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STATE ENERGY GROUP INTERNATIONAL ASSETS HOLDINGS LIMITED

國能集團國際資產控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 918)

MAJOR TRANSACTION ACQUISITION OF 60% EQUITY INTERESTS IN THE TARGET COMPANY

THE ACQUISITION

The Board is pleased to announce that on 27 June 2018 (after trading hours), the Purchaser, a direct wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Sellers, pursuant to which the Purchaser conditionally agreed to acquire and the Sellers conditionally agreed to sell, the Sale Shares, representing 60% of the issued shares in the Target Company, for a consideration not more than HK\$10,800,000.

Upon Completion, the Company will own 60% of the issued shares in the Target Company, accordingly the Target Company will become a non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group after Completion.

LISTING RULES IMPLICATION

Since the highest applicable percentage ratio in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An SGM will be held for the Shareholders to consider, and if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, no Shareholder has any material interest in the Acquisition and is required to abstain from voting on the relevant resolution(s) at the SGM.

A circular containing, among other things, (i) details of the Acquisition and the transaction contemplated thereunder; (ii) other information required to be disclosed under the Listing Rules; and (iii) a notice of the SGM, is expected to be despatched on or before 31 August 2018 for the Shareholders' information as more time is required to prepare and collect the information and completion of the financial statement of the Target Company for inclusion in the circular.

INTRODUCTION

The Board is pleased to announce that on 27 June 2018 (after trading hours), the Purchaser, a direct wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Sellers, pursuant to which the Purchaser conditionally agreed to acquire and the Sellers conditionally agreed to sell, the Sale Shares, representing 60% of the issued shares in the Target Company, for a consideration not more than HK\$10,800,000.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out below:

Date: 27 June 2018 (after trading hours)

Parties: (i) the Purchaser, a direct wholly-owned subsidiary of the Company;
(ii) Seller I; and
(iii) Seller II.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Sellers are Independent Third Parties.

Assets to be acquired

Subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and each of Seller I and Seller II has conditionally agreed to sell its Sale Shares I and Sale Shares II respectively, representing an aggregate of 60% of the issued Target Shares.

Consideration

The parties agree that the Consideration payable by the Purchaser shall be determined based on 60% of an agreed multiple of 6 times of the Target Company's Net Profits for the financial year ended 31 March 2018 (“**FY2018**”) as shown in the FY 2018 Audited Accounts, subject to a cap of HK\$10,800,000.

The Consideration for the Sale Shares payable by the Purchaser to the Sellers shall be settled by cash at the date of Completion. The Consideration will be funded by internal resources of the Group.

The Consideration for the Sale Shares is intended to include the Target Company's ownership rights of the “X SUPER-X SPORTSWEAR” trademark, and the licence to use and right to sublicense to the remaining trademarks of the brand of “Super-X Sportswear” currently owned and used by the Target Company in its business (the “**Licensed Trademarks**”). Accordingly, the Sellers shall procure the Licensed Trademarks be transferred out to Maria prior to Completion and upon and with effect from Completion the Licensed Trademarks be licensed to the Target Company under the Licensing Agreement to the effect that the Target Company shall be able to continue to use those trademarks for the operation of its business.

Basis of the Consideration

The Consideration was determined after arm's length negotiations among the parties to the Sale and Purchase Agreement and with reference to the unaudited profit after taxation for FY2018 of approximately HK\$3,007,000. As a condition to Completion, the Purchaser will obtain a valuation report (in the form and substance satisfactory to the Purchaser) from an independent professional valuer appointed by the Purchaser with the valuation of 100% of the equity interest of the Target Company as at 30 June 2018 of not less than HK\$18,000,000.

The Directors are of the view that the Consideration and the basis of determination thereto is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Conditions precedent

Completion is conditional on the following conditions being satisfied or waived (as the case may be):

- (i) the Sale and Purchase Agreement and the Acquisition having been approved by Shareholders;

- (ii) other than Shareholders' Approval, the Purchaser having obtained all necessary consent and approvals required for its execution, performance and completion of the Sale and Purchase Agreement and the Acquisition, including but not limited to those required by the Stock Exchange, the Securities and Futures Commission and any applicable securities exchange, supervisory, regulatory or governmental body and by the Listing Rules and any applicable laws, rules and regulations;
- (iii) the Purchaser being satisfied with the results of the due diligence conducted in connection with the Acquisition;
- (iv) the Sellers and the Target Company having obtained all necessary consent and approvals required for its execution and performance of the Sale and Purchase Agreement and the Acquisition;
- (v) the Purchaser having obtained a valuation report confirming the valuation of the 100% equity interest of the Target Company at not less than HK\$18,000,000 as at 30 June 2018;
- (vi) the Licensing Agreement having been executed in favour of and delivered to the Purchaser in accordance with the Sale and Purchase Agreement;
- (vii) the warranties in the Sale and Purchase Agreement remaining true, accurate and not misleading in any respect at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and Completion;
- (viii) the Sellers having complied fully with the obligations specified in the Sale and Purchase Agreement and otherwise having performed in all respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement;
- (ix) there having been no material adverse change since the date of the Sale and Purchase Agreement; and
- (x) the FY 2018 Audited Accounts having been signed by the Sellers and delivered to the Purchaser.

The Purchaser may in its absolute discretion waive either in whole or in part at any time by notice in writing to the Sellers any of the Conditions set out in above paragraphs (iii) to (x). All other Conditions are incapable of being waived by any of the Purchaser or the Sellers. If any of the Conditions have not been fulfilled (or waived by the Purchaser, where applicable) by the Long Stop Date, the Sale and Purchase Agreement shall cease and determine and thereafter none of the parties to the Sale and Purchase Agreement shall have any obligations and liabilities thereunder.

Completion

Subject to the fulfilment (or Purchaser's waiver, where applicable) of all the conditions precedent of the Sale and Purchase Agreement on or before the Long Stop Date, Completion shall take place on (a) such date within ten (10) Business Days after the fulfilment (or Purchaser's waiver, where applicable) of all the Conditions precedent of the Sale and Purchase Agreement as the parties may mutually agree in writing or (b) if the parties fail to so agree on or before the ninth Business Day after the fulfilment (or the Purchaser's waiver, where applicable) of the Conditions precedent of the Sale and Purchase Agreement, then the tenth Business Day after the fulfilment (or the Purchaser's waiver, where applicable) of all the Conditions.

Upon Completion, the Company will own 60% of the issued shares in the Target Company, accordingly the Target Company will become a non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group after Completion.

Licensing Agreement

Pursuant to the Sale and Purchase Agreement, the Sellers shall deliver to the Purchaser a Licensing Agreement(s) in such form and substance satisfactory to the Purchaser, duly executed as a deed by Maria and Super-X Sportswear and any other person(s) which own(s) or has/have the right to license or sublicense or the Licensed Trademarks (together the "**Licensors**", and each a "**Licensor**") in favour of the Target Company, which shall include the following key terms:

- (a) each of the Licensors shall grant an unconditional, sublicensable, irrevocable right and license in favour of the Target Company to use the Licensed Trademarks for ten years (the "**Licensing Period**") at the nominal consideration of HKD1, which may be further extended subject to negotiations between the parties thereto:
 - (i) during the first eight years of the Licensing Period, the right and license granted under paragraph (a) above in favour of the Target Company shall be exclusive in nature. For the avoidance of doubt, none of the Licensors shall have right to use or license the Licensed Trademarks during the Profit Guarantee Period; and
 - (ii) during the remaining two years of the Licensing Period, the right and license granted under paragraph (a) above in favour of the Target Company shall be non-exclusive;

- (b) during the Profit Guarantee Period, the Licensors shall not sell, assign or otherwise transfer any of the Licensed Trademarks to any person other than to the Target Company pursuant to the Licensing Agreement;
- (c) each of the Licensors shall upon and effective from Completion, grant a right of first refusal to the Target Company to acquire all rights, title and interest in and to the Licensed Trademarks from the Licensor(s) during the term of the Licensing Agreement, and that if the Profit Guarantee Targets (as defined below) (“**Profit Guarantee Targets**”) have been met, the Target Company may, but is not obliged to, acquire from the Licensor(s), and each of the Licensors shall assign and transfer to the Target Company, all rights, title and interest in and to the Licensed Trademarks at a price to be negotiated between the parties thereto;
- (d) each of the Licensors shall procure that, in the event the Target Company elects not to exercise its first right of refusal as set out in the Sale and Purchase Agreement and the Licensor(s) subsequently sell or assign the Licensed Trademarks to any third party (the “**Permitted Assignees**”), the Permitted Assignees shall execute as a deed and in such form satisfactory to the Purchaser a new licensing agreement under which the Permitted Assignees shall agree to grant in favour of the Target Company right and license substantially the same as those under paragraph (a) above;
- (e) each and every Licensor shall undertake to fully perform and fulfil its respective obligations under the Licensing Agreement;
- (f) Maria shall undertake to procure the other Licensor(s) to fully perform and fulfil their obligations under the Licensing Agreement.

Each of the Sellers jointly and severally undertakes to the Purchaser that it procure the Licensors to fully perform and fulfil their respective obligations under the terms of the Licensing Agreement, including but not limited to the key terms set out in paragraphs (a) to (f) above.

Profit guarantee and net profit put option

Pursuant to the Sale and Purchase Agreement, each of the Sellers jointly and severally irrevocably and unconditionally guarantees and covenants to the Purchaser that the Net Profits of the Target Company as shown in the respective audited accounts of the Target Company during the Profit Guarantee Period shall meet the following Profit Guarantee Targets:

- (i) the Net Profits of the Target Company for the financial year ending 31 March 2019 (“**FY 2019 Net Profits**”) shall not be less than HK\$3,000,000 (the “**FY 2019 Guaranteed Profits**”);

- (ii) the Net Profits of the Target Company for the financial year ending 31 March 2020 (“**FY 2020 Net Profits**”) shall not be less than HK\$3,300,000 (the “**FY2020 Guaranteed Profits**”);
- (iii) the Net Profits of the Target Company for the financial year ending 31 March 2021 (“**FY 2021 Net Profits**”) shall not be less than HK\$3,600,000 (the “**FY2021 Guaranteed Profits**”); and
- (iv) the aggregate Net Profits of the Target Company for Profit Guarantee Period (the “**Aggregate Net Profits**”) shall not be less than HK\$9,900,000.

In the event that the Aggregate Net Profits is less than HK\$9,900,000, the Sellers shall jointly and severally compensate the Purchaser by payment in cash on or before 31 December 2021 an amount equal to (“**Profit Guarantee Compensation**”):

$$\frac{(\text{HK\$9,900,000} - \text{Aggregate Net Profits}) \times \text{Consideration}}{\text{HK\$9,900,000}}$$

In the event that any of the FY 2019 Net Profits, the FY 2020 Net Profits or the FY 2021 Net Profits is less than 80% of the guaranteed Net Profits for the relevant year as set out in the Sale and Purchase Agreement, then the Purchaser may, but is not obliged to, require any one or both of the Sellers to purchase all the Sale Shares acquired by the Purchaser pursuant to the Sale and Purchase Agreement (the “**Option Shares**”) by serving written notice (the “**Option Notice**”) on the Sellers (the “**Put Option**”) within 60 Business Days after the audited financial statements of the Target Company for the relevant financial year of the Profit Guarantee Period having been made available to the Shareholders.

The Option Notice shall specify the number of Shares in respect of which the Put Option is exercised. Each Seller jointly and severally undertakes to the Purchaser that the sale and purchase of the Option Shares under the Put Option shall be completed within 10 Business Days after the Option Notice has been served in accordance with the Sale and Purchase Agreement.

The Purchaser is entitled to allocate the proportion of the Sale Shares required to be acquired among the Sellers provided that the Put Option exercised by the Purchaser shall be in respect of all of the Sale Shares.

The price payable by the Sellers to the Purchaser for the Option Shares shall be (without any set-off or deduction) the aggregate of the Consideration actually payable by the Purchaser to the Sellers at Completion (“**Actual Consideration**”) plus an annual internal rate of return at 8% of the Consideration accrued from the date of the Sale and Purchase Agreement to the date of completion of the sale and purchase of the Option Shares under the Put Option pursuant to the Sale and Purchase Agreement.

In the event that any of the FY 2019 Net Profits, FY 2020 Net Profits or FY 2021 Net Profits exceeds the Profits Guarantee Targets for the relevant year as set out in the Sale and Purchase Agreement (the “**Profit Guarantee Surplus**”), the Sellers shall be entitled to receive, and the Purchaser shall pay to the Sellers, an amount equivalent to a total of 15% of the Profit Guarantee Surplus, to be apportioned in the ratio of 50:50 between the Sellers, in the relevant financial year so long as the Sellers remain as directors of the Target Company during the Profit Guarantee Period.

During the Profit Guarantee Period, to the extent permissible by law and the Target Company’s articles of association and where there is distributable profit, the Parties agree that Target Company shall distribute by way of dividend of not less than 50% but not more than 80% of the cash of the Target Company available for distribution out of the distributable profit after appropriation of prudent and proper reserves including allowance for future working capital and provision for tax, the exact amount of which shall be decided by the directors of the Target Company. Such distribution shall be made within three months from the date of the auditors’ report on the annual accounts or financial statements of the Target Company for the relevant period.

Management of the Target Company Post Completion

The Target Company shall have five directors, three of whom shall be appointed by the Purchaser, and the remaining two directors shall be the Sellers during the Profit Guarantee Period. Save for the following matters which require unanimous board approval, board resolutions of the Target Company shall be passed by way of simple majority: (i) make or agree to make any change to its authorised or issued share capital from time to time; or issue or agree to issue or grant any option over or right to acquire or subscribe for any additional shares or share capital or buy back or redeem any shares; (ii) change its name or the name under which it carries on business or change its articles of association; (iii) pass any resolution for its winding up or present any petition for its administration (unless it has become insolvent); (iv) close down any business operation or dispose of or dilute its interest in any of its subsidiaries for the time being; (v) vary any rights attaching to any shares; and (vi) amalgamate or merge with any other company or business undertaking.

Other Material Terms

The Purchaser shall use its commercial endeavours to arrange, or cause to be arranged, a standby credit facility to the Target Company for use by the Target Company in the Target Company’s Business in such amount and under such terms as the parties thereto may agree.

The Sellers shall jointly and severally procure that all indebtedness outstanding between the Target Company and any of the Sellers, Maria and/or their respective affiliates (other than any trade debts) be settled in full prior to Completion, whether due for payment or not.

INFORMATION OF THE COMPANY AND THE PURCHSER

The Group is principally engaged in property investment and sourcing, subcontracting, marketing and selling of outdoor garments and sportswear products.

The Purchaser is a direct wholly-owned subsidiary of the Company, and is principally engaged in investment holding.

INFORMATION OF THE SELLERS

Each of the Sellers is an individual who is an Independent Third Party.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated under the laws of Hong Kong with limited liability. The Target Company is principally engaged in sourcing, subcontracting, selling and distribution of outdoor garments and sportswear products, especially licensed products under the brand of “Super-X Sportswear”.

FINANCIAL INFORMATION OF THE TARGET COMPANY

A summary of the financial information of the Target Company for each of the years ended 31 March 2017 and 31 March 2018 are set out as follows:

	For the year ended 31 March	
	2017	2018
	<i>(Audited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	976	3,592
Profit after taxation	830	3,007
Net assets	912	3,919

REASONS FOR AND BENEFITS OF THE ACQUISITION

In view of the weak performance of the Group’s direct export business to North America, the management of the Group has been exploring opportunities with a view to strategically reposition itself in the value chain of garment export business to enhance its competitiveness in different markets and broaden the income stream by a breakthrough in new customers, new markets and new orders, thus improving the profitability of its export business in the long run. As disclosed in the business update announcement of the Company dated 7 February 2018, the Group has successfully identified new sales channels in Africa and actively developed the textile clothing business in the African market.

The Target Company is principally engaged in sourcing and distribution of outdoor garments and sportswear products, especially licensed products under the brand of “Super-X Sportswear” to Hong Kong, Taiwan and Japan and they have experienced management team and solid customer base. Led by Seller I who has over 15 years of experience in the sportswear industry, the Target Company currently has an annual sales of about HK\$60 million for FY2018. With the retention of the sellers and the existing management team in the Target Company, the Board believes that the Target Company will bring immediate and sustainable revenue and return to the Group upon completion of the Acquisition. In addition, the Board believes that the Acquisition will supplement, expand and extend the existing Group’s direct export business to brand licensee export business and the Company expects synergies to be achieved in many aspects after the Acquisition in terms of future expansion, including brand building, supply chain and management expertise.

In view of the above, the Directors are of the view that the terms of the Acquisition and the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

Since the highest applicable percentage ratio in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An SGM will be held for the Shareholders to consider, and if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors’ knowledge, information and belief, no Shareholder has any material interest in the Acquisition and is required to abstain from voting on the relevant resolution(s) at the SGM.

A circular containing, among other things, (i) details of the Acquisition and the transaction contemplated thereunder; (ii) other information required to be disclosed under the Listing Rules; and (iii) a notice of the SGM, is expected to be despatched on or before 31 August 2018 for the Shareholders’ information as more time is required to prepare and collect the information and completion of the financial statement of the Target Company for inclusion in the circular.

Shareholders and potential investors should note that completion of the Acquisition is subject to the fulfilment of the conditions precedent set out in the Sale and Purchase Agreement and therefore may or may not occur. As the Acquisition may or may not proceed to Completion, Shareholders and potential investors of the Company are reminded 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:

“Acquisition”	the purchase of 60% of the entire issued share capital in the Target Company by the Purchaser from the Sellers pursuant to the Sale and Purchase Agreement
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong
“Company”	State Energy Group International Assets Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed and traded on the main board of the Stock Exchange (Stock Code : 918)
“Completion”	completion of the Acquisition pursuant to the terms and conditions set out in the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“FY 2018 Audited Accounts”	the audited balance sheet or statement of financial position of the Target Company as at 31 March 2018 and the audited profit and loss account or statement of comprehensive income of the Target Company from 1 April 2017 to 31 March 2018 (inclusive) certified with an unqualified report and prepared by the auditors appointed by the Purchaser
“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 (as defined under the Listing Rules)
“Licensing Agreement”	a licensing agreement duly executed by the Licensors at Completion
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2018 (or such other date as may be agreed between the Purchaser and Sellers)
“Maria”	Ms. Chui Fung Sau Maria, an Independent Third Party
“Net Profits”	net profit after tax and before extraordinary items, non cash or one-off items and interest, depreciation, amortization as shown in, or derived from, the audited accounts of the Target Company for the relevant financial year
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong and the Macau Special Administrative Region of the People’s Republic of China
“Profit Guarantee Period”	the three-year period covering the three financial years of the Target Company ending 31 March 2019, 31 March 2020 and 31 March 2021.
“Purchaser”	Takson (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“Sale Shares”	Sales Shares I and Sale Shares II
“Sale Shares I”	5,000 Target Shares owned by Seller I
“Sale Shares II”	5,000 Target Shares owned by Seller II
“Seller I”	Mr. Lee Sip Hop, Andrew, an Independent Third Party

“Seller II”	Mr. Lee Alexander Chun Lum, an Independent Third Party
“Sellers”	Seller I and Seller II, collectively
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Acquisitions
“Share(s)”	ordinary share(s) of HK\$0.10 each in share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Super X International Limited, a company incorporated in Hong Kong with limited liability
“Target Share(s)”	the ordinary share(s) of the Target Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By Order of the Board
State Energy Group International Assets Holdings Limited
Zhou Xinyu
Chairman

Hong Kong, 28 June 2018

As at the date of this announcement, the executive Directors are Mr. Zhou Xinyu and Ms. Niu Fang; the independent non-executive Directors are Ms. Ni Lijun, Mr. Shen Guoquan and Mr. Chen Jianjun.