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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 AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013 AND RESUMPTION OF TRADING

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2013	2012	Change
	RMB' million	RMB' million	+ / (-) %
Key income statement items			
Sales	1,833.8	1,546.5	18.6%
Gross Profit	751.8	633.3	18.7%
EBITDA ¹	526.7	436.4	20.7%
Profit for the year	326.4	277.9	17.5%
Key performance indicators			
Gross profit margin	41.0%	41.0%	0.0%
EBITDA margin	28.7%	28.2%	0.5%
Net profit margin	17.8%	18.0%	-0.2%
Return on equity ²	18.0%	17.9%	0.1%
Earnings per share			
– Basic	RMB0.29	RMB0.25	16.0%
– Diluted	RMB0.29	RMB0.25	16.0%

1. EBITDA refers to earnings before interests, income tax, depreciation and amortisation and non-cash share-based payments.
2. Return on equity is calculated using profit for the year divided by average of monthly ending equity balance for the year.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the ordinary shares in the Company has been suspended from 9:00 a.m. on 24 March 2014 pending the publication of this announcement. An application has been made by the Company for the resumption of trading with effect from 9:00 a.m. on 25 June 2014.

The board of directors (the “Board”) of Labixiaoxin Snacks Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2013, together with comparative figures for the year ended 31 December 2012, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	<i>Note</i>	2013 RMB’000	2012 RMB’000
Sales	3	1,833,795	1,546,482
Cost of sales	6	(1,082,033)	(913,187)
Gross profit		751,762	633,295
Other income	4	7,636	8,916
Other gains, net	5	6,467	1,504
Selling and distribution expenses	6	(246,907)	(203,532)
Administrative expenses	6	(74,005)	(70,047)
Operating profit		444,953	370,136
Finance income	7	11,781	6,461
Finance costs	7	(7,693)	(7,358)
Finance income/(costs), net	7	4,088	(897)
Profit before income tax		449,041	369,239
Income tax expense	8	(122,659)	(91,379)
Profit and total comprehensive income for the year		326,382	277,860
Earnings per share attributable to equity holders of the Company (<i>RMB per share</i>)	9		
– Basic		0.29	0.25
– Diluted		0.29	0.25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	<i>Note</i>	2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Land use rights		147,606	150,922
Property, plant and equipment		1,199,013	991,138
Deposits for property, plant and equipment		101,881	118,917
Interests in an associated company		—	—
Deferred income tax assets		23,790	6,112
		1,472,290	1,267,089
Current assets			
Inventories		85,339	72,769
Trade receivables	<i>11</i>	295,431	269,517
Prepayments and other receivables		41,334	10,904
Pledged bank deposits		16,214	9,604
Cash and cash equivalents		792,196	406,106
		1,230,514	768,900
Total assets		2,702,804	2,035,989
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		406,133	403,984
Share premium		566,809	550,787
Other reserves		71,095	33,311
Retained earnings		886,875	670,856
Total equity		1,930,912	1,658,938
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		28,450	17,410
Borrowings	<i>13</i>	386,526	—
		414,976	17,410
Current liabilities			
Trade and other payables	<i>12</i>	261,377	257,408
Borrowings	<i>13</i>	63,459	75,080
Current income tax liabilities		32,080	27,153
		356,916	359,641
Total liabilities		771,892	377,051
Total equity and liabilities		2,702,804	2,035,989
Net current assets		873,598	409,259
Total assets less current liabilities		2,345,888	1,676,348

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	<i>Note</i>	2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash generated from operations	14	465,382	409,470
Income tax paid		(124,370)	(70,383)
Net cash generated from operating activities		341,012	339,087
Cash flows from investing activities			
Purchase of property, plant and equipment		(189,129)	(205,507)
Deposits paid for property, plant and equipment		(69,061)	(118,917)
Proceeds from disposal of property, plant and equipment		3,026	185
Interest received		11,781	6,461
Net cash used in investing activities		(243,383)	(317,778)
Cash flows from financing activities			
Proceeds from borrowings		445,500	35,120
Repayments of borrowings		(70,595)	(117,040)
(Increase)/decrease in pledged bank deposits		(6,610)	8,406
Proceeds from issuance of new shares upon exercise of share options		14,820	—
Dividends paid		(72,038)	(56,280)
Interest paid		(22,616)	(7,358)
Net cash generated from/(used in) financing activities		288,461	(137,152)
Net increase/(decrease) in cash and cash equivalents		386,090	(115,843)
Cash and cash equivalents at the beginning of the year		406,106	521,949
Cash and cash equivalents at the end of the year		792,196	406,106

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 (the “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 manufacturing 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”).

These consolidated financial statements are presented in Renminbi (“RMB”) which is the same as the functional currency of the Group, unless otherwise stated.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which collective term includes all International Accounting Standards (“IAS”) and related interpretations, as issued by the International Accounting Standards Board (the “IASB”). The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

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

The following amendments to standards are mandatory for accounting periods beginning on or after 1 January 2013.

IAS 1 (Amendments)	Presentation of items of other comprehensive income
IAS 19 (as revised in 2011)	Employee benefits
IAS 27 (as revised in 2011)	Separate financial statements
IAS 28 (as revised in 2011)	Investments in associates and joint ventures
IFRS 7 (Amendments)	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 10, 11 and 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interest in other entities: transition guidance
IFRS 13	Fair value measurement
IFRIC – Int 20	Stripping costs in the production phase of a surface mine
IFRS (Amendments)	Annual improvements to IFRS 2009-2011 cycle

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of items of other comprehensive income

The Group has applied the amendments to IAS 1 Presentation of items of other comprehensive income for the first time in the current year. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section; (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

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

IAS 16 and IAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation ⁶
IAS 19 (Amendments)	Defined benefit plans: employee contributions ²
IAS 32 (Amendments)	Offsetting financial assets and financial liabilities ¹
IAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets ¹
IAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting ¹
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date of IFRS 9 and transition disclosures ³
IFRS 9	Financial instruments ³
IFRS 10, IFRS 12 and IFRS 27 (Amendments)	Investment entities ¹
IFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations ⁶
IFRS 14	Regulatory deferral accounts ⁵
IFRS (Amendments)	Annual improvements to IFRS 2010-2012 Cycle ⁴
IFRS (Amendments)	Annual improvements to IFRS 2011-2013 Cycle ²
IFRIC 21	Levies ¹

¹ effective for annual periods beginning on or after 1 January 2014

² effective for annual periods beginning on or after 1 July 2014

³ available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

⁴ effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁵ effective for first annual IFRS financial statements beginning on or after 1 January 2016

⁶ effective for annual periods beginning on or after 1 January 2016

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. 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. Beverage 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 statements.

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

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

	Year ended 31 December 2013				
	Jelly products RMB’000	Confectionary products RMB’000	Beverages products RMB’000	Other snacks products RMB’000	Reportable segments total RMB’000
Revenue					
Sales to external customers	1,291,895	235,788	49,701	256,411	1,833,795
Cost of sales	(741,854)	(141,916)	(38,706)	(159,557)	(1,082,033)
Gross profit	<u>550,041</u>	<u>93,872</u>	<u>10,995</u>	<u>96,854</u>	<u>751,762</u>
Results of reportable segments	<u>376,096</u>	<u>62,125</u>	<u>4,304</u>	<u>62,330</u>	<u>504,855</u>

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

Results of reportable segments	504,855
Corporate income	17,706
Corporate expenses	(77,608)
Operating profit	444,953
Finance income	11,781
Finance costs	(7,693)
Profit before income tax	449,041
Income tax expense	(122,659)
Profit for the year	326,382

Amortisation of land use rights	<u>2,381</u>	<u>–</u>	<u>936</u>	<u>–</u>	<u>3,317</u>
Depreciation of property, plant and equipment	<u>67,932</u>	<u>–</u>	<u>1,323</u>	<u>6,389</u>	<u>75,644</u>

	Year ended 31 December 2012			Reportable segments total
	Jelly products RMB'000	Confectionary products RMB'000	Other snacks products RMB'000	RMB'000
Revenue				
Sales to external customers	1,140,570	209,665	196,247	1,546,482
Cost of sales	(656,103)	(128,123)	(128,961)	(913,187)
Gross profit	<u>484,467</u>	<u>81,542</u>	<u>67,286</u>	<u>633,295</u>
Results of reportable segments	<u>326,578</u>	<u>57,623</u>	<u>45,562</u>	<u>429,763</u>

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

Results of reportable segments				429,763
Corporate income				11,497
Corporate expenses				(71,124)
Operating profit				370,136
Finance income				6,461
Finance costs				(7,358)
Profit before income tax				369,239
Income tax expense				(91,379)
Profit for the year				<u>277,860</u>
Amortisation of land use rights	<u>3,317</u>	<u>—</u>	<u>—</u>	<u>3,317</u>
Depreciation of property, plant and equipment	<u>56,125</u>	<u>—</u>	<u>2,798</u>	<u>58,923</u>

Geographical information

During the years ended 31 December 2013 and 2012, the Group mainly operated in the People's Republic of China (the "PRC") and most of the Group's turnover are derived from the PRC and most of the assets of the Group are located in the PRC as at 31 December 2013 and 31 December 2012. No analysis of the Group's result and assets by geographical area is disclosed.

4. OTHER INCOME

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Rental income	646	958
Government subsidy	6,990	7,958
	<u>7,636</u>	<u>8,916</u>

5. OTHER GAINS, NET

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Gain on sales of raw materials and scrap materials	3,352	260
Loss on disposal of property, plant and equipment	(3,603)	(1,077)
Net exchange gains	6,718	2,321
	<u>6,467</u>	<u>1,504</u>

6. EXPENSES BY NATURE

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Purchases of raw materials, finished goods and consumables	951,852	819,486
Changes in inventories of raw materials and finished goods	(12,570)	7,365
Advertising and promotion expenses	191,924	114,318
Employee benefit expenses (including directors' emoluments)	108,425	92,761
Depreciation of property, plant and equipment	75,644	58,923
Amortisation of land use rights	3,317	3,317
Freight and transportation expenses	3,691	52,252
Auditors' remuneration	3,736	1,760
Operating leases rentals	–	356
Other expenses	76,926	36,228
	<u>76,926</u>	<u>36,228</u>
Total cost of sales, selling and distribution and administrative expenses	<u>1,402,945</u>	<u>1,186,766</u>

7. FINANCE INCOME/(COSTS), NET

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Interest expense on bank borrowings	(22,616)	(7,358)
Less: amounts capitalised on qualifying assets	14,923	—
	<u>(7,693)</u>	<u>(7,358)</u>
Finance costs	(7,693)	(7,358)
Interest income on bank deposits	11,781	6,461
Finance income/(costs), net	<u>4,088</u>	<u>(897)</u>

8. INCOME TAX EXPENSE

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Current income tax – PRC	129,297	85,598
Deferred income tax	(6,638)	5,781
	<u>122,659</u>	<u>91,379</u>

During the year ended 31 December 2013, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2012: Nil).

9. EARNINGS PER SHARE

	2013	2012
Net profit attributable to the equity holders of Company (<i>RMB'000</i>)	<u>326,382</u>	<u>277,860</u>
Weighted average number of ordinary shares in issue for basic earnings per share (<i>'000</i>)	<u>1,128,649</u>	<u>1,125,600</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.29</u>	<u>0.25</u>

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the Company's equity holders by the weighted average number of ordinary shares outstanding during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is calculated by dividing the net profit attributable to the Company's equity holders by 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 year ended 31 December 2013 while they were anti-dilutive for the year ended 31 December 2012.

	2013
Net profit attributable to the equity holders of Company (<i>RMB'000</i>)	326,382
Weighted average number of ordinary shares outstanding for basic earnings per share (<i>'000</i>)	1,128,649
Adjustment for share options (<i>'000</i>)	2,758
Weighted average number of ordinary shares outstanding for diluted earnings per share (<i>'000</i>)	1,131,407
Diluted earnings per share (<i>RMB per share</i>)	0.29

10. DIVIDENDS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Final dividend, proposed, of (2013: Nil; 2012: HKD0.08) per share	—	72,038
Interim dividend, paid, of (2013: Nil; 2012: Nil) per share	—	—

11. TRADE RECEIVABLES

The Group's sales are generally on credit term ranging from 30 to 90 days. As at 31 December 2013, the ageing analysis of trade receivables, based on invoice date, is as follows:

	The Group 2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Less than 30 days	206,575	199,875
31 days – 90 days	88,821	69,342
Over 90 days	35	300
	295,431	269,517

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

As at 31 December 2013, trade receivables of RMB35,000 (2012: RMB300,000) were past due but not impaired. These relate to a number of independent customers and were fully repaid subsequent to year end. The Group does not hold any collateral as security over these trade receivables. The ageing analysis of these trade receivables is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Past due by less than 3 months but not impaired	35	300

The carrying amounts of trade receivables approximate their fair values.

12. TRADE AND OTHER PAYABLES

	The Group	
	2013	2012
	RMB'000	RMB'000
Trade payables	133,477	148,717
Bills payable	27,372	32,798
Trade and bills payables	160,849	181,515
Accrued sales rebates	33,311	28,447
Other accrued expenses	15,368	24,825
Directors' fees and emoluments payable	9,135	7,862
Other payables and sundry creditors	42,714	14,759
	261,377	257,408

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Less than 30 days	114,537	126,035
31 days – 90 days	18,012	22,682
Over 90 days	928	–
	133,477	148,717

Bills payable of the Group amounting to RMB27,372,000 (2012: RMB32,798,000) were secured by pledged bank deposits of RMB7,248,000 (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.

13. BORROWINGS

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current	386,526	–	386,526	–
Current	63,459	75,080	58,974	–
	449,985	75,080	445,500	–

As at 31 December 2013, the maturity of bank borrowings is as follows:

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	63,459	75,080	58,974	–
Between 1 and 2 years	225,725	–	225,725	–
Between 2 and 5 years	160,801	–	160,801	–
Wholly repayable within 5 years	449,985	75,080	445,500	–
Over 5 years	–	–	–	–
Total bank borrowings	449,985	75,080	445,500	–

On 25 February 2013, the Company has entered into a facility agreement (the “Facility Agreement”) with certain banking institutes in relation to a US\$75,000,000 term loan facility (the “Facility”). The Facility was charged at a floating interest rate of LIBOR + 3.5% which was re-pricing every 3 months. The Facility was pledged by shares of certain wholly-owned subsidiaries of the Company and bank deposit of RMB8,966,000. The Facility has an original term of 36 months commencing from the date of the Facility Agreement. However, subsequent to 31 December 2013, the Company has triggered certain potential event of defaults (Note 15) and the Company and the lenders have been mutually agreed a new repayment schedule to fully repay the Facility in 2015 and the Company has been waived from the potential event of defaults.

As at 31 December 2013, the bank borrowing of RMB4,485,000 was secured by the land and buildings of RMB9,515,000 and charged at HIBOR + 2.25% (2012: the bank borrowing of RMB5,080,000 was secured by the land and buildings of RMB10,027,000). Such borrowing was re-pricing every month.

The carrying amounts of the borrowings are denominated in the following currencies:

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
HK dollar	4,485	5,080	–	–
Renminbi	–	70,000	–	–
USD	445,500	–	445,500	–
	449,985	75,080	445,500	–

As at 31 December 2013, there is no short-term bank borrowings; while as at 31 December 2012, the short-term bank borrowings RMB70,000,000 were guaranteed by subsidiaries of the Group.

14. CASH GENERATED FROM OPERATIONS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Profit for the year	326,382	277,860
Adjustments for:		
– Income tax expense	122,659	91,379
– Amortisation and depreciation	78,961	62,240
– Loss on disposal of property, plant and equipment	3,603	1,077
– Interest income	(11,781)	(6,461)
– Interest expense	7,693	7,358
– Share-based payment expenses	2,810	4,063
Operating cash flow before working capital changes	530,327	437,516
Change in working capital		
– Receivables and prepayments	(56,344)	(18,989)
– Inventories	(12,570)	7,365
– Trade and other payables	3,969	(16,422)
Cash generated from operations	<u>465,382</u>	<u>409,470</u>

15. EVENTS AFTER THE REPORTING PERIOD

In March 2014, an article published by a magazine in the PRC contained certain allegations or comments on the Group (the “Allegations”). In response to the Allegations, the then auditors of the Company, PricewaterhouseCoopers (“PwC”) requested to perform additional assurance work in order to finalise the audited accounts of the Group for the year ended 31 December 2013. The Company was not able to release the result announcement for the year ended 31 December 2013 by end of March 2014, the despatch of annual report of the Company for 2013 was also postponed consequently.

In May 2014, PwC has resigned as auditors of the Company and the board of directors has appointed HLB Hodgson Impey Cheng Limited as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company. According to terms of the facility agreement (the “Facility Agreement”) of a US\$75,000,000 term loan (the “Term Loan”) that the Company signed on 25 February 2013, it constituted a potential event of default. Nevertheless, the lenders of the Term Loan have waived the potential event of default and the Company has agreed to repay in full the term loan by not later than 25 February 2015 according to a revised repayment schedule. As at the reporting date, the borrowings will be re-classified to current liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the year, the Group was stepping away from gelatin incidence that occurred in mid 2012 eventually, which was reflected in the stronger growth in the overall sales in second half of the year. As a result, the total sales of the Group for the year surged 18.6% from 2012. While the Group has continuously reinvested in branding that increased the advertising and promotion expenses from 7.4% of sales in 2012 to 10.5% of sales in 2013, it maintained a good balance to short term profit to the fact that EBITDA margin improved by 0.5 percentage point from 28.2% in 2012 to 28.7% in 2013. This was primarily due to soft input cost environment and improved operational efficiency. Since all of the tax holidays applicable to the Group's subsidiaries had expired by the end of 2012, the effective tax rate increased from 24.7% in 2012 to 27.3% in 2013, the net profit margin dropped slightly from 18.0% in 2012 to 17.8% in 2013. Nevertheless, the net profit of the Group increased by 17.5% year on year from RMB277.9 million to RMB326.4 million.

SALES

Sales surged by 18.6% to RMB1,833.8 million in 2013. The Group continuously expanded its distribution teams to penetrate “*Labixiaoxin*” products into new areas or new retail channels. By the end of 2013, the Group had a total of 371 wholesale distributors and key account agents. The sales derived from the new distributors and key account agents, excluding terminated distributorships, represented 10.3% of the total domestic sales in 2013 while the existing distributors demonstrated a strong growth of 9.2% in 2013. The growth and performance in Western China was most notable among the regions the Group operated, delivering a year on year growth of 24.6%. Sales in Northern and Central China remained robust, all of which soared by over 20% year on year. The sales momentum in Eastern China and Southern China constant and recorded a steady year on year growth of 19.1% and 14.5%, respectively. Sales in modern retail channels also remained robust, while sales via key account agents grew by 10.6% to RMB279.5 million in 2013, representing 15.7% of the total domestic sales. Sales in traditional retail channels demonstrated an even stronger growth. Sales via wholesale distributors increased by 23.4% from RMB1,502.5 million in 2012.

As disclosed in the interim report, the delivery costs that were previously borne by the Group, being the costs of delivering products from the Group's warehouses to distributors' warehouses, had been borne by the Group's distributors in consideration of the additional discounts granted as subsidies to the distributors. Such discounts amounted to a total of RMB63.0 million, representing 3.0% of gross sales, and were directly offset against sales in 2013. Consequently, the reported sales and gross profit in 2013 decreased, but the net profit for the year had not been affected as the selling and distribution expenses also dropped by the same amount. For comparison purpose, on the assumption that the additional sales discounts were excluded from sales, the adjusted sales would surge by 22.7% and the adjusted gross profit margin would improve by 2.0 percentage points, as compared with 2012.

Jelly products

Sales of jelly products increased by 13.3% from RMB1,140.6 million in 2012 to RMB1,291.9 million in 2013, of which sales attributable to jelly snacks and jelly beverages increased by 12.2% to RMB765.5 million and 14.9% to RMB526.4 million, respectively. Volume growth was the key driver for the sales growth and was partially off-set by lower average selling price due to additional discounts granted during the year as mentioned in the previous paragraph.

Confectionary products

Sales of confectionary products increased by 12.4% to RMB235.8 million in 2013 from RMB209.7 million in 2012 despite the decrease in the sales of confectionary products in the second half of the year by 2.3%. The decrease was largely attributable to the increased shelf spaces in the retail channels allocated to other “*Labixiaoxin*” snacks, such as “Xiao Xin Cup”, “Megg” egg roll, etc.

Beverages products

The Group soft launched “Xiao Xin Ru Guo” flavored milk during the second quarter of 2013, which contributed RMB49.7 million to sales in 2013. The Group is building a new distribution team for the beverage products. By the end 2013, the Group had engaged about 100 wholesale distributors, which were primarily distributing “Xiao Xin Ru Guo” flavored milk in the second and third tier cities in Anhui, Zhejiang and Fujian Provinces, etc. The in-house production lines commenced operations in November 2013, which was delayed slightly from the original plan. The issues concerning supplies had been fully resolved since the in-house production lines commenced operations. As reflected from the sales figures, the monthly sales of the beverage products by end of the year had jetted up to over RMB10 million versus an average of RMB5 million prior to the commencement of the operations of the in-house production lines. The momentum was continuing to 2014 and the utilisation rates of the production lines are gradually increasing.

Other snacks products

Sales of other snacks products soared by 30.7% to RMB256.4 million in 2013 from RMB196.2 million in 2012. Credit should be given to the new products launched, including “Megg” egg rolls, “Megg” red bean bun and “Xiaoxin cup” – chocolate cracker ball, which generated a robust demand.

COST OF SALES AND GROSS PROFIT MARGIN

Cost of sales increased by 18.5% to RMB1,082.0 million in 2013 from RMB913.2 million in 2012, which was in line with the increased sales. The gross profit margin was maintained at 41.0%. As previously mentioned, the Group granted additional sales discount in 2013 to subsidise the delivery costs borne by distributors. Excluding the additional sales discount for comparison purpose, the gross profit margin would improve by 2.0 percentage points, as compared to 2012. Such increase in the gross profit margin was primarily attributable to the general soft input cost environment in 2013.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 21.3% to RMB246.9 million in 2013 primarily due to increase in advertising and promotion expenses, operating costs of sales department, which were offset by the decrease in freight and transportation expenses that was taken up by the distributors in 2013. The Group granted an extra sales discount of 3.0% of gross sales to subsidise the distributors for the said arrangement while the freight and transportation expenses represents 3.4% of sales in 2012.

During the year, the Group had invested aggressively in various media and retail channels to promote “*Labixiaoxin – Xiaoxin Ru Guo*” flavored milk series. The advertising and promotion expenses increased by 67.9% to RMB191.9 million representing 10.5% of the total sales, as compared to 7.4% of the total sales in 2012. The Group will monitor the advertising and promotion expenses within range of 8 – 10% of the total sales.

ADMINISTRATIVE EXPENSES

Administrative expenses increased slightly by 5.7% to RMB74.0 million in 2013 from RMB70.0 million in 2012. The overall administrative expenses to sales ratio was 4.0% which was comparable to that of in 2012.

OTHER GAINS, NET

Balance primarily comprised of net exchange gains, loss on disposal of machinery and equipment and net gain from the sales of raw materials and scrap materials. During the year, the Group incurred net gains of RMB6.5 million, which was attributable to the gains from exchange rate as a result of the appreciation of Renminbi during the year.

INCOME TAX EXPENSE

The Group income tax expense increased by 34.3% to RMB122.6 million in 2013, representing an effective income tax rate of 27.3% as opposed to the effective tax rate of 24.7% in 2012. This was mainly because tax benefit of the Group’s subsidiary expired in 2012 who was subjected to standard income tax rate of 25% starting from 2013.

NET PROFIT FOR THE YEAR

Net profit for the year increased by 17.5% from RMB277.9 million in 2012 to RMB326.4 million in 2013. This was primarily due to the increase in sales and margin improvement, which was partially offset by the increase in effective income tax rate.

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 31 December 2013, the bank balances and deposits amounted to RMB792.2 million, representing an increase of RMB386.1 million as compared with the year ended 31 December 2012. These were mainly due to good cash flow generated from operating activities and bank borrowings under a 3-year syndicated bank loan during the year. Total borrowings of the Group as at 31 December 2013 increased sharply by 499.3% to RMB450.0 million, which was primarily due to the said 3-year syndicated bank loans that the Group secured in 2013. 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 31 December 2013 increased to 23.3% (31 December 2012: 4.5%), the Group remained at a net cash position as at 31 December 2013.

The Group maintained sufficient cash and available banking facilities for its working capital requirements and for capitalising 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 increased slightly by 0.6% from RMB339.1 million in 2012 to RMB341.0 million in 2013. Due to the expiry of tax benefit of the Group's subsidiary in 2013, the total income tax paid in 2013 raised sharply by 76.7% from RMB70.4 million in 2012 to RMB124.4 million in 2013, reducing the cash generated from operating activities. In 2013, the Group expended RMB243.4 million in investment activities, which were primarily related to the expansion of production facilities. The Group had an inflow of cash in the amount of RMB288.5 million from financing activities which primarily represented funds raised from the 3-year syndicated bank loan and proceed from the exercise of share options of RMB14.8 million.

Capital expenditure

During the year, the Group expended RMB258.2 million in capital expenditure, which were primarily related to the construction of production facilities in Anhui Province, the acquisition of new production lines and deposits paid for a new parcel of land in Jinjiang. The flavored milk production lines at the Anhui production facilities had commenced full operation since November 2013, which was a bit delayed from the original plan. The production lines of jelly products at the Anhui production facilities are currently under trial production, which are expected to commence operation in the second quarter of 2014. The new parcel of land in Jinjiang will be the Group's fifth production facility.

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

Inventory analysis

The Group's inventories primarily consisted of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2013, balance increased to RMB85.3 million from 1 January 2013, which was mainly due to the increase in operating scale in general. The inventories turnover days in 2013 and 2012 were 23 days and 21 days, respectively.

Trade receivables

Trade receivables mainly represented the balances due from the wholesale distributors and key account agents. The Group typically sells its products on credit and grants a 30-day credit period to most of the wholesale distributors and a 90-day credit period to the key account agents. Balance increased to RMB295.4 million from 1 January 2013, which was mainly due to larger scale of operation. The trade receivable turnover days for in 2013 and 2012 were 45 days and 48 days, respectively.

Trade payables

Trade payables mainly represented the balances due to the Group's suppliers who generally grant credit periods 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 in 2013 and 2012 were 57 days and 75 days respectively.

Charges on assets

As at 31 December 2013, the Group had the following charged assets:

- (i) bank deposits of RMB16.2 million (31 December 2012: RMB9.6 million);
- (ii) land and building with net asset value of RMB9.5 million (31 December 2012: RMB10.0 million); and
- (iii) shares of certain wholly-owned subsidiaries of the Group

Contingent liabilities

As at 31 December 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 for a term of 36 months commencing from the date of the Facility Agreement.

The Facility Agreement included 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 were collectively interested in approximately 64.10% of the issued share capital of the Company as at the date of the Facility Agreement. It will result in 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 31 December 2013, the Group had approximately 2,600 employees and total remuneration expenses for 2013 amounted to RMB105.4 million including amortisation cost of share options in the amount of RMB2.8 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 granted 15,000,000 share options to certain employees of the Group with an exercise 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 31 December 2013, 7,000,000 share options were vested and had been fully exercised.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition and disposal of subsidiaries and associated companies during the year of 2013.

CHANGE OF AUDITORS

On 12 May 2014, PricewaterhouseCoopers ("PwC") has resigned as auditors of the Group. The Board has appointed HLB Hodgson Impey Cheng Limited, as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

PROSPECT

On 15 March 2014, certain media in the PRC including CCTV news, reported on the supply of toxic gelatine by certain enterprises in the food production in the PRC, which included a supplier of one of the Group's OEM partners in respect of the production of "*Labixiaoxin*" gummy candy products. Subsequently, some of the relevant government authorities conducted inspections on the Group's "*Labixiaoxin*" gummy candy products. In addition, to ensure the Group's products comply with the relevant product quality requirements, the Group engaged independent third party laboratories to conduct further inspections on some of the Group's core jelly products. The reports of such inspections indicated that all of the samples under inspections were in compliance with the relevant industry standards. The Group is committed to product safety and all products of the Group bears high standards of product quality, including the "*Labixiaoxin*" gummy candy products. The Group's however, acknowledges that it had been adversely affected by the incidence, including consumer's confidence in the product quality of the Group's traditional snacks.

The snacks food industry in the PRC is yet again facing another challenge, which is similar to the food safety scandals that happened before leading to the market consolidation and elimination of weak market participants. The Group, as one of the major market participants, will go through this difficult moment together with our distributors, retailers and other business partners. The Group will become stronger from the challenge. Although the current scandal might affect the short term financial performance of the Group, the Group is cautiously optimistic in the medium to long term prospectus of the business.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) was established in compliance with Rule 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code Provision on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chung Yau Tong (chairman), Mr. Li Zhi Hai and Ms. Sun Kam Ching.

The Audit Committee has reviewed with management and the Group’s auditor the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters for the year ended 31 December 2013. The Audit Committee has also reviewed the annual results for the year ended 31 December 2013.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures contained in the preliminary announcement of the Group’s results for the year ended 31 December 2013 have been agreed by the Group’s auditor, HLB Hodgson Impey Cheng Limited (“HLB”), to the amounts set out in the Group’s audited consolidated financial statement for the year. The work performed by HLB in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, the Hong Kong Standards on Review Engagements, or the Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by HLB on the preliminary announcement.

The audited consolidated financial statements of the Group for the year ended 31 December 2013 set out in 2013 Annual Report of the Company will be an unqualified audit opinion.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to promote good corporate governance to safeguard the interests of shareholders. The Company set out its corporate governance practices by reference to the CG Code as set out in Appendix 14 to the Listing Rules. Since the date of the Listing and up to 31 December 2013, the Company has complied with the code provisions set forth under 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 enquiry of all Directors and all the Directors 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 year under review.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the “AGM”) be held on Tuesday, 19 August 2014. The notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

In order to determine the identity of the shareholders who are entitled to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Monday, 18 August 2014 to Tuesday, 19 August 2014 (both dates inclusive).

All transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, 15 August 2014.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement of the Company for the year ended 31 December 2013 is published on the website of the Company at www.lbxxgroup.com and the website of the Stock Exchange at www.hkexnews.hk. The annual report of the Company for the year ended 31 December 2013 will be dispatched to shareholders and available at the same websites in due course.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the ordinary shares in the Company has been suspended from 9:00 a.m. on 24 March 2014 pending the publication of this announcement. An application has been made by the Company for the resumption of trading with effect from 9:00 a.m. on 25 June 2014.

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

Hong Kong, 24 June 2014

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, Li Hung Kong as non-executive Director and Sun Kam Ching, Li Zhi Hai and Chung Yau Tong as independent non-executive Directors.

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.