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If you have sold or transferred all your shares in Labixiaoxin Snacks Group Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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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 Adviser



BAOQIAO PARTNERS

BAOQIAO PARTNERS CAPITAL LIMITED

Unless the context otherwise requires, all capitalised terms used in this circular have the meanings set out in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 5 to 15 of this circular.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

| | |
|--------------------------|---|
| “Announcement” | the announcement of the Company dated 15 May 2019 in relation to the Disposal |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “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 circular |
| “connected person(s)” | has the same meaning ascribed to it under the Listing Rules |
| “Construction Contracts” | six construction contracts entered into between the Vendor and five independent contractors in the PRC in relation to the construction of the Industrial Complex in an aggregate contract sum of approximately RMB278 million |
| “Director(s)” | the director(s) of the Company |

DEFINITIONS

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|--------------------------------|---|
| “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 |
| “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 Development and Construction Company Limited* (福建省晉江市工業園區開發建設有限公司), a company controlled by Jinjiang City People’s Government* (晉江市人民政府) |

DEFINITIONS

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|---------------------------|---|
| “Latest Practicable Date” | 20 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “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 circular, 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 |

DEFINITIONS

| | |
|----------|--|
| “Vendor” | Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. 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*

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Zheng Yu Huan (*Chairman*)

Mr. Zheng Yu Shuang (*Chief Executive Officer*)

Mr. Zheng Yu Long

Non-executive Directors:

Mr. Li Hung Kong (*Vice-Chairman*)

Mr. Ren Yunan

Independent Non-executive Directors

Mr. Li Zhi Hai

Ms. Sun Kam Ching

Mr. Chung Yau Tong

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Headquarters and Principal Place
of Business in the PRC:*

Wuli Industrial Area

Jinjiang, Fujian

PRC

Place of Business in Hong Kong:

7th Floor, AT Tower

180 Electric Road

North Point, Hong Kong

24 June 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION **DISPOSAL OF THE FJ LAND RIGHT**

INTRODUCTION

Reference is made to the Announcement in respect of, among other things, the Transfer Agreement and the Disposal.

The purpose of this circular is to provide you with, among other things, the details of the Transfer Agreement and the Disposal as required under the Listing Rules.

LETTER FROM THE BOARD

THE TRANSFER AGREEMENT

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 purchase, the FJ Land Right for a consideration of RMB180 million.

Principal Terms of the Transfer Agreement

The principal terms of the Transfer Agreement are summarised 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.

LETTER FROM THE BOARD

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 and the independent valuer engaged by the Company has ascribed no commercial value to the FJ Land held by the Vendor;
- (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 Group 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.

LETTER FROM THE BOARD

The consideration of the Disposal (including the refund of the FJ Land Deposit of RMB40 million) is amounted to RMB220 million, which represents a discount of approximately 17.5% to the net book value of the FJ Land as at 31 December 2018.

As disclosed in the annual report of the Company for the year ended 31 December 2018, the Group has been proactively seeking opportunities to dispose of its non-core assets (i.e. the FJ Land) to improve its liquidity and capital structure. In view of the uncertainties and timing involved in obtaining the legal title of the FJ Land as discussed in the section headed “Information of the FJ Land and FJ Land Right”, the Group did not receive active responses from the market and no alternative offer other than the offer from the Purchaser was received. In addition, given (i) the Vendor does not have legal ownership of the FJ Land and the independent valuer has ascribed no commercial value to the FJ Land; (ii) the FJ Land has no use for the Group’s own production operation; (iii) the Group will be able to release from the payment obligation of the FJ Land Premium and Capital Commitments of RMB86.37 million and other additional costs, including the external financing costs that may arise in connection with perfecting the legal title of the FJ Land; (iv) limitation on the possible use of the FJ Land for other income generating activities, despite the Group has currently leased out the Industrial Complex, the Vendor has yet to obtain 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; and (v) the Disposal will have a positive effect on the cash and working capital of the Group and also allows the Group to apply such proceeds primarily towards the business development and day-to-day operations of the Group, the Directors consider the consideration (including the refund of the FJ Land Deposit), which represents a discount of approximately 17.5% to the net book value of the FJ Land as at 31 December 2018, is fair and reasonable so far as the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

In addition, the Directors noted the independent valuer has attributed no commercial value to the FJ Land as no proper legal title has been obtained but if on a special assumption (“**Special Assumption**”) that the state-owned land use rights of the FJ Land had been granted to the Vendor with all requisite land premiums had been fully paid without any additional costs, if any, and proper title certificates had been obtained for the property as at the valuation date on 31 March 2019, for reference purpose only, the independent valuer is in the opinion that the market value of the property as at the valuation date on 31 March 2019 would be in the sum of RMB350.2 million. Shareholders should note that the Group has to pay the FJ Land Premium and Capital Commitments of RMB86.37 million and other applicable fees and taxes in order to convert the FJ Land into the status under the Special Assumption. Taking into account of such commitments, the value of the FJ Land under the Special Assumption to the Group would be adjusted to RMB263.83 million (“**Adjusted Value under Special Assumption**”) and the consideration (including the refund of the FJ Land Deposit) represents approximately 83.4% to the Adjusted Value under Special Assumption of the FJ Land.

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.

LETTER FROM THE BOARD

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.

As at the Latest Practicable Date, save for Condition (a), the other Conditions remain to be fulfilled.

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.

Default

Pursuant to the Transfer Agreement, in the event that the Purchaser fails to settle the consideration for the Disposal in accordance with the payment terms, the Purchaser shall pay a surcharge (the "**Surcharge**") to the Vendor based on 0.3% on the overdue amount per day until the outstanding amount has been fully settled. In the event that such amount is overdue for more than 30 days, the Vendor has the right to terminate the Transfer Agreement and the Purchaser shall pay the Surcharge and the liquidated damages (equivalent to 10% of the consideration for the Disposal) to the Vendor, and the Deposit will not be refunded.

In the event of any dispute between the parties to the Transfer Agreement, the parties have the right to initiate legal proceedings as regards to any claim or matter arising under the Transfer Agreement.

LETTER FROM THE BOARD

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) (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 Approval(s) having been obtained).

INFORMATION OF THE FJ LAND AND FJ LAND RIGHT

FJ Land Right

On 14 May 2013, Jinjiang Economic Development District (晉江經濟開發區) published the Interim Measures of Investment in Industrial Project in Jinjiang Food Industrial Park (《晉江市食品產業園工業項目入駐暫行規定》) (“**Industrial Project**”) involving privileges in land provision with a view to attract onshore and offshore investment in, among others, food manufacturing projects in Jinjiang Food Industrial Park. The Notice was issued by Jinjiang Construction as part of the Industrial Project.

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 Latest Practicable Date, 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 on the southeastern side of Zhizao Avenue near its junction with the northwestern side of Xinyuan Road within 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.

* As advised by the PRC legal adviser of the Company, the FJ Land does not have independent address because the Vendor has yet to complete the procedures for obtaining the legal ownership of the FJ Land and the parcel of FJ Land is not independent to the Jinjiang Food Industrial Park.

LETTER FROM THE BOARD

No legal ownership of the FJ Land and the Industrial Complex has been obtained by the Vendor as at the Latest Practicable Date 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.

According to the PRC legal adviser of the Company, the following procedures will be applied for obtaining the legal ownership of the FJ Land: (i) approval for land use change from agricultural to industrial; (ii) approval for land expropriation; (iii) entering into formal contract of transfer of land use rights with the relevant land administration department; and (iv) registration of legal ownership. As advised by the PRC legal adviser, the above procedures (i) – (iii) are governed by relevant government departments in accordance with specific governmental procedures, which the Vendor has no right to decide on the timing and the progress of these approval procedures. The last procedure will have to be done by the Vendor upon completion of the procedures (i) – (iii) and the payment of land premium and other applicable fees and taxes.

The Vendor has from time to time liaised with Jinjiang Construction and Jinjiang City People's Government regarding the progress of obtaining the legal ownership of the FJ Land as well as the relevant construction work permits. However, as at the Latest Practicable Date, no concrete timetable has been confirmed.

Construction Contracts

There are total 6 Construction Contracts entered into between the Vendor and five independent contractors in the PRC in the aggregate contract sum of approximately RMB278 million. Details of the Construction Contracts are as follows:

| Date of Contract | Contracts | Independent contractors | Scope of work | Approximate contract sum (RMB'million) |
|------------------|---|-------------------------|--|--|
| October 2014 | Construction design contract I (《建设工程设计合同(一)》) | Party A | Design of the construction of the Industrial Complex | 2 |
| 5 February 2015 | Construction survey contract I (《建设工程勘察合同(一)》) | Party B | Survey of geotechnical engineering for construction | 1 |
| 30 July 2015 | Construction entrusted supervision contract (《建设工程委托监理合同》) | Party C | Supervision of the construction | 3 |
| 20 April 2015 | Pile foundation contract (《桩基工程合同》) | Party D | Pile foundation project | 11 |
| 20 June 2015 | Construction engineering contract (《建设工程施工合同》) | Party E | Construction of Phase I of the Industrial Complex | 221 |
| 25 January 2018 | Construction engineering contract (《建设工程施工合同》) | Party E | Construction of Phase II of the Industrial Complex | 40 |
| | | | | 278 |

LETTER FROM THE BOARD

Leasing Agreements

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.

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 Latest Practicable Date, these contracts are still in normal performance and there is 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 valuation report prepared by the independent professional valuer, the full text of which is set out in Appendix II to this circular.

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.

LETTER FROM THE BOARD

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, puffing food and other pre-packaged food. The ultimate beneficial owner of the Purchaser is Mr. Zheng Kairong (“**Mr. Zheng**”), who is a PRC businessman. 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. The Deposit has been duly paid by the Purchaser to the Group in accordance with the terms and conditions of the Transfer Agreement. In addition, the Directors note that Mr. Zheng’s family is proven to have a sound and creditworthy background taking into account its prior business relationship with the Group. During the last three years, the transaction amounts of the Group with Mr. Zheng’s family were over RMB70 million.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Vendor decided to invest in the Industrial Project and obtained the FJ Land Right in December 2013 with the view to expand its food and beverages manufacturing business. The Group then commenced the construction of the Industrial Complex and the Phase I and Phase II of the Industrial Complex was completed in 2017 and 2018 respectively. 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 and 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 circular, the Vendor has yet to obtain 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.

LETTER FROM THE BOARD

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 total assets of the Group will be decreased by the estimated loss of RMB57.49 million and no effect on liabilities.

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 in enhancing the product mix of snack products through continuous research and development and building brand awareness and recognition through sales and marketing activities, and the remaining RMB59.18 million will be used for the general working capital of the Group.

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.

LETTER FROM THE BOARD

Mr. Zheng Yu Long and Alliance Food And Beverages (Holding) Company Limited, being Shareholders holding in aggregate 730,850,587 Shares, representing approximately 54.99% of the issued share capital of the Company as at the Latest Practicable Date, 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.

As at the Latest Practicable Date, 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, 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 personally and beneficially interested in 119,935,060 Shares, representing approximately 9.02% of the issued share capital of the Company as at the Latest Practicable Date.

RECOMMENDATIONS

The Board considers that the terms of the Transfer Agreement are fair and reasonable and the entering into of the Transfer Agreement is in the interests of the Company and the Shareholders as a whole. Although a general meeting will not be convened by the Company to approve the Transfer Agreement and the transactions contemplated thereunder, if such a general meeting were to be convened by the Company, the Board would have recommended the Shareholders to vote in favour of the resolutions to approve the Transfer Agreement and transactions contemplated thereunder.

Yours faithfully,
By Order of the Board
Mr. Zheng Yu Huan
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the years ended 31 December 2016, 2017 and 2018 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.lbxgroup.com>):

Annual report for the year ended 31 December 2016 (pages 51 to 112):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0426/LTN201704261301.pdf>

Annual report for the year ended 31 December 2017 (pages 52 to 112):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0426/LTN201804261525.pdf>

Annual report for the year ended 31 December 2018 (pages 51 to 126):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0429/LTN201904291958.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2019, being the latest practicable date for the purposes of preparing this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB873,800,000, details of which are as follows:

| | <i>Approximate RMB'000</i> |
|---|--------------------------------|
| Bank borrowings, secured and guaranteed | 452,323 |
| Bank borrowings, unsecured | 241,550 |
| Loan from a director, unsecured | 33,327 |
| Bills payable, secured | <u>146,600</u> |
| | <u><u>873,800</u></u> |

Bank borrowings, secured and guaranteed

As at the close of business on 30 April 2019, the bank borrowing of HK\$2,550,000 (equivalent to approximately RMB2,123,000) was secured by the land and buildings of approximately RMB6,784,000 and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

As at the close of business on 30 April 2019, the short-term secured bank borrowings of approximately RMB150,000,000 were secured by corporate guarantee by inter-group companies. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.00% which was repricing every 12 months.

As at the close of business on 30 April 2019, the short-term secured bank borrowings of approximately RMB52,200,000 were secured by corporate guarantee by inter-group companies and land and buildings of a Group's subsidiary of approximately RMB119,567,000. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.66% which was repricing every 3 months.

As at the close of business on 30 April 2019, the short-term secured bank borrowings of approximately RMB40,000,000 were secured by land and buildings of a Group's subsidiary of approximately RMB167,302,000. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 12.00% per annum.

As at the close of business on 30 April 2019, the short-term secured bank borrowings of approximately RMB123,000,000 were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rate of 5.44% which was repricing every 3 months.

As at the close of business on 30 April 2019, the short-term secured bank borrowings of approximately RMB25,000,000 were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rate of 4.31% which was repricing every 12 months.

As at the close of business on 30 April 2019, the short-term secured bank borrowings of approximately RMB60,000,000 were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan, directors of the Company, and the wife of Mr. Zheng Yu Shuang. The bank borrowings were repayable within 12 months and charged at fixed interest rate of 5.66% per annum.

Bank borrowings, unsecured

As at the close of business on 30 April 2019, short-term unsecured bank borrowings of RMB102,350,000 were repayable within 12 months and charged at fixed interest rates of 4.58% to 6.80% per annum.

As at the close of business on 30 April 2019, short-term unsecured bank borrowings of RMB35,000,000 were repayable within 12 months and charged at floating interest rate of 5.23% which was repricing every month.

As at the close of business on 30 April 2019, long-term unsecured bank borrowings of RMB104,200,000 were repayable within 12 months and charged at fixed interest rate of 5.70% per annum.

Loan from a director, unsecured

On 31 December 2018, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive Director, for a loan facility of RMB40,000,000. As at the close of business on 30 April 2019, the Company had drawn down RMB33,327,000. The amount is unsecured, repayable on 31 December 2019 and bears fixed interest at 2% per annum.

Bills payable, secured

As at the close of business on 30 April 2019, being the latest practicable date for the purposes of preparing this statement of indebtedness prior to the printing of this circular, bills payable amounting to approximately RMB146,600,000 were secured by pledged bank deposits of approximately RMB62,165,000.

Capital commitments

As at the close of business on 30 April 2019, the Group had the capital commitments contracted but not provided for under the Construction Contracts in an aggregate amount of approximately RMB51.37 million and the capital commitment in relation to the land premium of FJ Land Right under the Notice of RMB35 million.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or material contingent liabilities as at 30 April 2019.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up.

4. WORKING CAPITAL SUFFICIENCY

After taking into account the financial resources available to the Group, including the proceeds from the Disposal, the internally generated funds and currently available facilities from its banks, directors and substantial shareholders, the Directors, are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of the publication of this circular, in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group expects the snacks food industry of the PRC will undergo a market consolidation in the coming years and the operating environment of the snack food industry will remain challenging in the medium term. Under this challenging market environment, the Group will remain proactive in marketing its brand image and products through launching advertisement in various media channels in particular new electronic media. In addition, the Group will continue to enhance the product mix of its snack products with an objective to meet the needs of different customers and effectively manage the cost and optimize the operating performance of snack food business.

The Board believes the measures mentioned above are to the benefit of the Group's business in longer term. The Board believes that the PRC economy will regain its growth momentum in the medium term and snacks food industry will definitely benefit from the economic growth in due course.

The following is the text of a letter and property valuation report prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the FJ Land as at 31 March 2019.



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Capital Centre
No. 151 Gloucester Road
Wanchai, Hong Kong
www.peakval.com
Tel (852) 2187 2238
Fax (852) 2187 2239

24 June 2019

The Board of Directors
Labixiaoxin Snacks Group Limited
7th Floor, AT Tower
180 Electric Road
North Point
Hong Kong

Dear Sirs,

Re: Labixiaoxin Logistics Area of Electronic Business located in Jinjiang Food Industry Park,
Jinjiang City, Fujian Province, the People's Republic of China

In accordance with the instruction from Labixiaoxin Snacks Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for us to value the captioned property located in the People's Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of value of the property as at 31 March 2019 (the “**Valuation Date**”) for public documentation purpose.

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation and lists out the assumptions and title investigations, which we have made in the course of our valuation, as well as the limiting conditions.

Our valuation is our opinion of market value which is defined to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property, which is held for investment by the Group, we have attributed no commercial value to the property as proper title certificates for the property had not been obtained as at the Valuation Date.

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property. No forced sale situation in any manner is assumed in our valuation. In addition, we have been advised by the Group that the property is not subject to any option or right of pre-emption which would concern or affect the sale of the property unless otherwise specified in this report.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have been provided by the Group with copies of documents in relation to the titles to the property located in the PRC. We have not examined the original documents to verify ownership and to ascertain the existence of any amendments which do not appear on the copies handed to us. In the course of our valuation, we have relied on the advice given by the Group and the legal opinions prepared by Beijing Dentons Law Offices, LLP (Fuzhou), the Group's legal adviser on the PRC law (the "**PRC Legal Adviser**"), regarding the titles to the property.

The property was inspected during January 2019 by Mr. Tony M. W. Cheng, a manager of our firm who has over 10 years of experience in the inspection of properties in Hong Kong and the PRC. We have inspected the exterior and, where possible, the interior of the property. In the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out on-site measurements to verify the correctness of the site and floor areas of the property but have assumed that the site and floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached property valuation report are based on information contained in the documents provided to us and are, therefore, only approximations.

We have relied to a considerable extent on the information provided by the Group and the PRC Legal Adviser regarding the titles to the property, we have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site and floor areas and all other relevant materials regarding the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld. The management of the Group has reviewed and confirmed the factual content and has agreed to any limiting conditions of this report.

In valuing the property, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, The HKIS Valuation Standards 2017 issued by the Hong Kong Institute of Surveyors, the International Valuation Standards 2017 published by the International Valuation Standards Council, and under generally accepted valuation procedures and practices.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

We hereby confirm that we have no material connection or involvement with the Group, the property or the value reported herein and that we are in a position to provide an objective and unbiased valuation.

Our property valuation report is enclosed herewith.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung

MRICS, MHKIS, RPS (G.P.), RICS Registered Valuer, MCIREA
Director

Note : Mr. Nick C. L. Kung is a RICS Registered Valuer and a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in Hong Kong and the PRC.

Property Valuation Report

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 March 2019 |
|---|---|--|--|
| Labixiaoxin Logistics Area of Electronic Business located in Jinjiang Food Industry Park, Jinjiang City, Fujian Province, the PRC | <p>The property, known as Labixiaoxin Logistics Area of Electronic Business, is a 2-phase development comprising 12 blocks of 1 to 5-storey buildings, erected on an irregular shaped parcel of land with a site area of approximately 126,981.00 sq.m., completed in between 2017 and 2018.</p> <p>It is located on the southeastern side of Zhizao Avenue near its junction with the northwestern side of Xinyuan Road within Jinjiang Food Industry Park, Jinjiang City. It is about 20 minutes car driving distance from Quanzhou Jinjiang International Airport to the property. Developments in the vicinity mainly comprise industrial complex, residential building, primary school, office and commercial developments.</p> <p>The total gross floor area of the property is approximately 148,271.00 sq.m. Phase I of the property comprises 10 blocks of 1 to 5-storey buildings used as warehouse, factory buildings, dormitories, guard rooms, power distribution room and boiler room having a total gross floor area of approximately 108,443.00 sq.m. whereas phase II of the property comprises 2 blocks of 1-storey buildings used as logistics factories, having a total gross floor area of approximately 39,828.00 sq.m. Details of the gross floor area breakdown are set out in note i) below.</p> | <p>As advised by the Group, as at the Valuation Date, various portions of the property having a total gross floor area of approximately 147,417.00 sq.m. were subject to two tenancies (<i>see note ix) e) below</i>) yielding a total monthly rental of RMB856,569 with the latest tenancy expiring on 31 December 2023 for warehouse and distribution uses. Details of the tenancy agreements <i>are summarized in see notes v) and vi) below</i>.</p> <p>The remaining area of the property with a gross floor area of approximately 854.00 sq.m. was occupied by the Group for office use.</p> | <p>No commercial value (<i>See Note vii) below</i>)</p> |

Notes:

- i) Details of the gross floor area breakdown of the property are listed as follows:

| Building | No. of Storey | Approximate Gross Floor Area (sq.m.) |
|----------------------------------|---------------------|---|
| <u>Phase I</u> | | |
| Warehouse | 4 | 28,203.00 |
| No. 1 factory | 5 | 25,879.00 |
| No. 2 factory | 5 | 19,576.00 |
| No. 3 factory | 5 | 25,879.00 |
| No. 1 dormitory | 5 | 2,984.00 |
| No. 2 dormitory | 5 | 5,068.00 |
| No. 1 guard room | 1 | 135.00 |
| No. 2 guard room | 1 | 65.00 |
| Power distribution room | 2 | 436.00 |
| Boiler room | 1 | 218.00 |
| | Sub-total: | 108,443.00 |
| <u>Phase II</u> | | |
| Nos. 1 and 2 logistics factories | 1 | 39,828.00 |
| | Sub-total: | 39,828.00 |
| | Grand Total: | 148,271.00 |

- ii) Pursuant to 住所與經營場所使用證明 (Proof of Rights to Use Residence and Site for Operation) issued by 晉江經濟開發區管理委員會 (Jinjiang Economic Development Zone Management Committee) dated 18 May 2017, 蠟筆小新(福建)食品工業有限公司 (Labixiaoxin (Fujian) Food Industry Company Limited) (“**Labixiaoxin (Fujian)**”) is an enterprise in 晉江經濟開發區(食品園)(Jinjiang Economic Development Zone (Food Park)), having a site area of 190.472 mu. This construction project is in compliance with the overall land use planning and city development planning of Jinjiang City and the procedure of obtaining land lot is being processed.
- iii) Pursuant to 福建省晉江市工業園區開發建設有限公司關於預收食品產業園預約用地款的通知【晉工開司[2013] 57號】(Fujian Province Jinjiang City Industry Park Development and Construction Company Limited on Advance Payment Notice for Food Industry Park Land Usage Pre-registration No. Jin Gong Kai Si [2013] 57 (the “**Advance Payment Notice**”) issued by 福建省晉江市工業園區開發建設有限公司 (Fujian Province Jinjiang City Industry Park Development and Construction Company Limited) (the “**Jinjiang Development**”) dated 30 November 2013, the construction project of Labixiaoxin (Fujian) had been approved to be erected on the Jinjiang Food Industry Park subject to a land usage pre-registration advance payment of RMB40 million payable on or before 16 December 2013 whereas the balance of the land usage pre-registration advance payment and the construction deposit would be payable upon confirmation of the construction project boundary and transfer of the land.

- iv) Pursuant to 晉江市食品產業園企業地塊控制圖則 (Jinjiang City Food Industry Park Enterprise Land Control Plan) issued by 福建晉江經濟開發區管委會 (Fujian Jinjiang Economic Development Zone Management Committee), the salient conditions of the property are summarized as follows:

- a) Land use : Industrial use
- b) Site area : 126,981.00 sq.m.
- c) Plot ratio : Not less than 1.50 and not more than 3.0
- d) Site coverage : Not less than 30% and not more than 50%
- e) Height limit : Not exceeding 30 m
- f) Greenery ratio : Not more than 20%

- v) Pursuant to the tenancy agreement entered into between Labixiaoxin (Fujian) and 許服意 (the “Lessee”), various portions of phase I of the property with a total gross floor area of approximately 107,589.00 sq.m. were subject to a tenancy for a term of 5 years and 1 month from 1 March 2018 to 30 March 2023 at a monthly rental of RMB537,945 in years 1 to 3 with an increase of 5% per annum in years 4 to 5, exclusive of other outgoings.

- vi) Pursuant to the tenancy agreement entered into between Labixiaoxin (Fujian) and the Lessee, phase II of the property with a total gross floor area of approximately 39,828.00 sq.m. was subject to a tenancy for a term of 5 years from 1 January 2019 to 31 December 2023 at a monthly rental of RMB318,624 in years 1 to 3 with an increase of 5% per annum in years 4 to 5, exclusive of other outgoings.

- vii) We understand that proper title certificates of the property had not been obtained as at the Valuation Date and as a result, we have attributed no commercial value to the property. However, we are instructed by the Group to conduct another valuation on the special assumption that the state-owned land use rights of the property had been granted to Labixiaoxin (Fujian) with all requisite land premiums had been fully paid without any additional costs, if any, and proper title certificates had been obtained for the property as at the Valuation Date. Thus, based on the special assumption as mentioned above and for reference purpose only, by adopting the Investment Method by taking into account the current rents passing and the reversionary income potential of the property or, where appropriate, the Direct Comparison Method by making reference to comparable sales evidence as available in the relevant markets, we are of the opinion that the market value of the property as at the Valuation Date was in the sum of RMB350,200,000.

- viii) In our valuation on vii) above, we have adopted average market rent of approximately RMB12.5 per sq.m./month of the property. The reversionary yield of the property is about 5.75%.

We have counter-checked the valuation result with reference to rental and sale comparables in the vicinity. The market rental comparables are about RMB10.0 to RMB13.0 per sq.m./month and the market sale comparables are about RMB2,500 to RMB3,220 per sq.m. The unit rates adopted by us are consistent with the said rental and sales references after due adjustments. Due adjustments to those rental and sale comparables have been made to reflect factors including but not limited to floor, layout, time, location and size.

- ix) We have been provided with a legal opinion on the property by the PRC Legal Adviser, which contains, *inter alia*, the following information that has been translated from Chinese. If there are any inconsistencies, the Chinese version shall prevail:
- a) Labixiaoxin (Fujian) is not entitled to the land use rights of the property, but given the Advance Payment Notice and the land usage pre-registration advance payment of RMB40 million which has been paid by Labixiaoxin (Fujian) to the Jinjiang Development, Labixiaoxin (Fujian) has become an enterprise in Jinjiang Food Industry Park, and has further established a pre-registration contractual relationship with the land administration bureau to facilitate the land use rights granting procedure and signing of the Grant Contract of State-owned Land Use Rights. Labixiaoxin (Fujian) is entitled to the pre-registration contractual rights;
 - b) The establishment of the pre-registration contractual relationship has entitled Labixiaoxin (Fujian) the contractual rights according to 晉江市食品產業園工業項目入駐暫行規定 (Interim Provisions on the Entry of Jinjiang Food Industry Park Industrial Project) and the contractual rights derived from the legal relationship of the pre-registration contract. At the same time, Labixiaoxin (Fujian) is required to undergo land use rights granting procedure, sign the Grant Contract of State-owned Land Use Rights, pay the land premiums, taxes, and obtain the Real Estate Title Certificate;
 - c) As Labixiaoxin (Fujian) has not yet obtained the Construction Works Planning Permit, the foundation works contract and construction contracts entered into by Labixiaoxin (Fujian) have legal risks of being deemed invalid. Given that Labixiaoxin (Fujian) has not obtained the Construction Land Use Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit, Labixiaoxin (Fujian) shall bear civil liability for compensation should the counterparty of the contracts experience any proven loss as a result of the invalidity of the contracts;
 - d) Since Labixiaoxin (Fujian) has not yet obtained the Construction Works Planning Permit of the property, according to the relevant laws, if corrective measures on such construction can be taken to eliminate the impact on planning implementation, the relevant administrative department shall issue an order for corrective measures within a prescribed time limit, with a penalty of between 5% and 10% of the construction cost; if corrective measures cannot be taken, an order shall be issued for demolition within a prescribed time limit, and if demolition is impossible, the construction may be confiscated or illegal income maybe seized, a penalty of up to 10% of the construction cost may also be imposed. According to the PRC Legal Adviser, there are risks of demolition or confiscation orders or penalties being imposed on Labixiaoxin (Fujian). As verified by the PRC Legal Adviser, Labixiaoxin (Fujian) constructed the property in the absence of the Construction Land Use Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit, and as of 10 May 2019, Labixiaoxin (Fujian) had not been subject to any punishment, nor had it received any notice, order, request or claim from any government or third party to stop construction work, rectify, remove the construction within a prescribed time limit, or assume other administrative penalties; and
 - e) The tenancy agreements (*see notes v) and vi) above*) entered into between Labixiaoxin (Fujian) and the Lessee have legal risks of being deemed invalid. Should the aforementioned tenancy agreements be deemed invalid, the tenancy agreements shall be deemed invalid from the beginning, yet Labixiaoxin (Fujian) still has the right to claim rental payments from the counterparty pursuant to the terms of the agreements. In addition, as Labixiaoxin (Fujian) has not obtained the Construction Land Use Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit of the property, Labixiaoxin (Fujian) has committed certain faults for the invalidity of the tenancy agreements. Labixiaoxin (Fujian) will have to pay compensation for the decoration and renovation of the property in the form of discounted price or based on loss in value which is calculated by the proportionate faults attributable to the parties.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares, underlying shares and debentures of the Company

| Name of Director/ Chief Executive | Capacity/Nature of interest | Number of Shares | Number of underlying shares | Aggregate interest | Approximate percentage of interest |
|--------------------------------------|--------------------------------------|-------------------------|-----------------------------------|-----------------------|--|
| Zheng Yu Long | Interest of a controlled corporation | 610,915,527 (Note 1) | – | 730,850,587 | 54.99% |
| | Beneficial owner | 119,935,060 (Note 2) | – | | |
| Zheng Yu Shuang | Interest of a controlled corporation | 610,915,527 (Note 1) | – | 610,915,527 | 45.97% |
| Zheng Yu Huan | Interest of a controlled corporation | 610,915,527 (Note 1) | – | 610,915,527 | 45.97% |
| Li Hung Kong | Interest of a controlled corporation | 610,915,527 (Note 1) | – | 610,915,527 | 45.97% |
| Ren Yunan | Interest of a controlled corporation | – | 100,000,000 (Note 3) | 100,000,000 | 7.52% |

Notes:

1. The 610,915,527 Shares are beneficially owned by Alliance Food And Beverages (Holding) Company Limited (“**Alliance Holding**”), a company which is owned as to 28% by each of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong is deemed to be interested in the shares held by Alliance Holding for the purpose of the SFO.
2. In addition to the 610,915,527 Shares held through Alliance Holding, Mr. Zheng Yu Long is also personally and beneficially interested in 119,935,060 Shares.
3. Mr. Ren Yunan, is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at the Latest Practicable Date, Thriving Market Limited was holding 100,000,000 unlisted warrants of the Company issued on 1 September 2014 pursuant to the subscription agreement dated 18 August 2014 entered into between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 7.0% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).

Short position in the Shares, underlying shares and debentures of the Company

| Name of Director/ Chief Executive | Capacity/ Nature of interest | Number of Shares | Aggregate interest | Approximate percentage of interest |
|--------------------------------------|---|-------------------------|-----------------------|--|
| Zheng Yu Long | Interest of a controlled corporation | 610,915,527 (Note 1) | 730,850,587 | 54.99% |
| | Beneficial owner | 119,935,060 (Note 1) | | |
| Zheng Yu Shuang | Interest of a controlled corporation | 610,915,527 (Note 1) | 610,915,527 | 45.97% |
| Zheng Yu Huan | Interest of a controlled corporation | 610,915,527 (Note 1) | 610,915,527 | 45.97% |
| Li Hung Kong | Interest of a controlled corporation | 610,915,527 (Note 1) | 610,915,527 | 45.97% |

Note:

1. 119,935,060 shares and 610,915,527 shares of the Company held by Mr. Zheng Yu Long and Alliance Holding, respectively, have been charged in favour of Mr. Zhang Yan.

Long position in the Shares, underlying shares and debentures of the associated corporations

| Name of Director | Name of the associated corporation | Capacity/Nature of interest | Number of shares held in the associated corporation | Approximate percentage of shareholding in the associated corporation |
|------------------|--|--------------------------------|--|--|
| Zheng Yu Long | Alliance Holding | Beneficial owner | 28 | 28% |
| Zheng Yu Shuang | Alliance Holding | Beneficial owner | 28 | 28% |
| Zheng Yu Huan | Alliance Holding | Beneficial owner | 28 | 28% |
| Li Hung Kong | Alliance Holding | Beneficial owner | 16 | 16% |
| Ren Yunan | Thriving Market Limited | Beneficial owner | 1 | 100% |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

| Name of shareholder | Beneficial owner | Security Interest | Aggregate interest (Note 1) | Approximate percentage of interest |
|-------------------------|------------------|-------------------|------------------------------------|------------------------------------|
| Alliance Holding | 610,915,527 | – | 610,915,527 (L)(S) (Note 2 & 4) | 45.97% |
| Thriving Market Limited | 100,000,000 | – | 100,000,000 (L) (Note 3) | 7.52% |
| Zhang Yan | – | 730,850,587 | 730,850,587 (L) (Note 4) | 54.99% |

Notes:

1. The letter “L” denotes the person’s long position in such securities and the letter “S” denotes the person’s short position in such securities.
2. The 610,915,527 Shares are beneficially owned by Alliance Holding, a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.
3. Mr. Ren Yunan is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at the Latest Practicable Date, Thriving Market Limited was holding 100,000,000 unlisted warrants of the Company issued on 1 September 2014 pursuant to the subscription agreement dated 18 August 2014 entered into between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 7.0% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).
4. 119,935,060 shares and 610,915,527 shares of the Company held by Mr. Zheng Yu Long and Alliance Holding, respectively, have been charged in favour of Mr. Zhang Yan.

Save as disclosed above, as at the Latest Practicable Date, no person (other than the Directors or chief executives of the Company) had the interests or short positions in the Shares or underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

3. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his respective close associates had any interests in any business apart from the Group’s businesses which competed or might compete, either directly or indirectly, with the businesses of the Group.

5. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualification of the expert who has given opinion or advice which are contained in this circular:

| Name | Qualification |
|--------------------------------|------------------------------------|
| Peak Vision Appraisals Limited | an independent professional valuer |

The above expert has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, property valuation report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware of, none of the members of the Group was involved in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS OF THE GROUP

During the two years immediately preceding the date of this circular ending on the Latest Practicable Date, there was no contract entered into by the Group (not being contracts in the ordinary course of business) which is or may be material.

8. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

On 31 December 2018, the Company entered into a loan agreement (the “**Loan Agreement**”) with Mr. Zheng Yu Long, an executive Director, for a loan facility of RMB40,000,000. As at the Latest Practicable Date, the Company had drawn down RMB34,077,000. The amount is unsecured, repayable on 31 December 2019 and bears fixed interest at 2% per annum.

Save for the Loan Agreement, none of the Directors had any material interest, directly or indirectly, in any contract or arrangement subsisting which was significant in relation to the business of the Group as at the Latest Practicable Date.

9. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Chan Yee Lok, who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and principal place of business of the Company in the PRC is Wuli Industrial Area, Jinjiang, Fujian, the PRC.
- (d) The place of business of the Company in Hong Kong is at 7th Floor, AT Tower, 180 Electric Road, North Point, Hong Kong.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (f) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the respective Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the Company's place of business in Hong Kong at 7th Floor, AT Tower, 180 Electric Road, North Point, Hong Kong for a period of 14 days commencing from the date of this circular:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2017 and 2018;
- (c) the valuation report on the FJ Land from Peak Vision Appraisals Limited, the text of which is set out in Appendix II to this circular;
- (d) the written consent referred to in the paragraph headed "QUALIFICATION AND CONSENT OF EXPERT" in this appendix; and
- (e) this circular.