

TARGET

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LABIXIAOXIN SNACKS GROUP LTD: WHAT A LOAD OF HOGWASH!

SIX UNBROKEN YEARS OF LOSSES – AND MORE TO COME ?

During the Financial Year, ended December 31, 2020, Management of Labixiaoxin Snacks Group Ltd (蠟筆小新休閒食品集團有限公司) (Code: 1262, Main Board, The Stock Exchange of Hongkong) disposed of its entire equity interest in an indirect, wholly owned subsidiary, netting about 233,581,000 renminbi (**RMB**).

At least, on paper, that is.

The subsidiary was Tianjin Huakunda Supply Chain Management Company Ltd (天津華坤達供應鏈管理有限公司), the principal activities of which were, as its name implies, a supply chain management, logistics, property lease and manufacture of food.

The Net Proceeds from this disposal were said to have been, approximately, RMB233,581,000.

But one may ponder this suggestion in respect of this not immaterial amount of money.

At Page Six of the 2020 Annual Report of Labixiaoxin Snacks Group Ltd, Chairman Zheng Yu Huan (鄭育煥) made the following remarks in respect of this disposal:

‘During the year under review, the Group has disposed the entire equity interest of Tianjin Huakunda Supply Chain Management Co., Ltd., an indirect wholly-owned subsidiary of the Company, to an independent third party at a consideration of approximately RMB288.1 million (subject to adjustment), pursuant to the terms and conditions of the equity transfer agreement dated 27 July 2020. The disposal was completed on 30 December 2020 and a gain on disposal of RMB141.7 million was recorded for the year ended 31 December 2020. The net sales proceeds will be applied to repay the borrowings of the Group, use for the Group’s business development and use for the general working capital of the Group. This disposal has definitely strengthened the liquidity of the Group

and allowed the Group to capitalise on any potential investment opportunities in the future.'

At Page 42 of the 2020 Annual Report of Labixiaoxin Snacks Group Ltd, under the heading, **'Directors' Report'**, one was given a little more information in respect of the details of this material disposal:

'During the year ended 31 December 2020, the Group has disposed the entire equity interest of Tianjin Huakunda Supply Chain Management Co., Ltd., an (sic) then indirect wholly-owned subsidiary of the Company and held an industrial complex in Tianjin, to an independent third party (the "Disposal"). The Disposal was completed on 30 December 2020...

'USE OF THE PROCEEDS FROM THE DISPOSAL

'The net proceeds from the Disposal, after deducting the estimated transaction costs and income taxes attributable to the Disposal of approximately RMB54,594,000, are estimated to be approximately RMB233,581,000, of which approximately RMB100,000,000 will be applied to repay the borrowings of the Group, approximately RMB60,000,000 will be applied for the Group's business development and the remaining approximately RMB73,581,000 will be used for the general working capital of the Group.

'Up to 31 December 2020, approximately RMB41.8 million of the proceeds from the Disposal has been used for the repayment of borrowings. All the remaining unused net proceeds from the Disposal will be utilized in accordance with the intended use of proceeds in the coming years.'

Aspects of this disposal were, inter alia (a) that the completion of the disposal was, precisely, one day prior to the conclusion of 2020 Financial Year (b) the gain on the disposal was lodged in the Consolidated Statement of Profit or Loss at RMB141,659,000 and (c) the gain on the disposal made a material impact on the Bottom Line of which was, nevertheless, a Net Loss with regard of the 2020 Financial Year of RMB29,403,000.

The following are the highlights in respect of Consolidated Statement of Profit or Loss in respect of the 2020 Financial Year, as found at Page 51 of the 2020 Annual Report:

	2020	2019	Percentage Increase/(Decrease)*
	All Figures Are Denominated In RMB'000 (except where otherwise stipulated)		
Revenue	508,838	466,570	9.06
Gross Profit	166,544	139,005	19.81
Gross Profit Margin*	32.73 percent	29.79 percent	9.87
Gain on Disposal of a Subsidiary	141,659	Nil	N/A
Operating Profit/(Loss)	55,454	(110,166)	150.34
Net Loss and Total Comprehensive Loss for the Year	(29,403)	(170,110)	(82.72)

Loss Per Share Attributable to Shareholders of the Company	(0.02 RMB)	(0.13 RMB)	84.62
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* These are **TARGET**'s calculations.

At the following Page 52 of the 2020 Annual Report, it was shown that, as at December 31, 2020, cash and cash equivalents stood at RMB 258,839,000 (2019: RMB 24,833,000).

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