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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 2022

FINANCIAL HIGHLIGHTS

	Unaudited		+ / (-)
	2022	2021	
	RMB' million	RMB' million	
Key income statement items			
Revenue	348.6	361.4	-3.5%
Gross Profit	115.6	127.7	-9.5%
EBITDA ⁽¹⁾	44.1	72.4	-39.1%
(Loss)/profit for the period	(4.9)	27.5	N/A
Key performance indicators			
Gross profit margin	33.2%	35.3%	-2.1%pts
EBITDA margin	12.7%	20.0%	-7.3%pts
Net (loss)/profit margin	(1.4)%	7.6%	-9.0%pts
Return on equity (LTM) ⁽²⁾	-1.1%	16.6%	-17.7%pts
(Loss)/profit per share			
– Basic	RMB(0.004)	RMB0.021	-RMB0.025
– Diluted	RMB(0.004)	RMB0.021	-RMB0.025

Notes:

- EBITDA refers to profit before interests, taxation, depreciation, amortization, (reversal of allowance)/ allowance under expected credit losses model, net and loss on disposal of asset classified as held for sale.
- Return on equity is calculated using profit/(loss) for the last six 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 2022, together with comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Notes	Unaudited	
		Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
Revenue	4	348,603	361,351
Cost of sales		<u>(232,997)</u>	<u>(233,660)</u>
Gross profit		115,606	127,691
Other income	5	8,260	5,979
Other (loss)/gain, net	6	(21,093)	13,291
Reversal of allowance/(allowance) under expected credit losses model, net		6,549	(6,052)
Selling and distribution expenses		(57,147)	(50,680)
Administrative expenses		<u>(43,031)</u>	<u>(45,803)</u>
Operating profit		<u>9,144</u>	<u>44,426</u>
Finance income		38	382
Finance costs		<u>(14,593)</u>	<u>(16,172)</u>
Finance costs, net	7	<u>(14,555)</u>	<u>(15,790)</u>
(Loss)/profit before taxation	8	(5,411)	28,636
Taxation	9	<u>534</u>	<u>(1,159)</u>
(Loss)/profit and total comprehensive (loss)/gain for the period		<u><u>(4,877)</u></u>	<u><u>27,477</u></u>
(Loss)/profit per share attributable to equity holders of the Company (RMB per share)	10		
– Basic		<u><u>(0.004)</u></u>	<u><u>0.021</u></u>
– Diluted		<u><u>(0.004)</u></u>	<u><u>0.021</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

		Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets			
Right-of-use assets		90,857	92,097
Property, plant and equipment		257,079	274,263
Deposits for property, plant and equipment		7,169	47,595
Deferred tax assets		8,191	7,657
		<u>363,296</u>	<u>421,612</u>
Current assets			
Inventories		68,801	67,467
Trade receivables	12	359,490	383,923
Prepayments and other receivables		231,511	156,485
Cash and cash equivalents		87,678	80,567
		<u>747,480</u>	<u>688,442</u>
Asset classified as held for sale	13	–	180,000
		<u>747,480</u>	<u>868,442</u>
Total assets		<u>1,110,776</u>	<u>1,290,054</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		470,030	470,030
Reserves		(72,267)	(67,390)
Total equity		<u>397,763</u>	<u>402,640</u>

		Unaudited	Audited
		30 June	31 December
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liability			
Deferred 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>14</i>	185,988	342,071
Bank borrowings	<i>15</i>	511,000	529,150
Lease liabilities		<u>179</u>	<u>347</u>
		<u>697,167</u>	<u>871,568</u>
Total liabilities		<u>713,013</u>	<u>887,414</u>
Total equity and liabilities		<u>1,110,776</u>	<u>1,290,054</u>
Net current assets/(liabilities)		<u>50,313</u>	<u>(3,126)</u>
Total assets less current liabilities		<u>413,609</u>	<u>418,486</u>

NOTES:

1 General Information

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

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

The Company’s shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. The condensed consolidated interim financial information has not been audited.

2 Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2022 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 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group incurred a net loss of approximately RMB4,877,000 (six months ended 30 June 2021: net profit of approximately RMB27,477,000) for the six months ended 30 June 2022. As at 30 June 2021, the Group’s current liabilities exceeded its current assets by approximately RMB3,126,000.

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 2022. 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 2022. 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 RMB39,352,000 loan from a loan facility of RMB60,000,000 to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 30 June 2022.

(2) 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 2021.

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 2021, except for the adoption of the following revised IFRSs for the first time for the current period's financial information.

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples IFRS 16, and IAS 41

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

3 Financial Risk Management

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2021.

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. 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.

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 without allocation of corporate income (included gain on disposal of asset classified as held for sale) and corporate expenses including director's 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.

Geographical information

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

During the six months ended 30 June 2022 and 2021, none of the individual customer account for 10% or more of the Group's external revenue. As at 30 June 2022 and 31 December 2021, majority of the Group's assets, liabilities and capital expenditure were located or utilised in the PRC.

Segment revenue and results

	Unaudited				
	Six months ended 30 June 2022				
	Jelly	Confectionary	Beverages	Other	Reportable
	products	products	products	snacks	segments
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				products	total
Revenue					
Sales to external customers	323,165	14,722	2,475	8,241	348,603
Cost of sales	<u>(213,762)</u>	<u>(10,872)</u>	<u>(3,587)</u>	<u>(4,776)</u>	<u>(232,997)</u>
Gross profit/(loss)	<u>109,403</u>	<u>3,850</u>	<u>(1,112)</u>	<u>3,465</u>	<u>115,606</u>
Results of reportable segments	<u>56,226</u>	<u>1,554</u>	<u>(1,516)</u>	<u>2,195</u>	<u>58,459</u>

Note: For sales to external customer, the revenue is recognized at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	Unaudited				
	Six months ended 30 June 2022				
	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
Results of reportable segments					58,459
Corporate income					8,260
Loss on disposal of asset classified as held for sale					(20,923)
Corporate expenses					<u>(36,652)</u>
Operating profit					9,144
Finance income					38
Finance costs					<u>(14,593)</u>
Loss before taxation					(5,411)
Taxation					<u>534</u>
Loss for the period					<u>(4,877)</u>
Amounts included in the measure of segment profit or loss:					
Capital expenditure	<u>1,621</u>	<u>–</u>	<u>99</u>	<u>–</u>	<u>1,720</u>
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>19,096</u>	<u>–</u>	<u>132</u>	<u>103</u>	<u>19,331</u>
Reversal of allowance under expected credit losses model on trade receivables	<u>(6,071)</u>	<u>(277)</u>	<u>(46)</u>	<u>(155)</u>	<u>(6,549)</u>

Unaudited
Six months ended 30 June 2021

	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	328,083	18,574	1,157	13,537	361,351
Cost of sales	<u>(211,374)</u>	<u>(12,873)</u>	<u>(895)</u>	<u>(8,518)</u>	<u>(233,660)</u>
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>

Note: For sales to external customer, the revenue is recognized at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	Unaudited				Reportable
	Six months ended 30 June 2021				segments
	Jelly	Confectionary	Beverages	Other	total
	products	products	products	snacks	
	products	products	products	products	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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:					
Capital expenditure	<u>4,227</u>	<u>–</u>	<u>5,653</u>	<u>–</u>	<u>9,880</u>
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>
Allowance under expected credit losses model on trade receivables	<u>5,495</u>	<u>311</u>	<u>19</u>	<u>227</u>	<u>6,052</u>

5 Other Income

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	1,935	1,609
Government subsidy	1,722	2,504
Sundry income	4,589	1,818
Gain on sale of scrap materials	14	48
	<u>8,260</u>	<u>5,979</u>

6 Other (Loss)/Gain, Net

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of properties	–	13,363
Loss on disposal of asset classified as held for sale	(20,923)	–
Net exchange loss	(170)	(72)
	<u>(21,093)</u>	<u>13,291</u>

7 Finance Costs, Net

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance costs:		
Interest expenses on bank borrowings	(14,209)	(15,794)
Interest expenses on loan from a director	(384)	(378)
	<u> </u>	<u> </u>
Total finance costs	<u>(14,593)</u>	<u>(16,172)</u>
Finance income:		
Interest income on bank deposits	<u> 38</u>	<u> 382</u>
	<u> </u>	<u> </u>
Total finance income	<u> 38</u>	<u> 382</u>
	<u> </u>	<u> </u>
Finance costs, net	<u><u>(14,555)</u></u>	<u><u>(15,790)</u></u>

8 (Loss)/Profit Before Taxation

(Loss)/profit before taxation is arrived at after (crediting)/charging the following:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cost of inventory sold	180,359	207,564
Advertising and promotion expenses	34,522	24,270
Freight and transportation expenses	4,427	2,304
Staff cost (including directors' remunerations)		
– Salaries and bonuses	48,037	49,143
– Employer's contribution to defined contribution plans	2,278	1,713
Depreciation of property, plant and equipment	19,331	20,731
Depreciation of right-of-use assets	1,240	1,240
(Reversal of allowance)/allowance under expected credit losses model, net	(6,549)	6,052
Loss on disposal of asset classified as held for sale	<u>20,923</u>	<u> –</u>

9 Taxation

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax – PRC Enterprise Income Tax	–	2,055
Deferred tax, net	<u>(534)</u>	<u>(896)</u>
	<u>(534)</u>	<u>1,159</u>

Hong Kong Profits Tax, Bermuda and BVI income tax

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, 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 profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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 2022 and 2021.

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at rate of 25% (2021: 25%) on taxable profit of the Group's PRC subsidiaries during the six months ended 30 June 2022.

10 (Loss)/Profit per Share

(a) *Basic (loss)/profit per share*

Basic (loss)/profit per share is calculated by dividing the net (loss)/profit 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	
	2022	2021
Net (loss)/profit attributable to the equity holders of Company (<i>RMB'000</i>)	<u><u>(4,877)</u></u>	<u><u>27,477</u></u>
Weighted average number of ordinary shares in issue for basic (loss)/profit per share (<i>'000</i>)	<u><u>1,328,977</u></u>	<u><u>1,328,977</u></u>
Basic (loss)/profit per share (<i>RMB per share</i>)	<u><u>(0.004)</u></u>	<u><u>0.021</u></u>

(b) *Diluted (loss)/profit per share*

The computation of diluted (loss)/profit per share does not include the Company's outstanding share options and the outstanding warrants because the effect were anti-dilutive. Therefore, the diluted (loss)/profit per share of the Company is the same as the basic (loss)/profit 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 2022 (2021: Nil).

12 Trade Receivables

The Group's revenue are generally on credit term of 180 days (2021: 180 days). As at 30 June 2022, 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
	2022	2021
	RMB'000	RMB'000
Less than 30 days	61,052	64,605
31 days – 90 days	94,978	42,179
91 days – 180 days	74,766	67,728
Over 180 days	128,694	209,411
	359,490	383,923

13 Asset classified as held for sale

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

The Purchaser had fully settled the consideration of RMB180,000,000 in accordance with the Transfer Agreement and Jinjiang Construction had fully refunded the RMB40,000,000 land deposit to the Vendor. All the conditions precedent to the Transfer Agreement had been fulfilled, and the completion took place on 6 May 2022. Upon completion, the Vendor ceased to have any interest in the FJ Land Right.

A loss on disposal of asset classified as held for sale of RMB20,923,000 was recorded during the six months ended 30 June 2022.

14 Trade and Other Payables

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Trade payables	15,690	21,654
Accrued expenses	17,625	35,341
Directors' fees and emoluments payable	19,310	18,268
Loan from a director (<i>Note (i)</i>)	39,352	36,090
Other payables and sundry creditors (<i>Note (ii)</i>)	94,011	230,718
	185,988	342,071

Notes:

- (i) As at 30 June 2022, the Company has drawn down an aggregate amount of approximately RMB39,352,000 (31 December 2021: RMB36,090,000) from a loan facility of RMB60,000,000 (31 December 2021: 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.
- (ii) As at 31 December 2021, the Group received RMB144,000,000 deposit of the assets classified as held for sale from the Purchaser in accordance with the terms of the Transfer Agreement. The disposal was completed during the six months ended 30 June 2022.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2022, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited	Audited
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	11,188	14,450
31 days – 90 days	3,460	5,362
Over 90 days	1,042	1,842
	<u>15,690</u>	<u>21,654</u>

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

15 Bank Borrowings

	Unaudited	Audited
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings	455,050	468,200
Unsecured bank borrowings	55,950	60,950
Total bank borrowings	<u>511,000</u>	<u>529,150</u>
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	<u>511,000</u>	<u>529,150</u>

16 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 2022, the Group has reported revenue of RMB348.6 million, representing a decrease of approximately 3.5% as compared with the corresponding period of last year mainly due to decrease in sales of jelly products, confectionary products and other snacks products by 1.5%, 21.0% and 39.1% respectively. During the six months ended 30 June 2022, the consumer sentiment in the PRC had 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 most areas of the PRC. However, there were still several COVID-19 surges in certain cities or provinces in the PRC e.g. Shanghai, Jinjiang and Jilin, following the 2022 Lunar New Year and up till May 2022. Local governments in these areas had taken measures to minimize the impact of the COVID-19 pandemic, including but not limited to: mandatory quarantine of infected personnel and their close contacts, compulsory quarantine of visitors and travellers and lockdowns of high risk areas (collectively, the “Governments’ Measures”). Due to the Governments’ Measures, the Group’s major subsidiary in Jinjiang, Fujian was required to stop its production and operation temporarily in March and April 2022. As a result, the sales performance of the Group was negatively affected during March and April 2022 and resulted in the decrease in sales for the six months ended 30 June 2022 as compared with the corresponding period in 2021.

For the six months ended 30 June 2022, the Group recorded a net loss of RMB4.9 million, as compared with the net profit of RMB27.5 million in the same period last year. The main reasons for the Group’s net loss during the six months ended 30 June 2022 was mainly due to (i) there were decreases in sales and gross profit margin by approximately RMB12.8 million and RMB12.1 million respectively due to temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022 and the increase in the costs of certain major raw materials; (ii) there was no gain on disposal of properties during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB13.4 million); and (iii) there was a loss on disposal of asset classified as held for sale in the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

Revenue

Revenue decreased by approximately 3.5% to RMB348.6 million in the first half of 2022 when compared with the same period in 2021. 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 most areas of the PRC. However, there were still several COVID-19 surges in certain cities or provinces in the PRC e.g. Shanghai, Jinjiang and Jilin, following the 2022 Lunar New Year and up till May 2022. Due to the Governments' Measures mentioned above, the Group's major subsidiary in Jinjiang, Fujian was required to stop its production and operation temporarily in March and April 2022. As a result, the sales performance of the Group was negatively affected during March and April 2022 and resulted in the decrease in sales for the six months ended 30 June 2022 as compared with the corresponding period in 2021.

During the period under review, the Group has continued to exert immense efforts in developing its distribution network. As at 30 June 2022, the Group had a total number of 930 distributors (30 June 2021: 915).

Jelly products

Revenue of jelly products decreased by approximately 1.5% from RMB328.1 million in the first half of 2021 to RMB323.2 million in the first half of 2022. During the six months ended 30 June 2022, revenue attributable to jelly snacks increased by approximately 2.7% to RMB177.0 million while sales attributable to jelly beverages decreased by approximately 6.1% to RMB146.2 million.

Confectionary products

Confectionary products recorded a decrease in revenue during the six months ended 30 June 2022. Sales of confectionary products decreased by approximately 21.0% from RMB18.6 million in the first half of 2021 to RMB14.7 million in the first half of 2022. The decrease was mainly due to temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022.

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 increased by approximately 113.9% to RMB2.5 million in the first half of 2022 as the Group has launched new milk beverages during the period under review. While the Group will maintain its presence in beverages sector, the Group will continue to shift its focus from beverages products to core and more profitable jelly products.

Other snacks products

Revenue of other snacks products decreased by approximately 39.1% to RMB8.2 million. The decrease was mainly due to temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 0.3% to RMB233.0 million in the first half of 2022, mainly attributable to the corresponding decrease in sales. The gross profit decreased by approximately 9.5% to RMB115.6 million in the first half of 2022. The gross profit margin decrease from 35.3% in the first half of 2021 to 33.2% in the first half of 2022 mainly due to increase in cost of raw materials such as white sugar and carrageenan.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 12.8% to RMB57.1 million in the first half of 2022 primarily due to increase in advertising and promotion expenses by approximately 42.2% to RMB34.5 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 6.1% to RMB43.0 million in the first half of 2022 as compared with the same period in 2021. This was mainly due to tighter costs controls exercised by the Group.

Income Tax Expense

During the six months ended 30 June 2022, 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 credit during the period under review was primarily due to the movements in deferred tax assets.

Net (Loss)/Profit for the Period

For the six months ended 30 June 2022, the Group recorded a net loss of RMB4.9 million, as compared with the net profit of RMB27.5 million in the same period last year. The main reasons for the Group's net loss during the six months ended 30 June 2022 was mainly due to (i) there were decreases in sales and gross profit margin by approximately RMB12.8 million and RMB12.1 million respectively due to temporary cessation in production and operation of our Jinjiang subsidiary in March and April 2022 and the increase in the costs of certain major raw materials; (ii) there was no gain on disposal of properties during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB13.4 million); and (iii) there was a loss on disposal of asset classified as held for sale in the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

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 2022, the bank balances and bank deposits amounted to RMB87.7 million which is RMB7.1 million more than the balance as at 31 December 2021. The increase in bank balances and bank deposits was mainly due to the Group had received proceeds from the disposal of asset classified as held for sale amounted to RMB36.0 million during the period under review, net of the decrease in bank borrowings of RMB18.2 million and the payment of interest expenses of RMB14.2 million.

As at 30 June 2022, the Group's gearing ratio (total borrowings divided by total equity) was 138.4% (As at 31 December 2021: 140.5%). 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 RMB37.9 million in the first half of 2022 (2021: RMB151.5 million) which is significantly improved from the same period in last year. The improvement in operating cash flow for the period under review was mainly due to improvement in collection of trade receivables during the period under review. The Group has spent RMB1.7 million in investing activities in the first half of 2022 mainly for the upgrade of production lines of the production plants. In addition, the Group had received proceeds from the disposal of asset classified as held for sale of RMB36.0 million during the six months ended 30 June 2022. The Group has net cash outflow from financing activities of RMB29.3 million in the first half of 2022 mainly due to the Group has repaid approximately RMB18.2 million bank borrowings and paid interest expenses of RMB14.2 million during the period under review.

Capital expenditure

During the six months ended 30 June 2022, the Group incurred RMB1.7 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 2022, balance increased by RMB1.3 million from the beginning of the year. The inventories turnover days for the first half of 2022 and 2021 were 61 days and 69 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 decreased by RMB24.4 million from the beginning of the year. The trade receivables turnover days for the first half of 2022 and 2021 were 194 days and 173 days, respectively. Subsequent to the period end and up to the date of this announcement, approximately RMB117.9 million of the trade receivables were settled by the wholesale distributors.

Asset classified as held for sale

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

The Purchaser had fully settled the consideration of RMB180,000,000 in accordance with the Transfer Agreement and Jinjiang Construction had fully refunded the RMB40,000,000 land deposit to the Vendor. All the conditions precedent to the Transfer Agreement had been fulfilled, and the completion took place on 6 May 2022. Upon completion, the Vendor ceased to have any interest in the FJ Land Right.

A loss on disposal of the asset classified as held for sale of RMB20,923,000 was recorded during the six months ended 30 June 2022.

Trade payables

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.

Trade payables turnover days for the six months ended 30 June 2022 and 2021 were 25 days and 87 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 2022, 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 2022, land use rights and buildings of the Group with carrying values of RMB90,519,000 (31 December 2021: RMB91,759,000) and RMB55,279,000 (31 December 2021: RMB63,989,000) respectively, were pledged to banks as securities for banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2022, the Group had no contingent liabilities (31 December 2021: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2022, the Group had approximately 1,420 employees and total remuneration expenses for the six months ended 30 June 2022 amounted to RMB50.3 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 2022. 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 2022, 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 most areas of 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 had 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 2022, 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 2022.

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 2022, 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 2022.

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 2022 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, 29 August 2022

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.