

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## 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 2013

#### FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		+ / (-) %
	2013 RMB' million	2012 RMB' million	
<b>Key income statement items</b>			
Sales	975.5	831.7	17.3%
Gross Profit	406.7	341.4	19.1%
EBITDA <sup>(1)</sup>	292.8	232.0	26.2%
Profit for the period	186.7	160.8	16.1%
<b>Key performance indicators</b>			
Gross profit margin	41.7%	41.1%	0.6%
EBITDA margin	30.0%	27.9%	2.1%
Net profit margin	19.1%	19.3%	-0.2%
Return on equity (LTM) <sup>(2)</sup>	18.1%	20.1%	-2.0%
Earnings per share			
– Basic	RMB0.17	RMB0.14	21.4%
– Diluted	RMB0.17	RMB0.14	21.4%
<i>Notes:</i>			
1.	EBITDA refers to earnings before interests, income tax, depreciation, amortisation and non-cash share-based payments.		
2.	Return on equity is calculated using net profit for the last twelve months divided by average of monthly ending equity balance for the relevant period.		

The board of directors (the “**Board**”) of Labixiaoxin Snacks Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2013, together with comparative figures for the corresponding period in 2012, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2013</b>	2012
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
Sales	4	<b>975,474</b>	831,729
Cost of sales		<b>(568,812)</b>	(490,281)
Gross profit		<b>406,662</b>	341,448
Other income	5	<b>274</b>	486
Selling and distribution expenses		<b>(118,798)</b>	(111,288)
Administrative expenses		<b>(33,518)</b>	(32,098)
Other net gains	6	<b>1,855</b>	2,734
Operating profit	7	<b>256,475</b>	201,282
Finance income		<b>4,405</b>	2,756
Finance costs		<b>(3,529)</b>	(4,415)
Finance income/(costs), net	8	<b>876</b>	(1,659)
Profit before income tax		<b>257,351</b>	199,623
Income tax expense	9	<b>(70,634)</b>	(38,861)
Profit and total comprehensive income for the period		<b>186,717</b>	160,762
Earnings per share attributable to equity holders of the Company ( <i>RMB per share</i> )	10		
– Basic		<b>0.17</b>	0.14
– Diluted		<b>0.17</b>	0.14

**CONDENSED CONSOLIDATED BALANCE SHEET**  
*AS AT 30 JUNE 2013*

	<i>Note</i>	<b>Unaudited 30 June 2013 RMB'000</b>	<b>Audited 31 December 2012 RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		149,264	150,922
Property, plant and equipment		989,355	991,138
Deposits for property, plant and equipment		240,189	118,917
Interests in an associated company		–	–
Deferred income tax assets		11,407	6,112
		<u>1,390,215</u>	<u>1,267,089</u>
<b>Current assets</b>			
Inventories		78,702	72,769
Trade receivables	12	202,769	269,517
Prepayments and other receivables		22,870	10,904
Pledged bank deposits		14,083	9,604
Cash and cash equivalents		832,140	406,106
		<u>1,150,564</u>	<u>768,900</u>
<b>Total assets</b>		<u><b>2,540,779</b></u>	<u><b>2,035,989</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		403,984	403,984
Share premium		550,787	550,787
Other reserves		35,131	33,311
Retained earnings		785,535	670,856
<b>Total equity</b>		<u>1,775,437</u>	<u>1,658,938</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		23,144	17,410
Borrowings	14	444,296	–
		<u>467,440</u>	<u>17,410</u>
<b>Current liabilities</b>			
Trade and other payables	13	215,898	257,408
Borrowings	14	44,780	75,080
Current income tax liabilities		37,224	27,153
		<u>297,902</u>	<u>359,641</u>
<b>Total liabilities</b>		<u>765,342</u>	<u>377,051</u>
<b>Total equity and liabilities</b>		<u><b>2,540,779</b></u>	<u><b>2,035,989</b></u>
<b>Net current assets</b>		<u><b>852,662</b></u>	<u><b>409,259</b></u>
<b>Total assets less current liabilities</b>		<u><b>2,242,877</b></u>	<u><b>1,676,348</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2013**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations	<b>303,158</b>	235,261
Income tax paid	<b>(60,124)</b>	(33,622)
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>243,034</b>	201,639
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(17,380)</b>	(145,409)
Deposits paid for property, plant and equipment	<b>(134,643)</b>	(25,174)
Proceeds from disposal of property, plant and equipment	<b>430</b>	–
Interest received	<b>4,405</b>	2,756
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(147,188)</b>	(167,827)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	<b>444,296</b>	30,000
Repayments of borrowings	<b>(30,300)</b>	(100,000)
(Increase)/decrease in pledged bank deposits	<b>(4,479)</b>	9,766
Dividends paid	<b>(72,038)</b>	(56,280)
Interest paid	<b>(7,291)</b>	(4,415)
	<hr/>	<hr/>
<b>Net cash generated from/(used in) financing activities</b>	<b>330,188</b>	(120,929)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>426,034</b>	(87,117)
Cash and cash equivalents at the beginning of the period	<b>406,106</b>	521,949
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	<b>832,140</b>	434,832
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## 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**”).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) are the manufacture and sale of food and beverages products.

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

This condensed consolidated interim financial information has not been audited.

### 2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2013 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 2012, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2012.

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 2012, except as mentioned below.

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

The following new standards, amendments and interpretations to standards are mandatory for accounting periods beginning on or after 1 January 2013. The adoption of these new standards, amendments and interpretations to standards does not have any significant impact to the results and financial position of the Group.

IAS 1 (Amendment)	Presentation of financial statements
IAS 19 (Amendment)	Employee benefits
IAS 27 (2011)	Separate financial statements
IAS 28 (2011)	Investments in associates and joint ventures
IFRS 1 (Amendment)	Government Grants
IFRS 7 (Amendment)	Financial instruments: Disclosures - offsetting financial assets and financial liabilities
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurements
IFRIC - Int 20	Stripping costs in the production phase of a surface mine
Annual improvements project	Fourth 2011 annual improvements project

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

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

IAS 32 (Amendment)	Financial instruments: Presentation - offsetting financial assets and financial liabilities <sup>1</sup>
IAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets <sup>1</sup>
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date and transition disclosures <sup>2</sup>
IFRS 9	Financial instruments <sup>2</sup>
IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment entities <sup>1</sup>
IFRIC - Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for the Group for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for the Group for annual periods beginning on or after 1 January 2015

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

### **3 FINANCIAL RISK MANAGEMENT**

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

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, beverage 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. Beverage products
- iv. Other snacks products

Although the beverage products segment does not meet the quantitative thresholds required by IFRS 8 "Operating segments", management has concluded that this segment should be reported, as it is closely monitored by the CODM as a potential growth segment and is expected to materially contribute to group revenue in the future.

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 comprehensive income.

During the six months ended 30 June 2013, none of the individual customer account for 10% or more of the Group's external revenue (2012: none). As at 30 June 2013 and 31 December 2012, substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

Unaudited  
Six months ended 30 June 2013

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

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

<b>Results of reportable segments</b>		287,864
Corporate income		5,106
Corporate expenses		<u>(36,495)</u>
<b>Operating profit</b>		256,475
Finance income		4,405
Finance costs		<u>(3,529)</u>
<b>Profit before income tax</b>		257,351
Income tax expense		<u>(70,634)</u>
<b>Profit for the period</b>		<u>186,717</u>
Amortisation of land use rights	<u>1,658</u>	<u>-</u>
Depreciation of property, plant and equipment	<u>30,424</u>	<u>2,465</u>

	Unaudited			
	Six months ended 30 June 2012			
	Jelly products	Confectionary products	Other snacks products	Reportable segments Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>				
Sales to external customers	697,795	54,271	79,663	831,729
Cost of sales	(401,799)	(34,037)	(54,445)	(490,281)
Gross profit	<u>295,996</u>	<u>20,234</u>	<u>25,218</u>	<u>341,448</u>
<b>Results of reportable segments</b>	<u>199,775</u>	<u>14,040</u>	<u>16,345</u>	<u>230,160</u>
A reconciliation of results of reportable segments to profit for the period is as follows:				
<b>Results of reportable segments</b>				230,160
Corporate income				3,234
Corporate expenses				<u>(32,112)</u>
<b>Operating profit</b>				201,242
Finance income				2,756
Finance costs				<u>(4,415)</u>
<b>Profit before income tax</b>				199,623
Income tax expense				<u>(38,861)</u>
<b>Profit for the period</b>				<u>160,762</u>
Amortisation of land use rights	<u>1,658</u>	<u>–</u>	<u>–</u>	<u>1,658</u>
Depreciation of property, plant and equipment and equipment	<u>26,824</u>	<u>–</u>	<u>901</u>	<u>27,725</u>

**5 OTHER INCOME**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Rental income	<u>274</u>	<u>486</u>

**6 OTHER NET GAINS**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Gain on sales of scrap materials	1,767	157
Loss on disposal of property, plant and equipment	(2,976)	(14)
Net exchange gains	<u>3,064</u>	<u>2,591</u>
	<u><b>1,855</b></u>	<u><b>2,734</b></u>

**7 OPERATING PROFIT**

Operating profit was determined after charging the following:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Purchases of raw materials, finished goods and consumables	531,663	408,686
Changes in inventories of raw materials and finished goods	(5,933)	30,457
Advertising and promotion expenses	90,726	65,170
Freight and transportation expenses	1,754	29,591
Employee benefit expenses (including directors' emoluments and share-based payments)	55,277	44,777
Depreciation of property, plant and equipment	32,889	27,725
Amortisation of land use rights	1,658	1,658
Operating leases rentals	<u>-</u>	<u>287</u>

## 8 FINANCE INCOME/(COSTS), NET

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Finance income:		
Interest income on bank deposits	4,405	2,756
Finance costs:		
Interest expenses on bank borrowings wholly repayable within five years	(7,291)	(4,415)
Less: amounts capitalised on qualifying assets	3,762	–
Total finance costs	(3,529)	(4,415)
Finance income/(costs), net	876	(1,659)

## 9 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current income tax – PRC	70,195	34,121
Deferred income tax	439	4,740
	70,634	38,861

During the six months ended 30 June 2013, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2012: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2012: 25%) on their taxable profit during the period.

One of the subsidiaries enjoyed a 50% reduction in PRC income tax rate for the period ended 30 June 2012, which was expired by the end of 2012.

A subsidiary in Fujian province, PRC, was designated an New and Hi-Tech Enterprises (“**高新技術企業**”) in October 2009 and enjoyed a preferential income tax rate of 15% for the period ended 30 June 2012 which was expired in the second half of the year ended 31 December 2012. That subsidiary is subject to standard income tax rate of 25% in 2013.

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2013</b>	<b>2012</b>
Net profit attributable to the equity holders of Company ( <i>RMB'000</i> )	<u>186,717</u>	<u>160,762</u>
Weighted average number of ordinary shares outstanding for basic earnings per share ( <i>'000</i> )	<u>1,125,600</u>	<u>1,125,600</u>
Basic earnings per share ( <i>RMB per share</i> )	<u>0.17</u>	<u>0.14</u>

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

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period after adjusting for the dilutive potential ordinary shares in respect of the Company's outstanding share options. The potential ordinary shares in respect of the Company's outstanding share options are dilutive for the six months ended 30 June 2013 while they were anti-dilutive for the six months ended 30 June 2012.

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

## 11 DIVIDENDS

At the annual general meeting held on 23 May 2013, the shareholders approved a final dividend of HK\$0.08 per share, amounting to HK\$90,048,000 (equivalent to RMB72,038,000) for the year ended 31 December 2012, which was paid in June 2013 and have been reflected as an appropriation of retained earnings for the six months ended 30 June 2013. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013.

## 12 TRADE RECEIVABLES

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

	<b>Unaudited 30 June 2013 RMB'000</b>	Audited 31 December 2012 RMB'000
Less than 30 days	149,352	199,875
31 days – 90 days	53,417	69,342
Over 90 days	–	300
	<u>202,769</u>	<u>269,517</u>

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

During the period, no trade receivables were impaired. As at 30 June 2013 and 31 December 2012, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

## 13 TRADE AND OTHER PAYABLES

	<b>Unaudited 30 June 2013 RMB'000</b>	Audited 31 December 2012 RMB'000
Trade payables	127,008	148,717
Bills payable	17,081	32,798
	<u>144,089</u>	<u>181,515</u>
Trade and bills payables	144,089	181,515
Accrued sales rebates	19,864	28,447
Other accrued expenses	24,097	24,825
Directors' fees and emoluments payable	8,515	7,862
Sundry creditors	19,333	14,759
	<u>215,898</u>	<u>257,408</u>

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2013 and 31 December 2012, the aging analysis of trade payables is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2013</b> <i>RMB'000</i>	Audited 31 December 2012 <i>RMB'000</i>
Less than 30 days	<b>85,419</b>	126,035
31 days – 90 days	<b>41,160</b>	22,682
Over 90 days	<b>429</b>	–
	<b><u>127,008</u></b>	<b><u>148,717</u></b>

Bills payable of the Group amounting to RMB17,081,000 (31 December 2012: RMB32,798,000) were secured by pledged bank deposits of RMB5,043,000 (31 December 2012: RMB9,604,000). The bills payable were with average maturity period of within six months.

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

#### 14 BORROWINGS

	<b>Unaudited</b> <b>30 June</b> <b>2013</b> <i>RMB'000</i>	Audited 31 December 2012 <i>RMB'000</i>
Non-current	<b>444,296</b>	–
Current	<b>44,780</b>	75,080
Total borrowings	<b><u>489,076</u></b>	<b><u>75,080</u></b>

##### *Notes:*

- (i) On 25 February 2013, the Company as borrower entered into a Facility Agreement (the “**Facility Agreement**”) with certain banking institutes as original lenders in relation to a US\$75,000,000 term loan facility with the interest rate of 3-month LIBOR plus 3.5% per annum. The facility has a term of 36 months commencing from the date of the Facility Agreement. The facility was fully drawn down as at 30 June 2013. This syndicated loan is repayable in four instalments in August 2014, February 2015, August 2015 and February 2016 respectively, and secured by bank deposit of RMB9.0 million and shares of certain wholly-owned subsidiaries of the Group.
- (ii) At 30 June 2013, bank borrowings of RMB40,000,000 (31 December 2012: RMB70,000,000) were guaranteed by a subsidiary of the Group.
- (iii) At 30 June 2013, a bank borrowing of RMB4,780,000 (31 December 2012: RMB5,080,000) was secured by land and buildings of RMB9,771,000 (31 December 2012: RMB10,027,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the first half of 2013, the Group has maintained a robust growth for its core business. On the other hand, it has also kicked off a good start for its new business stream of beverage products. Total sales of the Group for the first half of 2013 increased by 17.3%, as compared with the same period of last year. During the six months ended 30 June 2013, the cost of most of the raw materials remained low, gross profit margin and EBITDA margin showed good improvement. Net profit and earnings per share surged by 16.1% and 21.4% respectively year on year. Operating cash flow remained strong and increased 20.5% from a year back.

### **SALES**

Sales surged 17.3% to RMB975.5 million in the first half of 2013. The Group continued to penetrate “Labixiaoxin” products into new areas via expansion of existing distribution networks and new distributorships. As at 30 June 2013, the Group had a total number of 316 wholesale distributors and key account agents. The sales contributed from new distributors, net of terminated distributors, represents 3.9% of total domestic sales in the first half of 2013. Meanwhile, the current distributors demonstrated a strong growth of 13.5% in domestic sales, as compared with the same period in last year. The performance in Northern China outstood from the rest and delivered 27.5% growth year on year. Sales in Western and Central China remained robust which soared by 24.2% and 23.6% respectively from a year back. The sales momentum in Eastern China was maintained which increased by 10.2% from the same period in last year. Sales in modern retail channels remained robust, sales via key account agents grew 13.6% to RMB142.4 million in the first half of 2013 or 15.0% of total domestic sales. Sales in traditional retail channels demonstrated a even stronger growth. Sales via wholesale distributors increased 21.2% from a year back to RMB804.7 million.

Starting from 2013, the delivery cost previously borne by the Group, being the cost of delivering products from the Group’s warehouses to distributors’ warehouses, were taken up by the distributors. The Group granted extra discount to subsidize the distributors. The said discount of RMB33.4 million, or 3.1% of gross sales, were directly net off against sales in 2013. Consequently, the reported sales and gross profit in 2013 were cut down while the selling and distribution expenses also dropped by the same amount without affecting profit for the period. For comparison purpose, assuming the extra sales discount were not deducted from sales, the adjusted sales surged 21.3% from a year back and adjusted gross profit margin improved by 2.5 percentage points from the same period in last year.

## **Jelly products**

Sales of jelly products increased by 8.6% from RMB697.8 million in the first half of 2012 to RMB758.1 million in the first half of 2013, of which sales attributable to jelly snacks and jelly beverages increased by 7.0% to RMB455.8 million and 11.3% to RMB302.4 million, respectively. The Group's brand image played a key role particularly after the gelatin scandal. The Group was glad to note that consumers were eventually restoring confidence in consuming jelly products. The year-on-year growth rate of jelly products' sales was improving throughout the first half of 2013. The new Angry Bird series of jelly bar and jelly beverages also boosted the consumption sentiment.

## **Confectionary products**

Sales of confectionary products increased by 54.5% to RMB83.9 million in the first half of 2013. The new Angry Bird series of lollipop and gummy candy not only boosted up the consumption sentiment but also generated higher margin for the portfolio.

## **Beverage products**

The Group soft launched "Xiaoxin Ru Guo" flavored milk in April 2013 which contributed RMB9.5 million sales in the first half of 2013. By the end of June 2013, the Group has engaged 43 wholesale distributors selling the flavored milk products mainly in the second or third tier cities at Fujian, Zhejiang and Anhui Provinces, etc. The Group has received encouraging feedback from the market, in particular the banana flavored milk. There was ample number of distributors in the pipeline who has indicated their interest to join the distributorship. Besides, certain key account customers have also agreed to allow "Xiaoxin Ru Guo" selling via their network. However, the Group must breakthrough the immediate hurdle of production capacity constraint before expanding the market further. The Group has expedited the installation process of the production machinery in Anhui Production Facilities which is now under test running.

## **Other snacks products**

Sales of other snacks products soared 55.5% to RMB123.9 million in the first half of 2013. This was mainly due to sales attributable from new products including, "Megg" egg rolls, "Megg" red bean bun and "Xiaoxin cup" – chocolate cracker ball, which generated a robust demand.

## **COST OF SALES**

Cost of sales increased 16.0% to RMB568.8 million in the first half of 2013. The increased in cost of sales less than that of sales because the cost of most of the raw materials and packaging materials were falling since last year.

## **GROSS PROFIT**

Gross profit increased by 19.1% to RMB406.7 million in the first half of 2013 and gross profit margin increased by 0.6 percentage point from 41.1% in the first half of 2012 to 41.7% in the first half of 2013. The margin improvement was primarily due to falling in prices of raw materials since last year.

## **SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses increased marginally by 6.7% to RMB118.8 million in the first half of 2013 primarily due to increase in advertising and promotion expenses, operating costs of sales department, off-set by decrease in freight and transportation expenses.

As mentioned in previous paragraph, the delivery cost previously borne by the Group, being the delivering cost of products from the Group's warehouses to distributors' warehouses were taken up by the distributors in 2013. The Group granted an extra sales discount as subsidy. The said discount represents 3.1% of gross sales while the freight and transportation expenses represents 3.3% of sales in the first half of 2012 which was more or less the same level.

During the six months ended 30 June 2013, the Group had invested heavily in various media and retail channels to promote "*Labixiaoxin – Xiaoxin Ru Guo*" flavored milk series. The advertising and promotion expenses were jetting up by 39.2% to RMB90.7 million or 9.3% of sales. The Group will disciplinarily monitor the advertising and promotion expenses at the range of 8 – 10% of sales.

## **ADMINISTRATIVE EXPENSES**

Administrative expenses increased slightly by 4.4% to RMB33.5 million in the first half of 2013. The overall administrative expenses to sales ratio was 3.4% which was comparable to that of same period in last year.

## **OTHER NET GAINS**

Balance primarily comprised net exchange gains, loss on disposal of machinery and equipment and net gain on sales of scrap materials. During the period, the Group incurred net gains of RMB1.9 million, primarily due to exchange gain as a result of appreciate of Renminbi during the period.

## **INCOME TAX EXPENSE**

The Group income tax expense increased significantly by 81.8% to RMB70.6 million in the first half of 2013, representing an effective income tax rate of 27.4% versus that of 19.5% in the same period of last year. This was mainly because the tax benefit of one of the Group's subsidiary expired in the second half of 2012. That subsidiary was subjected to preferential income tax rate of 15% in the first half of 2012 and was restored to the standard rate of 25% after expiry of the tax benefit in the second half of 2012. In fact, the subsidiary was charged retrospectively to the first half of 2012 at standard income tax rate of 25% after expiry of the tax benefit, leading the Group's effective income tax rate for the second half of 2012 and full year of 2012 were 31.0% and 24.7% respectively.

If the income tax expense for the first half of 2012 was adjusted retrospectively, taking into account the captioned arrangement, the effective income tax rate for that period would have been 24.3% which was relatively comparable to that of the current period.

## **NET PROFIT FOR THE PERIOD**

Net profit for the period increased by 16.1% from RMB160.8 million in the first half of 2012 to RMB186.7 million in the first half of 2013. This was primarily due to increase in sales and margin improvement, partially offset by increase in effective income tax rate from 19.5% in first half of 2012 to 27.4% in the first half of 2013.

As aforesaid mentioned, the effective income tax rate in the first half of 2012 would have been 24.3% if taking into account the retrospective income tax charge to the first half of 2012. Consequently, the adjusted net profit for the first half of 2012 would have been RMB151.1 million. Accordingly, the net profit for current period would surge by 23.6% from a year back and net profit margin improved by 0.9 percentage points for comparison purpose.

## **FINANCIAL REVIEW**

### **Financial resources and liquidity**

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

As at 30 June 2013, the bank balances and deposits amounted to RMB832.1 million, representing an increase of RMB426.0 million as compared with the year ended 31 December 2012. This was mainly due to good cash flow generated from operating activities and fund raised from 3-year syndicated bank loan during the period. Total borrowings of the Group as at 30 June 2013 increased sharply by 551.3% to RMB489.1 million which was primarily due to the 3-year syndicated bank loans that the Group secured during the period under review. Over 90% of the Group's cash and bank balances were denominated in RMB while over 90% of the Group's borrowings were denominated in USD. While the Group's gearing ratio (total borrowings divided by total equity) as at 30 June 2013 increased to 27.5% (31 December 2012: 4.5%), the Group maintained at net cash positing as at 30 June 2013.

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**

Cash flow generated from operating activities surged 20.5% from RMB201.6 million in the first half of 2012 to RMB243.0 million in the first half of 2013. As at 30 June 2013, the Group has spent RMB147.2 million in investing activities mainly for expansion of production facilities. The Group has inflow cash of RMB330.2 million from financing activities which primarily represents fund raise from the 3-year syndicated bank loan.

### **Capital expenditure**

In first half of 2013, the Group has spent RMB152.0 million in capital expenditure mainly for construction of production facilities in Anhui Province and expansion of production facilities in Tianjin and Sichuan Province. The flavored milk production lines at Anhui Production Facilities have recently commenced operation in August 2013 as planned. The production lines of jelly products at Anhui Production Facilities will commence operation by end of this year. The Group will build 4 production houses at Sichuan Production Facilities for future expansion.

The above capital expenditure was primarily financed by proceed from the 3-year syndicated bank loan and operating cash flows.

## **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 2013, balance increased RMB5.9 million from the beginning of the year mainly due to procurement of raw materials toward the end of the reporting period. The inventories turnover days for the first half of 2013 and 2012 were 21 days and 20 days, respectively.

## **Trade receivables**

Trade receivables mainly represent the balance due from wholesales distributors and key account agent. The Group typically sells its products on credit and grant 30 days credit to most of the wholesale distributors and 90 days credit to key account agents. Balance decreased by RMB66.7 million from the beginning of the year mainly due to seasonal factor. The trade receivable turnover days for the first half of 2013 and 2012 were 44 days and 52 days, respectively.

## **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. The Group also settled some of the procurement by bank bills which typically have 180 settlement days, at cost of bank charges and pledged deposits to the banks. Trade payables turnover days for the first half of 2013 and 2012 were 53 days and 74 days respectively.

## **Charges on assets**

As at 30 June 2013, the Group had the following charge of assets:

- (i) bank deposits of RMB14.1 million (31 December 2012: RMB9.6 million);
- (ii) land and building with net asset value of RMB9.8 million (31 December 2012: RMB10.0 million); and
- (iii) shares of certain wholly-owned subsidiaries of the Group.

## **Contingent liabilities**

As at 30 June 2013, the Group had no contingent liabilities (31 December 2012: Nil).

## **Disclosure pursuant to Rule 13.18 of the Listing Rules**

On 25 February 2013, the Company as borrower entered into a Facility Agreement (the “**Facility Agreement**”) with certain banking institutes as original lenders in relation to a US\$75,000,000 term loan facility. The Facility has a term of 36 months commencing from the date of the Facility Agreement.

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

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

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 30 June 2013, the Group had approximately 2,700 employees and total remuneration expenses for the first half of 2013 amounted to RMB55.3 million including amortization cost of share option of RMB1.8 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.

On 30 March 2012, the Group has granted 15,000,000 share options to certain employees of the Group with an exercisable period from 31 March 2012 to 30 March 2017 at an exercise price of HK\$2.68 per share. There are three vesting periods for these share options. As at 30 June 2013, 7,000,000 share options were vested and were fully exercised subsequently in July 2013.

## **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 2013.

## **PROSPECT**

The economic data indicates that China economy is under downward pressure. The new administration has demonstrated their commitment to transform the economy from intense investment and export driven to domestic consumption driven, at the expense of short term economic slowdown. The Group's previous investment in branding and distribution networks has provided a solid foundation to meet the future challenges. Particularly, the Group is seeing a good recovery of consumers' confidence in jelly products after the gelatin scandal. The market feedback to "Xiaoxin Ru Guo" flavored milk is also encouraging. Besides, there is no indication of immediate rising pressure to most of the raw material cost. The Group is cautiously optimistic to its performance in the second half of 2013, albeit the short term volatility of China economy.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the period under review during the period under review.

## **AUDIT COMMITTEE**

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

The Audit Committee has reviewed with the Company's management and the Group's auditor 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 2013.

## **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 2013, 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 except for code provision A.6.7 of the CG Code which requires that the independent non-executive directors and the non-executive directors should attend the general meetings. However, due to other business commitment, Mr. Li Hung Kong, an non-executive director of the Company, did not attend the annual general meeting of the Company held on 23 May 2013.

## **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 2013.

## **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 2013 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the aforesaid websites in due course.

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

Hong Kong, 28 August 2013

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

*This announcement is available for viewing on the website of the Company at [www.lbxxgroup.com](http://www.lbxxgroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).*