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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

	Unaudited		
	Six months ended 30 June		
	2014	2013	+ / (-)
	<i>RMB' million</i>	<i>RMB' million</i>	
Key income statement items			
Sales	614.6	975.5	-37.0%
Gross Profit	195.1	406.7	-52.0%
EBITDA ⁽¹⁾	68.2	292.8	-76.7%
Profit for the period	10.3	186.7	-94.5%
Key performance indicators			
Gross profit margin	31.7%	41.7%	-10.0% pts
EBITDA margin	11.1%	30.0%	-18.9% pts
Net profit margin	1.7%	19.1%	-17.4% pts
Return on equity (LTM) ⁽²⁾	7.9%	18.0%	-10.1% pts
Earnings per share			
– Basic	RMB0.01	RMB0.17	-94.1%
– Diluted	RMB0.01	RMB0.17	-94.1%

Notes:

1. EBITDA refers to earnings before interests, income tax, depreciation, amortisation and non-cash share-based payments.
2. Return on equity is calculated using profit for the last twelve months divided by average of monthly ending equity balance for the relevant period.

The board of directors (the “**Board**”) of Labixiaoxin Snacks Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2014, together with comparative figures for the corresponding period in 2013. These interim condensed consolidated financial statements were not audited, but have been reviewed by HLB Hodgson Impey Cheng Limited (“**HLB**”), the Group’s external auditors, and the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Unaudited	
		Six months ended 30 June	
		2014	2013
	<i>Note</i>	<i>RMB’000</i>	<i>RMB’000</i>
Sales	4	614,621	975,474
Cost of sales		(419,550)	(568,812)
Gross profit		195,071	406,662
Other income	5	773	274
Other (losses)/gains, net	6	(1,129)	1,855
Selling and distribution expenses		(138,858)	(118,798)
Administrative expenses		(40,191)	(33,518)
Operating profit	7	15,666	256,475
Finance income		8,015	4,405
Finance costs		(5,810)	(3,529)
Finance income, net	8	2,205	876
Profit before income tax		17,871	257,351
Income tax expense	9	(7,536)	(70,634)
Profit and total comprehensive income for the period		10,335	186,717
Earnings per share attributable to equity holders of the Company (<i>RMB per share</i>)	10		
– Basic		0.01	0.17
– Diluted		0.01	0.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

		Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Land use rights		145,947	147,606
Property, plant and equipment		1,177,015	1,199,013
Deposits for property, plant and equipment		243,036	101,881
Deferred income tax assets		30,331	23,790
		1,596,329	1,472,290
Current assets			
Inventories		63,645	85,339
Trade receivables	12	248,755	295,431
Prepayments and other receivables		61,264	41,334
Pledged bank deposits		79,676	16,214
Cash and cash equivalents		528,554	792,196
		981,894	1,230,514
Total assets		2,578,223	2,702,804
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		406,133	406,133
Share premium		566,809	566,809
Other reserves		72,056	71,095
Retained earnings		897,210	886,875
Total equity		1,942,208	1,930,912
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		28,122	28,450
Borrowings	14	–	386,526
		28,122	414,976
Current liabilities			
Trade and other payables	13	146,630	261,377
Borrowings	14	455,024	63,459
Current income tax liabilities		6,239	32,080
		607,893	356,916
Total liabilities		636,015	771,892
Total equity and liabilities		2,578,223	2,702,804
Net current assets		374,001	873,598
Total assets less current liabilities		1,970,330	2,345,888

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	1,846	303,158
Income tax paid	(40,246)	(60,124)
Net cash (used in)/generated from operating activities	(38,400)	243,034
Cash flows from investing activities		
Purchases of property, plant and equipment	(16,946)	(17,380)
Deposits paid for property, plant and equipment	(141,155)	(134,643)
Proceeds from disposal of property, plant and equipment	–	430
Interest received	8,015	4,405
Net cash used in investing activities	(150,086)	(147,188)
Cash flows from financing activities		
Proceeds from borrowings	–	444,296
Repayments of borrowings	(234)	(30,300)
Increase in pledged bank deposits	(63,462)	(4,479)
Dividends paid	–	(72,038)
Interest paid	(11,460)	(7,291)
Net cash (used in)/generated from financing activities	(75,156)	330,188
Net (decrease)/increase in cash and cash equivalents	(263,642)	426,034
Cash and cash equivalents at the beginning of the period	792,196	406,106
Cash and cash equivalents at the end of the period	528,554	832,140

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 (“**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 (“**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 the manufacture and sale of food and beverages products.

The Company’s shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

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 the condensed consolidated interim 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 financial statements for the year ended 31 December 2013.

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2013, except as mentioned below.

(a) New standards, amendments and interpretations to standards adopted by the Group

The following new standards, amendments and interpretations to standards are mandatory for accounting periods beginning on or after 1 January 2014. The adoption of these new standards, amendments and interpretations to standards does not have any significant impact to the results and financial position of the Group.

IAS 32 (Amendments)	Offsetting financial assets and financial liabilities
IAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets
IAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting
IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment entities
IFRIC Int 21	Levies

(b) New standards, amendments to standards and interpretations that have been issued but are not effective

The following new standards, amendments to standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2014 and which the Group has not early adopted.

IAS 16 and IAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation ⁵
IAS 19 (Amendments)	Defined benefits plans: employee contributions ¹
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date of IFRS 9 and transition disclosures ²
IFRS 9	Financial instruments ²
IFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations ⁵
IFRS 14	Regulatory deferral accounts ⁴
IFRS 15	Revenue from contracts with customers ⁶
IFRS (Amendments)	Annual improvements to IFRS 2010-2012 Cycle ³
IFRS (Amendments)	Annual improvements to IFRS 2011-2013 Cycle ¹

¹ effective for annual periods beginning on or after 1 July 2014

² available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

³ effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁴ effective for first annual IFRS financial statements beginning on or after 1 January 2016

⁵ effective for annual periods beginning on or after 1 January 2016

⁶ effective for annual periods beginning on or after 1 January 2017

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations and does not expect there will be any significant impact to the results and financial position of the Group.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does 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 financial statements as at 31 December 2013.

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

4 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 ("CODM") has been identified as the executive directors of the Company. 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.

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

CODM assesses the performance of the operating segments based on measure of segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial information.

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

During the six months ended 30 June 2014, none of the individual customer account for 10% or more of the Group's external revenue (2013: none). As at 30 June 2014 and 31 December 2013, substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

	Unaudited Six months ended 30 June 2014				Reportable segments total RMB'000
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Revenue					
Sales to external customers	441,071	67,242	33,872	72,436	614,621
Cost of sales	(292,834)	(45,315)	(28,114)	(53,287)	(419,550)
Gross profit	<u>148,237</u>	<u>21,927</u>	<u>5,758</u>	<u>19,149</u>	<u>195,071</u>
Results of reportable segments	<u>48,537</u>	<u>6,791</u>	<u>(1,879)</u>	<u>2,764</u>	<u>56,213</u>

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

	Unaudited Six months ended 30 June 2014				Reportable segments total RMB'000
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Results of reportable segments					56,213
Corporate income					1,931
Corporate expenses					(42,478)
Operating profit					15,666
Finance income					8,015
Finance costs					(5,810)
Profit before income tax					17,871
Income tax expense					(7,536)
Profit for the period					<u>10,335</u>
Amortisation of land use rights	<u>1,190</u>	<u>–</u>	<u>469</u>	<u>–</u>	<u>1,659</u>
Depreciation of property, plant and equipment	<u>44,707</u>	<u>–</u>	<u>2,323</u>	<u>2,835</u>	<u>49,865</u>

	Unaudited Six months ended 30 June 2013				Reportable segments total RMB'000
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Revenue					
Sales to external customers	758,143	83,932	9,455	123,944	975,474
Cost of sales	<u>(436,612)</u>	<u>(51,559)</u>	<u>(6,684)</u>	<u>(73,957)</u>	<u>(568,812)</u>
Gross profit	<u>321,531</u>	<u>32,373</u>	<u>2,771</u>	<u>49,987</u>	<u>406,662</u>
Results of reportable segments	<u>229,201</u>	<u>22,151</u>	<u>1,620</u>	<u>34,892</u>	<u>287,864</u>

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

	Unaudited Six months ended 30 June 2013				Reportable segments total RMB'000
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Results of reportable segments					287,864
Corporate income					5,106
Corporate expenses					<u>(36,495)</u>
Operating profit					256,475
Finance income					4,405
Finance costs					<u>(3,529)</u>
Profit before income tax					257,351
Income tax expense					<u>(70,634)</u>
Profit for the period					<u>186,717</u>
Amortisation of land use rights	<u>1,658</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,658</u>
Depreciation of property, plant and equipment	<u>30,424</u>	<u>—</u>	<u>—</u>	<u>2,465</u>	<u>32,889</u>

5 OTHER INCOME

Unaudited
Six months ended 30 June
2014 **2013**
RMB'000 **RMB'000**

Rental income	773	274
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6 OTHER (LOSSES)/GAINS, NET

Unaudited
Six months ended 30 June
2014 **2013**
RMB'000 **RMB'000**

Gain on sale of scrap materials	1,158	1,767
Loss on disposal of property, plant and equipment	(2)	(2,976)
Net exchange (losses)/gains	(2,285)	3,064
	(1,129)	1,855

7 OPERATING PROFIT

Operating profit was determined after charging the following:

Unaudited
Six months ended 30 June
2014 **2013**
RMB'000 **RMB'000**

Purchases of raw materials, finished goods and consumables	339,539	531,663
Changes in inventories of raw materials and finished goods	21,694	(5,933)
Advertising and promotion expenses	111,529	90,726
Freight and transportation expenses	2,292	1,754
Employee benefit expenses		
(including directors' emoluments and share-based payments)	52,842	55,277
Depreciation of property, plant and equipment	49,865	32,889
Amortisation of land use rights	1,659	1,658

8 FINANCE INCOME, NET

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Finance income:		
Interest income on bank deposits	8,015	4,405
Finance costs:		
Interest expenses on bank borrowings wholly repayable within five years	(16,733)	(7,291)
Less: amounts capitalised on qualifying assets	10,923	3,762
Total finance costs	(5,810)	(3,529)
Finance income, net	2,205	876

9 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current income tax – PRC	7,397	70,195
Deferred income tax	139	439
	7,536	70,634

During the six months ended 30 June 2014, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2013: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2013: 25%) on their taxable profit during the period.

10 EARNINGS PER SHARE

(a) Basic earnings per share

	Unaudited Six months ended 30 June	
	2014	2013
Net profit attributable to the equity holders of Company (<i>RMB'000</i>)	<u>10,335</u>	<u>186,717</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (<i>'000</i>)	<u>1,132,600</u>	<u>1,125,600</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.01</u>	<u>0.17</u>

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period after adjusting for the dilutive potential ordinary shares in respect of the Company's outstanding share options. The potential ordinary shares in respect of the Company's outstanding share options are dilutive for the six months ended 30 June 2013 while they were anti-dilutive for the six months ended 30 June 2014.

	Unaudited Six months ended 30 June 2013
Net profit attributable to the equity holders of Company (<i>RMB'000</i>)	<u>186,717</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (<i>'000</i>)	1,125,600
Adjustment for share options (<i>'000</i>)	<u>4,257</u>
Weighted average number of ordinary shares outstanding for diluted earnings per share (<i>'000</i>)	<u>1,129,857</u>
Diluted earnings per share (<i>RMB per share</i>)	<u>0.17</u>

11 DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

12 TRADE RECEIVABLES

The Group's sales are generally on credit term ranging from 30 to 90 days. The ageing analysis of the Group's trade receivables, based on invoice date, is as follows:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Less than 30 days	92,684	206,575
31 days – 90 days	124,209	88,821
Over 90 days	31,862	35
	<u>248,755</u>	<u>295,431</u>

For the trade receivables that are not past due nor impaired, the directors were of the opinion that no impairment provision was required as those customers did not have recent default history.

As at 30 June 2014, trade receivables of RMB31,862,000 (31 December 2013: RMB35,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default and the trade receivables are still considered recoverable. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Past due by less than 90 days but not impaired	31,859	35
Past due by 91 days – 180 days but not impaired	3	–
	<u>31,862</u>	<u>35</u>

During the period, no trade receivables were impaired (2013: Nil). As at 30 June 2014 and 31 December 2013, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

13 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Trade payables	69,429	133,477
Bills payable	7,320	27,372
Trade and bills payables	76,749	160,849
Accrued sales rebates	12,564	33,311
Other accrued expenses	8,275	15,368
Directors' fees and emoluments payable	9,456	9,135
Sundry creditors	39,586	42,714
	<u>146,630</u>	<u>261,377</u>

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2014 and 31 December 2013, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Less than 30 days	39,340	114,537
31 days – 90 days	28,166	18,012
Over 90 days	1,923	928
	<u>69,429</u>	<u>133,477</u>

Bills payable of the Group amounting to RMB7,320,000 (31 December 2013: RMB27,372,000) were secured by pledged bank deposits of RMB2,196,000 (31 December 2013: RMB7,248,000). The bills payable were with average maturity period of within six months. The carrying amounts of trade and other payables approximate their fair values.

14 BORROWINGS

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Non-current	–	386,526
Current	455,024	63,459
Total borrowings	<u>455,024</u>	<u>449,985</u>

- (i) On 25 February 2013, the Company has entered into a facility agreement (the “Facility Agreement”) with certain banking institutes in relation to a US\$75,000,000 term loan facility (the “Facility”). The Facility was charged at a floating interest rate of LIBOR + 3.5% which was re-pricing every 3 months. The Facility was fully utilized during the year ended 31 December 2013, and was pledged by shares of certain wholly-owned subsidiaries of the Company and bank deposit of RMB77,480,000. The Facility has an original term of 36 months commencing from the date of the Facility Agreement. However, during the six months ended 30 June 2014, the Company has triggered certain potential event of defaults and the Company and the lenders have been mutually agreed a new repayment schedule to fully repay the Facility in February 2015 and the Company has been waived from the potential event of defaults.
- (ii) As at 30 June 2014, a bank borrowing of RMB4,251,000 (31 December 2013: RMB4,485,000) was secured by land and buildings of RMB9,259,000 (31 December 2013: RMB9,515,000).

15 EVENTS AFTER REPORTING PERIOD

Subsequent to the period ended 30 June 2014, the Company repurchased 3,623,000 shares of the Company on the Stock Exchange at prices between HK\$1.55 and HK\$1.89 per share. The repurchased shares were not yet cancelled as of the date of this announcement.

16 INDEPENDENT REVIEW

The interim financial report for the six months ended 30 June 2014 is unaudited, but has been reviewed by HLB, 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. The interim financial report has also been reviewed by the Audit Committee.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2014, the Group has reported sales of approximately RMB614.6 million which dropped by 37.0% from the same period in last year. Such significant decrease was primarily attributable to the reporting of certain media in the PRC, including the CCTV news, in mid-March 2014 in relation to the use of toxic gelatin by certain enterprises in their food production and alleged contamination of gummy candy of “Labixiaoxin” and other brands by toxic gelatin used in the production process (the “**Toxic Gelatin Incidence**”). While the sales of gummy candy accounted for an insignificant proportion of the total sales of the Group, as a result of the Toxic Gelatin Incidence, certain retailers had requested the Group to remove all “Labixiaoxin” products from their shelves, and the Group has recorded a sales return of the Group’s products in the amount of RMB133.3 million during the reporting period. Furthermore, the Group has granted additional one-off sales discounts to certain distributors to promote sales during the Toxic Gelatin Incidence, which reduced the gross profit margin of the Group. As a result, the gross profit margin and EBITDA margin of the Group for the six months ended 30 June 2014 decreased by approximately 10.0 percentage points and 18.9 percentage points, as compared to the corresponding period in 2013, while the net profit of the Group for the six months ended 30 June 2014 was RMB10.3 million which was significantly lower than the corresponding period in 2013.

On 25 March 2014, the Group has received a quality assurance confirmation from Fujian Food and Drug Administration (福建省食品藥品監督管理局) confirming that “*Labixiaoxin*” products are in compliance with the relevant food quality standards in the PRC. The Group’s Special Review Committee, comprising all the independent non-executive directors of the Company, also conducted independent special review on the Group’s product quality, based on the findings under the product quality legal due diligence conducted by Jingtian & Gongcheng Law Firm. As at the date of this announcement, the Group’s products are back on shelves and available in the retail channels and are accessible by the consumers.

SALES

Sales had decreased by 37.0% to RMB614.6 million in the first half of 2014. Though the sales dropped during the first half of 2014, the expansion of the distribution network never stopped. As at 30 June 2014, the Group had a total number of 417 wholesale distributors and key account agents, the sales generated from the new distributors, net of terminated distributors, represented 5.7% of the total domestic sales in the first half of 2014. Sales via key account agents was RMB87.9 million or 14.7% of total domestic sales and sales via wholesale distributors was RMB511.2 million or 85.3% of total domestic sales.

Jelly products

Sales of jelly products had decreased by 41.8% from RMB758.1 million in the first half of 2013 to RMB441.1 million in the first half of 2014. Such decrease was primarily due to sales return, additional one-off sales discounts given to the distributors during the period and weak consumer demand on jelly products after the Toxic Gelatin Incidence. Sales attributable to jelly snacks and jelly beverages products decreased by 43.3% to RMB258.6 million and 39.6% to RMB182.5 million respectively.

Confectionary products

Sales of confectionary products decreased by 19.9% to RMB67.2 million in the first half of 2014 mainly due to sales return during the period and weak consumer demand as a result of since the Toxic Gelatin Incidence.

Beverage products

Sales of beverage products soared by 258.2% to RMB33.9 million in the first half of 2014, representing 5.5% of the total sales of the Group. Despite the impact of the Toxic Gelatin Incidence on the Group's products under the brandname "Labixiaoxin", the "Xiaoxin Ru Guo" flavored milk remained encouraging and the Group has launched chocolate flavor of 125ml tetra-pack and well received by the market during the period.

Other snacks products

Sales of other snacks products decreased by 41.6% to RMB72.4 million which was mainly due to weak consumer demand on traditional snacks products after the Toxic Gelatin Incidence.

COST OF SALES AND GROSS PROFIT

Cost of sales decreased by 26.2% to RMB419.6 million in the first half of 2014 which was consistent with the sales volume. Gross profit decreased by 52.0% to RMB195.1 million in the first half of 2014 which was mainly due to sales returned and one-off sales discount given to the distributors during the period. Costs of most of the major raw materials were fairly stable as compared with the same period in last year.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 16.9% to RMB138.9 million in the first half of 2014 despite of the decrease in sales. This was primarily due to increased advertising and promotion expenses by 22.9% to RMB111.5 million during the period. The general market demand on the Group's products was weak since the Toxic Gelatin Incidence, the Group, as with other market peers, was facing similar challenges. Nonetheless, the Group considered the Toxic Gelatin Incidence an opportunity to expand its market shares and continuously enhanced the media exposure and arranged more on-site promotion under such difficult environment with a view to delivering a positive message to the consumers and attracting more attention in the market.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 19.9% to RMB40.2 million in the first half of 2014 which was mainly due to new operating expenses in the production plant at Anhui Province, the PRC.

INCOME TAX EXPENSE

The Group's income tax expense decreased by 89.3% to RMB7.5 million, which was mainly due to dropped in taxable profits of the Group as a result of sales return and weak market demand on the Group's products since the Toxic Gelatin Incidence. The effective tax rate increased to 42.2% mainly because the Group has higher proportion from offshore expenses which were not tax deductible.

NET PROFIT

The net profit of the Group was RMB10.3 million for the first half of 2014, which was significantly lowered than the same period in 2013. This was mainly due to impact of the Toxic Gelatin Incidence, which had affected the Group's sales and gross profit significantly. The Group, on the other hand, continuously increased its advertising and promotional expenses to expand its market share under this extraordinary situation. Consequently, the Group's short term financial performance was affected.

FINANCIAL REVIEW

Financial resources and liquidity

The Group mainly finances its operations and capital expenditure by cash and cash equivalents, internal generated cash flows and bank borrowings.

As at 30 June 2014, the bank balances and pledged bank deposits amounted to RMB608.2 million. The Group has recorded a cash outflow from operation in the amount of RMB38.4 million, which was mainly due to the Toxic Gelatin Incidence. Moreover, the Group has incurred capital expenditures of RMB158.1 million in the first half of 2014. However, despite the extraordinary market conditions subsequent to the Toxic Gelatin Incidence, the Group maintained a net cash position of RMB153.2 million as at 30 June 2014.

The Directors believe that the Group has 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 outflow from operating activities of RMB38.4 million in the first half of 2014 mainly due to cash paid for corporate income tax of RMB40.2 million in the first half of 2014 (2013: RMB60.1 million). The Group has also engaged in investing activities of RMB150.1 million in the first half of 2014 mainly for the expansion of production lines for the beverage products. In addition, the Group has net cash outflow from financing activities of RMB75.2 million in the first half of 2014 mainly due to increase in pledged bank deposits during the period. Approximately RMB70 million of the pledged bank was used in the early repayment of the Group's US\$75 million term loan in July 2014.

Capital expenditure

In first half of 2014, the Group has expended RMB158.1 million in capital expenditure mainly for the expansion of production lines for the beverage products in production plant at Anhui Province, the PRC. The new production lines were mainly for tetra-pack beverage products and shall commence test running in the fourth quarter of this year.

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 30 June 2014, the balance decreased by RMB21.7 million from the beginning of the year mainly due to the Toxic Gelatin Incidence. The inventories turnover days for the first half of 2014 and 2013 were 36 days and 21 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesales distributors and key account agent. The Group typically sells its products on credit and grants a 30-day credit period to most of its wholesale distributors and a 90-day credit period to its key account agents. Such balance decreased by RMB46.7 million from the beginning of the year mainly due to seasonal factor and the Toxic Gelatin Incidence. The Group has offered a slightly longer credit period to some of the distributors after the Toxic Gelatin Incidence as a gesture to support them during the difficult moment. The amounts overdue as at 30 June 2014 was RMB31.9 million. The trade receivable turnover days for the first half of 2014 and 2013 were 68 days and 44 days, respectively.

Trade payables

Trade payables mainly represent the balance due to the Group's suppliers who generally grant credit terms ranging from 30 days to 60 days to the Group. The Group also settled some of the procurement by bank bills which typically have 180 settlement days, at cost of bank charges and pledged deposits to the banks. Trade payables turnover days for the first half of 2014 and 2013 were 58 days and 53 days, respectively.

Charges on assets

As at 30 June 2014, the Group had the following charges assets:

- (i) pledged bank deposits of RMB79.7 million (31 December 2013: RMB16.2 million);
- (ii) land and building with net asset value of RMB9.3 million was pledged as security for mortgage loan (31 December 2013: RMB9.5 million); and
- (iii) shares of certain wholly-owned subsidiaries of the Group.

Contingent liabilities

As at 30 June 2014, the Group had no contingent liabilities (31 December 2013: Nil).

Disclosure pursuant to Rule 13.18 of the Listing Rules

On 25 February 2013, the Company as borrower entered into a facility agreement (the “**Facility Agreement**”) with certain banking institutes as original lenders in relation to a US\$75,000,000 term loan facility (the “**Facility**”). In July, the Company had transmitted US\$37.5 million to the facility agent to the Facility Agreement, representing 50% of the total amount outstanding under the Facility, for the purpose of early repayment of the Facility. The remaining balance of the outstanding Facility would be repayable in full on 25 February 2015.

The Facility Agreement includes a condition imposing specific performance obligations on Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong, the controlling shareholders of the Company (the “**Controlling Shareholders**”) who are collectively interested in approximately 64.10% of the issued share capital of the Company as of the date of the Facility Agreement. It will be a change of control in the event that (i) the Controlling Shareholders collectively do not or cease to, at any time directly or indirectly own at least 35% of the issued share capital of the Company on a fully diluted basis; or (ii) the Controlling Shareholders collectively do not or cease to, at any time directly or indirectly, have the ability to direct the affairs of the Company.

If a change of control occurs, the facility agent to the Facility Agreement may cancel all the available Facility and declare all or part of the outstanding loan, together with all accrued interests, breaks costs (if any) and all other amounts accrued pursuant to the Facility Agreement then due and payable, whereupon the Facility Agreement will be cancelled and all such outstanding amounts will be immediately due and payable.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2014, the Group had approximately 2,700 employees and total remuneration expenses for the first half of 2014 amounted to RMB52.8 million including amortisation cost of share option of RMB961,000. 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.

On 30 March 2012, the Group has granted 15,000,000 share options to certain employees of the Group with an exercisable period from 31 March 2012 to 30 March 2017 at an exercise price of HK\$2.68 per share. There are three vesting periods for these share options. As at 30 June 2014, 7,000,000 share options were vested and were fully exercised.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition and disposal of subsidiaries and associated companies during the six months ended 30 June 2014.

CHANGE OF AUDITORS

On 12 May 2014, PricewaterhouseCoopers (“**PwC**”) has resigned as auditors of the Group. The Board has appointed HLB Hodgson Impey Cheng Limited, as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

PROSPECTS

The Toxic Gelatin Incidence had directly affected the Group’s brand image and consumer sentiment on jelly, candies and certain traditional snacks in the community. Although, the relevant government authority in the PRC had confirmed that “*Labixiaoxin*” products had complied with the necessary food safety standards in the PRC, the Group’s sales has been affected. While the Group was not the only victim of the Toxic Gelatin Incidence, which had affected the entire industry and the Group’s market competitors are also facing similar challenges. It is contemplated that the extraordinary market situation will lead to a market consolidation. The Group considers the extraordinary market situation an opportunity to expedite its market share expansion and an opportunity not-to-be missed. Therefore, the Group is proactively increasing its media exposure and collaborating with distributors and retailers to arrange more on-site promotional activities. The Group is also upgrading its product series to offer a better choice to the consumers. Although this would result in short term pressure on the Group’s financial performance, the Directors consider the expansion beneficial to the long term development of the Group’s business. The Group is cautiously optimistic to the medium to long term of the business.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company’s securities during the period under review. Subsequent to the period ended 30 June 2014, the Company repurchased 3,623,000 shares of the Company on the Stock Exchange at prices between HK\$1.55 and HK\$1.89 per share. The repurchased shares were not yet cancelled as of the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) was established in compliance with Rules 3.21 and 3.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with written terms of reference in compliance with the Code Provision on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Chung Yau Tong (chairman), Mr. Li Zhi Hai and Ms. Sun Kam Ching.

The Audit Committee has conducted a review with the Company's management and the Group's auditor on the accounting principles and practices adopted by the Group. The Audit Committee and the Group's auditor have also reviewed the interim results of the Group for the six months ended 30 June 2014.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high standard of corporate governance. For the six months ended 30 June 2014, the Board is of the view that the Company has complied with the code provisions on the Code on Corporate Governance Practices (the "**CG Code**") set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions set forth therein the CG Code.

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 enquiries with all directors of the Company and all the directors of the Company 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 six months ended 30 June 2014.

PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.lbxxgroup.com>). The interim report of the Company for the six months ended 30 June 2014 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the aforesaid websites in due course.

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

Hong Kong, 18 August 2014

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 of the Company, Li Hung Kong as non-executive directors of the Company and Li Zhi Hai, Sun Kam Ching and Chung Yau Tong as independent non-executive directors of the Company.

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.