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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 IN RELATION TO THE DISPOSAL OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

On 27 July 2020 (after trading hours), the Vendor, the Vendor's Guarantor, the Purchaser, and the Target Company (collectively, the "**Parties**") entered into the Equity Transfer Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire, the Vendor has conditionally agreed to sell the entire equity interest in the Target Company at the Final Consideration, representing the Estimated Consideration of RMB288,428,356 (subject to Adjustments), pursuant to the terms and conditions of the Equity Transfer Agreement.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Transaction exceeds 25% but is less than 75%, the Transaction constitutes a major transaction for the Company and are 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 Transaction which is different from other Shareholders, and therefore no Shareholder is required to abstain from voting for the resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder, should the same be put forward to the Shareholders to approve at a general meeting of the Company.

The Company is in the process of obtaining written approval for the Transaction in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders comprising Mr. Zheng Yu Long, an executive Director and Alliance Food And Beverages (Holding) Company Limited, which together are beneficially interested in an aggregate of 730,850,587 Shares, representing approximately 54.99% of the entire issued capital of the Company as at the date of this announcement. As such, if written approval can be obtained pursuant to Rule 14.44 of the Listing Rules, no special general meeting will be convened for the purpose of approving the Transaction as permitted under Rule 14.44 of the Listing Rules. Otherwise, the Company will proceed to convene a special general meeting of the Company at which resolutions will be proposed for the approval of the Transaction.

As at the date of this announcement, 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 the non-executive Director, Mr. Li Hung Kong, is interested in 610,915,527 Shares, representing approximately 45.97% of the issued share capital of the Company. In addition, Mr. Zheng Yu Long is beneficially interested in 119,935,060 Shares, representing approximately 9.02% of the issued share capital of the Company as at the date of this announcement.

GENERAL

A circular containing, among others, (i) details of the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) financial information of the Group; (iii) the property valuation report; and (iv) other information as required under the Listing Rules is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 17 August 2020 (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 Equity Transfer Agreement and the transactions contemplated thereunder are subject to the satisfaction or waiver (as the case may be) of the Conditions under the Equity Transfer Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

On 27 July 2020 (after trading hours), the Vendor, the Vendor's Guarantor, the Purchaser, and the Target Company (collectively, the "**Parties**") entered into the Equity Transfer Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire, the Vendor has conditionally agreed to sell the entire equity interest in the Target Company at the Final Consideration, representing the Estimated Consideration of RMB288,428,356 (subject to Adjustments), pursuant to the terms and conditions of the Equity Transfer Agreement.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarised as follows:

Date

27 July 2020 (after trading hours)

Parties

- (a) the Vendor (as the vendor);
- (b) the Vendor's Guarantor (as the guarantor);
- (c) the Purchaser (as the purchaser); and
- (d) the Target Company.

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.

Assets to be disposed of

Pursuant to the terms and conditions of the Equity Transfer Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire equity interest in the Target Company.

The principal asset of the Target Company is the Target Property, details of which has been disclosed in the sections headed “Information of the Parties and the Target Land and Property” and “Background of the Transaction” in this announcement.

The Entrusted Loan

As part of the Equity Transfer Agreement, the Purchaser (via its nominee) as lender, the Bank, as lending agent and the Target Company, as borrower will enter into a conditional Entrusted Loan Agreement, pursuant to which the Bank will provide an Entrusted Loan in an aggregate amount of RMB100,000,000, which shall be payable in two instalments of RMB60,000,000 (the “**First Drawdown**”) and RMB40,000,000 (the “**Second Drawdown**”) respectively to the Target Company on the principal indicative terms (which are subject to the Entrusted Loan Agreement to be signed) set out below.

Interest rate

The Entrusted Loan will be interest free or not more than 18% per annum if the Equity Transfer Agreement has become inoperative, cannot proceed or the Parties have agreed to terminate the Equity Transfer Agreement.

Agency fee

The Target Company shall pay an agency fee of not more than RMB500,000 to the Bank (the “**Agency Fee**”).

Term

The term of the Entrusted Loan will be not more than one year.

Early repayment

The Target Company may repay in full or part in advance.

Conditions precedent

The payment of the Entrusted Loan by the Bank to the Target Company is conditional upon the fulfillment of the following conditions:

- (a) the Entrusted Loan Agreement having been executed and the Purchaser having received the duly signed Entrusted Loan Agreement;
- (b) the Deed of Guarantee having been executed; the Equity Interests Pledge Procedures and Property Pledge Procedures having been completed;
- (c) the payment of the first installment of the Agency Fee by the Vendor (on behalf of the Target Company) to the Bank;
- (d) the Conditions (except for Conditions (4), (10), (11), (12), (13), (14), (15), (16), (23) and (25)) having been fulfilled (or waived by the Purchaser as the case may be);
- (e) the Repayment (as defined below and in respect of the Second Drawdown only); and
- (f) other conditions precedent to the Entrusted Loan Agreement, as may be customary in accordance with market practice.

Pursuant to the Equity Transfer Agreement, the Parties have further agreed that the Target Company shall grant a loan of RMB100,000,000 to the Vendor following the Entrusted Loan Agreement becoming effective and such loan shall be conditional upon the fulfillment of the conditions precedent to the Entrusted Loan Agreement by the Target Company (the “**Inter-company Loan**”). Part of the proceeds of the Inter-company Loan shall be applied to repay (i) the outstanding loan (together with accrued interest) of approximately RMB44,426,000 from Shanghai e-Yao (the “**e-Yao Loan**”), a related party of the Purchaser, to the Vendor; and (ii) the outstanding handling fee of RMB500,000 payable to the entrusted bank of a fully repaid entrusted loan from Shanghai e-Shang (the “**e-Shang Loan**”) to the Vendor (collectively, the “**Repayment**”).

Deed of Guarantee, the Equity Interests Pledge and Property Pledge

Under the terms of the Equity Transfer Agreement,

- (i) The Vendor's Guarantor will enter into a Deed of Guarantee in favour of the Purchaser, pursuant to which the Vendor's Guarantor agreed to provide a guarantee to secure the due performance by the Target Company of its obligations under the Entrusted Loan; and
- (ii) The Vendor and the Target Company agreed to pledge the entire equity interest in the Target Company and the interests in the Target Property respectively in favour of the Purchaser as security for the repayment of the Entrusted Loan by the Target Company.

As at the date of this announcement, the entire equity interest in the Target Company has been pledged by the Vendor in favour of Shanghai e-Yao to secure its payment obligations under the e-Yao Loan. Such pledge will be released for the arrangement of the Equity Interests Pledge Procedures pursuant to the terms of the Equity Transfer Agreement.

Consideration

The consideration for the Transaction will be equal to the amount of the Final Consideration representing the Estimated Consideration of RMB288,428,356 (subject to Adjustments).

The Estimated Consideration is RMB288,428,356. Such Estimated Consideration was determined after arm's length negotiations between the Vendor and the Purchaser and arrived at on normal commercial terms with reference to the unaudited net assets value of Target Company as at 31 May 2020 and the value of the Target Land and Property of RMB290,000,000 agreed between the Purchaser and the Vendor (the "**Agreed Value**") with reference to the appraised value of the Target Land and Property appraised by an independent professional valuer engaged by the Group at approximately RMB271,000,000 as at 31 December 2019 ("**31 Dec Value**").

Information on the Target Land and Property and the reasons for the adoption of 31 Dec Value as reference for the determination of the Estimated Consideration have been disclosed in the sections headed "Information of the Parties and the Target Land and Property" and "Background of the Transaction" in this announcement. The Target Property is in process of demolition as disclosed in the section headed "Background of the Transaction" below and a full valuation report on the Target Land in compliance with the Listing Rules will be included in the Circular.

Adjustments

Pursuant to the terms and conditions of the Equity Transfer Agreement, such Estimated Consideration is subject to the Adjustments set out below:

The consideration payable by the Purchaser shall be adjusted by the difference between the net value of the assets (other than the Target Land and Property) and liabilities of the Target Company as of the Completion Date and the Estimated Consideration (net of the Agreed Value of the Target Land and Property of RMB290,000,000).

Completion Accounts

The Vendor shall procure the Target Company to deliver the unaudited management accounts of the Target Company as of the Completion Date (the “**Completion Accounts**”) prepared in accordance with the general accepted accounting standards applicable to the Target Company within 10 Business Days after the Completion Date for the determination of the final consideration (the “**Final Consideration**”).

The Purchaser has the right to request for an audit on the Completion Accounts by qualified auditors by serving a written notice to the Vendor and the Target Company within 30 Business Days after the Completion Date.

If the Purchaser does not request for an audit on the Completion Accounts within 30 Business Days or it confirms the Completion Accounts on the 30th Business Day after the Completion Date, the Completion Accounts shall be final.

In the event that an auditor will be engaged to finalise the Completion Accounts, such audited Completion Accounts, which shall be completed within 30 Business Days from the date of notice from the Purchaser for requesting audit on the Completion Accounts, shall be final and binding.

For easy reference, the Final Consideration represents:

Consideration = A + B – C

- A: the Agreed Value of the Target Land and Property recognised by the Parties (i.e. RMB 290,000,000).
- B: the total assets value of the Target Company (excluding the Target Land and Property) in the Completion Accounts as at the Completion Date.
- C: the total liabilities value of the Target Company in the Completion Accounts as at the Completion Date.

The Board is of the view that the consideration is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

Payment

The consideration payable by the Purchaser to the Vendor will be paid by installments in the following manners:

- (a) within 5 Business Days (or such other date as may be agreed between the Purchaser and Vendor in writing) after all the Conditions having been fulfilled (or waived by the Purchaser as the case may be), RMB60,000,000 (the “**First Instalment**”) will be deposited by the Purchaser to a bank account designated by the Vendor. The Vendor shall on the same day deposit the First Instalment to a bank account designated by the Target Company for the partial repayment of the Inter-company Loan to the Target Company;
- (b) within 5 Business Days (or such other date as may be agreed between the Purchaser and Vendor in writing) after completion of (a) above, RMB40,000,000 (the “**Second Instalment**”) will be deposited by the Purchaser to a bank account designated by the Vendor. The Vendor shall on the same day deposit the Second Instalment to a bank account designated by the Target Company for the repayment of the remaining balance of the Inter-company Loan to the Target Company;

- (c) On the Completion Date (provided that (a) and (b) above having been completed), the amount calculated as follow (the “**Third Instalment**”) will be deposited by the Purchaser to a bank account designated by the Vendor:

The Third Instalment = 95% of the Estimated Consideration – the First Instalment – the Second Instalment

- (d) On the date of, whichever is later, (a) the fifth (5th) Business Days after Completion and the Final Consideration having been determined; or (b) the date fall on the third month after completion of the business registration of the Target Company, or such other date as may be agreed between the Purchaser and Vendor in writing, the final settlement amount (the “**Final Settlement Amount**”) calculated using the following formula will be, if the Final Settlement Amount is positive, deposited by the Purchaser (or its designated party) or if the Final Settlement Amount is negative, the Vendor, to the respective bank accounts designated by the Vendor or the Purchaser (as the case may be).

The Final Settlement Amount = the Final Consideration – the First Instalment – the Second Instalment – the Third Instalment

Conditions Precedent

Completion of the Transaction is conditional upon fulfilment or waiver (as the case may be) of the following Conditions:

- (1) the representations and warranties made by the Vendor, Vendor’s Guarantor and the Target Company (collectively, the “**Warrantors**”) contained in the Transaction Documents having remained true, accurate, completed and not misleading in all material respect; the Warrantors having performed and complied with the obligations under the Transaction Documents;
- (2) the Purchaser having obtained the Transaction Documents duly signed by the relevant parties other than the Purchaser (i.e. the Vendor, Vendor’s Guarantor and/or the Target Company (as applicable));

- (3) no governmental authority or stock exchange having enacted, issued, promulgated, enforced or entered any order which is in effect and has the effect of making the transactions contemplated under the Transaction Documents illegal, otherwise restraining or prohibiting consummation of any transactions under the Transaction Documents;
- (4) the Warrantors having obtained and delivered to the Purchaser the resolutions of all relevant board and/or shareholders' approvals and/or consents which are required for the execution and performance of the Transactions Documents (including the Shareholders' approval from the Company); the Warrantors having obtained all necessary power and authority and all necessary consents from third parties (including but not limited to government approvals), which are required for the execution and performance of the Transaction Documents; the Vendor having complied with the applicable laws and the requirements of applicable stock exchanges in relation to the disclosure of the Transaction information and the context of which having agreed with the Purchaser;
- (5) the Target Company's business having been conducted in the ordinary and normal course and no action having been commenced against the Target Company and the Target Property which would materially affect the Target Company, the Target Property and the consummation of the Transaction; there being no breach of the Transaction Documents by the Warrantors or such breach having been remedied to the satisfaction of the Purchaser; there has been no material adverse change in relation to the Vendor, the Target Company and the Target Property;
- (6) the leases (if the Target Property is attached to any leases) being terminated without unresolved disputes and at the cost of the Vendor;
- (7) the Target Company having fulfilled the government demands (if any) on investments or tax commitment in respect of the Target Property;
- (8) the Vendor having transferred the utilities contracts (including but not limited to electricity and water supply contracts) under its name for the operation of the Target Property to the Target Company;
- (9) the Equity Interests Pledge Procedures being completed;
- (10) the Equity Transfer Procedures being completed;

- (11) the Vendor and the Target Company having completed the procedures of the foreign exchange business registration for the Target Company and obtained the new foreign exchange business registration record;
- (12) a bank account designated for mergers and acquisitions being opened by the Vendor for the purpose of consideration settlement;
- (13) the change of bank signatories of the Target Company being completed to the satisfaction of the Purchaser;
- (14) the Target Company having obtained the new bank account permit of all the Target Company's banks accounts showing the change of authorised person appointed by the Purchaser; and the information in relation to the equity transfer of the Target Company being updated in the information system of the People's Bank of China;
- (15) the Vendor having repaid the e-Yao Loan in accordance with the terms of the Transfer Agreement;
- (16) the Vendor having repaid the outstanding handling fee of the e-Shang Loan in accordance with the terms of the Transfer Agreement;
- (17) all the management of the Target Company including directors, supervisors and managers having signed the resignation letters in the form and context as specified in the Equity Transfer Agreement and the Purchaser having provided the nomination list of all directors, supervisors and managers of the Target Company;
- (18) the payment of salaries and other social insurance by the Target Company for the Vendor's employees (the "**Vendor's Employees**") on behalf of the Vendor being discontinued and the Purchaser having obtained the confirmation letter from each of the Vendor's Employees, in which such employee has stated that he/she is not legally employed by the Target Company and he/she has no dispute and will waive any rights or requests he/she may have against the Target Company;
- (19) the Target Company having settled the Intra-group Debts as disclosed in the section headed "Intra-group Debts" in this announcement;

- (20) the Vendor and the Target Company having entered into a capital increase agreement in relation to the in-kind capital contribution with the Target Property and the Target Company having obtained the corresponding capital verification report and valuation report on the Target Property, all of which are satisfactory to the Purchaser;
- (21) the Target Company having obtained the construction planning permit (“**Construction Planning Permit**”) and the relevant project documents for the Construction Planning Permit in relation to the construction of new property as disclosed in the paragraph headed “Negotiations between the Vendor and the Purchaser” in the section “Background of the Transaction” in this announcement, and such Construction Planning Permit and the relevant project documents shall continue in effect from the date of grant;
- (22) each Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong having provided an undertaking (in the form and context which is satisfactory to the Purchaser) to the Purchaser to approve or procure their respective controlled entities to approve the Transaction contemplated thereunder by written approval pursuant to the Listing Rules or approving of the same at a general meeting of the Company if so required (the “**Undertaking**”); the above parties jointly and severally undertake to indemnify the Purchaser of RMB20 million in respect of the breach of the Undertaking;
- (23) the Demolition (as defined below) being completed in accordance with the terms of the Equity Transfer Agreement;
- (24) the Purchaser having obtained (one Business Day before the First Drawdown of the Entrusted Loan) a copy of registration documents issued by the competent government authority confirming that the Target Property is registered under the name of the Target Company and free of encumbrances (other than the Property Pledge);
- (25) the handover of the Target Property and the Target Company being completed in accordance with the terms of the Equity Transfer Agreement; and
- (26) the Purchaser having received a certificate issued by the Vendor, the Vendor’s Guarantor and the Target Company, in the format as specified in the Equity Transfer Agreement, confirming the Conditions having been fulfilled.

The Purchaser may waive, in whole or in part, conditionally or unconditionally, the Conditions (save for Conditions set out in (3) and (4) above) by written notice to the Vendor.

Completion

Completion shall take place on the Completion Date, which is within 5 Business Days after all the Conditions having been fulfilled (or waived by the Purchaser as the case may be), or such other date as may be agreed between the Purchaser and Vendor in writing.

Intra-group Debts

As at the date of this announcement, the Inter-group Debts owed by the Target Company to the Remaining Group amounted to approximately RMB1,593,000. Pursuant to the Equity Transfer Agreement, the settlement of the Inter-group Debts is a condition precedent to the Equity Transfer Agreement.

INFORMATION OF THE GROUP

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.

INFORMATION OF THE PARTIES AND THE TARGET LAND AND PROPERTY

The Purchaser

Set out below is a simplified shareholding chart of the Purchaser as at the date of this announcement:



The Purchaser is an investment holding company incorporated in Hong Kong with limited liability.

Taurus Offshore Holdings (HK) Limited is an investment holding company incorporated in Hong Kong with limited liability.

Taurus Offshore Holdings (BVI) Limited is an investment holding company incorporated in the British Virgin Islands with limited liability.

e-Shang Star Cayman Limited is an investment holding company incorporated in the Cayman Islands with limited liability.

ESR is an exempted company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1821).

Stichting Depository APG Strategic Real Estate Pool (“**APG-Stichting**”) is a Dutch foundation (stichting) acting in its capacity as depository of APG Strategic Real Estate Pool, which is formed for the purpose of collective investments by its participants, all being Dutch pension funds based on the prospectus of ESR dated 22 October 2019. Based on the annual report of ESR for the year ended 31 December 2019, Stichting Pensioenfonds ABP (“**ABP**”) has approximately 92.16% interest in APG Strategic Real Estate Pool. ABP is the pension fund for employees in the government and education sectors in Netherlands based on the website of ABP.

ESR Star China Development Co-Investment Fund L.P. (“**ESR Fund**”) is an exempted limited partnership registered in the Cayman Islands.

The Vendor’s Guarantor

The Vendor’s Guarantor is 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.

The Vendor

The Vendor is a limited liability company established under the laws of the PRC and is an indirect wholly-owned subsidiary of the Company. It was principally engaged in manufacture and sale of food and beverages products before the suspension of production in January 2019.

The Target Company

The Target Company is a limited liability company established in the PRC on 29 June 2018 (the “**Incorporation Date**”) and is directly wholly-owned by the Vendor. The registered business scope of the Target Company is food manufacturing, supply chain management, logistics, warehousing service and property lease. As at the date of this announcement, the Target Company has no operation, other than holding the Target Property.

Based on the unaudited management accounts of the Target Company for the period from the Incorporation Date to 31 December 2018 (the “**2018 Period**”) and for the year ended 31 December 2019 (“**FY2019**”), the Target Company has no operation for both the 2018 Period and for FY2019. It had no income and operations for the 2018 Period and reported net loss of approximately RMB21,400,000 for FY2019.

The unaudited net assets value of the Target Company as at 31 December 2019 was approximately RMB118,000,000, which was mainly derived from the net book value of the Target Land and Property (including the land use rights) of approximately RMB119,300,000, net of accrued liabilities of approximately RMB1,300,000.

As mentioned in the sectioned headed “The Entrusted Loan” in this announcement, the Vendor has pledged the entire equity interest in the Target Company to Shanghai e-Yao as at the date of this announcement.

The Target Land and Property

The Target Land and Property is located at 38 Kaiyuan Avenue, Wuqing Development Zone, Tianjin New Technology Industrial Park, Wuqing District, Tianjin, the PRC. The Target Property was originally held by the Vendor for the production of snack products and is currently in process of demolishment for upgrade and re-development as disclosed in the section headed “Background of the Transaction” below. As disclosed in the interim report of the Company for the six months ended 30 June 2019, the Group ceased the production of the majority of the low margin products in the first half of 2019. Accordingly, the Vendor has suspended the production since January 2019 and the Target Land and Property was transferred to the Target Company in November 2019 (the “**Target Property Transfer**”). Details of the description of the Target Land and Property have been disclosed in the section headed “Background of the Transaction” below in this announcement.

BACKGROUND OF THE TRANSACTION

Location of the Target Land and Property

The Target Land and Property is located in the Wuqing Development Zone, a national economic development zone and a national high-tech industrial park. Wuqing is the district closest to Beijing from Tianjin. According to the website of the Wuqing Development Zone, it is 71 kilometers away from downtown Beijing, 25 kilometres from downtown Tianjin, 90 kilometers from Beijing Capital International Airport, 45 kilometers from Beijing New International Airport, 35 kilometers from Tianjin Binhai International Airport, and 71 kilometers from Tianjin Port. There are 4 expressways, namely Jingjintang, Beijing-Tianjin, Beijing-Shanghai, Binbao and Jinbao and 2 railways, namely Jingshan Railway and the Beijing-Tianjin Intercity Railway running across Wuqing, making it an ideal location for being industrial and transportation hub in northern China.

Set-up of the Target Company and the Target Property Transfer

On the other hand, the rising of various technologies namely, mobile, mobile apps, online shops, online payment, community logistics has changed the consumption habit of general public dramatically. The Group needs to build a new distribution channel to cope with the ecosystem of “New Retail”, in particular online consumption. Against this background, the Group decided to set up the Target Company in June 2018 and effect the Target Property Transfer with a view to upgrade and redevelop a production and supply chain base which could facilitate the enhanced cooperation between the Group and the online and offline distribution channels in northern China.

Redevelopment of the Target Property

The land use rights of the Target Land have been granted for a term expiring on 5 August 2056 for industrial use. The Target Property comprises an industrial complex erected on a parcel of land with a registered site area of approximately 145,755.80 sq.m. The buildings of the industrial complex originally included 14 blocks of 1 to 5-storey buildings used as canteen, office, workshop, warehouse and dormitory with a total gross floor area of approximately 69,393.70 sq.m. before the commencement of the Demolition (as defined below).

Since March 2020, the Target Company has filed an application to the local PRC government and commenced the demolition of the original building structures of the Target Property (the “**Demolition**”). As at the date of this announcement, 10 blocks of the buildings with a total gross floor area of approximately 41,136.76 sq.m. have been demolished. The estimated cost of the Demolition is approximately RMB2,000,000.

The Target Company is going to build new properties on the Target Land with a total gross floor area of approximately 282,341.72 sq.m. mainly for production and supply chain base for “New Retail” distribution channels. The Target Company has applied for and obtained the Construction Planning Permit for the construction of the new properties.

Negotiations between the Vendor and the Purchaser

The Vendor had contacted with the Purchaser regarding the possibility of cooperation/ investment in the redevelopment of the Target Property and the potential production and supply chain business as well as the possible disposal of the Target Company towards the end of 2019.

After thorough discussion with the Purchaser, taking into account the financial position of the Group and the capital investments required on the redevelopment cost of the Target Property, the Directors considered that the disposal of the Target Company is the best option of the Group and the Transaction was approved by the Board on 27 July 2020.

Having considered the current status of the Target Land and Property, it was agreed between the Purchaser and the Vendor that, (i) completion of the Demolition and obtaining the Construction Planning Permit for the construction of the new properties by the Target Company shall be conditions precedent to the Equity Transfer Agreement; and (ii) in return, the consideration for the Transaction will account for the fair value of the Target Land and Property before Demolition and with reference to 31 Dec Value. The building costs of the new properties will be borne by the Purchaser.

REASONS FOR AND BENEFITS OF ENTERING INTO THE TRANSACTION

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.

As disclosed in the annual report of the Company for the year ended 31 December 2019, the Group reported consecutive losses for the last five years. In addition, the Group has a relatively low level of bank balances (excluding pledged deposits) of approximately RMB24,800,000 compared to bank borrowings of approximately RMB624,890,000 as at 31 December 2019 and its gearing ratio, defined as the ratio between sum of borrowings and shareholders' equity, was approximately 141.9%.

Various measures have been taken by the Group to improve the Group's profitability in the last two years, including consolidation of production capacity and restructuring of product mix to focus on high margin products. In addition, the Directors have been exploring business opportunities to develop new distribution channels with a view to cope with ecosystem of "New Retail", including the development of new production and supply chain base to collaborate with the online and offline distribution channels as mentioned above in the section "Background of the Transaction" in this announcement.

Having considered (i) the high gearing ratio of the Group; (ii) the uncertain outlook of the China economy, particularly the recent outbreak of COVID-19 and the rising US-China tensions; and (iii) extensive capital financing is required for the redevelopment of the Target Property before a positive return can be channeled to the Group, the Board believes that it is a good opportunity to dispose of the Target Company at the agreed price and report an estimated gain of approximately RMB109,799,356, which would also allow the Remaining Group to reduce the debt level and therefore strengthen the liquidity and overall financial position of the Remaining Group.

The Directors consider that the terms of the Transaction are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION

Upon Completion, the Company will cease to have any equity interest in the Target Company and the financial results of the Target Company will no longer be consolidated into the accounts of the Group.

As a result of the Transaction, it is estimated that the Group will record an unaudited gain of approximately RMB109,799,356, being the difference between (i) the Estimated Consideration of RMB288,428,356; and (ii) the unaudited net assets value of the Target Company of approximately RMB118,015,000 as at 31 December 2019 and the estimated transaction costs and taxes of approximately RMB60,614,000.

Shareholders and potential investors of Company should note that the above figures are for illustrative purpose only. The actual financial impact in relation to the Transaction will be subject to audit.

The net proceeds from the Transaction, after deducting the estimated transaction costs and taxes attributable to the Transaction of approximately RMB60,614,000, are estimated to be approximately RMB227,814,356, of which approximately RMB100,000,000 will be applied to repay the borrowings (including the e-Yao Loan) of the Group, approximately RMB60,000,000 will be applied for the Group's business development and the remaining approximately RMB67,814,356 will be used for the general working capital of the Group.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Transaction exceeds 25% but is less than 75%, the Transaction constitutes a major transaction for the Company and are 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 Transaction which is different from other Shareholders, and therefore no Shareholder is required to abstain from voting for the resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder, should the same be put forward to the Shareholders to approve at a general meeting of the Company.

The Company is in the process of obtaining written approval for the Transaction in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders comprising Mr. Zheng Yu Long, an executive Director and Alliance Food And Beverages (Holding) Company Limited, which together are beneficially interested in an aggregate of 730,850,587 Shares, representing approximately 54.99% of the entire issued capital of the Company as at the date of this announcement. As such, if written approval can be obtained pursuant to Rule 14.44 of the Listing Rules, no special general meeting will be convened for the purpose of approving the Transaction as permitted under Rule 14.44 of the Listing Rules. Otherwise, the Company will proceed to convene a special general meeting of the Company at which resolutions will be proposed for the approval of the Transaction.

As at the date of this announcement, 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 the non-executive Director, Mr. Li Hung Kong, is interested in 610,915,527 Shares, representing approximately 45.97% of the issued share capital of the Company. In addition, Mr. Zheng Yu Long is beneficially interested in 119,935,060 Shares, representing approximately 9.02% of the issued share capital of the Company as at the date of this announcement.

GENERAL

A circular containing, among others, (i) details of the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) financial information of the Group; (iii) the property valuation report; and (iv) other information as required under the Listing Rules is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 17 August 2020 (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 Equity Transfer Agreement and the transactions contemplated thereunder are subject to the satisfaction or waiver (as the case may be) of the Conditions under the Equity Transfer Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

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| “Adjustments” | adjustments to the fair value of assets and liabilities of the Target Company at Completion |
| “Bank” | Shanghai Pudong Development Bank Co., Ltd., Tianjin Pushun Sub-branch* (上海浦東發展銀行天津分行浦順支行) |
| “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 |
| “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 Transaction in accordance with the terms of the Equity Transfer Agreement |
| “Completion Date” | the day on which Completion takes place in accordance with the terms of the Equity Transfer Agreement |
| “Conditions” | the conditions set out under the section headed “The Equity Transfer Agreement – Conditions Precedent” above in this announcement |
| “connected person(s)” | has the same meaning ascribed to it under the Listing Rules |
| “Deed of Guarantee” | the deed of guarantee to be entered into by the Vendor’s Guarantor in favour of the Purchaser in relation to the provision of the guarantee by the Vendor’s Guarantor to the Purchaser for the Target Company’s obligations under the Entrusted Loan |

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| “Director(s)” | the director(s) of the Company |
| “Entrusted Loan” | an entrusted loan with the principal amount of RMB100 million agreed to be granted by the Purchaser’s nominee (as lender) to Target Company (as borrower) through the Bank (as lending agent) in accordance with the Entrusted Loan Agreement |
| “Entrusted Loan Agreement” | the conditional entrusted loan agreement to be entered into among the Purchaser’s nominee, the Bank and the Target Company in relation to the Entrusted Loan |
| “Estimated Consideration” | consideration of RMB288,428,356 for the Transaction pursuant to the Equity Transfer Agreement |
| “Equity Interests Pledge” | the pledge of the entire equity interest of Target Company by the Vendor in favour of the Purchaser for the Target Company’s obligations under the Entrusted Loan |
| “Equity Interests Pledge Procedures” | the registration of the Equity Interests Pledge with the relevant Administration for Industry and Commerce in the PRC |
| “Equity Transfer Agreement” | the conditional equity transfer agreement dated 27 July 2020 entered into between the Vendor, the Purchaser, the Vendor’s Guarantor and the Target Company in relation to the Transaction |
| “Equity Transfer Procedures” | the relevant procedures pursuant to the applicable laws and the requirements of the relevant governmental authorities in respect of the Transaction, including but not limited to the registration with the relevant Administration for Industry and Commerce in the PRC of the Transaction and obtaining a new business licence |
| “ESR” | ESR Cayman Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1821) |

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| “Group” | the Company and its subsidiaries |
| “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 |
| “Intra-group Debts” | all amount of net debts (if any) owed by the Target Company to the Remaining Group |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Purchaser” | Lucky Gamma Offshore Holdings (HK) Limited, a company incorporated in Hong Kong with limited liability |
| “PRC” | the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Property Pledge” | the pledge of the interest in the Target Land and Property by the Target Company in favour of the Purchaser for the Target Company’s obligations under the Entrusted Loan |
| “Property Pledge Procedures” | the registration of the Property Pledge with the relevant Administration for Industry and Commerce in the PRC |
| “Remaining Group” | the Group immediately after Completion |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shanghai e-Shang” | Shanghai e-Shang Warehouse Service Co., Ltd. (上海益商倉儲服務有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of ESR |

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| “Shanghai e-Yao” | Shanghai e-Yao Warehousing Service Co., Ltd (上海易耀倉儲服務有限公司), a company established in the PRC with limited liability |
| “Share(s)” | ordinary shares of US\$0.05 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “sq.m.” | square metres |
| “Stock Exchange” | the Stock Exchange of Hong Kong Limited |
| “Target Company” | Tianjin Huakunda Supply Chain Management Co., Ltd.* (天津華坤達供應鏈管理有限公司), a company established in the PRC with limited liability whose entire issued share capital is legally and beneficially owned by the Vendor as at the date of this announcement |
| “Target Land” | the land use rights granted to the Target Company as at the date of this announcement, details of which are set out in the sections headed “Information of the Parties and the Target Land and Property” and “Background of the Transaction” in this announcement |
| “Target Land and Property” | Target Land and Target Property |
| “Target Property” | the industrial complex erected on the Target Land and owned by the Target Company as at the date of this announcement, details of which are set out in the sections headed “Information of the Parties and the Target Land and Property” and “Background of the Transaction” in this announcement |
| “Transaction” | the sale and transfer of the entire equity interest in Target Company by Vendor to the Purchaser pursuant to the terms of the Equity Transfer Agreement |

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| “Transaction Documents” | the Equity Transfer Agreement and other transaction documents, including the Entrusted Loan Agreement, the agreements relating the Equity Interests Pledge and Property Pledge, and the Deed of Guarantee |
| “US\$” | United States dollars, the lawful currency of United States |
| “Vendor” | Labixiaoxin (Tianjin) Co., Ltd. (蠟筆小新(天津)有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company as at the date of this announcement |
| “Vendor’s Guarantor” | 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 |
| “%” | per cent. |

* For identification purposes only

By Order of the Board
Mr. Zheng Yu Huan
Chairman

Hong Kong, 27 July 2020

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.