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 2017

FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2017	2016	*+/(-)*
	RMB' million	*RMB' million*	
Key income statement items			
Revenue	**435.2**	415.0	+4.9%
Gross Profit	**100.9**	102.4	–1.5%
LBITDA [(1)]	**(11.9)**	(36.2)	–67.1%
Loss for the period	**(54.6)**	(178.2)	–69.4%
Key performance indicators			
Gross profit margin	**23.2%**	24.7%	–1.5%pts
LBITDA margin	**–2.7%**	–8.7%	+6.0%pts
Net loss margin	**–12.5%**	–42.9%	+30.4%pts
Return on equity (LTM)[(2)]	**–39.1%**	–29.4%	–9.7%pts
Loss per share			
– Basic	**RMB(0.041)**	RMB(0.134)	+RMB0.093
– Diluted	**RMB(0.041)**	RMB(0.134)	+RMB0.093

Notes:

1. LBITDA refers to loss before interests, income tax, depreciation, amortization, impairment on loan receivable and non-cash share-based payments.

2. Return on equity is calculated using profit/(loss) 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 2017, together with comparative figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Unaudited Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**435,175**	415,034
Cost of sales		**(334,290)**	(312,590)
Gross profit		**100,885**	102,444
Other income	*5*	**6,001**	6,960
Other gain/(losses), net	*6*	**1,608**	(107)
Selling and distribution expenses		**(112,128)**	(115,213)
Administrative expenses		**(48,501)**	(92,059)
Impairment on loan receivable	*13*	**–**	(91,600)
Operating loss		**(52,135)**	(189,575)
Finance income		**962**	6,092
Finance costs		**(21,455)**	(6,931)
Finance costs, net	*7*	**(20,493)**	(839)
Loss before taxation	*8*	**(72,628)**	(190,414)
Taxation	*9*	**18,002**	12,236
Loss and total comprehensive loss for the period		**(54,626)**	(178,178)
Loss per share attributable to equity holders of the Company *(RMB per share)*	*10*		
– Basic		**(0.041)**	(0.134)
– Diluted		**(0.041)**	(0.134)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**135,999**	137,658
Property, plant and equipment		**918,983**	929,636
Deposits for property, plant and equipment		**239,082**	202,895
Deferred income tax assets		**110,005**	92,003
		1,404,069	1,362,192
Current assets			
Inventories		**73,311**	74,165
Trade receivables	*12*	**257,114**	261,778
Prepayments and other receivables		**132,591**	128,564
Loan receivable	*13*	**128,500**	128,500
Pledged bank deposits	*14*	**49,260**	50,756
Cash and cash equivalents		**187,185**	227,303
		827,961	871,066
Total assets		**2,232,030**	2,233,258
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**470,030**	470,030
Share premium		**615,656**	615,656
Other reserves		**112,773**	111,664
Accumulated losses		**(112,305)**	(57,679)
Total equity		**1,086,154**	1,139,671

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**31,540**	31,540
Borrowings	*16*	**200,000**	200,000
		231,540	231,540
Current liabilities			
Trade and other payables	*15*	**364,011**	310,982
Borrowings	*16*	**550,325**	551,065
		914,336	862,047
Total liabilities		**1,145,876**	1,093,587
Total equity and liabilities		**2,232,030**	2,233,258
Net current (liabilities)/assets		**(86,375)**	9,019
Total assets less current liabilities		**1,317,694**	1,371,211

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, confectionery 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 statements for the six months ended 30 June 2017 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 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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 2017 amounting to RMB86,375,000. 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 2017, the Group will have necessary liquid funds to finance its working capital and capital expenditure.

The preparation of condensed consolidated interim financial statements 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 2016.

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 2016, except as mentioned below:

IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 (Amendments)	Disclosure of Interests in Other Entitles

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 2016.

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, confectionery 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. Confectionery 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 2017, none of the individual customer account for 10% or more of the Group's external revenue (2016: none). As at 30 June 2017 and 31 December 2016, majority of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

	Unaudited Six months ended 30 June 2017				
	Jelly products *RMB'000*	**Confectionery products** *RMB'000*	**Beverages products** *RMB'000*	**Other snacks products** *RMB'000*	**Reportable segments total** *RMB'000*
Revenue					
Sales to external customers	**328,771**	**67,537**	**16,818**	**22,049**	**435,175**
Cost of sales	**(242,984)**	**(58,352)**	**(14,972)**	**(17,982)**	**(334,290)**
Gross profit	**85,787**	**9,185**	**1,846**	**4,067**	**100,885**
Results of reportable segments	**1,289**	**(7,923)**	**(3,098)**	**(1,511)**	**(11,243)**

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

	Unaudited Six months ended 30 June 2017				
	Jelly products *RMB'000*	**Confectionery products** *RMB'000*	**Beverages products** *RMB'000*	**Other snacks products** *RMB'000*	**Reportable segments total** *RMB'000*
Results of reportable segments					**(11,243)**
Corporate income					**7,613**
Corporate expenses					**(48,505)**
Operating loss					**(52,135)**
Finance income					**962**
Finance costs					**(21,455)**
Loss before taxation					**(72,628)**
Taxation					**18,002**
Loss for the period					**(54,626)**
Amortisation of land use rights	**1,191**	**–**	**468**	**–**	**1,659**
Depreciation of property, plant and equipment	**17,576**	**–**	**19,509**	**334**	**37,419**
Loss on disposal of property, plant and equipment	**4**	**–**	**–**	**–**	**4**

	Unaudited Six months ended 30 June 2016				
	Jelly products *RMB'000*	Confectionery 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				
	Jelly products *RMB'000*	Confectionery products *RMB'000*	Beverages products *RMB'000*	Other snacks products *RMB'000*	Reportable segments total *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	1,201	–	468	–	1,669
Depreciation of property, plant and equipment	45,266	–	12,385	1,444	59,095
Loss on disposal of property, plant and equipment	28	–	–	–	28

5 Other Income

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Rental income	**4,119**	5,126
Gain on sale of scrap materials	**1,882**	1,834
	6,001	6,960

6 Other Gain/(Losses), Net

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(4)**	(28)
Net exchange gains/(losses)	**1,612**	(79)
	1,608	(107)

7 Finance Costs, Net

	Unaudited Six months ended 30 June 2017 *RMB'000*	2016 *RMB'000*
Finance costs:		
Interest expenses on bank borrowings	**(21,182)**	(6,931)
Interest expenses on loan from a director	**(273)**	–
Total finance costs	**(21,455)**	(6,931)
Finance income:		
Interest income on bank deposits	**962**	562
Interest income on loan receivable	**–**	5,530
Total finance income	**962**	6,092
Finance costs, net	**(20,493)**	(839)

8 Loss Before Taxation

Loss before taxation is arrived at after charging the following:

	Unaudited Six months ended 30 June 2017 *RMB'000*	2016 *RMB'000*
Cost of inventory sold	**260,890**	273,385
Advertising and promotion expenses	**81,474**	84,333
Freight and transportation expenses	**2,046**	2,354
Staff cost (including directors' remunerations)		
– Salaries and bonuses	**54,258**	55,351
– Employer's contribution to defined contribution plans	**6,604**	6,199
– Employee share based payment	**1,109**	1,042
Depreciation of property, plant and equipment	**37,419**	59,095
Amortisation of land use rights	**1,659**	1,669
Impairment on loan receivable	**–**	91,600

9 Taxation

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current income tax – PRC	**–**	2,096
Deferred income tax	**(18,002)**	(14,332)
Income tax credited to profit or loss	**(18,002)**	(12,236)

During the six months ended 30 June 2017, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2016: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2016: 25%) on their taxable profit during the period.

No provision has been made for Profit Tax in PRC as the Group did not earn any profit subject to PRC Enterprise Income Tax during the period ended 30 June 2017.

10 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 period.

	Unaudited Six months ended 30 June	
	2017	2016
Net loss attributable to the equity holders of Company *(RMB'000)*	**(54,626)**	(178,178)
Weighted average number of ordinary shares in issue for basic loss per share *('000)*	**1,328,977**	1,325,662
Basic loss per share *(RMB per share)*	**(0.041)**	(0.134)

(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 their effects were anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

11 Dividends

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

12 Trade Receivables

The Group's revenue are generally on credit term ranging from 30 to 90 days. As at 30 June 2017, the ageing analysis of trade receivables, based on invoice date, is as follows:

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
Less than 30 days	**80,786**	106,381
31 days – 90 days	**167,472**	148,936
Over 90 days	**8,856**	6,461
	257,114	261,778

As at 30 June 2017, trade receivables of RMB8,856,000 (31 December 2016: RMB6,461,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. Therefore, the directors were of the opinion that no impairment provision was required. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
Past due by less than 3 months but not impaired	**8,856**	6,461

During the period, no trade receivables were impaired (2016: Nil). As at 30 June 2017 and 31 December 2016, 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 (the "**Lender**") entered into an entrusted loan agreement with a PRC bank, as the lending agent (the "**Lending Bank**"), and an independent third party (the "**Borrower**"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (the "**Entrusted Loan**") to the Borrower (the "**Entrusted Loan Agreement**"). 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.

The Borrower has drawn up an aggregate amount of 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 (the "**Outstanding Amounts**"). The Entrusted Loan was 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 Lending Bank had initiated a legal proceeding against the Borrower and guarantors on 10 March 2017 (For the detail of the litigation, please refer to Note 17.). Based on the best estimate taking into account all the relevant information currently available to the Company, the directors of the Company have considered the market value of the pledged land and buildings. An impairment of approximately RMB91,600,000 had been provided in the consolidated financial statements of the Group for the six months ended 30 June 2016. No impairment was provided in the consolidated financial statements of the Group for the six months ended 30 June 2017.

Although the Entrusted Loan was also secured by the personal and corporate guarantees, the directors of the Company at this stage are unable to ascertain whether the guarantors have the ability to fully repay the Outstanding Amounts. Hence, the amount of personal and corporate guarantees cannot be reasonably estimated.

14 Pledged Bank Deposits

As at 30 June 2017 and 31 December 2016, pledged bank deposits of the Group were with initial terms of over three months and pledged to banks as security for bills payable and borrowings.

The weighted average effective interest rate of these bank deposits as at 30 June 2017 was 1.30% per annum (31 December 2016: 1.30% per annum).

The carrying amounts of pledged bank deposits approximate their fair values.

15 Trade and Other Payables

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Trade payables	**61,157**	74,202
Bills payable *(Note (i))*	**185,200**	165,840
Accrued sales rebates	**8,901**	15,014
Other accrued expenses	**12,316**	12,142
Loan from a director *(Note (ii))*	**40,994**	–
Directors' fees and emoluments payable	**7,341**	6,265
Other payables and sundry creditors	**48,102**	37,519
	364,011	310,982

Note:

(i) Bills payable amounting to approximately RMB185,200,000 (31 December 2016: RMB165,840,000) were secured by pledged bank deposits of approximately RMB49,260,000 (31 December 2016: RMB50,756,000). The bills payable were with maturity period within 1 year.

(ii) On 1 March 2017, the Company entered into an loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan of approximately RMB40,994,000. The amount is unsecured, repayable in December 2017 and bears fixed interest at 2% per annum.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2017, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Less than 30 days	**51,242**	66,972
31 days – 90 days	**9,099**	7,230
Over 90 days	**816**	–
	61,157	74,202

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

16 Borrowings

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
Secured bank borrowings	**417,135**	385,055
Unsecured bank borrowings	**333,190**	366,010
Total bank borrowings	**750,325**	751,065
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	**550,325**	551,065
More than 1 year but not exceeding 2 years	**–**	–
More than 2 years but not more than 5 years	**200,000**	200,000
	750,325	751,065
Less: amounts show under current liabilities	**(550,325)**	(551,065)
Amount classified as non-current liabilities	**200,000**	200,000

As at 30 June 2017, the bank borrowing of approximately RMB3,285,000 (equivalent to approximately HKD3,650,000) (31 December 2016: RMB3,555,000) was secured by the land and buildings of approximately RMB7,723,000 (31 December 2016: RMB7,979,000) and charged at a floating interest rate of HIBOR + 2.25% which was re-pricing every month.

As at 30 June 2017, a short-term secured bank loan of approximately RMB20,000,000 (31 December 2016: RMB79,500,000) were secured by corporate guarantee by inter-group companies, repayable within 12 months and charged at fixed interest rates of 5.71% (31 December 2016: 4.35% to 5.22%) per annum.

As at 30 June 2017, the short-term secured bank loans of approximately RMB130,850,000 (31 December 2016: RMB79,000,000) were secured by corporate guarantee by inter-group companies, repayable within 12 months and charged at floating interest rates of LPR + 0.57% to 0.70% (31 December 2016: at floating interest rates of LPR + 0.57% to 0.70%) which was repricing every 12 months.

As at 30 June 2017, the short-term secured bank loans of approximately RMB90,000,000 (31 December 2016: RMB165,000,000) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, repayable within 12 months and charged at fixed interest rates of 5.22% (31 December 2016: 5.22%) per annum.

As at 30 June 2017, the short-term secured bank loans of approximately RMB108,000,000 (31 December 2016: RMB33,000,000) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, repayable within 12 months and charged at floating interest rates of LPR + 0.92% to 1.38% (31 December 2016: LPR+0.92%) which was repricing every 3 months.

As at 30 June 2017, the short-term secured bank loans of approximately RMB65,000,000 (31 December 2016: RMB25,000,000) was secured by corporate guarantee by an inter-group company and land and buildings of approximately RMB125,067,000 (31 December 2016: RMB128,226,000), repayable within 12 months and charged at fixed interest rates of 5.57% (31 December 2016: 5.57%) per annum.

On 11 March 2016, the Company entered into a loan agreement with a bank in relation to a US$17,000,000 (equivalent to approximately RMB119,609,000) loan facility (the "Loan"). As at 31 December 2016, the Company has drawn up an aggregate amount of equivalent to approximately RMB52,420,000. The Loan was unsecured, repayable within 12 months and charged at floating interest rate of LIBOR + 1.0% which was re-pricing every 3 months. The Loan was fully settled in the six months ended 30 June 2017.

As at 30 June 2017, short-term unsecured bank loans of approximately RMB133,190,000 (31 December 2016: RMB113,590,000) were repayable within 12 months and charged at fixed interest rate of 4.4% to 5.79% (31 December 2016: 5.00% to 5.79%) per annum.

As at 30 June 2017, long-term unsecured bank loans of RMB200,000,000 (31 December 2016: RMB200,000,000) were repayable within 3 years and charged at fixed interest rate of 5.70% (31 December 2016: 5.70%) per annum.

17 Litigation

As disclosed in the Company's announcement dated 10 March 2017, the Lending Bank initiated a legal proceeding (the "Legal Proceeding") with the Quanzhou Intermediate People's Court (the "Court") in the People's Republic of China against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the "Defendants"), claiming for:

(i) repayment of (a) the principal amount of the Entrusted Loan in the amount of RMB220,000,000; together with (b) the interests to be accrued for the period from 21 May 2016 up till the date of actual repayment;

(ii) forced sales of the pledged assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement;

(iii) that the fellow subsidiary of the Borrower (being the entity which provided the corporate guarantee as security for the Entrusted Loan) and Mr. Hong (the controlling shareholder of the Borrower and who provided the personal guarantee as security for the Entrusted Loan) be jointly liable for the repayment obligation under the Entrusted Loan Agreement; and

(iv) the Defendants be liable to settle the costs for the Legal Proceeding.

Up to the date of the financial statements, no judgment has been made by the Court. The directors of the Company will follow closely on the development of the above matters and inform the shareholders of the Company on a timely basis.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2017, the Group has reported revenue of RMB435.2 million, representing an increase of approximately 4.9% as compared with the corresponding period of last year due to an increase in sales of jelly products and confectionery products by 11.5% and 39.6% respectively. With consumer 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. For the six months ended 30 June 2017, the Group recorded a net loss of RMB54.6 million, representing a decrease of 69.4% as compared with the net loss of RMB178.2 million in the same period last year. The decrease in the net loss during the six months ended 30 June 2017 was mainly due to an impairment of loan receivable amounted to RMB91.6 million in the same period last year while there was no such impairment in the current period. In addition, there was no major inventories write-off during the period under review.

Revenue

Revenue increased by approximately 4.9% to RMB435.2 million in the first half of 2017 when compared with the same period in 2016. 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 2017, the Group had a total number of 498 distributors (30 June 2016: 434).

Jelly products

Revenue of jelly products increased by approximately 11.5% from RMB294.8 million in the first half of 2016 to RMB328.8 million in the first half of 2017, primarily due to the marketing efforts paid by the Group. During the six months ended 30 June 2017, revenue attributable to jelly snacks increased by approximately 14.5% to RMB194.0 million while revenue attributable to jelly beverages increased by approximately 7.5% to RMB134.8 million.

Confectionery products

Confectionery products also recorded a growth in revenue during the six months ended 30 June 2017. Sales of confectionery products increased by approximately 39.6% from RMB48.4 million in the first half of 2016 to RMB67.5 million in the first half of 2017. The increase was mainly due to stronger demand for confectionery products in overseas markets.

Beverages products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue of beverages products of the Group decreased by approximately 58.4% to RMB16.8 million in the first half of 2017 as the Group readjusted the product mix of the beverages segment during the period. Due to the adjustment in the product mix, some of the retired products were sold at discount that the gross profit margin of the segment has decreased from 20.5% in the first half of 2016 to 11.0% in the period under review.

Other snacks products

Revenue of other snacks products dropped by approximately 29.8% to RMB22.0 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 increased by approximately 6.9% to RMB334.3 million in the first half of 2017, the increase was mainly attributable to the corresponding increase in sales. Gross profit dropped by approximately 1.5% to RMB100.9 million in the first half of 2017, mainly due to an increase in purchase price of certain raw materials during the period.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 2.7% to RMB112.1 million in the first half of 2017 primarily due to a decrease in advertising and promotion expenses by approximately 3.4% to RMB81.5 million during the period under review.

Administrative Expenses

Administrative expenses decreased by approximately 47.3% to RMB48.5 million in the first half of 2017 as compared with the same period in 2016. This was mainly due to an one-off inventories write-off 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 during the six months ended 30 June 2016. No such inventories write-off was noted during the six months ended 30 June 2017.

Taxation

During the six months ended 30 June 2017, 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 income tax credit during the period under review was primarily due to the movements in deferred tax assets.

Net Loss for the Period

Net loss for the period was RMB54.6 million, which was a decrease of RMB123.6 million as compared to the net loss of RMB178.2 million for the six months ended 30 June 2016. The decrease was primarily attributable to no impairment for loan receivable and no major inventories write-off during the period. During the six months ended 30 June 2016, there was an impairment on loan receivable of RMB91.6 million and 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.

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 2017, the cash and bank balances amounted to RMB187.2 million which is RMB40.1 million lower than the balance as at 31 December 2016. The decrease in cash and bank balances was mainly due to capital expenditures of RMB63.0 million incurred in the first half of 2017, which was offset by the loan from a director of the Company of RMB41.0 million obtained during the period.

As at 30 June 2017, the Group's gearing ratio (total bank borrowings divided by total equity) was 69.1% (As at 31 December 2016: 65.9%). 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 inflow from operating activities of RMB1.6 million in the first half of 2017 (2016: outflow of RMB143.3 million) which is significantly improved from the same period in last year. The significant improvement in operating cash flow for the period under review was mainly due to smaller operating loss for the period under review. The Group has spent RMB62.0 million on investing activities in the first half of 2017 mainly for the upgrade of production lines of the production plants. The Group has net cash inflow from financing activities of RMB20.3 million in the first half of 2017 mainly due to a loan from a director of the Company of approximately RMB41.0 million during the period for repayment of a bank loan of the Company.

Capital expenditure

During the six months ended 30 June 2017, the Group incurred RMB63.0 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, confectionery products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 30 June 2017, balance decreased by RMB0.9 million from the beginning of the year. The inventories turnover days for the first half of 2017 and 2016 were 44 days and 48 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 decreased by RMB4.7 million from the beginning of the year. The trade receivables turnover days for the first half of 2017 and 2016 were 102 days and 93 days, respectively. Subsequent to the period end and up to the date of this announcement, approximately RMB159.4 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 (the "**Lender**") entered into an entrusted loan agreement with a PRC bank, as the lending agent, and an independent PRC third party entity (the "**Borrower**"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (the "**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 RMB250,000,000 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 2017, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2016: 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 (the "**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 Lending Bank had initiated a legal proceeding against the Borrower and guarantors on 10 March 2017. 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 RMB128.5 million as at 30 June 2017 (31 December 2016: RMB128.5 million).

For further details, please refer to the announcements of the Company dated 9 August 2016, 18 August 2016 and 10 March 2017.

Trade payables and bills payable

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 2017 and 2016 were 40 days and 75 days respectively.

The bills payable were secured by pledged bank deposits and were with maturity period within 1 year.

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 2017, 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 2017, land and building of the Group in Hong Kong with net book value of RMB7.7 million was pledged as security for a mortgage loan (31 December 2016: RMB8.0 million).

As at 30 June 2017, buildings of the Group in the PRC with net book value of RMB79.2 million (31 December 2016: RMB81.8 million) and land use rights of RMB45.8 million (31 December 2016: RMB46.4 million) were pledged as security for a short-term bank loan.

Contingent liabilities

As at 30 June 2017, the Group had no contingent liabilities (31 December 2016: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2017, the Group had approximately 2,065 employees and total remuneration expenses for the first half of 2017 amounted to RMB62.0 million including amortisation cost of share option of RMB1.1 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 2017.

PROSPECT

During the period under review, the market demand on the Group's products remained weak due to poor consumer sentiment and overall economic slowdown in the PRC. The sales of our products remained at a low level as compared to the normal level in 2012 and 2013. As a result of the overall economic slowdown in the PRC, the Group expects the snacks food industry of the PRC will undergo a market consolidation. 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 immediate positive impacts to the Group's financial performance, the Group believes that they are beneficial to 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 benefitted from the economic growth. Therefore, the Group is cautiously optimistic to the long term prospect of the Group's business.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

During the six months ended 30 June 2017, 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 (the “**CG Code**”) 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 Group’s auditor 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 2017.

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 2017, the Board is of the view that the Company has complied with 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 2017.

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 2017 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, 28 August 2017

As at the date of this announcement, the executive Directors of the Company are Zheng Yu Long, Zheng Yu Shuang and Zheng Yu Huan, the non-executive Directors of the Company are Li Hung Kong and Ren Yunan and the independent non-executive Directors of the Company are Li Zhi Hai, Sun Kam Ching and Chung Yau Tong.

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.