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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 2021

FINANCIAL HIGHLIGHTS

	Unaudited		
	Six months ended 30 June		
	2021	2020	
	<i>RMB' million</i>	<i>RMB' million</i>	+ / (-)
Key income statement items			
Revenue	361.4	250.1	+44.5%
Gross Profit	127.7	92.3	+38.4%
EBITDA ⁽¹⁾	72.4	35.3	+105.1%
Profit/(loss) for the period	27.5	(76.6)	N/A
Key performance indicators			
Gross profit margin	35.3%	36.9%	-1.6%pts
EBITDA margin	20.0%	14.1%	+5.9%pts
Net profit/(loss) margin	7.6%	-30.6%	+38.2%pts
Return on equity (LTM) ⁽²⁾	16.6%	-15.6%	+32.2%pts
Profit/(loss) per share			
– Basic	RMB0.021	RMB(0.058)	N/A
– Diluted	RMB0.021	RMB(0.058)	N/A

Notes:

- EBITDA refers to profit before interests, taxation, depreciation, amortization, allowance under expected credit losses model, net of reversal and written-off of property, plant and equipment.
- Return on equity is calculated using profit/(loss) for the last twelve months divided by average of monthly ending equity balance for the relevant period.

The board of directors (the “Board”) of Labixiaoxin Snacks Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021, together with comparative figures for the corresponding period in 2020, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Unaudited	
		Six months ended 30 June	
		2021	2020
	Note	RMB'000	RMB'000
Revenue	4	361,351	250,063
Cost of sales		<u>(233,660)</u>	<u>(157,723)</u>
Gross profit		127,691	92,340
Other income	5	5,979	2,361
Other gain/(loss), net	6	13,291	(71)
Allowance under expected credit losses model, net of reversal		(6,052)	(3,397)
Written-off of property, plant and equipment		–	(65,980)
Selling and distribution expenses		(50,680)	(36,565)
Administrative expenses		<u>(45,803)</u>	<u>(45,900)</u>
Operating profit/(loss)		<u>44,426</u>	<u>(57,212)</u>
Finance incomes		382	858
Finance costs		<u>(16,172)</u>	<u>(20,529)</u>
Finance costs, net	7	<u>(15,790)</u>	<u>(19,671)</u>
Profit/(loss) before taxation	8	28,636	(76,883)
Taxation	9	<u>(1,159)</u>	<u>246</u>
Profit/(loss) and total comprehensive gain/(loss) for the period		<u><u>27,477</u></u>	<u><u>(76,637)</u></u>
Profit/(loss) per share attributable to equity holders of the Company (RMB per share)	10		
– Basic		<u><u>0.021</u></u>	<u><u>(0.058)</u></u>
– Diluted		<u><u>0.021</u></u>	<u><u>(0.058)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

		Unaudited 30 June 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Right-of-use assets		92,998	94,238
Property, plant and equipment		287,911	298,762
Deposits for property, plant and equipment		45,337	45,455
Deferred income tax assets		86,285	85,390
		<u>512,531</u>	<u>523,845</u>
Current assets			
Inventories		84,256	63,581
Trade receivables	12	383,329	297,633
Prepayments and other receivables		206,027	158,424
Pledged bank deposits	13	24,978	40,916
Cash and cash equivalents		19,892	258,839
		<u>718,482</u>	<u>819,393</u>
Asset classified as held for sale	14	<u>180,000</u>	<u>186,002</u>
		<u>898,482</u>	<u>1,005,395</u>
Total assets		<u>1,411,013</u>	<u>1,529,240</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		470,030	470,030
Reserves		25,291	(2,186)
Total equity		<u>495,321</u>	<u>467,844</u>

		Unaudited	Audited
		30 June	31 December
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		<u>15,846</u>	<u>15,846</u>
		<u>15,846</u>	<u>15,846</u>
Current liabilities			
Trade and other payables	<i>15</i>	341,946	382,595
Bank borrowings	<i>16</i>	557,900	642,443
Tax payable		<u>–</u>	<u>20,512</u>
		<u>899,846</u>	<u>1,045,550</u>
Total liabilities		<u>915,692</u>	<u>1,061,396</u>
Total equity and liabilities		<u>1,411,013</u>	<u>1,529,240</u>
Net current liabilities		<u>(1,364)</u>	<u>(40,155)</u>
Total assets less current liabilities		<u>511,167</u>	<u>483,690</u>

NOTES:

1 General Information

Labixiaoxin Snacks Group Limited (the “Company”) was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company’s immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands (the “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”) (中国福建省晋江市五里工业园区).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are manufacturing and sale of jelly products, confectionary products, beverages products and other snacks products.

The Company’s shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The condensed consolidated interim financial information is presented in Renminbi (“RMB”), which is also the functional currency of the Company, 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 2021 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 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group generated a net profit of approximately RMB27,477,000 (six months ended 30 June 2020: net loss of approximately RMB76,637,000) for the six months ended 30 June 2021. As at 30 June 2021, the Group’s current liabilities exceeded its current assets by approximately RMB1,364,000 (As at 31 December 2020: approximately RMB40,155,000).

The directors of the Company have reviewed the Group’s cash flow projections prepared by management. The cash flow projections cover a period of twelve months from 30 June 2021. They are of the opinion that, taking into account the plans and measures as stated below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2021. Accordingly, the directors are satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

Notwithstanding the above results, the condensed consolidated interim financial information have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(1) *Financial support from substantial shareholder*

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB35,669,000 loan from a loan facility of RMB60,000,000 to the Group, has agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 30 June 2021.

(2) *Disposal of the land*

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

(3) *Alternative sources of external funding*

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

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2020.

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 2020, except as mentioned below.

In the current period, the Group has applied the following amendments to IFRSs (“Amendments”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of these unaudited condensed consolidated interim financial information:

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2
IFRS 16 (Amendments)	Covid-19-Related Rent Concessions

The application of the Amendments had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated interim financial information.

3 Financial Risk Management

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2020.

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 (the “CODM”) has been identified as the executive directors of the Company. The 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.

The 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

The CODM assesses the performance of the operating segments based on measure of segment results without allocation of corporate income and corporate expenses including directors' emoluments, headquarters staff costs and finance costs. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements. The Company's executive directors make decisions based on the operating results of each segment and review reports on the aging analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of operating segments. Therefore, only the segment revenue and segment results are presented.

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 2021 and 2020, none of the individual customer account for 10% or more of the Group's external revenue. As at 30 June 2021 and 31 December 2020, majority of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

	Unaudited				
	Six months ended 30 June 2021				
	Jelly	Confectionary	Beverages	Other	Reportable
	products	products	products	snacks	segments
	products	products	products	products	total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
Sales to external customers	328,083	18,574	1,157	13,537	361,351
Cost of sales	(211,374)	(12,873)	(895)	(8,518)	(233,660)
Gross profit	<u>116,709</u>	<u>5,701</u>	<u>262</u>	<u>5,019</u>	<u>127,691</u>
Results of reportable segments	<u>70,754</u>	<u>2,986</u>	<u>102</u>	<u>3,168</u>	<u>77,010</u>

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

	Unaudited				
	Six months ended 30 June 2021				
	Jelly	Confectionary	Beverages	Other	Reportable
	products	products	products	snacks	segments
	RMB'000	RMB'000	RMB'000	products	total
				RMB'000	RMB'000
Results of reportable segments					77,010
Corporate income					5,979
Gain on disposal of properties					13,363
Corporate expenses					<u>(51,926)</u>
Operating profit					44,426
Finance income					382
Finance costs					<u>(16,172)</u>
Profit before taxation					28,636
Taxation					<u>(1,159)</u>
Profit for the period					<u><u>27,477</u></u>
Amounts included in the measure of segment profit or loss:					
Depreciation of right-of-use assets	<u>772</u>	<u>–</u>	<u>468</u>	<u>–</u>	<u>1,240</u>
Depreciation of property, plant and equipment	<u>20,295</u>	<u>–</u>	<u>50</u>	<u>386</u>	<u>20,731</u>

Unaudited
Six months ended 30 June 2020

	Jelly products <i>RMB'000</i>	Confectionary products <i>RMB'000</i>	Beverages products <i>RMB'000</i>	Other snacks products <i>RMB'000</i>	Reportable segments total <i>RMB'000</i>
Revenue					
Sales to external customers	228,621	15,988	2,668	2,786	250,063
Cost of sales	<u>(141,434)</u>	<u>(12,569)</u>	<u>(1,768)</u>	<u>(1,952)</u>	<u>(157,723)</u>
Gross profit	<u>87,187</u>	<u>3,419</u>	<u>900</u>	<u>834</u>	<u>92,340</u>
Results of reportable segments	<u>53,707</u>	<u>1,129</u>	<u>506</u>	<u>433</u>	<u>55,775</u>

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

	Unaudited				Reportable
	Six months ended 30 June 2020				segments
	Jelly	Confectionary	Beverages	Other	segments
	products	products	products	snacks	total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Results of reportable segments					55,775
Corporate income					2,361
Written-off of property, plant and equipment					(65,980)
Corporate expenses					<u>(49,368)</u>
Operating loss					(57,212)
Finance income					858
Finance costs					<u>(20,529)</u>
Loss before taxation					(76,883)
Taxation					<u>246</u>
Loss for the period					<u><u>(76,637)</u></u>
Amounts included in the measure of segment profit or loss:					
Depreciation of right-of-use assets	<u>1,191</u>	<u>–</u>	<u>468</u>	<u>–</u>	<u>1,659</u>
Depreciation of property, plant and equipment	<u>24,366</u>	<u>–</u>	<u>371</u>	<u>115</u>	<u>24,852</u>

Geographic information

No geographic information has been presented as all of the Group's operating activities are carried out in PRC.

5 Other Income

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	1,609	1,393
Government subsidy	2,504	–
Sundry income	1,818	517
Gain on sale of scrap materials	48	451
	<hr/>	<hr/>
	5,979	2,361
	<hr/> <hr/>	<hr/> <hr/>

6 Other Gain/(Loss), Net

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of properties	13,363	–
Net exchange loss	(72)	(71)
	<hr/>	<hr/>
	13,291	(71)
	<hr/> <hr/>	<hr/> <hr/>

7 Finance Costs, Net

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Interest expenses on bank borrowings	(15,794)	(20,118)
Interest expenses on loan from a director	(378)	(411)
	<u> </u>	<u> </u>
Total finance costs	<u>(16,172)</u>	<u>(20,529)</u>
Finance income:		
Interest income on bank deposits	<u>382</u>	<u>858</u>
	<u> </u>	<u> </u>
Total finance income	<u><u>382</u></u>	<u><u>858</u></u>
	<u> </u>	<u> </u>
Finance costs, net	<u><u>(15,790)</u></u>	<u><u>(19,671)</u></u>

8 Profit/(Loss) Before Taxation

Profit/(loss) before taxation is arrived at after charging the following:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventory sold	207,564	149,081
Advertising and promotion expenses	24,270	17,751
Freight and transportation expenses	2,304	992
Staff costs (including directors' remunerations)		
– Salaries and bonuses	49,143	39,268
– Employer's contribution to defined contribution plans	1,713	689
Depreciation of property, plant and equipment	20,731	24,852
Depreciation of right-of-use assets	1,240	1,659
Allowance under expected credit losses model, net of reversal	6,052	3,397
Written-off of property, plant and equipment	–	65,980
	<u> </u>	<u> </u>
	<u><u> </u></u>	<u><u> </u></u>

9 Taxation

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax – PRC Enterprise Income Tax	2,055	–
Deferred income tax, net	(896)	(246)
Income tax charged/(credited) to profit or loss	<u>1,159</u>	<u>(246)</u>

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at rate of 25% (2020: 25%) on taxable profit of the Group's PRC subsidiaries during the six months ended 30 June 2021.

Hong Kong Profits Tax, Bermuda and BVI income tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2019 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The Group considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both the six months ended 30 June 2021 and 2020.

No provision of Hong Kong Profits Tax, Bermuda and BVI Income Tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the six months ended 30 June 2021 and 2020.

10 Profit/(Loss) per Share

(a) Basic profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the net profit/(loss) attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2021	2020
Net profit/(loss) attributable to the equity holders of Company (RMB'000)	<u>27,477</u>	<u>(76,637)</u>
Weighted average number of ordinary shares in issue for basic profit/(loss) per share ('000)	<u>1,328,977</u>	<u>1,328,977</u>
Basic profit/(loss) per share (RMB per share)	<u>0.021</u>	<u>(0.058)</u>

(b) Diluted profit/(loss) per share

The computation of diluted profit/(loss) per share does not include the Company's outstanding share options and the outstanding warrants because their effects were anti-dilutive. Therefore, the diluted profit/(loss) per share of the Company is the same as the basic profit/(loss) per share.

11 Dividends

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: Nil).

12 Trade Receivables

The Group's revenue are generally on credit term of 180 days (2020: 180 days). As at 30 June 2021, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	Unaudited	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Less than 30 days	60,461	82,475
31 days – 90 days	85,339	31,964
91 days – 180 days	71,016	48,471
Over 180 days	166,513	134,723
	383,329	297,633

13 Pledged Bank Deposits

As at 30 June 2021, pledged bank deposits of the Group of approximately RMB24,978,000 (31 December 2020: RMB40,916,000) were with initial terms of over three months and pledged to banks as security for bills payable.

The weighted average effective interest rate of these bank deposits as at 30 June 2021 was 0.74% per annum (31 December 2020: 0.74% per annum). The carrying amounts of pledged bank deposits approximate their fair values.

14 Asset classified as held for sale

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

Pursuant to the Extension Announcement dated on 30 June 2021, as additional time is required by the Purchaser and Vendor for the fulfilment of the conditions precedent to the Transfer Agreement, the Long Stop Date shall be further extended to 31 December 2021.

15 Trade and Other Payables

	Unaudited	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Trade payables	43,040	35,387
Bills payable (<i>Note (i)</i>)	42,500	81,300
Accrued sales rebates	7,365	9,694
Other accrued expenses	16,486	28,606
Directors' fees and emoluments payable	16,941	15,731
Loan from a director (<i>Note (ii)</i>)	35,669	48,298
Other payables and sundry creditors (<i>Note (iii)</i>)	179,945	163,579
	341,946	382,595

Notes:

- (i) Bills payable amounting to approximately RMB42,500,000 (31 December 2020: RMB81,300,000) were secured by pledged bank deposits of approximately RMB24,978,000 (31 December 2020: RMB40,916,000). The bills payable were with maturity period of within 1 year.
- (ii) As at 30 June 2021, the Company has drawn down an aggregate amount of approximately RMB35,669,000 (31 December 2020: RMB48,298,000) from a loan facility of RMB60,000,000 (31 December 2020: RMB60,000,000) entered into with Mr. Zheng Yu Long, an executive director of the Company. The amount is unsecured, repayable within 12 months and bears fixed interest at 2% per annum.
- (iii) As at 30 June 2021, the Group received RMB70,000,000 (31 December 2020: RMB70,000,000) deposit of the assets classified as held for sale from the Purchaser in accordance with the terms of the Transfer Agreement.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2021, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited	Audited
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	22,722	25,031
31 days – 90 days	18,645	6,996
Over 90 days	1,673	3,360
	<u>43,040</u>	<u>35,387</u>

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

16 Bank Borrowings

	Unaudited	Audited
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings	400,900	460,943
Unsecured bank borrowings	157,000	181,500
Total bank borrowings	<u>557,900</u>	<u>642,443</u>
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	<u>557,900</u>	<u>642,443</u>
	<u>557,900</u>	<u>642,443</u>

As at 30 June 2021, the short-term secured bank borrowings of approximately RMB130,000,000 (31 December 2020: RMB150,000,000) were secured by corporate guarantee by the Group's PRC subsidiaries, and the supplier of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.5% (31 December 2020: 5.00%) which was repricing every 12 months.

As at 30 June 2021, the short-term secured bank borrowings of approximately RMB96,800,000 (31 December 2020: RMB98,800,000) were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the wife of Mr. Zheng Yu Shuang. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 6.16% (31 December 2020: 5.36% to 5.66%) per annum.

As at 30 June 2021, the short-term unsecured bank borrowings of approximately RMB157,000,000 (31 December 2020: RMB176,100,000) were repayable within 12 months and charged at fixed interest rates ranging from 4.85% to 5.72% (31 December 2020: 4.15% to 6.80%) per annum.

As at 30 June 2021, the short-term secured bank borrowings of approximately RMB145,000,000 (31 December 2020: RMB145,000,000) were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, and the supplier of the Company. The bank borrowings were repayable within 12 months and charged at fixed interest rates of 5.72% (31 December 2020: 5.00% to 5.22%) which was repricing every 3 months.

As at 30 June 2021, the short-term secured bank borrowings of approximately RMB29,100,000 (31 December 2020: RMB6,500,000) were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, and the customer of the Company. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 6.8% (31 December 2020: 6.8%) per annum.

As at 31 December 2020, the short-term unsecured bank borrowings of approximately RMB5,400,000 were repayable within 12 months and charged at floating interest rate of 5.66% which was repricing every 12 months.

As at 31 December 2020, the short-term secured bank borrowings of approximately RMB49,590,000 were secured by corporate guarantee by the Group's PRC subsidiaries and land and buildings in the PRC of approximately RMB102,953,000. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.66% which was repricing every 3 months.

As at 31 December 2020, the short-term secured bank borrowings of approximately RMB9,800,000 were secured by corporate guarantee by the Group's PRC subsidiaries and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the related company. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 6.8% per annum.

As at 31 December 2020, the bank borrowing of HKD1,550,000 (equivalent to approximately RMB1,253,000) was secured by the land and buildings of approximately RMB6,002,000 and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

17 Event After the Reporting Period

There were no significant events that have occurred subsequent to the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2021, the Group has reported revenue of RMB361.4 million, representing an increase of approximately 44.5% as compared with the corresponding period of last year mainly due to increase in sales of jelly products and other snacks products by 43.5% and 385.9% respectively. During the six months ended 30 June 2021, the consumer sentiment in the PRC has gradually recovered from the hit by the Novel Coronavirus (“COVID-19”) outbreak. The Group’s sales was positively affected by the recovery of the consumer sentiment and the removal of lock-up measures in the PRC.

For the six months ended 30 June 2021, the Group recorded a net profit of RMB27.5 million, as compared with the net loss of RMB76.6 million in the same period last year. The main reasons for such increase in the Group’s net profit during the six months ended 30 June 2021 was mainly due to (i) an improvement in the gross profit by approximately RMB35.4 million mainly due to increase in revenue of jelly products; (ii) a gain on disposal of properties of approximately RMB13.4 million during the six months ended 30 June 2021; and (iii) no written-off of property, plant and equipment upon demolition in the six months ended 30 June 2021 (six months ended 30 June 2020: RMB66.0 million).

Revenue

Revenue increased by approximately 44.5% to RMB361.4 million in the first half of 2021 when compared with the same period in 2020. During the period under review, the Group’s sales performance has been positively impacted by the recovery of consumer sentiments and the removal of lock-up measures in the PRC. In addition, the Group’s has continued to exert immense efforts in developing its distribution network during the period also boost the sales performance. As at 30 June 2021, the Group had a total number of 915 distributors (30 June 2020: 900).

Jelly products

Revenue of jelly products increased by approximately 43.5% from RMB228.6 million in the first half of 2020 to RMB328.1 million in the first half of 2021. During the six months ended 30 June 2021, revenue attributable to jelly snacks increased by approximately 23.3% to RMB172.4 million while sales attributable to jelly beverages increased by approximately 75.3% to RMB155.7 million.

Confectionary products

Confectionary products recorded an increase in revenue during the six months ended 30 June 2021. Sales of confectionary products increased by approximately 16.2% from RMB16.0 million in the first half of 2020 to RMB18.6 million in the first half of 2021. The increase was mainly due to the recovery of consumer sentiments and the removal of lock-up measures in the PRC.

Beverages products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue of beverages products of the Group decreased by approximately 56.6% to RMB1.2 million in the first half of 2021 as the Group continued to shift its focus from beverages products to core and more profitable jelly products.

Other snacks products

Revenue of other snacks products increased by approximately 385.9% to RMB13.5 million, mainly due to the Group has launched a new series of healthy bean curd products which was well-received by the customers.

Cost of Sales and Gross Profit

Cost of sales increased by approximately 48.1% to RMB233.7 million in the first half of 2021, mainly attributable to the corresponding increase in sales. The gross profit increased by approximately 38.3% to RMB127.7 million in the first half of 2021. The gross profit margin decrease slightly from 36.9% in the first half of 2020 to 35.3% in the first half of 2021 mainly due to increase in cost of raw materials and packaging materials.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 38.6% to RMB50.7 million in the first half of 2021 primarily due to increase in advertising and promotion expenses by approximately 36.7% to RMB24.3 million during the period under review to promote its new retail, e-commerce, social media and society distribution channels.

Administrative Expenses

Administrative expenses decreased by approximately 0.2% to RMB45.8 million in the first half of 2021 as compared with the same period in 2020.

Income Tax Expense

During the six months ended 30 June 2021, the Group did not have any assessable income in Bermuda, BVI and Hong Kong. The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the period. The income tax expense during the period under review was mainly due to PRC income tax for the period net of the movements in deferred tax assets.

Net Profit/(Loss) for the Period

Net profit for the period was RMB27.5 million as compared to the net loss of RMB76.6 million for the six months ended 30 June 2020. Increase in the Group's net profit during the six months ended 30 June 2021 was mainly due to: (i) an improvement in the gross profit by approximately RMB35.4 million mainly due to increase in revenue of jelly products; (ii) a gain on disposal of properties of approximately RMB13.4 million during the six months ended 30 June 2021; and (iii) no written-off of property, plant and equipment upon demolition in the six months ended 30 June 2021 (six months ended 30 June 2020: RMB66.0 million).

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 30 June 2021, the bank balances and bank deposits amounted to RMB19.9 million which is RMB238.9 million less than the balance as at 31 December 2020. The decrease in bank balances and bank deposits was mainly due to the Group has repaid RMB84.5 million of bank borrowings and utilised RMB151.5 million for operating activities during the period under review.

As at 30 June 2021, the Group's gearing ratio (total borrowings divided by total equity) was 119.8% (As at 31 December 2020: 147.6%). The Group maintains sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash outflow from operating activities of RMB151.5 million in the first half of 2021 (2020: RMB5.4 million) which is significantly more than the same period in last year. The significant increase in operating cash outflow for the period under review was mainly due to improvement in demand of the Group's products that both trade receivables and inventories are increased significantly. The Group has spent RMB9.9 million in investing activities in the first half of 2021 mainly for the upgrade of production lines of the production plants. The Group has net cash outflow from financing activities of RMB113.3 million in the first half of 2021 mainly due to the Group has repaid approximately RMB84.5 million bank borrowings during the period under review.

Capital expenditure

During the six months ended 30 June 2021, the Group incurred RMB9.9 million in capital expenditure mainly for the upgrade of production lines of the production plants.

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 30 June 2021, balance increased by RMB20.7 million from the beginning of the year. The inventories turnover days for the first half of 2021 and 2020 were 69 days and 61 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grant 180 days credit to most of the wholesale distributors. Balance increased by RMB85.7 million from the beginning of the year. The trade receivables turnover days for the first half of 2021 and 2020 were 173 days and 192 days, respectively. Subsequent to the period end and up to the date of this announcement, approximately RMB152.4 million of the trade receivables were settled by the wholesale distributors.

Asset classified as held for sale

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

Trade payables and bills payable

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days to 60 days to the Group. The Group also used bank bills to settle trade payables. As at 30 June 2021, bills payable of the Group amounting to RMB42.5 million were secured by pledged bank deposits of RMB25.0 million. As at 30 June 2021, the bills payable were with maturity period within 1 year.

Trade payables turnover days (including trade payables and bills payable) for the six months ended 30 June 2021 and 2020 were 87 days and 182 days respectively.

Foreign exchange fluctuations

The Group earns revenue and incur costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the six months ended 30 June 2021, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered the financial benefits of such forward contracts may not outweigh their costs.

Charges on assets

As at 30 June 2021, no land and building of the Group was pledged as security for mortgage loan (31 December 2020: RMB6.0 million).

Contingent liabilities

As at 30 June 2021, the Group had no contingent liabilities (31 December 2020: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2021, the Group had approximately 1,170 employees and total remuneration expenses for the six months ended 30 June 2021 amounted to RMB50.9 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

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

There was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the period ended 30 June 2021. Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this interim results announcement.

PROSPECT

During the six months ended 30 June 2021, the consumer sentiment in the PRC has gradually recovered from the hit by the COVID-19 outbreak. The Group's sales was positively affected by the recovery of the consumer sentiment and the removal of lock-up measures in the PRC. The Directors considered that the COVID-19 outbreak will continued to have short-term pressure on the Group's business. However, it may also lead to an upgrade and consolidation opportunities of the food industry. As such, the Directors consider this is a good opportunity for the Group to expand its market share.

To build a solid foundation, the Group has formulated a mid-to-long term growth strategy. In year 2020, the Group had planned to expand its new retail, e-commerce, social media and society distribution channels and this strategy will continue in the next couple of years. In addition, the Group will also continue to adjust and upgrade its product portfolio to meet the demand of different customers.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the period under review.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group. The Audit Committee has also reviewed the interim results of the Group for the six months ended 30 June 2021.

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 2021, the Board is of the view that the Company has complied with the code provisions on the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions set forth therein the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. The Company has made specific enquiries with all directors of the Company and all the directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions during the six months ended 30 June 2021.

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 2021 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the aforesaid websites in due course.

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

Hong Kong, 31 August 2021

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

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