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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 2020

FINANCIAL HIGHLIGHTS

	Unaudited		
	Six months ended 30 June		
	2020	2019	
	RMB' million	RMB' million	+/(−)
Key income statement items			
Revenue	250.1	262.8	−4.8%
Gross Profit	92.3	89.5	+3.1%
EBITDA ⁽¹⁾	35.3	46.4	−23.9%
Loss for the period	(76.6)	(58.0)	+32.1%
Key performance indicators			
Gross profit margin	36.9%	34.1%	+2.8%pts
EBITDA margin	14.1%	17.7%	−3.6%pts
Net loss margin	30.6%	22.1%	+8.5%pts
Return on equity (LTM) ⁽²⁾	−15.6%	−26.0%	−10.4%pts
Loss per share			
– Basic	RMB(0.058)	RMB(0.044)	+RMB(0.014)
– Diluted	RMB(0.058)	RMB(0.044)	+RMB(0.014)

Notes:

1. EBITDA refers to profit before interests, taxation, depreciation, amortization, impairment loss of trade and other receivables, write-off of properties upon demolition, loss on remeasurement of asset classified as held for sale 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 2020, together with comparative figures for the corresponding period in 2019, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited	
		Six months ended 30 June	
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
Revenue	4	250,063	262,811
Cost of sales		(157,723)	(173,317)
Gross profit		92,340	89,494
Other income	5	2,361	6,821
Other (loss)/gain, net	6	(71)	124
Provision of impairment loss of trade and other receivable		(3,397)	(74)
Loss on the remeasurement of asset classified as held for sale	15	–	(46,690)
Write-off of properties upon demolition	7	(65,980)	–
Selling and distribution expenses		(36,565)	(28,490)
Administrative expenses		(45,900)	(56,563)
Operating loss		(57,212)	(35,378)
Finance income		858	425
Finance costs		(20,529)	(23,087)
Finance costs, net	8	(19,671)	(22,662)
Loss before taxation	9	(76,883)	(58,040)
Taxation	10	246	66
Loss and total comprehensive loss for the period		(76,637)	(57,974)
Loss per share attributable to equity holders of the Company (<i>RMB per share</i>)	11		
– Basic		(0.058)	(0.044)
– Diluted		(0.058)	(0.044)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
	Note		
ASSETS			
Non-current assets			
Right-of-use assets		126,051	127,710
Property, plant and equipment		417,074	505,644
Deposits for property, plant and equipment		45,094	43,508
Deferred income tax assets		110,521	110,275
		<u>698,740</u>	<u>787,137</u>
Current assets			
Inventories		69,353	43,146
Trade and bills receivables	13	293,050	244,549
Prepayments and other receivables		152,359	135,921
Pledged bank deposits	14	34,990	70,270
Cash and cash equivalents		54,409	24,833
		<u>604,161</u>	<u>518,719</u>
Asset classified as held for sale	15	<u>180,000</u>	<u>180,000</u>
		<u>784,161</u>	<u>698,719</u>
Total assets		<u>1,482,901</u>	<u>1,485,856</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		470,030	470,030
Reserves		(49,420)	27,217
Total equity		<u>420,610</u>	<u>497,247</u>

		Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
	<i>Note</i>		
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		<u>15,864</u>	<u>15,864</u>
		<u>15,864</u>	<u>15,864</u>
Current liabilities			
Trade and other payables	16	403,515	347,855
Bank borrowings	17	<u>642,912</u>	<u>624,890</u>
		<u>1,046,427</u>	<u>972,745</u>
Total liabilities		<u>1,062,291</u>	<u>988,609</u>
Total equity and liabilities		<u>1,482,901</u>	<u>1,485,856</u>
Net current liabilities		<u>(262,266)</u>	<u>(274,026)</u>
Total assets less current liabilities		<u>436,474</u>	<u>513,111</u>

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 2020 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 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group incurred a net loss of approximately RMB76,637,000 (six months ended 30 June 2019: approximately RMB57,974,000) for the six months ended 30 June 2020. As at 30 June 2020, the Group’s current liabilities exceeded its current assets by approximately RMB262,266,000 (As at 31 December 2019: approximately RMB274,026,000).

The directors of the Company have reviewed the Group’s cash flow projections prepared by management. The cash flow projections cover a period of twelve months from 30 June 2020. They are of the opinion that, taking into account the plans and measures as stated below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

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 RMB44,186,000 loan from a loan facility of RMB50,000,000 to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 30 June 2020.

(2) Completion of the disposal of the land

The Group is in the process of completion of the disposal of the land located at Jinjiang Food Industrial Park (晉江市食品產業園) with a total site area of approximately 126,981 square meters together with the buildings thereon with an aggregate site area of approximately 148,271 square meters.

(3) 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.

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 2019.

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 2019, except as mentioned below:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

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.

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

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 2019.

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

4 Segment Information

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

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

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

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

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

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

During the six months ended 30 June 2020, none of the individual customer account for 10% or more of the Group's external revenue (2019: none). As at 30 June 2020 and 31 December 2019, majority of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

Unaudited					
Six months ended 30 June 2020					
	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	228,621	15,988	2,668	2,786	250,063
Cost of sales	<u>(141,434)</u>	<u>(12,569)</u>	<u>(1,768)</u>	<u>(1,952)</u>	<u>(157,723)</u>
Gross profit	<u>87,187</u>	<u>3,419</u>	<u>900</u>	<u>834</u>	<u>92,340</u>
Results of reportable segments	<u>53,707</u>	<u>1,129</u>	<u>506</u>	<u>433</u>	<u>55,775</u>

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

Unaudited					
Six months ended 30 June 2020					
	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					55,775
Corporate income					2,361
Write-off of properties upon demolition					(65,980)
Corporate expenses					(49,368)
Operating loss					(57,212)
Finance income					858
Finance costs					(20,529)
Loss before taxation					(76,883)
Taxation					246
Loss for the period					(76,637)
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	24,366	–	371	115	24,852

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 <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					61,004
Corporate income					6,945
Loss on the remeasurement of asset classified as held for sale					(46,690)
Corporate expenses					<u>(56,637)</u>
Operating loss					(35,378)
Finance income					425
Finance costs					<u>(23,087)</u>
Loss before taxation					(58,040)
Taxation					<u>66</u>
Loss for the period					<u><u>(57,974)</u></u>
Amounts included in the measure of segment profit or loss:					
Amortisation of land use rights	<u>1,191</u>	<u>–</u>	<u>468</u>	<u>–</u>	<u>1,659</u>
Depreciation of property, plant and equipment	<u>32,358</u>	<u>–</u>	<u>869</u>	<u>34</u>	<u>33,261</u>
Gain on disposal of property, plant and equipment	<u>91</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>91</u>

5 Other Income

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	1,393	5,512
Sundry income	517	1,309
Gain on sale of scrap materials	451	–
	2,361	6,821

6 Other (Loss)/Gain, Net

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of property, plant and equipment	–	91
Net exchange (loss)/gain	(71)	33
	(71)	124

7 Write-off of Properties Upon Demolition

During the period under review, Tianjin Huakunda Supply Chain Management Co., Ltd. (“Huakunda”), a subsidiary of the Company, has filed an application to the relevant local PRC government for redevelopment of its factory premises to cater for production and supply chain base for “New Retail” distribution channels. Huakunda has applied for and obtained the construction planning permit for the construction of the new factory premises and commenced the demolishment of the original building structures of the factory premises (the “Demolition”). As at 30 June 2020, certain of the original buildings have been demolished. As a result of the Demolition, the original buildings demolished with net book value of RMB65,980,000 has been written-off during the period under review.

8 Finance Costs, Net

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Interest expenses on bank borrowings	(20,118)	(22,756)
Interest expenses on loan from a director	(411)	(331)
	<u> </u>	<u> </u>
Total finance costs	(20,529)	(23,087)
	<u> </u>	<u> </u>
Finance income:		
Interest income on bank deposits	858	425
	<u> </u>	<u> </u>
Total finance income	858	425
	<u> </u>	<u> </u>
Finance costs, net	<u><u>(19,671)</u></u>	<u><u>(22,662)</u></u>

9 Loss Before Taxation

Loss before taxation is arrived at after charging the following:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventory sold	149,081	128,798
Advertising and promotion expenses	17,751	9,393
Freight and transportation expenses	992	659
Staff cost (including directors' remunerations)		
– Salaries and bonuses	39,268	37,330
– Employer's contribution to defined contribution plans	689	2,447
Depreciation of property, plant and equipment	24,852	33,261
Amortisation of land use rights	1,659	1,659
Provision for impairment loss of trade and other receivable	3,397	74
Written-off of properties upon demolition	65,980	–
Loss on the remeasurement of asset classified as held for sale	–	46,690
	<u> </u>	<u> </u>

10 Taxation

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax – PRC Enterprise Income Tax	–	–
Deferred income tax, net	<u>(246)</u>	<u>(66)</u>
Income tax credited to profit or loss	<u>(246)</u>	<u>(66)</u>

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at rate of 25% (2019: 25%) on taxable profit of the Group's PRC subsidiaries during the six months ended 30 June 2020.

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 2020 (2019: 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 2020 (2019: Nil).

11 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	
	2020	2019
Net loss attributable to the equity holders of Company (<i>RMB'000</i>)	<u>(76,637)</u>	<u>(57,974)</u>
Weighted average number of ordinary shares in issue for basic loss per share (<i>'000</i>)	<u>1,328,977</u>	<u>1,328,977</u>
Basic loss per share (<i>RMB per share</i>)	<u>(0.058)</u>	<u>(0.044)</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.

12 Dividends

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

13 Trade and Bills Receivables

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade receivables	291,450	244,549
Bills receivable	1,600	–
	<u>293,050</u>	<u>244,549</u>

The Group's revenue are generally on credit term of 180 days (2019: 180 days). As at 30 June 2020, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Less than 30 days	50,810	52,265
31 days – 90 days	66,888	55,884
Over 90 days	173,752	136,400
	<u>291,450</u>	<u>244,549</u>

14 Pledged Bank Deposits

As at 30 June 2020, pledged bank deposits of the Group of approximately RMB34,990,000 (31 December 2019: RMB70,270,000) 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 2020 was 0.77% per annum (31 December 2019: 0.77% 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 and Other Payables

	Unaudited 30 June 2020 RMB’000	Audited 31 December 2019 RMB’000
Trade payables	56,493	19,593
Bills payable (<i>Note (i)</i>)	79,960	132,460
Accrued sales rebates	5,117	10,219
Other accrued expenses	11,681	6,188
Directors’ fees and emoluments payable	14,594	13,680
Loan from a director (<i>Note (ii)</i>)	44,186	38,911
Loan from an independent third party (<i>Note (iii)</i>)	41,762	41,762
Other payables and sundry creditors (<i>Note (iv)</i>)	149,722	85,042
	<u>403,515</u>	<u>347,855</u>

Notes:

- (i) Bills payable amounting to approximately RMB79,960,000 (31 December 2019: RMB84,460,000) were secured by pledged bank deposits of approximately RMB34,990,000 (31 December 2019: RMB70,270,000). The bills payable were with maturity period of within 1 year.

- (ii) As at 30 June 2020, the Company has drawn down an aggregate amount of approximately RMB44,186,000 (31 December 2019: RMB38,911,000) from a loan facility of RMB50,000,000 (31 December 2019: RMB50,000,000) entered into with Mr. Zheng Yu Long, an executive director of the Company. The amount is unsecured, repayable within 12 months and bears fixed interest at 2% per annum.
- (iii) On 21 May 2019, a subsidiary of the Company entered into a loan agreement with an independent third party for a loan of approximately RMB41,762,000, which was secured by the equity of a PRC subsidiary of the Company. The loan was repayable within 8 months and charged at fixed interest rate of 12.0% per annum.
- (iv) As at 30 June 2020, the Group received RMB70,000,000 (31 December 2019: RMB10,000,000) deposit of the assets classified as held for sale from the Purchaser in accordance with the terms of the Transfer Agreement.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2020, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited	Audited
	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	27,213	15,023
31 days – 90 days	27,570	2,637
Over 90 days	1,710	1,933
	56,493	19,593

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

17 Bank Borrowings

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Secured bank borrowings	563,812	443,390
Unsecured bank borrowings	79,100	181,500
Total bank borrowings	642,912	624,890
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	642,912	624,890
	642,912	624,890

As at 30 June 2020, the bank borrowing of HKD1,850,000 (equivalent to approximately RMB1,522,000 (31 December 2019: HKD2,150,000 equivalent to approximately RMB1,790,000) was secured by the land and buildings of approximately RMB6,187,000 (31 December 2019: RMB6,443,000) and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB150,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of the supplier of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.00% which was repricing every 12 months.

As at 31 December 2019, the short-term secured bank borrowings of approximately RMB150,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.00% which was repricing every 12 months.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB99,890,000 (31 December 2019: RMB80,000,000) were secured by corporate guarantee by the Group's PRC subsidiaries 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 2019: 5.66%) per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB97,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries 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 fixed interest rate of 5.22% per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB5,400,000 were secured by corporate guarantee by the Group's PRC subsidiary. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.22% per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB52,200,000 (31 December 2019: RMB52,200,000) were secured by corporate guarantee by the Group's PRC subsidiaries and land and buildings in the PRC of approximately RMB93,604,000 (31 December 2019: RMB98,791,000). The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.16% to 5.22% (31 December 2019: floating interest rate of 5.66%) per annum.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB33,000,000 (31 December 2019: RMB148,000,000) were secured by corporate guarantee by the Group's PRC subsidiaries 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 floating interest rate of 5.08% (31 December 2019: 5.44%) which was repricing every 3 months.

As at 30 June 2020, the short-term secured bank borrowings of approximately RMB115,000,000 were secured by corporate guarantee by the Group's PRC subsidiaries 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 fixed interest rate of 5.22% per annum.

As at 30 June 2020, short-term secured bank borrowings of RMB9,800,000 (31 December 2019: RMB11,400,000) were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the related company. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 6.80% (31 December 2019: 6.80%) per annum.

As at 30 June 2020, the short-term unsecured bank borrowings of RMB79,100,000 (31 December 2019: RMB181,500,000) were repayable within 12 months and charged at fixed interest rates of 5.22% to 5.23% (31 December 2019: 4.57% to 6.98%) per annum.

18 Event After the Reporting Period

On 27 July 2020, Labixiaoxin (Tianjin) Co., Ltd. as the vendor, Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. as the vendor's Guarantor, an independent third party as the purchaser, and Huakunda as the target company entered into an equity transfer agreement, pursuant to which, the purchaser has conditionally agreed to acquire, the vendor has conditionally agreed to sell the entire equity interest in the target company at a consideration of approximately RMB288,428,000 (subject to adjustments), pursuant to the terms and conditions of the equity transfer agreement. For further details, please refer to the announcement of the Company dated 27 July 2020 and the circular dated 28 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2020, the Group has reported revenue of RMB250.1 million, representing a decrease of approximately 4.8% as compared with the corresponding period of last year mainly due to decrease in sales of confectionary products and beverages products by 31.6% and 62.0% respectively. During the six months ended 30 June 2020, the consumer sentiment in the PRC was hit by the Novel Coronavirus (“COVID-19”) outbreak since the last quarter of year 2019. The Group’s production and sales were partially disrupted during the first quarter of year 2020 that the sales performance of the Group was negatively affected. The sales performance of the Group’s products has gradually picked up in the second quarter of year 2020 as the lock-down measures ended in most of the PRC cities. However, the sale of confectionary products and beverages products still recorded a remarkable decline.

For the six months ended 30 June 2020, the Group recorded a net loss of RMB76.6 million, as compared with the net loss of RMB58.0 million in the same period last year. The increase in the Group’s net loss during the six months ended 30 June 2020 was mainly due to the Group had written-off properties of approximately RMB65,980,000 upon demolishment of the properties during the period while there was a loss on the remeasurement of asset classified as held for sale of approximately RMB46,690,000 in the six months ended 30 June 2019.

Revenue

Revenue decreased by approximately 4.8% to RMB250.1 million in the first half of year 2020 when compared with the same period in year 2019. During the period under review, the Group’s sales performance has been negatively impacted by the weak consumer sentiments in the PRC as a result of COVID-19. However, the Group continued to exert immense efforts in developing its distribution network. As at 30 June 2020, the Group had a total number of 900 distributors (30 June 2019: 675).

Jelly products

Revenue of jelly products decreased by approximately 0.2% from RMB229.1 million in the first half of year 2019 to RMB228.6 million in the first half of year 2020. During the six months ended 30 June 2020, revenue attributable to jelly snacks decreased by approximately 3.9% to RMB139.8 million while sales attributable to jelly beverages increased by approximately 6.3% to RMB88.8 million.

Confectionary products

Confectionary products recorded a decrease in revenue during the six months ended 30 June 2020. Sales of confectionary products decreased by approximately 31.6% from RMB23.4 million in the first half of year 2019 to RMB16.0 million in the first half of year 2020. The decrease was mainly due to the outbreak of COVID-19 in the last quarter of year 2019 which severely affected the sales performance of the festive confectionary products during the Chinese Lunar New Year in year 2020.

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 62.0% to RMB2.7 million in the first half of year 2020 due to the outbreak of COVID-19 in the last quarter of year 2019 which severely affected the sales performance of the beverages products during the first quarter of year 2020.

Other snacks products

Revenue of other snacks products dropped by approximately 12.5% to RMB2.8 million, mainly due to the outbreak of COVID-19 in the last quarter of year 2019 which severely affected the sales performance of the other snacks products during the first quarter of year 2020.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 9.0% to RMB157.7 million in the first half of year 2020, mainly attributable to the corresponding decrease in sales. However, gross profit increased by approximately 3.1% to RMB92.3 million in the first half of year 2020, mainly due to the Group having ceased the production of the majority of low margin product items since year 2018 which enhanced the Group's overall profitability.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 28.4% to RMB36.6 million in the first half of year 2020 primarily due to increase in advertising and promotion expenses by approximately 89.4% to RMB17.8 million during the period under review to promote its new retail, e-commerce, social media and society distribution channels.

Administrative Expenses

Administrative expenses decreased by approximately 18.9% to RMB45.9 million in the first half of year 2020 as compared with the same period in year 2019. This was mainly due to closure of Tianjin plant in the second half of year 2019 that less administrative expenses incurred in Tianjin during the period under review.

Write-off of Properties Upon Demolition

During the period under review, a subsidiary of the Company in Tianjin has filed an application to the relevant local PRC government for redevelopment of its factory premises to cater for production and supply chain base for “New Retail” distribution channels. The subsidiary has applied for and obtained the construction planning permit for the construction of the new factory premises and commenced the demolishment of the original building structures of the factory premises (the “Demolition”). As at 30 June 2020, 10 out of 14 blocks of the original buildings have been demolished. As a result of the Demolition, the original buildings demolished with net book value of approximately RMB65,980,000 has been written-off during the period under review.

Income Tax Expense

During the six months ended 30 June 2020, 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 expense 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 RMB76.6 million as compared to the net loss of RMB58.0 million for the six months ended 30 June 2019. The increase in the Group’s net loss during the six months ended 30 June 2020 was mainly due to the Group had written-off properties of approximately RMB65,980,000 upon demolishment of the properties during the period while there was a loss on the remeasurement of asset classified as held for sale of approximately RMB46,690,000 in the six months ended 30 June 2019.

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 2020, the bank balances and bank deposits amounted to RMB54.4 million which is RMB29.6 million more than the balance as at 31 December 2019. The increase in bank balances and bank deposits was mainly due to the Group has received RMB60 million deposit of the assets classified as held for sale from the purchaser in accordance with the terms of the transfer agreement during the period under review.

As at 30 June 2020, the Group's gearing ratio (total borrowings divided by total equity) was 173.3% (As at 31 December 2019: 141.9%). As disclosed in the announcement of the Company dated 27 July 2020, Labixiaoxin (Tianjin) Co., Ltd. as the vendor, Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. as the vendor's Guarantor, an independent third party as the purchaser, and Tianjin Huakunda Supply Chain Management Co., Ltd. as the target company entered into an equity transfer agreement, pursuant to which, the purchaser has conditionally agreed to acquire, the vendor has conditionally agreed to sell the entire equity interest in the target company at a consideration of approximately RMB288,428,000 (subject to adjustments), pursuant to the terms and conditions of the equity transfer agreement. The Company expected to generate a gain on disposal of approximately RMB109.8 million from this disposal and the expected net proceeds from this disposal of approximately RMB227.8 million will be applied to repay the borrowings of the Group, develop the Group's business in respect of product upgrades and expanding distribution channels, and use for the general working capital of the Group. The Company expects the net proceeds from this disposal will lower the gearing ratio and improve the liquidity of the Group.

The Group maintains sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash outflow from operating activities of RMB5.4 million in the first half of year 2020 (2019: net cash inflow of RMB82.3 million). This was mainly due to increase in sales during the second quarter of the period under review but not yet due for settlement by distributors. The Group has spent RMB3.9 million in investing activities in the first half of year 2020 mainly for the upgrade of production lines of the production plants. The Group has net cash inflow from financing activities of RMB2.8 million in the first half of year 2020 mainly due the Group increased its bank borrowings by approximately RMB18.0 million during the period.

Capital expenditure

During the six months ended 30 June 2020, the Group incurred RMB3.9 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 2020, balance increased by RMB26.2 million from the beginning of the year. The inventories turnover days for the first half of year 2020 and year 2019 were 61 days and 49 days, respectively.

Trade and bills receivables

Trade and bills 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 RMB48.5 million from the beginning of the year. The trade receivables turnover days for the first half of year 2020 and year 2019 were 192 days and 167 days, respectively. Subsequent to the period end and up to the date of this announcement, approximately RMB70.6 million of the trade receivables were settled by the wholesale distributors.

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.

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 to 60 days to the Group. The Group also used bank bills to settle trade payables. As at 30 June 2020, bills payable of the Group amounting to RMB80.0 million were secured by pledged bank deposits of RMB35.0 million. As at 30 June 2020, the bills payable were with maturity period within 1 year.

Trade payables (including trade payables and bills payable) turnover days for the six months ended 30 June 2020 and 2019 were 39 days and 40 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 2020, 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 2020, land and building of the Group in Hong Kong with net book value of RMB6.2 million (31 December 2019: RMB6.4 million) was pledged as security for mortgage loan. As at 30 June 2020, land and buildings in the PRC of approximately RMB93.6 million (31 December 2019: RMB98.8 million) was pledged as security for short-term bank borrowings. As at 30 June 2020, a loan from an independent third party of RMB41.8 million (31 December 2019: RMB41.8 million) was secured by the equity of a PRC subsidiary of the Group.

Contingent liabilities

As at 30 June 2020, the Group had no contingent liabilities (31 December 2019: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2020, the Group had approximately 1,150 employees and total remuneration expenses for the first half of year 2020 amounted to RMB40.0 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

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

Save as disclosed in this interim results announcement, there was no other significant investments, material acquisition and disposal of subsidiaries and associated companies during the period ended 30 June 2020 (2019: Nil). Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this interim results announcement.

PROSPECT

During the period under review, the market demand on the Group's products remained weak due to the outbreak of COVID-19 in the last quarter of year 2019 in the PRC. The Group's production and sales were partially disrupted during the first quarter of year 2020. The sales performance of the Group has gradually picked up in the second quarter of year 2020 as the lock-down measures ended in most of the PRC cities. The Directors considered that the outbreak of COVID-19 may have short-term pressure on the Group's business. However, it may also lead to an upgrade and consolidation opportunities of the food industry. As such, the Directors consider this is a good opportunity for the Group to expand its market share.

To build a solid foundation, the Group is formulating a mid-to-long term growth strategy. In year 2020, the Group has planned to expand its new retail, e-commerce, social media and society distribution channels. The Group will continue to adjust and upgrade its product portfolio, such as upgrading its pudding products and lift its sales. In addition, the Company will also launch a series of new talent management strategies, including but not limited to putting forward new performance-based incentive schemes, to attract talents.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2020, 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 Biao and Ms. Sun Kam Ching.

The Audit Committee has discussed with the Company’s management the accounting principles and practices adopted by the Group. The Audit Committee has also reviewed the interim results of the Group for the six months ended 30 June 2020.

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 2020, 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 2020.

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 2020 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, 31 August 2020

As at the date of this announcement, the directors of the Company are Zheng Yu Long, Zheng Yu Shuang and Zheng Yu Huan as executive directors of the Company, Li Hung Kong as non-executive director of the Company and Li Biao, Sun Kam Ching and Chung Yau Tong as independent non-executive directors of the Company.

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