yu Shuang and Zheng Yu Huan as executive Directors, Li Hung Kong as non-executive Director and Guo Li, Li Biao and Chung Yau Tong as independent non-executive Directors.

This announcement is available for viewing on the website of the Company at www.lbxxgroup.com and the website of the Stock Exchange at www.hkexnews.hk.