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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 2019

FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2019	2018	
	RMB'million	RMB'million	+/(–)
Key income statement items			
Revenue	262.8	285.9	–8.1%
Gross Profit	89.5	74.0	+20.9%
EBITDA ⁽¹⁾	46.4	19.6	+136.7%
Loss for the period	(58.0)	(52.7)	+10.1%
Key performance indicators			
Gross profit margin	34.1%	25.9%	+8.2%pts
EBITDA margin	17.7%	6.9%	+10.8%pts
Net loss margin	22.1%	18.4%	+3.7%pts
Return on equity (LTM) ⁽²⁾	–26.0%	–31.3%	+5.3%pts
Loss per share			
– Basic	RMB(0.044)	RMB(0.040)	–RMB0.004
– Diluted	RMB(0.044)	RMB(0.040)	–RMB0.004

Notes:

- EBITDA refers to (loss)/profit before interests, income tax, depreciation, amortization, loss on the remeasurement of asset classified as held for sale and non-cash share-based payments.
- Return on equity is calculated using 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 2019, together with comparative figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2019	2018
		RMB'000	RMB'000
Revenue	4	262,811	285,883
Cost of sales		(173,317)	(211,883)
Gross profit		89,494	74,000
Other income	5	6,821	4,680
Other gain, net	6	124	–
Net (provision)/reversal of impairment loss of trade and other receivable		(74)	150
Loss on the remeasurement of asset classified as held for sale	15	(46,690)	–
Selling and distribution expenses		(28,490)	(48,540)
Administrative expenses		(56,563)	(47,238)
Operating loss		(35,378)	(16,948)
Finance incomes		425	913
Finance costs		(23,087)	(24,380)
Finance costs, net	7	(22,662)	(23,467)
Loss before taxation	8	(58,040)	(40,415)
Taxation	9	66	(12,278)
Loss and total comprehensive loss for the period		(57,974)	(52,693)
Loss per share attributable to equity holders of the Company (RMB per share)	10		
– Basic		(0.044)	(0.040)
– Diluted		(0.044)	(0.040)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

		Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Land use rights		129,362	131,026
Property, plant and equipment		608,711	865,994
Deposits for property, plant and equipment		43,001	42,437
Deferred income tax assets		130,556	130,490
		<u>911,630</u>	<u>1,169,947</u>
Current assets			
Inventories		49,031	53,463
Trade and bill receivables	12	232,043	226,228
Prepayments and other receivables		160,303	132,843
Loan receivable	13	21,400	21,400
Pledged bank deposits	14	73,165	64,959
Cash and cash equivalents		11,371	25,507
		<u>547,313</u>	<u>524,400</u>
Asset classified as held for sale	15	180,000	–
		<u>727,313</u>	<u>524,400</u>
Total assets		<u><u>1,638,943</u></u>	<u><u>1,694,347</u></u>
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		101,268	102,126
Accumulated losses		(577,569)	(520,455)
Total equity		<u>609,385</u>	<u>667,357</u>

		Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		19,233	19,233
		-----	-----
Current liabilities			
Trade and other payables	16	368,935	299,368
Bank borrowings	17	641,390	708,389
		-----	-----
		1,010,325	1,007,757
		-----	-----
Total liabilities		1,029,558	1,026,990
		=====	=====
Total equity and liabilities		1,638,943	1,694,347
		=====	=====
Net current liabilities		(283,012)	(483,357)
		=====	=====
Total assets less current liabilities		628,618	686,590
		=====	=====

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 information for the six months ended 30 June 2019 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 2018, 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 Group incurred a net loss of approximately RMB57,974,000 (2018: approximately RMB52,693,000) for the six month ended 30 June 2019. As at 30 June 2019, the Group’s current liabilities exceeded its current assets by approximately RMB283,012,000 (31 December 2018: approximately RMB483,357,000). Notwithstanding the above results, the condensed consolidated interim financial information have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group’s future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

1. Financial support from substantial shareholder

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB34,077,000 loan to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 30 June 2019.

2. Alternative sources of external funding

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

In view of the above, the directors of the Company are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the directors of the Company have prepared the condensed consolidated interim financial information on a going concern basis.

The preparation of condensed consolidated 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 2018.

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 2018, except as mentioned below:

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 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 2018.

There have been no changes in the risk management department since the 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 2019, none of the individual customer account for 10% or more of the Group's external revenue (2018: none). As at 30 June 2019 and 31 December 2018, majority of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

Unaudited					
Six months ended 30 June 2019					
	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>	Reportable segments total <i>RMB'000</i>
Revenue					
Sales to external customers	229,066	23,412	7,145	3,188	262,811
Cost of sales	<u>(147,310)</u>	<u>(16,615)</u>	<u>(7,208)</u>	<u>(2,184)</u>	<u>(173,317)</u>
Gross profit	<u>81,756</u>	<u>6,797</u>	<u>(63)</u>	<u>1,004</u>	<u>89,494</u>
Results of reportable segments	<u>56,877</u>	<u>4,297</u>	<u>(836)</u>	<u>666</u>	<u>61,004</u>

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

Unaudited					
Six months ended 30 June 2019					
	Jelly products	Confectionary products	Beverages products	Other snacks products	Reportable segments total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results of reportable segments					61,004
Corporate income					6,945
Loss on the remeasurement of asset classified as held for sale					(46,690)
Corporate expenses					(56,637)
Operating loss					(35,378)
Finance income					425
Finance costs					(23,087)
Loss before taxation					(58,040)
Taxation					66
Loss for the period					(57,974)
Amounts included in the measure of segment profit or loss:					
Amortisation of land use rights	1,191	–	468	–	1,659
Depreciation of property, plant and equipment	32,358	–	869	34	33,261
Gain on disposal of property, plant and equipment	91	–	–	–	91

Unaudited					
Six months ended 30 June 2018					
	Jelly products	Confectionary products	Beverages products	Other snacks products	Reportable segments total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
Sales to external customers	238,169	29,926	14,503	3,285	285,883
Cost of sales	<u>(171,972)</u>	<u>(27,601)</u>	<u>(10,290)</u>	<u>(2,020)</u>	<u>(211,883)</u>
Gross profit	<u>66,197</u>	<u>2,325</u>	<u>4,213</u>	<u>1,265</u>	<u>74,000</u>
Results of reportable segments	<u>25,721</u>	<u>(2,719)</u>	<u>1,746</u>	<u>712</u>	<u>25,460</u>

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

Unaudited					
Six months ended 30 June 2018					
	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>	Reportable segments total <i>RMB'000</i>
Results of reportable segments					25,460
Corporate income					4,680
Corporate expenses					(47,088)
Operating loss					(16,948)
Finance income					913
Finance costs					(24,380)
Loss before taxation					(40,415)
Taxation					(12,278)
Loss for the period					(52,693)
Amounts included in the measure of segment profit or loss:					
Amortisation of land use rights	1,191	–	468	–	1,659
Depreciation of property, plant and equipment	32,631	–	2,100	135	34,866

5 Other Income

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	5,512	4,584
Sundry income	1,309	–
Gain on sale of scrap materials	–	96
	<u>6,821</u>	<u>4,680</u>

6 Other Gain, Net

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of property, plant and equipment	91	–
Net exchange gain	33	–
	<u>124</u>	<u>–</u>

7 Finance Costs, Net

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Interest expenses on bank borrowings	(22,756)	(24,170)
Interest expenses on loan from a director	(331)	(210)
	<u> </u>	<u> </u>
Total finance costs	<u><u>(23,087)</u></u>	<u><u>(24,380)</u></u>
Finance income:		
Interest income on bank deposits	425	913
	<u> </u>	<u> </u>
Total finance income	<u><u>425</u></u>	<u><u>913</u></u>
Finance costs, net	<u><u>(22,662)</u></u>	<u><u>(23,467)</u></u>

8 Loss Before Taxation

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventory sold	128,798	158,490
Advertising and promotion expenses	9,393	20,240
Freight and transportation expenses	659	606
Staff cost (including directors' remunerations)		
– Salaries and bonuses	37,330	45,846
– Employer's contribution to defined contribution plans	2,447	3,066
– Employee share-based payments	–	–
Depreciation of property, plant and equipment	33,261	34,866
Amortisation of land use rights	1,659	1,659
Net provision/(reversal) of impairment loss of trade and other receivable	74	(150)
	<u><u>74</u></u>	<u><u>(150)</u></u>

9 Taxation

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax – PRC Enterprise Income Tax	–	–
Deferred income tax, net	<u>(66)</u>	<u>12,278</u>
Income tax (credited)/charged to profit or loss	<u>(66)</u>	<u>12,278</u>

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at rate of 25% (2018: 25%) on taxable profit of the Group's PRC subsidiaries during the six months ended 30 June 2019.

No provision has been made for Enterprise Income Tax in the PRC as the Group did not generate any taxable profit subject to PRC Enterprise Income Tax during the six months ended 30 June 2019 (2018: Nil).

Hong Kong Profits Tax, Bermuda and BVI income tax

No provision of Hong Kong Profits Tax, Bermuda and BVI income tax has been made as the Group did not generate any assessable profits in these jurisdictions during the six months ended 30 June 2019 (2018: Nil).

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	
	2019	2018
Net loss attributable to the equity holders of Company (RMB'000)	<u><u>(57,974)</u></u>	<u><u>(52,693)</u></u>
Weighted average number of ordinary shares in issue for basic loss per share ('000)	<u><u>1,328,977</u></u>	<u><u>1,328,977</u></u>
Basic loss per share (RMB per share)	<u><u>(0.044)</u></u>	<u><u>(0.040)</u></u>

(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 2019 (2018: Nil).

12 Trade and Bills Receivables

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables	230,043	226,228
Bills receivables	2,000	—
	<u>232,043</u>	<u>226,228</u>

The Group's revenue are generally on credit term of 180 days (2018: 180 days). As at 30 June 2019, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Less than 30 days	47,093	69,552
31 days – 90 days	73,800	48,764
Over 90 days	<u>109,150</u>	<u>107,912</u>
	<u>230,043</u>	<u>226,228</u>

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 (“**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.

As of 30 June 2019, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2018: 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.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the “**Legal Proceeding**”) with the Quanzhou Intermediate People’s Court in the People’s Republic of China (“**Quanzhou Court**”) against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the “**Defendants**”). On 29 March 2018, the Quanzhou Court published a judgement to order the Borrower to (a) repay the principal amount of the Entrusted Loan in the amount of RMB220,000,000; (b) pay the interests (including penalty interests and compound interests) of RMB30,200,000; (c) pay the interests (including penalty interests and compound interests) to be accrued for the period from 14 November 2017 up till the date of actual repayment; and (d) legal fee of RMB500,000.

If the Borrower failed to fulfill the court order stated above, the Lending Bank can forced sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) (the “**Pledged Assets**”) charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement. The Lending Bank has the priority on receiving the sales proceeds of the Pledged Assets. In addition, 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 in the amount of RMB250,000,000.

Up to the date of this announcement, the Borrower fail to fulfil the court order and the Lending Bank is taking actions to force sales the Pledged Assets. 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 RMB21,400,000 representing the market value of the Pledged Assets.

In order to estimate a reliable recoverable amount of the Entrusted Loan as at 30 June 2019, the directors of the Company have considered the market value of the Pledged Assets. 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, an impairment of approximately RMB107,100,000 has been provided in the consolidated financial statements of the Group for the year ended 31 December 2018. No further impairment has been provided in the consolidated financial information for the six months ended 30 June 2019.

14 Pledged Bank Deposits

As at 30 June 2019, pledged bank deposits of the Group of approximately RMB73,165,000 (31 December 2018: RMB64,959,000) were with initial terms of over three months and pledged to banks as security for bills payable.

The weighted average effective interest rate of these bank deposits as at 30 June 2019 was 0.60% per annum (31 December 2018: 0.89% per annum). The carrying amounts of pledged bank deposits approximate their fair values.

15 Asset Classified As Held For Sale

On 15 May 2019, an indirect wholly-owned subsidiary of the Company (the “**Vendor**”) and an independent third party (the “**Purchaser**”) entered into the transfer agreement (the “**Transfer Agreement**”), pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the land use right located in Jinjiang Food Industrial Park in Jinjiang City, Fujian Province, the PRC (the “**FJ Land Right**”) for a consideration of RMB180,000,000. Pursuant to the Transfer Agreement, both the Vendor and the Purchaser will liaise with Fujian Jinjiang Industrial Park Construction and Development Company Limited (the “**Jinjiang Construction**”), a company controlled by Jinjiang City People’s Government, regarding the transfer of the FJ Land Right. The Vendor will arrange for the termination of the FJ Land Right with Jinjiang Construction and the Purchaser will enter into an agreement with Jinjiang Construction regarding the new pre-registration contractual right to acquire the FJ Land Right. For more details, please refer to the announcement dated 15 May 2019. The loss on the remeasurement of asset classified as held for sale of RMB46,690,000 has been recognised during the six months ended 30 June 2019.

16 Trade Payables

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2019, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 30 June 2019 RMB’000	Audited 31 December 2018 RMB’000
Less than 30 days	19,555	20,033
31 days – 90 days	10,392	6,636
Over 90 days	2,905	738
	<u>32,852</u>	<u>27,407</u>

The carrying amounts of trade payables approximate their fair values.

17 Bank Borrowings

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Secured bank borrowings	412,240	469,289
Unsecured bank borrowings	<u>229,150</u>	<u>239,100</u>
Total bank borrowings	<u>641,390</u>	<u>708,389</u>
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	641,390	708,389
More than 1 year, but not exceeding 2 years	—	—
More than 2 years, but not more than 5 years	<u>—</u>	<u>—</u>
	641,390	708,389
Less: amounts show under current liabilities	<u>(641,390)</u>	<u>(708,389)</u>
Amount classified as non-current liabilities	<u><u>—</u></u>	<u><u>—</u></u>

As at 30 June 2019, the bank borrowing of HKD2,450,000 (equivalent to approximately RMB2,040,000) (31 December 2018: HKD2,750,000 equivalent to approximately RMB2,289,000) was secured by the land and buildings in Hong Kong of approximately RMB6,699,000 (31 December 2018: RMB6,955,000) and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

As at 30 June 2019, the short-term secured bank borrowings of approximately RMB150,000,000 (31 December 2018: RMB150,000,000) were secured by corporate guarantee by inter-group companies. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.00% (31 December 2018: 5.00%) which was repricing every 12 months.

As at 30 June 2019, the short-term secured bank borrowings of approximately RMB52,200,000 were secured by corporate guarantee by inter-group companies, the land and building in PRC. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.66% which was repricing every 3 months.

As at 30 June 2019, the short-term secured bank borrowings of approximately RMB33,000,000 (31 December 2018: RMB198,000,000) 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. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.44% (31 December 2018: 5.44%) which was repricing every 3 months.

As at 30 June 2019, the short-term secured bank borrowings of approximately RMB60,000,000 (31 December 2018: RMB60,000,000) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the wife of Mr. Zheng Yu Shuang. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.66% (31 December 2018: 5.66%) per annum.

As at 30 June 2019, the short-term secured bank borrowings of approximately RMB115,000,000 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, and the supplier of the Company. The bank borrowings were repayable within 12 months and charged at 5.44% which was repricing every 3 months.

As at 30 June 2018, the short-term secured bank borrowings of approximately RMB59,000,000 were secured by corporate guarantee by inter-group companies. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.92% which was repricing every 3 months.

As at 30 June 2019, short-term unsecured bank borrowings of RMB229,150,000 (31 December 2018: RMB89,100,000) were repayable within 12 months and charged at fixed interest rates of 4.58% to 6.80% (31 December 2018: 5.73% to 6.09%) per annum for short-term unsecured bank borrowings of RMB200,550,000 and charged at floating interest rate of 5.29% for the remaining balance of short-term unsecured bank borrowings.

As at 31 December 2018, long-term unsecured bank borrowings of RMB150,000,000 were repayable within one year and charged at fixed interest rate of 5.70% per annum.

18 Events After Reporting Period

Disposal of interest by controlling shareholders

On 3 July 2019, the controlling shareholders (the “**Alliance Holding**”) have entered into the sale and purchase agreement (the “**Sale and Purchase Agreement**”) with an independent third party (the “**Purchaser**”), pursuant to which Alliance Holding has conditionally agreed to dispose, and the Purchaser has conditionally agreed to acquire, the sale shares (being the entire issued shares of a company to be incorporated and wholly-owned by Alliance Holding (the “**SPV**”)) for an aggregate consideration of HK\$147,300,000.

Alliance Holding held approximately 45.97% of the total number of shares in issue. Upon the entering of the Sale and Purchase Agreement, Alliance Holding shall procure to incorporate the SPV, upon which Alliance Holding shall transfer 19.64% of the Shares in issue as at the date of the Sale and Purchase Agreement held by it to the SPV. Upon completion of the Restructuring, Alliance Holding agreed to dispose, and the Purchaser (or an entity as designated by the Purchaser) agreed to acquire, the entire issued shares of the SPV.

Upon completion of the Disposal, Alliance Holding and the Purchaser (or an entity as designated by the Purchaser) will hold approximately 26.33% and 19.64% of the total number of shares in issue as at the date of the Sale and Purchase Agreement, respectively.

For more details, please refer to the Company announcement dated 3 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2019, the Group has reported revenue of RMB262.8 million, representing a decrease of approximately 8.1% as compared with the corresponding period of last year mainly due to decrease in sales of jelly products, confectionary products and beverages products by 3.8%, 21.8% and 50.7% 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 2019, the Group recorded a net loss of RMB58.0 million, representing an increase of 10.1% from the net loss of RMB52.7 million in the same period last year. The increase in the Group's net loss during the six months ended 30 June 2019 was mainly due to a fair value loss of approximately RMB46.7 million was recognised for the asset classified as held for sale during the six months ended 30 June 2019, which was offset by (i) the Group having ceased the production of the majority of low margin product items in 2018 which enhanced the Group's overall profit margin in the six months ended 30 June 2019, and (ii) decrease in the advertising and promotion expense by RMB10.8 million as compared with the same period last year.

Revenue

Revenue decreased by approximately 8.1% to RMB262.8 million in the first half of 2019 when compared with the same period in 2018. During the period under review, the Group has been negatively impacted by the weak consumer sentiments in the PRC. However, the Group continued to exert immense efforts in developing its distribution network. As at 30 June 2019, the Group had a total number of 675 distributors (30 June 2018: 532).

Jelly products

Revenue of jelly products decreased by approximately 3.8% from RMB238.2 million in the first half of 2018 to RMB229.1 million in the first half of 2019, primarily due to weak consumer sentiment in the PRC. During the six months ended 30 June 2019, revenue attributable to jelly snacks increased by approximately 2.6% to RMB145.6 million while sales attributable to jelly beverages decreased by approximately 13.4% to RMB83.5 million.

Confectionary products

Confectionary products also recorded a decrease in revenue during the six months ended 30 June 2019. Sales of confectionary products decreased by approximately 21.8% from RMB29.9 million in the first half of 2018 to RMB23.4 million in the first half of 2019. The decrease was mainly due to weaker demand for confectionary 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 50.7% to RMB7.1 million in the first half of 2019 as the consumer sentiment in the PRC remained weak.

Other snacks products

Revenue of other snacks products decreased by approximately 3.0% to RMB3.2 million, mainly due to weak consumer sentiment in the PRC.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 18.2% to RMB173.3 million in the first half of 2019. The decrease was mainly attributable to the corresponding decrease in sales. However, gross profit increased by approximately 20.9% to RMB89.5 million in the first half of 2019, mainly due to the Group having ceased the production of the majority of low margin product items in 2018 which enhanced the Group's overall profitability in the six months ended 30 June 2019.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 41.3% to RMB28.5 million in the first half of 2019 primarily due to decrease in advertising and promotion expenses by approximately 53.6% to RMB9.4 million during the period under review.

Administrative Expenses

Administrative expenses increased by approximately 19.7% to RMB56.6 million in the first half of 2019 as compared with the same period in 2018. This was mainly due to increase in depreciation expenses.

Taxation

During the six months ended 30 June 2019, 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 amount of taxation 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 RMB58.0 million, representing an increase of 10.1% from the net loss of RMB52.7 million for the six months ended 30 June 2018. The increase in net loss was primarily attributable to a fair value loss of approximately RMB46.7 million was recognised for the asset classified as held for sale during the six months ended 30 June 2019, which was offset by (i) the Group having ceased the production of the majority of low margin product items in 2018 which enhanced the Group's overall profit margin in the six months ended 30 June 2019, and (ii) decrease in the advertising and promotion expense by RMB10.8 million as compared with the same period last year.

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 2019, the bank balances and bank deposits (including pledged bank deposits) amounted to RMB84.5 million which is RMB5.9 million lower than the balance as at 31 December 2018. The decrease in bank balances and bank deposits was mainly because the Group has reduced its bank borrowings during the period under review.

As at 30 June 2019, the Group's gearing ratio (total bank borrowings divided by total equity) was 105.3% (As at 31 December 2018: 106.1%). 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 inflow from operating activities of RMB84.6 million in the first half of 2019 (2018: RMB52.6 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 improvement in gross profit during the period under review. The Group has spent RMB3.0 million in investing activities in the first half of 2019 mainly for the upgrade of production lines of the production plants. The Group has net cash outflow from financing activities of RMB93.7 million in the first half of 2019 mainly because the Group reduced its bank borrowings by approximately RMB67.0 million during the period.

Capital expenditure

During the six months ended 30 June 2019, the Group incurred RMB3.4 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 2019, balance decreased by RMB4.4 million from the beginning of the year. The inventories turnover days for the first half of 2019 and 2018 were 49 days and 59 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grant 180 days credit to most of the wholesale distributors. Balance increased by RMB3.8 million from the beginning of the year. The trade receivables turnover days for the first half of 2019 and 2018 were 167 days and 150 days, respectively. Subsequent to the period end and up to the date of this announcement, approximately RMB54.7 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 (“**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.

As of 30 June 2019, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2018: 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 these financial statements, the Borrower has not repaid the Outstanding Amounts.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the “**Legal Proceeding**”) with the Quanzhou Intermediate People’s Court in the People’s Republic of China (“**Quanzhou Court**”) against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the “**Defendants**”). On 29 March 2018, the Quanzhou Court published a judgement to order the Borrower to (a) repay the principal amount of the Entrusted Loan in the amount of RMB220,000,000; (b) pay the interests (including penalty interests and compound interests) of RMB30,200,000; (c) pay the interests (including penalty interests and compound interests) to be accrued for the period from 14 November 2017 up till the date of actual repayment; and (d) legal fee of RMB500,000.

If the Borrower failed to fulfill the court order stated above, the Lending Bank can forced sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) (the “**Pledged Assets**”) charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement. The Lending Bank has the priority on receiving the sales proceeds of the Pledged Assets. In addition, 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 in the amount of RMB250,000,000.

Up to the date of this announcement, the Borrower fail to fulfil the court order and the Lending Bank is taking actions to force sales the Pledged Assets. 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 RMB21,400,000 representing the market value of the Pledged Assets.

In order to estimate a reliable recoverable amount of the Entrusted Loan as at 31 December 2018, the directors of the Company have considered the market value of the Pledged Assets. 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, an impairment of approximately RMB107,100,000 has been provided in the consolidated financial statements of the Group for the year ended 31 December 2018. No further impairment has been provided in the consolidated financial information for the six months ended 30 June 2019.

Asset classified as held for sale

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

The loss on the remeasurement of asset classified as held for sale of RMB46,690,000 has been recognised for the six months ended 30 June 2019.

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 2019 and 2018 were 40 days and 37 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 2019, 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 2019, land and building of the Group in Hong Kong with net book value of RMB6.7 million was pledged as security for a mortgage loan (31 December 2018: RMB7.0 million).

As at 30 June 2019, buildings of the Group in the PRC with net book value of RMB104.0 million (31 December 2018: Nil) and land use rights in the PRC of RMB43.6 million (31 December 2018: Nil) were pledged as security for short-term bank borrowings.

Contingent liabilities

As at 30 June 2019, the Group had no contingent liabilities (31 December 2018: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 1,189 employees and total remuneration expenses for the first half of 2019 amounted to RMB39.8 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 2019.

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 previous years. As a result of the overall economic slowdown in the PRC, the Group expects the snacks food industry of the PRC will continue to 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, 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 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 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 2019, 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 independent auditor the accounting principles and practices adopted by the Group. The Audit Committee and the Company's independent auditor have also reviewed the interim results of the Group for the six months ended 30 June 2019.

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 2019, 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 2019.

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 2019 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, 30 August 2019

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.