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LABIXIAOXIN SNACKS GROUP LIMITED

蠟筆小新休閒食品集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1262)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

FINANCIAL HIGHLIGHTS

	Unaudited		
	Six months ended 30 June		
	2015	2014	+ / (-)
	RMB' million	RMB' million	%
Key income statement items			
Sales	570.9	614.6	-7.1%
Gross Profit	169.7	195.1	-13.0%
EBITDA ⁽¹⁾	90.5	68.2	+32.7%
Profit for the period	13.9	10.3	+35.0%
Key performance indicators			
Gross profit margin	29.7%	31.7%	-2.0% pts
EBITDA margin	15.9%	11.1%	+4.8% pts
Net profit margin	2.4%	1.7%	+0.7% pts
Return on equity (LTM) ⁽²⁾	0.8%	7.9%	-7.1% pts
Earnings per share			
– Basic	RMB0.012	RMB0.009	+33.3%
– Diluted	RMB0.012	RMB0.009	+33.3%

Notes:

1. EBITDA refers to earnings before interests, income tax, depreciation, amortisation and non-cash share-based payments.
2. Return on equity is calculated using 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 2015, together with comparative figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2015	2014
		RMB'000	RMB'000
Sales	4	570,940	614,621
Cost of sales		(401,200)	(419,550)
Gross profit		169,740	195,071
Other income	5	4,254	773
Other losses, net	6	(331)	(1,129)
Selling and distribution expenses		(89,667)	(138,858)
Administrative expenses		(53,347)	(40,191)
Operating profit	7	30,649	15,666
Finance incomes		2,670	8,015
Finance costs		(5,839)	(5,810)
Finance (costs)/incomes, net	8	(3,169)	2,205
Profit before income tax		27,480	17,871
Income tax expense	9	(13,582)	(7,536)
Profit and total comprehensive income for the period		13,898	10,335
Earnings per share attributable to equity holders of the Company (RMB per share)	10		
– Basic		0.012	0.009
– Diluted		0.012	0.009

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	<i>Note</i>	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
ASSETS			
Non-current assets			
Land use rights		142,634	144,290
Property, plant and equipment		1,326,488	1,268,097
Deposits for property, plant and equipment		172,228	98,130
Deferred income tax assets		41,478	25,534
		1,682,828	1,536,051
Current assets			
Inventories		64,744	93,432
Trade receivables	12	225,330	175,308
Prepayments and other receivables		96,098	54,245
Loan receivable	13	220,000	—
Pledged bank deposits		—	4,374
Cash and cash equivalents		81,535	411,774
		687,707	739,133
Total assets		2,370,535	2,275,184
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		405,030	405,030
Share premium		563,056	563,056
Other reserves		86,313	85,352
Retained earnings		907,045	893,147
Total equity		1,961,444	1,946,585
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		30,126	28,733
Current liabilities			
Trade and other payables	14	212,027	180,320
Borrowings	15	153,293	115,277
Current income tax liabilities		13,645	4,269
		378,965	299,866
Total liabilities		409,091	328,599
Total equity and liabilities		2,370,535	2,275,184
Net current assets		308,742	439,267
Total assets less current liabilities		1,991,570	1,975,318

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Unaudited	
	Six months ended 30 June	
<i>Note</i>	2015	2014
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	61,903	1,846
Income tax paid	(18,757)	(40,246)
Net cash generated from/(used in) operating activities	43,146	(38,400)
Cash flows from investing activities		
Purchases of property, plant and equipment	(59,878)	(16,946)
Deposits paid for property, plant and equipment	(132,228)	(141,155)
Interest received	2,170	8,015
Net cash used in investing activities	(189,936)	(150,086)
Cash flows from financing activities		
Proceeds from borrowings	149,510	—
Repayments of borrowings	(111,494)	(234)
Grant of entrusted loan	(220,000)	—
Decrease/(increase) in pledged bank deposits	4,374	(63,462)
Interest paid	(5,839)	(11,460)
Net cash used in financing activities	(183,449)	(75,156)
Net decrease in cash and cash equivalents	(330,239)	(263,642)
Cash and cash equivalents at the beginning of the period	411,774	792,196
Cash and cash equivalents at the end of the period	81,535	528,554

NOTES:

1 GENERAL INFORMATION

Labixiaoxin Snacks Group Limited (the “**Company**”) was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company’s immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands (“**BVI**”). The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Wuli Industrial Area, Jinjiang Fujian, the People’s Republic of China (“**PRC**”) (中國福建省晉江市五里工業園區).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) are 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. The condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2015 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 2014, 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 2014.

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 2014, except as mentioned below.

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

The following new standards, amendments and interpretations to standards are mandatory for accounting periods beginning on or after 1 January 2015. 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 19 (Amendments)
IFRS (Amendments)
IFRS (Amendments)

Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRS 2010-2012 Cycle
Annual Improvements to IFRS 2011-2013 Cycle

(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 July 2015 and which the Group has not early adopted.

IAS 1 (Amendments)	Disclosure Initiative ¹
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants ¹
IAS 27 (Amendments)	Equity Method in Separate Financial Statements ¹
IFRS 9	Financial instruments ³
IFRS 10 and IAS 28 (2011) (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception ¹
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations ¹
IFRS 14	Regulatory Deferral Accounts ⁴
IFRS 15	Revenue from Contracts with Customers ²
IFRS (Amendments)	Annual improvements to IFRS 2012-2014 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for first annual IFRS financial statements 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 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 2014.

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

4 SEGMENT INFORMATION

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

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

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

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

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

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

During the six months ended 30 June 2015, none of the individual customer account for 10% or more of the Group's external revenue (2014: none). As at 30 June 2015 and 31 December 2014, substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

	Unaudited Six months ended 30 June 2015				Reportable segments total RMB'000
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Revenue					
Sales to external customers	442,771	47,118	46,028	35,023	570,940
Cost of sales	(282,361)	(31,197)	(57,044)	(30,598)	(401,200)
Gross profit/(loss)	<u>160,410</u>	<u>15,921</u>	<u>(11,016)</u>	<u>4,425</u>	<u>169,740</u>
Results of reportable segments	<u>95,043</u>	<u>14,845</u>	<u>(30,833)</u>	<u>1,018</u>	<u>80,073</u>

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

	Unaudited Six months ended 30 June 2015				Reportable segments total RMB'000
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	
Results of reportable segments					80,073
Corporate income					6,268
Corporate expenses					(55,692)
Operating profit					30,649
Finance income					2,670
Finance costs					(5,839)
Profit before income tax					27,480
Income tax expense					(13,582)
Profit for the period					<u>13,898</u>
Amortisation of land use rights	<u>1,187</u>	<u>–</u>	<u>469</u>	<u>–</u>	<u>1,656</u>
Depreciation of property, plant and equipment	<u>35,777</u>	<u>–</u>	<u>19,952</u>	<u>1,543</u>	<u>57,272</u>
Loss on disposal of property, plant and equipment	<u>2,272</u>	<u>–</u>	<u>–</u>	<u>73</u>	<u>2,345</u>

	Unaudited Six months ended 30 June 2014				Reportable segments total
	Jelly products <i>RMB'000</i>	Confectionary products <i>RMB'000</i>	Beverages products <i>RMB'000</i>	Other snacks products <i>RMB'000</i>	<i>RMB'000</i>
Revenue					
Sales to external customers	441,071	67,242	33,872	72,436	614,621
Cost of sales	<u>(292,834)</u>	<u>(45,315)</u>	<u>(28,114)</u>	<u>(53,287)</u>	<u>(419,550)</u>
Gross profit	<u>148,237</u>	<u>21,927</u>	<u>5,758</u>	<u>19,149</u>	<u>195,071</u>
Results of reportable segments	<u>48,537</u>	<u>6,791</u>	<u>(1,879)</u>	<u>2,764</u>	<u>56,213</u>

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

	Unaudited Six months ended 30 June 2014				Reportable segments total
	Jelly products <i>RMB'000</i>	Confectionary products <i>RMB'000</i>	Beverages products <i>RMB'000</i>	Other snacks products <i>RMB'000</i>	<i>RMB'000</i>
Results of reportable segments					56,213
Corporate income					1,931
Corporate expenses					<u>(42,478)</u>
Operating profit					15,666
Finance income					8,015
Finance costs					<u>(5,810)</u>
Profit before income tax					17,871
Income tax expense					<u>(7,536)</u>
Profit for the period					<u>10,335</u>
Amortisation of land use rights	<u>1,190</u>	<u>–</u>	<u>469</u>	<u>–</u>	<u>1,659</u>
Depreciation of property, plant and equipment	<u>44,707</u>	<u>–</u>	<u>2,323</u>	<u>2,835</u>	<u>49,865</u>
Loss on disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>2</u>	<u>2</u>

5 OTHER INCOME

Unaudited
Six months ended 30 June
2015 2014
RMB'000 RMB'000

Rental income	4,254	773
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6 OTHER LOSSES, NET

Unaudited
Six months ended 30 June
2015 2014
RMB'000 RMB'000

Gain on sale of scrap materials	1,499	1,158
Loss on disposal of property, plant and equipment	(2,345)	(2)
Net exchange gains/(losses)	515	(2,285)
	<u>(331)</u>	<u>(1,129)</u>

7 OPERATING PROFIT

Operating profit was determined after charging the following:

Unaudited
Six months ended 30 June
2015 2014
RMB'000 RMB'000

Purchases of raw materials, finished goods and consumables	283,841	339,539
Changes in inventories of raw materials and finished goods	28,688	21,694
Advertising and promotion expenses	58,107	111,529
Freight and transportation expenses	3,576	2,292
Employee benefit expenses (including directors' emoluments and share-based payments)	62,217	52,842
Depreciation of property, plant and equipment	57,272	49,865
Amortisation of land use rights	1,656	1,659

8 FINANCE (COSTS)/INCOMES, NET

Unaudited
Six months ended 30 June
2015 2014
RMB'000 RMB'000

Interest expenses on bank borrowings:		
– wholly repayable within five years	(5,839)	(16,733)
Less: amounts capitalised on qualifying assets	–	10,923
Total finance costs	<u>(5,839)</u>	<u>(5,810)</u>
Finance incomes:		
Interest income on bank deposits	2,170	8,015
Interest income on loan receivable	500	–
Total finance incomes	<u>2,670</u>	<u>8,015</u>
Finance (costs)/incomes, net	<u>(3,169)</u>	<u>2,205</u>

9 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current income tax – PRC	18,569	7,397
Deferred income tax	(4,987)	139
	13,582	7,536

During the six months ended 30 June 2015, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2014: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2014: 25%) on their taxable profit during the period.

10 EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to the equity holders of the Company are as follows:

	Unaudited	
	Six months ended 30 June	
	2015	2014
Net profit attributable to the equity holders of Company (RMB'000)	13,898	10,335
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share ('000)	1,128,977	1,132,600
Basic and diluted earnings per share (RMB per share)	0.012	0.009

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.

Diluted earnings per share for the period ended 30 June 2015 and 2014 is the same as the basic earnings per share as the potential ordinary shares in respect of the Company's outstanding share options are anti-dilutive for the six months ended 30 June 2015 and 2014.

11 DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

12 TRADE RECEIVABLES

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

	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
Less than 30 days	131,541	116,530
31 days – 90 days	90,622	56,844
Over 90 days	3,167	1,934
	<u>225,330</u>	<u>175,308</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.

As at 30 June 2015, trade receivables of RMB3,167,000 (31 December 2014: RMB1,934,000) were past due but not impaired. These were related to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
Past due by less than 3 months but not impaired	<u>3,167</u>	<u>1,934</u>

During the period, no trade receivables were impaired. As at 30 June 2015 and 31 December 2014, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

13 LOAN RECEIVABLE

On 19 June 2015, a wholly-owned subsidiary of the Group (the “**Lender**”) entered into an entrusted loan agreement with a PRC bank, as the lending agent, and an independent third party (the “**Borrower**”), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (the “**Entrusted Loan**”) to the Borrower. As of 30 June 2015, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2014: Nil) of the Entrusted Loan. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

The Entrusted Loan is secured by (i) a personal guarantee of RMB250,000,000 provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228,783,000 given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30,310,000, as security to the obligations of the Borrower under the Entrusted Loan agreement. For the details of the Entrusted Loan, please refer to the Company's announcement dated 7 August 2015.

The carrying amounts of the Entrusted Loan approximate its fair value.

14 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
Trade payables	134,564	106,897
Accrued sales rebates	11,780	5,174
Other accrued expenses	13,558	11,094
Directors' fees and emoluments payable	4,104	10,902
Other payables and sundry creditors	48,021	46,253
	212,027	180,320

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2015, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
Less than 30 days	111,579	94,831
31 days – 90 days	22,174	11,897
Over 90 days	811	169
	134,564	106,897

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

15 BORROWINGS

	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
Secured bank borrowings (<i>Note i and ii</i>)	3,783	115,277
Unsecured bank borrowings (<i>Note iii</i>)	149,510	–
	153,293	115,277
Carrying amount of bank borrowings wholly repayable:		
On demand or within one year	153,293	115,277
Less: amounts shown under current liabilities	(153,293)	(115,277)
Amount classified as non-current liabilities	–	–

Note:

- (i) 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 outstanding balance as at 31 December 2014 was RMB111,260,000 and was pledged by shares of certain wholly-owned subsidiaries of the Company and bank deposit of RMB4,374,000. The Facility has an original term of 36 months commencing from the date of the Facility Agreement. However, during the six months ended 30 June 2014, the Company has triggered certain potential event of defaults and the Company and the lenders have been mutually agreed a new repayment schedule to fully repay the Facility in February 2015 and the Company has been waived from the potential event of defaults. The outstanding balance under the Facility was fully settled during the six months ended 30 June 2015.
- (ii) At 30 June 2015, a bank borrowing of RMB3,783,000 (31 December 2014: RMB4,017,000) was secured by land and buildings of RMB8,747,000 (31 December 2014: RMB9,003,000) and charged at HIBOR + 2.25% (31 December 2014: at HIBOR + 2.25%). Such borrowing was re-pricing every month.
- (iii) On 9 March 2015, the Company entered into a loan agreement with a bank in relation to a US\$50,000,000 loan facility (the “**Loan**”). As at 30 June 2015, the Company has drawn up an aggregate amount of RMB149,510,000. The Loan is unsecured, repayable within 12 months and charged at floating interest rate of 3-months LIBOR +1.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2015, the Group has reported sales of RMB570.9 million, representing a decrease of 7.1% from the same period in 2014. This was due to the negative impacts as a result of the Toxic Gelatin Incidence in mid-March 2014 as well as the weakened consumption sentiments in the PRC. In mid-March 2014, the news reported by certain media in the PRC, including CCTV, reported about contamination of gummy candy of “Labixiaoxin” and other brands by toxic gelatin used in the production process (the “**Toxic Gelatin Incidence**”). Despite the Fujian Food and Drug Administration (福建省食品藥品監督管理局) subsequently confirmed that “Labixiaoxin” products were in compliance with the relevant food quality standards, the sales of the Group were severely affected. During the six months ended 30 June 2015, the Group’s sales performance remained adversely affected by the Toxic Gelatin Incidence. In addition, the consumption sentiments in the PRC had weakened during the period which further affected the sales performance negatively. The weak sales performance in certain categories of the Group’s products such as confectionary products and other snacks products had inevitably slashed the Group’s profit margins. As a result, the Group’s gross profit for the six months ended 30 June 2015 decreased by 13.0% from the same period in 2014. The Group’s net profit for the six months ended 30 June 2015 was RMB13.9 million, representing an increase of 35.0% as compared to the same period in 2014. The increase in net profit was mainly due to effective cost control measures adopted by management.

Sales

Sales decreased by 7.1% to RMB570.9 million in the first half of 2015 as compared with the same period in 2014. Though the sales dropped during the first half of 2015, the expansion of the Group's distribution network did not stop. As at 30 June 2015, the Group had a total of 435 wholesale distributors and key account agents, the sales contributed from the new distributors, net of terminated distributors, represented 7.7% of the total domestic sales in the first half of 2015. Sales via key account agents amounted to RMB44.2 million or 8.0% of the total domestic sales and sales via wholesale distributors amounted to RMB509.2 million or 92.0% of the total domestic sales.

Jelly products

Sales of jelly products increased by 0.4% from RMB441.1 million in the first half of 2014 to RMB442.8 million in the first half of 2015 primarily due to the introduction of the new lactic acid bacteria series jelly products in November 2014, which mainly comprised of jelly snacks, and were well received by the customers. As a result, sales attributable to jelly snacks increased by 11.7% to RMB288.8 million while sales attributable to jelly beverages decreased by 15.6% to RMB154.0 million.

Confectionary products

Sales of confectionary products decreased by 29.9% to RMB47.1 million in the first half of 2015, which was mainly due to weakened consumer demand since the Toxic Gelatin Incidence and weakened consumption sentiments in the PRC. The Group had also shifted its marketing efforts to the jelly products during the period which lead to a drop in sales of confectionary products.

Beverages products

Sales of beverages products increased by 35.9% to RMB46.0 million in the first half of 2015, representing 8.1% of total sales of the Group. Although there was a remarkable increase in the sales of beverages products during the period, the profit margin of the segment continued to deteriorate. This was mainly due to the retirement of certain products, which were sold at greater discounts and the Group was still in the process of adjusting its product mix of the beverages segment. In addition, the sales and production volumes of the beverages products did not reach the optimum level of the production capacity, which resulted in higher fixed overheads in respect of each individual beverages product. In November 2014, the Group launched the lactic bacteria series of beverages product and the products were gradually accepted by the customers.

Other snacks products

Sales of other snacks products dropped by 51.6% to RMB35.0 million, which was mainly due to weakened consumer demand on traditional snacks after the Toxic Gelatin Incidence and weakened consumption sentiments in the PRC. The Group had also shifted its marketing efforts to the jelly products during the period which lead to a drop in sales of other snacks products.

Cost of Sales and Gross Profit

Cost of sales decreased by 4.4% to RMB401.2 million in the first half of 2015 which was consistent with the decrease in sales. Gross profit dropped by 13.0% to RMB169.7 million in the first half of 2015, which was mainly due to the increase in depreciation expenses and other production overheads of the beverages segment. Costs of most of the major raw materials of our products were fairly stable as compared with the same period in 2014.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 35.4% to RMB89.7 million in the first half of 2015, which was primarily due to tighter costs control on advertising and promotion expenses during the period. Advertising and promotion expenses decreased by 47.9% to RMB58.1 million during the period. The general market demand on the Group's products was weak since the Toxic Gelatin Incidence and the consumption sentiments in the PRC remained weak. The Group and the rest of the market peers were facing the same challenges. While the Group will continue to exercise tight costs control on advertising and promotion expenses, the Group will look for opportunities to expand its market shares. Therefore, the Group will continue to enhance the media exposure and arranged on-site promotion for new or core products to bring positive message to the consumers and create more voices in the market.

Administrative Expenses

Administrative expenses increased by 32.7% to RMB53.3 million in the first half of 2015 which was mainly due to an annual increase in staff costs and operating expenses at the new production plant in Anhui.

Income Tax Expense

The Group's income tax expense increased by 80.2% to RMB13.6 million, which was mainly due to the increase in taxable profits of the PRC subsidiaries. The effective tax rate increased to 49.4%, which was higher than the applicable tax rate of 25% for the PRC subsidiaries, due to the increase in the non-deductible operating expenses of the Group's Hong Kong head office.

Net Profit for the Period

Net profit amounted to RMB13.9 million for the first half of 2015, which was higher than the same period in 2014. This was mainly due to effective cost control measures implemented by the Group during the period.

FINANCIAL REVIEW

Financial resources and liquidity

The Group mainly financed its operations and capital expenditures by cash and bank balances, operating cash inflows and bank borrowings.

As at 30 June 2015, the bank balances and bank deposits amounted to RMB81.5 million, which was RMB330.2 million lower than the balance as at 31 December 2014. The decrease in bank balances and bank deposits was mainly due to (i) the Group incurred capital expenditures of RMB192.1 million in the first half of 2015 and (ii) the entrusted loan granted to a PRC third party entity in June 2015.

On 19 June 2015, a wholly-owned subsidiary of the Group (the “**Lender**”) entered into an entrusted loan agreement with a PRC bank acting as the lending agent, and an independent PRC third party entity borrower (the “**Borrower**”), pursuant to which, the Lender agreed to grant an entrusted loan in the principal amount of RMB250,000,000 (the “**Entrusted Loan**”) to the Borrower for a term of one year with interests at 0.5% per month. As at 30 June 2015, the Borrower had drawn down an aggregate amount of RMB220,000,000 from the Entrusted Loan. The purposes of granting the Entrusted Loan by the Group was to better utilise the surplus cash of the Group under a short-term arrangement to generate higher interest income.

The Entrusted Loan was secured by (i) a personal guarantee of RMB250,000,000 provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228,783,000 provided by a fellow subsidiary of the Borrower; and (iii) a pledge over certain land parcels in the PRC valued at RMB30,310,000, as security to the obligations of the Borrower under the Entrusted Loan agreement.

The Group had 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

The Group recorded net cash inflow from operating activities of RMB43.1 million in the first half of 2015 (2014: outflow of RMB38.4 million) which was significantly better than the same period in 2014. The Group expended RMB189.9 million in investing activities during the first half of 2015 mainly in connection with the expansion of production lines for the jelly and beverages products. In addition, the Group reached net cash outflow from financing activities of RMB183.4 million during the first half of 2015 mainly due to the Entrusted Loan. During the period, the Group had fully settled the term loan under the Facility and had obtained a new unsecured bank borrowing of RMB149.5 million.

Capital expenditure

During the six months ended 30 June 2015, the Group expended RMB192.1 million in capital expenditure mainly for the expansion of production lines of jelly and beverages products.

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 30 June 2015, the inventory balance decreased by RMB28.7 million from the beginning of the year, which was primarily due to the seasonal factor. The inventory turnover days for the first half of 2015 and 2014 were 28 day and 36 days, respectively.

Trade receivables

Trade receivables mainly represented the balance due from wholesale distributors and key account agent. Typically, a credit period of 30 days was granted to most of the wholesale distributors and a credit period of 90 days was granted to key account agents. Balance increased by RMB50.0 million from the beginning of the year mainly due to better sales performance in May 2015 and June 2015 than in November 2014 and December 2014. The trade receivables turnover days for the first half of 2015 and 2014 were 50 days and 68 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. Trade payables turnover days for the first half of 2015 and 2014 were 52 days and 58 days respectively.

Charges on assets

As at 30 June 2015, the Group had the following charges assets:

- (i) land and building with net asset value of RMB8.7 million was pledged as security for mortgage loan (31 December 2014: RMB9.0 million); and
- (ii) shares of certain wholly-owned subsidiaries of the Group, which was subsequently released in July 2015.

Contingent liabilities

As at 30 June 2015, the Group had no contingent liabilities (31 December 2014: 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 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 would be a change of control in the event that (i) the Controlling Shareholders collectively do not or cease to, directly or indirectly own at least 35% of the issued share capital of the Company on a fully diluted basis at any time; or (ii) the Controlling Shareholders collectively do not or cease to, directly or indirectly, have the ability to direct the affairs of the Company at any time.

If a change of control occurred, the facility agent to the Facility Agreement would be entitled to terminate 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 would be cancelled and all such outstanding amounts would be immediately due and payable.

As at the date of this announcement, the Facility had been fully settled and the above specific performance obligations imposed on the controlling shareholders were released.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2015, the Group employed approximately 2,430 employees and the total remuneration expenses for the first half of 2015 amounted to RMB62.2 million inclusive of the amortisation cost of share option of RMB961,000. The employees’ salaries were subject to review and adjustment annually based on employee’s performance and experience. The Group’s employee benefits included 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 10 July 2015, the Group granted 30,000,000 share options to certain employees of the Group with an exercise period from 13 July 2015 to 12 July 2020 at an exercise price of HK\$0.89 per share. These share options were immediately vested to the employees. As at the date of this announcement, none of these share options had been exercised.

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 2015.

PROSPECTS

The Toxic Gelatin Incidence continued to cast negative impacts on the Group's business in the first half of 2015 as it directly affected the Group's brand image and consumer sentiments on jelly, candies and certain traditional snacks within the community. The Toxic Gelatin Incidence had affected the entire snacks industry and the extraordinary market situation was contemplated to lead to a market consolidation. The Group considered the current market situation presented an opportunity to expedite its market share expansion. Therefore, the Group had been proactive in the marketing of its brand image and products including the launch of advertisement through different media channels, sponsorship popular TV programs, participation at various food fairs and exhibitions, and collaboration with distributors and retailers for on-site promotion activities etc. The Group had also launched the new lactic acid bacteria series jelly and beverages products to offer a better choice to the consumers. Although these measures may not bring significant positive impacts to the Group's financial performance immediately, the Directors considered these would benefit the Group in the longer run. The Group is cautiously optimistic to the medium to long term of the business.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities.

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 comprised 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 had reviewed with the Company's management and the Group's auditor the accounting principles and practices adopted by the Group. The Audit Committee and the Group's auditor had also reviewed the interim results of the Group for the six months ended 30 June 2015.

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 2015, 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 had 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 required that the independent non-executive directors and the non-executive directors should attend the general meetings. Due to other business commitment, Mr. Ren Yunan, a non-executive director of the Company, did not attend the annual general meeting of the Company held on 29 May 2015.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company had 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 had made specific enquiries with all the directors of the Company and all the directors of the Company had confirmed that they had 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 2015.

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 2015 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the aforesaid websites in due course.

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

Hong Kong, 27 August 2015

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

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.