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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)

MAJOR TRANSACTION DISPOSAL OF THE FJ LAND RIGHT

Financial Advisor



BAOQIAO PARTNERS CAPITAL LIMITED

INTRODUCTION

The Board is pleased to announce that on 15 May 2019 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the FJ Land Right for a consideration of RMB180 million.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Disposal which is different from other Shareholders, and therefore no Shareholder is required to abstain from voting for the resolution to approve the Transfer Agreement and the Disposal contemplated thereunder, should the same be put forward to the Shareholders to approve at a general meeting of the Company.

Mr. Zheng Yu Long and Alliance Food And Beverages (Holding) Company Limited, a company which is owned as to 28% by each of the three executive Directors, namely Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, and as to 16% by non-executive Director, Mr. Li Hung Kong, being Shareholders holding in aggregate 730,850,587 Shares, representing approximately 54.99% of the issued share capital of the Company as at the date of this announcement, have undertaken to give their consents to approve the Transfer Agreement and the transactions contemplated thereunder, which will be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules.

GENERAL

A circular containing, among others, details of the Transfer Agreement and the transactions contemplated thereunder, financial information of the Group, and other information as required under the Listing Rules will be despatched to the Shareholders and in according with the Listing Rules on or before 5 June 2019 (i.e. within 15 business days after the publication of this announcement) for the Shareholders' information.

Shareholders and potential investors of the Company should note that the Disposal is subject to the satisfaction of the conditions precedent under the Transfer Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

INTRODUCTION

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THE TRANSFER AGREEMENT

The principal terms of the Transfer Agreement are summarized as follows:

Date

15 May 2019 (after trading hours)

Parties

- (a) the Vendor as vendor; and
- (b) the Purchaser as purchaser

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are Independent Third Parties.

Subject of the Disposal

Subject to and in accordance with the terms and conditions of the Transfer Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the FJ Land Right. Pursuant to the Transfer Agreement, both the Vendor and the Purchaser will liaise with Jinjiang Construction 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.

As part of the Disposal, the Vendor agreed to novate its rights and obligations in and under the Construction Contracts (the "**Novation**") and the Purchaser agreed to, from the date of the completion of the Novation, assume all of the rights and obligations in and under the Construction Contracts. The Vendor agreed to procure the relevant suppliers of the Construction Contracts to enter into agreements with the Vendor and the Purchaser in respect of the Novation.

Consideration

The consideration for the sale and purchase of the FJ Land Right from the Vendor to the Purchaser under the Transfer Agreement is RMB180 million, which shall be settled by the Purchaser to the Vendor in the following manner:

- (a) within seven (7) Business Days after signing the Transfer Agreement, the Purchaser shall pay a deposit (the “**Deposit**”) in the amount of RMB10 million to the Vendor;
- (b) within seven (7) Business Days after the approval(s) having been obtained from competent government authority(ies) in relation to the transfer of the FJ Land Right from the Vendor to the Purchaser, the Purchaser shall pay an amount of RMB90 million to the Vendor; and
- (c) within seven (7) Business Days after Completion, the Purchaser shall pay the remaining balance, being an amount of RMB80 million to the Vendor.

The Deposit is to be refunded to the Purchaser in full if the Conditions are not fulfilled on or before the Long Stop Date.

Basis of the Consideration

The consideration for the Disposal was determined after arm’s length negotiation between the Vendor and the Purchaser having taken into account, among other things:

- (a) the unaudited net book value of the FJ Land of RMB266.67 million as at 31 December 2018;
- (b) the Vendor does not have legal ownership of the FJ Land;
- (c) the FJ Land Premium and Capital Commitments of approximately RMB86.37 million as at the date of signing the Transfer Agreement;
- (d) there is no use of the FJ Land for the Group’s own production operations; and
- (e) the reasons for the Disposal and expected benefits to the Company as discussed in the section headed “Reasons for and benefits of the Disposal”.

Pursuant to the Transfer Agreement, the Vendor will apply for the refund of the FJ Land Deposit of RMB40 million from Jinjiang Construction and be released from its obligation to pay the outstanding FJ Land Premium of RMB35 million upon Completion and the Purchaser will be responsible for the payment of any land premium to Jinjiang Construction under the FJ Land Right.

The Board is of the view that the terms of the Transfer Agreement (including the consideration for the Disposal) are fair and reasonable and the entering into the Transfer Agreement is in the interests of the Company and its Shareholders as a whole.

Conditions Precedent

Completion is conditional upon the fulfilment of the following Conditions on or before the Long Stop Date:

- (a) the Purchaser having paid the Deposit in accordance with terms and conditions of the Transfer Agreement;
- (b) both the Purchaser and the Vendor having obtained all necessary approvals required under the relevant laws and regulations and all necessary consents from third parties which are required for the Transfer Agreement and the transactions contemplated under the Transfer Agreement; and
- (c) the Company having published the relevant announcement(s) and shareholders' circular(s) (if necessary) and having obtained the Shareholders' approval (if necessary) in accordance with the requirements under the Listing Rules in respect of the Transfer Agreement and the transactions contemplated under the Transfer Agreement.

The above Conditions will not be waivable.

If the above Conditions are not fulfilled on or before the Long Stop Date, either party has the right to terminate the Transfer Agreement in writing and neither party will be liable to the other except for antecedent breaches and that the Deposit shall be returned to the Purchaser.

Completion

After fulfilment of all the Conditions, Completion shall take place on the date (or such other date and time as the Vendor and the Purchaser may agree) after (i) the approval(s) having been obtained from the competent government authority(ies) in relation to the transfer of the FJ Land Right from the Vendor to the Purchaser; and (ii) completion of Novation (which shall be completed within 30 days after the above-mentioned approval(s) having been obtained).

INFORMATION OF THE FJ LAND AND FJ LAND RIGHT

FJ Land Right

Pursuant to the Notice, the Vendor was granted the FJ Land Right, being the right to acquire the FJ Land for an amount of RMB75 million. Further, the FJ Land Deposit in the amount of RMB40 million was paid by the Vendor in December 2013 as required under the Notice. As at the date of this announcement, the FJ Land Premium in the amount of RMB35 million remains payable by the Vendor, being the outstanding capital commitment in relation to the land premium of the FJ Land Right.

FJ Land

The FJ Land is located at Jinjiang Food Industrial Park (晉江市食品產業園) in Jinjiang City, Fujian Province, the PRC and it is a 2-Phase development comprising an Industrial Complex of 12 blocks of one to five storeyed buildings erected on the FJ Land with a total site area of 126,981 square meters. The total gross floor area of the Industrial Complex is approximately 148,271 square meters. Phase I of the Industrial Complex comprises 10 blocks of one to five storeyed buildings intended to use as factories, dormitories, warehouse and other ancillary facilities with a total gross floor area of approximately 108,443 square metres (“**Phase I**”). Phase II of the Industrial Complex comprises two blocks of one storeyed building intended to use as logistics factories with a total gross floor area of approximately 39,828 square metres (“**Phase II**”). No machinery and equipment of the Group has been installed in the Industrial Complex.

The Vendor (as a lessor) has entered into two leasing agreements (the “**Leasing Agreements**”) with an Independent Third Party (as a lessee) to lease (i) certain spaces of Phase I of the Industrial Complex with a total gross floor area of approximately 107,589 square metres for the period from 1 March 2018 to 30 March 2023 at a monthly rent of RMB537,945; and (ii) Phase II of the Industrial Complex with a total gross floor area of approximately 39,828 square metres for the period from 1 January 2019 to 31 December 2023 at a monthly rent of RMB318,624.

No legal ownership of the FJ Land and the Industrial Complex has been obtained by the Vendor as at the date of this announcement and the application of the legal ownership of the FJ Land is subject to, among others, the payment of the FJ Land Premium of RMB35 million.

Based on the PRC legal opinion obtained by the Company in respect of the FJ Land, as the Vendor has not obtained the construction works permits from the PRC government, the Construction Contracts and the Leasing Agreements entered into by the Vendor have legal risks of being deemed invalid, which the rights and obligations of the parties to these contracts may not be enforceable. As at the date of this announcement, these contracts are still in normal performance and there are no legal dispute against the Group in relation to these contracts.

Financial Information of the FJ Land

The net profit before tax attributable to the FJ Land for the year ended 31 December 2018 was approximately RMB2.2 million, which represented the net rental income received during the year. The net book value of the FJ Land was approximately RMB266.67 million as at 31 December 2018, representing the aggregate amount of the FJ Land Deposit and the net book value of the Industrial Complex of approximately RMB40 million and RMB226.67 million respectively.

As at the date of the Transfer Agreement, the outstanding FJ Land Premium under the Notice and the Capital Commitments contracted for in relation to the FJ Land was approximately RMB35 million and RMB51.37 million, respectively.

Valuation of the FJ Land

Due to the lack of legal ownership to the FJ Land, an independent professional valuer appointed by the Company has ascribed no commercial value to the FJ Land based on the preliminary valuation report prepared by the independent professional valuer.

INFORMATION OF THE GROUP AND THE VENDOR

The Company is an investment holding company. The principal activities of the Group are manufacturing and sales of jelly products, confectionary products, beverages products and other snacks products.

The Vendor is a limited liability company established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company. It is principally engaged in manufacture and sale of food and beverages products.

INFORMATION OF THE PURCHASER

The Purchaser is a limited liability company established under the laws of the PRC. It is principally engaged in supply chain management and manufacturing and wholesale of beverage, jelly, confectionary, puffin food and other pre-packaged food. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are Independent Third Parties.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Vendor obtained the FJ Land Right in December 2013 and commenced the construction of the Industrial Complex thereon with the view to expand its food and beverages manufacturing business. The construction of the Phase I and Phase II of the Industrial Complex was completed in 2017 and 2018 respectively, but no production activities has been carried out by the Group after completion of the construction.

The Group has been in loss making position since 2015, mainly due to the continual weakening of the market demand for the traditional snack products of the Group and the impairment of property, plant and equipment as a result of underutilisation of the Group's production capacity. In 2018, the Group decided to lease out the FJ Land with a view to minimize loss, generate additional cash flow to cover the construction and idle costs incurred in relation to the FJ Land, however, as disclosed in the section headed "INFORMATION OF THE FJ LAND AND FJ LAND RIGHT" in this announcement, the Vendor has not obtained the construction works permits from the PRC government in respect of the construction of the Industrial Complex and the Leasing Agreements entered into by the Vendor have legal risks of being deemed invalid.

In view of the above, the Board considers that it will be in the interest of the Company to exit and recover its investment in the FJ Land. In addition, the sales proceeds from the Disposal (including the refund of the FJ Land Deposit) will strengthen the Group's financial position and provide the Group with additional working capital for its future business development. Furthermore, the Group can be released from the payment obligations of the FJ Land Premium and Capital Commitments of RMB86.37 million in relation to an inactive asset upon Completion.

Based on the factors mentioned above, the Board is of the view that the terms of the Transfer Agreement and transactions contemplated thereunder are fair and reasonable and are on normal commercial terms, and the entering into the Transfer Agreement are in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL

As a result of the Disposal, the Directors expects the Group will record an unaudited loss of approximately RMB57.49 million, being the difference between (i) the consideration of RMB180 million and the refund of the FJ Land Deposit of RMB40 million; and (ii) the unaudited net book value of the FJ Land of approximately RMB266.67 million as at 31 December 2018 and the estimated transaction costs and taxes of approximately RMB10.82 million.

The actual financial impact in relation to the Disposal will be subject to audit.

The net proceeds (including the refund of the FJ Land Deposit) from the Disposal, after deducting transaction costs and taxes attributable to the Disposal of approximately RMB10.82 million, are estimated to be approximately RMB209.18 million, of which approximately RMB100 million will be applied to repay the bank borrowings of the Group, approximately RMB50 million will be applied for the Group's business development and the remaining RMB59.18 million will be used for the general working capital of the Group.

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Disposal which is different from other Shareholders, and therefore no Shareholder is required to abstain from voting for the resolution to approve the Transfer Agreement and the Disposal contemplated thereunder, should the same be put forward to the Shareholders to approve at a general meeting of the Company.

Mr. Zheng Yu Long and Alliance Food And Beverages (Holding) Company Limited, a company which is owned as to 28% by each of the three executive Directors, namely Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, and as to 16% by non-executive Director, Mr. Li Hung Kong, being Shareholders holding in aggregate 730,850,587 Shares, representing approximately 54.99% of the issued share capital of the Company as at the date of this announcement, have undertaken to give their consents to approve the Transfer Agreement and the transactions contemplated thereunder, which will be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules.

GENERAL

A circular containing, among others, details of the Transfer Agreement and the transactions contemplated thereunder, financial information of the Group, and other information as required under the Listing Rules will be despatched to the Shareholders and in accordance with the Listing Rules on or before 5 June 2019 (i.e. within 15 business days after the publication of this announcement) for the Shareholders' information.

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DEFINITIONS

In this announcement, the following terms have the meanings set out below, unless the context requires otherwise:

“Board”	the board of Directors
“Business Day”	any day (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong and the PRC are generally open for business
“Capital Commitments”	the commitments contracted but not provided for under the Construction Contracts in an aggregate amount of approximately RMB51.37 million as of the date of the Transfer Agreement
“Company”	Labixiaoxin Snacks Group Limited (蠟筆小新休閒食品集團有限公司), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1262)
“Completion”	completion of the Disposal as contemplated thereunder the Transfer Agreement in accordance with the terms and conditions of the Transfer Agreement
“Conditions”	the conditions set out under the section headed “Conditions Precedent” in this announcement
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules

“Construction Contracts”	various construction contracts of the Industrial Complex in an aggregate contract sum of approximately RMB278.04 million
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the FJ Land Right pursuant to the terms and conditions of the Transfer Agreement
“FJ Land”	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 constructions thereon (i.e. the Industrial Complex)
“FJ Land Right”	the pre-registration contractual right to acquire the FJ Land under the Notice
“FJ Land Deposit”	the pre-registration deposit of RMB40 million paid by the Vendor in relation to the FJ Land Right under the Notice
“FJ Land Premium”	the outstanding capital commitment of RMB35 million payable by the Vendor in relation to the land premium of the FJ Land Right under the Notice as at the date of the Transfer Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons

“Industrial Complex”	an industrial complex comprising 2-Phase development comprising 12 blocks of one to five storeyed buildings erected on the FJ Land
“Jinjiang Construction”	Fujian Jinjiang Industrial Park Construction and Development Company Limited* (福建省晉江市工業園區建設開發公司), a company controlled by Jinjiang City People’s Government* (晉江市人民政府)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	15 November 2019 (or such other date as may be agreed between the Purchaser and Vendor)
“Notice”	the notice regarding the payment for the FJ Land Right issued by Jinjiang Construction to the Vendor on 30 November 2013
“Purchaser”	Fujian Jinjiang Ou Dian Supply Chain Management Company Limited* (福建省晉江市歐點供應鏈管理有限公司), a limited liability company established under the laws of the PRC
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of US\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)

“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Transfer Agreement”	the conditional transfer agreement dated 15 May 2019 entered into between the Vendor and the Purchaser in respect of the Disposal
“Vendor”	Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd.* (蠟筆小新(福建)食品工業有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“US\$”	United States dollars, the lawful currency of United States
“%”	per cent.

* For identification purposes only

By Order of the Board
Mr. Zheng Yu Huan
Chairman

Hong Kong, 15 May 2019

As at the date of this announcement, the Board comprises eight members, of which Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan are the executive Directors, Mr. Li Hung Kong and Mr. Ren Yunan are the non-executive Directors and Mr. Li Zhi Hai, Ms. Sun Kam Ching and Mr. Chung Yau Tong are the independent non-executive Directors.