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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 2016

FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2016	2015	+ / (-)
	RMB' million	RMB' million	%
Key income statement items			
Revenue	415.0	570.9	-27.3%
Gross Profit	102.4	169.7	-39.7%
(LBITDA)/EBITDA ⁽¹⁾	(36.2)	90.5	N/A
(Loss)/profit for the period	(178.2)	13.9	N/A
Key performance indicators			
Gross profit margin	24.7%	29.7%	-5.0%pts
(LBITDA)/EBITDA margin	-8.7%	15.9%	-24.6%pts
Net (loss)/profit margin	-42.9%	2.4%	-45.3%pts
Return on equity (LTM) ⁽²⁾	-29.4%	0.8%	-30.2%pts
(Loss)/earnings per share			
– Basic	RMB(0.134)	RMB0.012	N/A
– Diluted	RMB(0.134)	RMB0.012	N/A

Notes:

- (LBITDA)/EBITDA refers to (loss)/earnings before interests, income tax, depreciation, amortization, impairment on loan receivable and non-cash share-based payments.
- Return on equity is calculated using (loss)/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 2016, together with comparative figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Revenue	4	415,034	570,940
Cost of sales		(312,590)	(401,200)
Gross profit		102,444	169,740
Other income	5	6,960	5,753
Other losses, net	6	(107)	(1,830)
Selling and distribution expenses		(115,213)	(89,667)
Administrative expenses		(92,059)	(53,347)
Impairment on loan receivable	13	(91,600)	—
Operating (loss)/profit		(189,575)	30,649
Finance incomes		6,092	2,670
Finance costs		(6,931)	(5,839)
Finance costs, net	7	(839)	(3,169)
(Loss)/profit before taxation	8	(190,414)	27,480
Taxation	9	12,236	(13,582)
(Loss)/profit and total comprehensive (loss)/income for the period		(178,178)	13,898
(Loss)/earnings per share attributable to equity holders of the Company (RMB per share)	10		
– Basic		(0.134)	0.012
– Diluted		(0.134)	0.012

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	<i>Note</i>	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Land use rights		139,305	140,974
Property, plant and equipment		1,189,498	1,217,995
Deposits for property, plant and equipment		191,089	95,400
Deferred income tax assets		70,287	55,841
		1,590,179	1,510,210
Current assets			
Inventories		95,509	97,439
Trade receivables	12	256,764	194,082
Prepayments and other receivables		98,635	75,270
Loan receivable	13	128,400	220,000
Cash and cash equivalents		44,597	144,371
		623,905	731,162
Total assets		2,214,084	2,241,372
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		470,030	405,030
Share premium		615,656	563,056
Other reserves		94,308	93,266
Retained earnings		376,748	554,926
Total equity		1,556,742	1,616,278
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		31,543	31,429
Current liabilities			
Trade and other payables	14	178,607	313,352
Borrowings	15	446,679	276,018
Current income tax liabilities		513	4,295
		625,799	593,665
Total liabilities		657,342	625,094
Total equity and liabilities		2,214,084	2,241,372
Net current (liabilities)/assets		(1,894)	137,497
Total assets less current liabilities		1,588,285	1,647,707

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 manufacturing and sale 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 condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), unless otherwise stated. The 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 2016 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 2015, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

This interim financial report has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group as at 30 June 2016 amounting to RMB1,894,000. The directors are of the opinion that, based on a review of the forecasted cash flows, the unutilised banking facilities and the unutilised credit lines with banks as at 30 June 2016, the Group will have necessary liquid funds to finance its working capital and capital expenditure.

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 2015.

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 2015, except as mentioned below:

IAS 1 (Amendments)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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 2015.

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 2016, none of the individual customer account for 10% or more of the Group's external revenue (2015: none). As at 30 June 2016 and 31 December 2015, majority of the Group's assets, liabilities and capital expenditure are located and utilised in the PRC.

	Unaudited Six months ended 30 June 2016				
	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	294,794	48,380	40,438	31,422	415,034
Cost of sales	(217,543)	(37,595)	(32,134)	(25,318)	(312,590)
Gross profit	77,251	10,785	8,304	6,104	102,444
Results of reportable segments	(4,870)	(2,518)	(2,845)	(2,536)	(12,769)

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

	Unaudited Six months ended 30 June 2016				Reportable segments total
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	RMB'000
Results of reportable segments					(12,769)
Corporate income					6,960
Corporate expenses					(183,766)
Operating loss					(189,575)
Finance income					6,092
Finance costs					(6,931)
Loss before taxation					(190,414)
Taxation					12,236
Loss for the period					(178,178)
Amortisation of land use rights	<u>1,201</u>	<u>–</u>	<u>468</u>	<u>–</u>	<u>1,669</u>
Depreciation of property, plant and equipment	<u>45,266</u>	<u>–</u>	<u>12,385</u>	<u>1,444</u>	<u>59,095</u>
Loss on disposal of property, plant and equipment	<u>28</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>28</u>

	Unaudited Six months ended 30 June 2015				Reportable segments total
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	RMB'000
Revenue					
Sales to external customers	442,771	47,118	46,028	35,023	570,940
Cost of sales	(282,361)	(31,197)	(57,044)	(30,598)	(401,200)
Gross profit/(loss)	<u>160,410</u>	<u>15,921</u>	<u>(11,016)</u>	<u>4,425</u>	<u>169,740</u>
Results of reportable segments	<u>95,043</u>	<u>14,845</u>	<u>(30,833)</u>	<u>1,018</u>	<u>80,073</u>

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

	Unaudited Six months ended 30 June 2015				Reportable segments total
	Jelly products <i>RMB'000</i>	Confectionary products <i>RMB'000</i>	Beverages products <i>RMB'000</i>	Other snacks products <i>RMB'000</i>	<i>RMB'000</i>
Results of reportable segments					80,073
Corporate income					6,268
Corporate expenses					(55,692)
Operating profit					30,649
Finance income					2,670
Finance costs					(5,839)
Profit before taxation					27,480
Taxation					(13,582)
Profit for the period					<u>13,898</u>
Amortisation of land use rights	<u>1,187</u>	<u>–</u>	<u>469</u>	<u>–</u>	<u>1,656</u>
Depreciation of property, plant and equipment	<u>35,777</u>	<u>–</u>	<u>19,952</u>	<u>1,543</u>	<u>57,272</u>
Loss on disposal of property, plant and equipment	<u>2,272</u>	<u>–</u>	<u>–</u>	<u>73</u>	<u>2,345</u>

5 OTHER INCOME

	Unaudited Six months ended 30 June	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Rental income	5,126	4,254
Gain on sale of scrap materials	1,834	1,499
	<u>6,960</u>	<u>5,753</u>

6 OTHER LOSSES, NET

	Unaudited Six months ended 30 June	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Loss on disposal of property, plant and equipment	(28)	(2,345)
Net exchange (losses)/gains	(79)	515
	<u>(107)</u>	<u>(1,830)</u>

7 FINANCE COSTS, NET

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance costs:		
Interest expenses on bank borrowings		
– wholly repayable within five years	(6,931)	(5,839)
Total finance costs	(6,931)	(5,839)
Finance incomes:		
Interest income on bank deposits	562	2,170
Interest income on loan receivable	5,530	500
Total finance incomes	6,092	2,670
Finance costs, net	(839)	(3,169)

8 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging the following:

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Cost of inventory sold	273,385	312,529
Advertising and promotion expenses	84,333	58,107
Freight and transportation expenses	2,354	3,576
Staff cost (including directors' remunerations)		
– Salaries and bonuses	55,351	56,286
– Employer's contribution to defined contribution plans	6,199	4,970
– Employee share based payment	1,042	961
Depreciation of property, plant and equipment	59,095	57,272
Amortisation of land use rights	1,669	1,656
Impairment on loan receivable (Note 13)	91,600	–

9 TAXATION

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax – PRC	2,096	18,569
Deferred income tax	(14,332)	(4,987)
Income tax (credited)/charged to profit or loss	(12,236)	13,582

During the six months ended 30 June 2016, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2015: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2015: 25%) on their taxable profit during the period.

10 (LOSS)/EARNINGS PER SHARE

The calculations of the basic and diluted (loss)/earnings per share attributable to the equity holders of the Company are as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
Net (loss)/profit attributable to the equity holders of Company (RMB'000)	(178,178)	13,898
Weighted average number of ordinary shares outstanding for basic and diluted (loss)/earnings per share ('000)	1,325,662	1,128,977
Basic and diluted (loss)/earnings per share (RMB per share)	(0.134)	0.012

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

Diluted (loss)/earnings per share for the six months ended 30 June 2016 and 2015 is the same as the basic earnings per share as the potential ordinary shares in respect of the Company's outstanding share options are anti-dilutive for the six months ended 30 June 2016 and 2015.

11 DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

12 TRADE RECEIVABLES

The Group's revenue are generally on credit term ranging from 30 to 90 days. As at 30 June 2016, the ageing analysis of trade receivables, based on invoice date, is as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Less than 30 days	94,586	70,527
31 days – 90 days	154,389	115,978
Over 90 days	7,789	7,577
	256,764	194,082

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 2016, trade receivables of RMB7,789,000 (31 December 2015: RMB7,577,000) were past due but not impaired. These were related to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Past due by less than 3 months but not impaired	<u>7,789</u>	<u>7,577</u>

During the six months ended 30 June 2016, no trade receivables were impaired (2015: Nil). As at 30 June 2016 and 31 December 2015, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

13 LOAN RECEIVABLE

On 19 June 2015, a wholly-owned subsidiary of the Group (“**Lender**”) entered into an entrusted loan agreement with a PRC bank, as the lending agent, and an independent third party (“**Borrower**”), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (“**Entrusted Loan**”) to the Borrower. The Entrusted Loan is secured by (i) a personal guarantee of RMB250,000,000 provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228,783,000 given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30,310,000, as security to the obligations of the Borrower under the Entrusted Loan agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

As of 30 June 2016, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2015: RMB220,000,000) of the Entrusted Loan with interests accrued in the amount of approximately RMB1,100,000 for the period from 19 May 2016 to 18 June 2016 (“**Outstanding Amounts**”). The Entrusted Loan matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of this announcement, the Borrower has not repaid the Outstanding Amounts.

The Lender has decided to enforce the securities provided by the Borrower under the Entrusted Loan Agreement and is currently seeking legal advice in respect of the aforesaid enforcement action. As at the date of this announcement, no formal enforcement action has been initiated.

Based on the best estimate taking into account all the relevant information currently available to the Company, the Company anticipates that the recoverable amount for the Entrusted Loan would be approximately RMB128,400,000, and an impairment of approximately RMB91,600,000 has been provided in the consolidated interim financial information of the Group for the six months ended 30 June 2016.

14 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Trade payables	93,824	96,900
Receipt in advance (<i>note</i>)	–	115,248
Accrued sales rebates	8,484	18,843
Other accrued expenses	12,232	12,152
Directors’ fees and emoluments payable	5,087	5,928
Other payables and sundry creditors	<u>58,980</u>	<u>64,281</u>
	<u>178,607</u>	<u>313,352</u>

Note:

Pursuant to a placing agreement signed by the Company and Guoyuan Capital (Hong Kong) Limited, as the placing agent, on 22 December 2015, the Company placed an aggregate of 200,000,000 new shares of the Company through the placing agent to not fewer than six placees at HK\$0.70 per share (the “Placing”). The net proceeds from the Placing of RMB115,248,000 was received by the Company on 30 December 2015 and the issuance of new shares to the placees was completed on 4 January 2016 (“Completion Date”). The amount of receipt in advance as at 31 December 2015 was credited to the Company’s share premium account on the Completion Date.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2016, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Less than 30 days	81,388	82,220
31 days – 90 days	11,853	14,217
Over 90 days	583	463
	93,824	96,900

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

15 BORROWINGS

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Secured bank borrowings	237,070	33,822
Unsecured bank borrowings	209,609	242,196
Total bank borrowings	446,679	276,018
Carrying amount of bank borrowings wholly repayable:		
On demand or within one year	446,679	276,018
Less: amounts show under current liabilities	(446,679)	(276,018)
Amount classified as non-current liabilities	–	–

As at 30 June 2016, the bank borrowing of HKD4,250,000 (equivalent to approximately RMB3,570,000) was secured by the land and buildings of approximately RMB8,235,000 and charged at a floating interest rate of HIBOR + 2.25% which was re-pricing every month (As at 31 December 2015: the bank borrowing of RMB3,822,000 was secured by the land and buildings of RMB8,491,000). The maturity date of the mortgage loan is in July 2023.

As at 30 June 2016, the short-term secured bank loans of approximately RMB170,500,000 (As at 31 December 2015: RMB30,000,000) were secured by corporate guarantee by inter-group companies, repayable within 12 months and charged at fixed interest rates of 4.35% to 5.98% per annum (As at 31 December 2015: at a fixed interest rate of 5.98% per annum).

As at 30 June 2016, the short-term secured bank loans of approximately RMB38,000,000 (As at 31 December 2015: Nil) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Li Hung Kong, directors of the Company, repayable within 12 months and charged at fixed interest rates of 5.22% per annum.

As at 30 June 2016, a short-term secured bank loan of approximately RMB25,000,000 (As at 31 December 2015: Nil) was secured by corporate guarantee by an inter-group company and land and buildings of approximately RMB131,385,000, repayable within 12 months and charged at fixed interest rates of 5.57% per annum.

On 9 March 2015, the Company entered into a loan agreement with a bank in relation to a US\$50,000,000 (equivalent to approximately RMB310,000,000) loan facility (the “**Loan**”). As at 31 December 2015, the Company has drawn up an aggregate amount of equivalent to approximately RMB197,196,000. The Loan was unsecured, repayable within 12 months and charged at floating interest rate of LIBOR + 1.7% which was re-pricing every 3 months. The Loan was fully settled in 2016.

On 11 March 2016, the Company entered into a new loan agreement with a bank in relation to a US\$17,000,000 (equivalent to approximately RMB119,609,000) loan facility (the “**New Loan**”). As at 30 June 2016, the Company has drawn up an aggregate amount of equivalent to approximately RMB119,609,000. The New Loan was unsecured, repayable within 12 months and charged at floating interest rate of LIBOR + 1.0% which was re-pricing every 3 months.

As at 30 June 2016, short-term unsecured bank loans of RMB90,000,000 (As at 31 December 2015: RMB45,000,000) were repayable within 12 months and charged at fixed interest rate of 5.00% to 6.06% per annum (At 31 December 2015: at fixed interest rate of 6.06% per annum).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2016, the Group has reported revenue of RMB415.0 million, representing a decrease of approximately 27.3% as compared with the corresponding period of last year. Due to poor consumers sentiment and overall economic slowdown in the PRC as well as the negative impacts brought by the Toxic Gelatin Incidence happened in mid-March 2014.

With the consumers sentiment in the PRC remaining weak and the overall PRC economy being slowed down since 2014, there has been a continual weakening of the market demand for the Group’s snack products. The weak sales performance in most categories of the Group’s products, in particular the core jelly products, has inevitably slashed the Group’s profit margins. In addition, the Group’s business has also been affected by the news reported by certain media in the PRC in mid-March 2014, including CCTV, in relation to the alleged contamination of gummy candy of “Labixiaoxin” and other brands by toxic gelatin used in the production process (the “**Toxic Gelatin Incidence**”). While the Fujian Food and Drug Administration (福建省食品藥品監督管理局) had promptly confirmed that “Labixiaoxin” products are in compliance with the relevant food quality standards, the Toxic Gelatin Incidence remains casting adverse impacts on the Group’s sales performance during the six months ended 30 June 2016. The Group’s gross profit for the six months ended 30 June 2016 fell by approximately 39.6% from a year back. For the six months ended 30 June 2016, the Group recorded a net loss of RMB178.2 million as compared with a net profit of RMB13.9 million in the same period last year.

Revenue

Revenue decreased by approximately 27.3% to RMB415.0 million in the first half of 2016 when compared with the same period in 2015. During the period under review, the Group has exerted immense efforts in marketing and promotion with a view to maintaining its distribution network. As at 30 June 2016, the Group had a total number of 434 distributors (As at 30 June 2015: 435).

Jelly products

Sales of jelly products decreased by approximately 33.4% from RMB442.8 million in the first half of 2015 to RMB294.8 million in the first half of 2016, primarily due to the weak consumption sentiments in the PRC as well as the negative impacts brought by the Toxic Gelatin Incidence. During the period under review, the news relating to the Toxic Gelatin Incidence were being posted in certain PRC internet social media again. As a result, there was approximately RMB76.4 million sales return from the Group's distributors during the period under review and the majority of which are jelly products. Although the Group subsequently proved that the returned goods were free of quality issues and was able to re-sell some of the returned goods through other channels, the Group was still required to write-off approximately RMB23.9 million. Due to the aforesaid reasons, revenue attributable to jelly snacks decreased by approximately 41.4% to RMB169.4 million while revenue attributable to jelly beverages decreased by approximately 18.6% to RMB125.4 million.

Confectionary products

Confectionary products is the only category of products which recorded a growth in revenue during the six months ended 30 June 2016. Sales of confectionary products increased by approximately 2.7% from RMB47.1 million in the first half of 2015 to RMB48.4 million in the first half of 2016. The increase was mainly due to the fact that the confectionary products are mainly cater for overseas market which is less affected by the weak consumers sentiment in the PRC as well as the negative impacts brought by the Toxic Gelatin Incidence.

Beverages products

Sales of beverages products decreased by approximately 12.1% to RMB40.4 million in the first half of 2016, representing 9.7% of total revenue of the Group. Although there is a slight decrease in sales of beverages products during the period, the gross loss margin of the segment has improved significantly from 23.9% in the first half of 2015 to gross profit margin of 20.5% in the period under review. Improvement in gross profit margin was mainly due to the Group's effort made in last year to adjust the product mix of the beverages segment which begin to materialize.

Other snacks products

Sales of other snacks products dropped by approximately 10.3% to RMB31.4 million, mainly due to weakened market demand on traditional snack products as a result of poor consumers sentiment and overall economic slowdown in the PRC.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 22.1% to RMB312.6 million in the first half of 2016. The decrease was mainly attributable to the corresponding decrease in revenue. Gross profit dropped by approximately 39.6% to RMB102.4 million in the first half of 2016, mainly due to the sales return from distributors during the period under review as a result of certain of the returned goods being resold at deep discounts. Costs of most of the major raw materials of the Group's products were fairly stable as compared with the same period in last year.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 28.5% to RMB115.2 million in the first half of 2016 primarily due to more advertising and promotion expenses being spent in order to enhance consumption sentiment and further promote the Group's brand image. Advertising and promotion expenses increased by approximately 45.1% to RMB84.3 million during the period under review.

Administrative Expenses

Administrative expenses increased by approximately 72.6% to RMB92.1 million in the first half of 2016, mainly due to the one-off inventories write-off of RMB33.9 million. During the period under review, there is a write-off of inventories of approximately RMB23.9 million as a result of certain goods of the Group being returned by distributors and approximately RMB10.0 million due to change in food additives disclosure requirements in the PRC.

Taxation

During the six months ended 30 June 2016, the Group did not have any assessable income in Bermuda, BVI and Hong Kong. The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the period. The credit balance of income tax expense during the period under review was mainly due to the deferred tax assets recognized for the tax losses of the PRC subsidiaries.

Net (Loss)/Profit for the Period

Net loss for the period was RMB178.2 million as compared to the net profit of RMB13.9 million for the six months ended 30 June 2015. Such significant decrease was primarily attributable to (i) continual weakening of the market demand on traditional snack products of the Group affected by poor consumers sentiment and overall economic slowdown in the PRC and the negative impacts of the Toxic Gelatin Incidence; (ii) increase in marketing and promotional expenses by 45.1% as compared to the six months ended 30 June 2015 in order to enhance consumption sentiment and further promote the Group's brand image; (iii) write-off of raw materials and finished goods of approximately RMB33.9 million as a result of certain goods of the Group being returned by customers and change in food additives disclosure requirements in the PRC; and (iv) impairment on loan receivable of RMB91.6 million.

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 30 June 2016, the cash and bank balances amounted to RMB44.6 million which is RMB99.8 million lower than the balance as at 31 December 2015. The decrease in cash and bank balances was mainly due to (i) the Group has incurred capital expenditures of RMB126.3 million in the first half of 2016 and (ii) the operating loss for the period of RMB189.6 million, which are offset by the new bank borrowings secured during the period of RMB170.7 million.

As at 30 June 2016, the Group's gearing ratio (total borrowings divided by total equity) was 28.7% (As at 31 December 2015: 17.1%). The Group maintains 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 RMB143.3 million in the first half of 2016 (2015: inflow of RMB43.1 million) which is significantly worse than the same period in last year. The significant cash outflow for the period under review was mainly due to the operating loss for the period of RMB189.6 million. The Group has spent RMB120.2 million in investing activities in the first half of 2016 mainly for the upgrade of production lines of the production plants. The Group has net cash inflow from financing activities of RMB163.7 million in the first half of 2016 mainly due to new bank borrowings secured during the period.

Capital expenditure

During the six months ended 30 June 2016, the Group incurred RMB126.3 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 30 June 2016, balance decreased by RMB1.9 million from the beginning of the year. The inventories turnover days for the first half of 2016 and 2015 were 48 days and 28 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grant 30 to 90 days credit to most of the wholesale distributors. Balance increased by RMB62.7 million from the beginning of the year mainly due to slight delay in settlement by certain wholesale distributors. The trade receivable turnover days for the first half of 2016 and 2015 were 93 days and 50 days, respectively. Subsequent to the period end and up to the date of this announcement, approximately RMB193.1 million of the trade receivables were settled by the wholesale distributors.

Entrusted loan receivable

On 19 June 2015, a wholly-owned subsidiary of the Group (“**Lender**”) entered into an entrusted loan agreement with a PRC bank, as the lending agent, and an independent PRC third party entity (“**Borrower**”), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250 million (“**Entrusted Loan**”) to the Borrower. The purpose of granting the Entrusted Loan by the Group was to better utilize the surplus cash of the Group under a short-term arrangement to generate higher interest income.

The Entrusted Loan is secured by (i) a personal guarantee of RMB250 million provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228.8 million given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30.3 million, as security to the obligations of the Borrower under the Entrusted Loan agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

As of 30 June 2016, the Borrower has drawn up an aggregate amount of RMB220 million (31 December 2015: RMB220 million) of the Entrusted Loan with interests accrued in the amount of approximately RMB1.1 million for the period from 19 May 2016 to 18 June 2016 (“**Outstanding Amounts**”). The Entrusted Loan matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of this announcement, the Borrower has not repaid the Outstanding Amounts.

The Lender has decided to enforce the securities provided by the Borrower under the Entrusted Loan Agreement and is currently seeking legal advice in respect of the aforesaid enforcement action. As at the date of this announcement, no formal enforcement action has been initiated.

Based on the best estimate taking into account all the relevant information currently available to the Company, the Company anticipates that the recoverable amount for the Entrusted Loan would be approximately RMB128.4 million, and a provision for impairment of approximately RMB91.6 million has been made in the consolidated interim financial information of the Group for the six months ended 30 June 2016.

For further details, please refer to the announcements of the Company dated 9 August 2016 and 18 August 2016.

Trade payables

Trade payables mainly represent the balances due to the Group’s suppliers who generally grant credit terms ranging from 30 days and 60 days to the Group. Trade payables turnover days for the first half of 2016 and 2015 were 75 days and 52 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 six months ended 30 June 2016, 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.

Charges on assets

As at 30 June 2016, land and building of the Group in Hong Kong with net book value of RMB8.2 million was pledged as security for mortgage loan (31 December 2015: RMB8.5 million).

As at 30 June 2016, land and buildings of the Group in the PRC with net book value of RMB131.4 million was pledged as security for a short-term bank loan.

Contingent liabilities

As at 30 June 2016, the Group had no contingent liabilities (31 December 2015: Nil).

Issue of new shares & use of proceeds

Pursuant to a placing agreement (the “**Placing Agreement**”) entered into by the Company and Guoyuan Capital (Hong Kong) Limited as the placing agent, on 22 December 2015, the Company placed an aggregate of 200,000,000 new shares of the Company through the placing agent to not fewer than six placees at HK\$0.70 per share (the “**Placing**”). The net proceeds of RMB115,248,000 was received by the Company on 30 December 2015 and the issuance of new shares to the placees was completed on 4 January 2016.

The placing shares placed under the Placing represent (i) approximately 17.7% of the existing issued share capital of the Company as at the date of the Placing Agreement, and (ii) approximately 15.0% of the issued share capital of the Company as enlarged by the issue of the placing shares. The placing shares under the Placing have a market value of HK\$158.0 million. The placing price of HK\$0.70 per placing share represents: (i) a discount of approximately 11.4% to the closing price of HK\$0.79 per Share as quoted on the Stock Exchange as at the date of the Placing Agreement; (ii) discount of approximately 10.9% to the average closing price of HK\$0.786 per Share as quoted on the Stock Exchange for the last five trading days up to and including 21 December 2015, the last trading day immediately preceding the date of the Placing Agreement; and (iii) a discount of approximately 11.2% to the average closing price of HK\$0.788 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 21 December 2015, the last trading day immediately preceding the date of the Placing Agreement. The net proceeds of the Placing (after deducting all applicable costs and expenses of the Placing) was approximately RMB115.2 million. As stated in the announcement of the Company dated 22 December 2015. The Company intended to use the net proceeds raised from the placement on the Group’s business development and as general working capital of the Group.

As at 30 June 2016, the amount of net proceeds from the placement utilized for marketing and promotion and general working capital purposes of the Group are approximately RMB70.6 million and RMB24.6 million, respectively. The unutilized portion of the net proceeds from the Placing of approximately RMB20.0 million is held in cash and cash equivalents and intended that it will be applied in the manner consistent with the proposed allocations.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2016, the Group had approximately 2,290 employees and total remuneration expenses for the first half of 2016 amounted to RMB62.6 million including amortisation cost of share option of RMB1.0 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.

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 2016.

PROSPECT

During the period under review, the market demand on the Group's products has remained weak due to poor consumers sentiment and overall economic slowdown in the PRC. In addition, the Toxic Gelatin Incidence continued to cast negative impact on the Group's business in the first half of 2016 as it directly affected the Group's brand image and consumer sentiment on jelly, candies and certain traditional snacks in the community. As a result of the overall economic slowdown in the PRC and the negative impact of the Toxic Gelatin Incidence, the Group expects the snacks food industry of the PRC will undergo a market consolidation. While the Group considers the current market situation presented an opportunity for market share expansion, it is expected that the operating environment of the snack food industry will remain challenging in the medium term. Under this challenging market environment, the Group will remain proactive in marketing its brand image and products e.g. launching advertisement in different media channels, sponsoring popular TV programs, participating in various food fairs and exhibitions, and collaborating with distributors and retailers for on-site promotion activities etc. Although these measures may not bring significant and immediate positive impacts to the Group's financial performance, the Company believes it is to the benefit of the Group's business in longer term. The Group believes that the PRC economy will regain its growth momentum in the medium term and snacks food industry will definitely be one of the major beneficiaries. Therefore, the Group is cautiously optimistic to the long term development of the Group's business.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the period under review.

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 reviewed with the Company's management and the Company's auditor the accounting principles and practices adopted by the Group. The Audit Committee and the Company's auditor have also reviewed the interim results of the Group for the six months ended 30 June 2016.

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 2016, 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 2016.

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 2016 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 Huan
Chairman

Hong Kong, 29 August 2016

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 and Ren Yunan 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.