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Champion Alliance International Holdings Limited

冠均國際控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

(Stock Code: 1629)

MAJOR TRANSACTION

Financial adviser to the Company



THE AGREEMENT

On 5 August 2022 (after trading hours of the Stock Exchange), the Vendor and Purchaser entered into the Agreement, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Share, representing the entire issued share capital of the Target Company at a Consideration of HK\$49,000,000.

Upon Completion, the Target Group will cease to be subsidiaries of the Company and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 25% but all of them are less than 75%, the Disposal constitutes a major transaction on the part of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal. The Company has received a written approval of the Disposal by Champion Alliance, which holds 350,000,000 Shares, representing approximately 64.09% of the entire issued share capital of the Company as at the date of this announcement. Accordingly, pursuant to Rule 14.44 of the Listing Rules, no general meeting of the Company will be convened for the purpose of approving the Disposal and the transactions contemplated thereunder.

A circular containing, among other things, further information on the Agreement and the transactions contemplated thereunder will be despatched by the Company to the Shareholders for their information only on or before 23 September 2022 as additional time is required to prepare the information to be contained in the circular.

Completion of the Disposal is conditional upon fulfilment (or wavier as the case may be) of the conditions precedent under the Agreement. There is no assurance that Completion will take place or as to when it may take place. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company and, if in any doubt, are recommended to consult their professional adviser(s).

On 5 August 2022 (after trading hours of the Stock Exchange), the Vendor and Purchaser entered into the Agreement, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Share, representing the entire issued share capital of the Target Company at a Consideration of HK\$49,000,000.

THE AGREEMENT

The principal terms of the Agreement are as follows:

Date: 5 August 2022 (after trading hours of the Stock Exchange)

Parties: (1) The Vendor; and

(2) The Purchaser.

The Purchaser is an investment holding company and is wholly-owned by Mr. Bao Haiping (鮑海平). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Assets to be disposed of

Pursuant to the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, which represented the entire issued share capital of the Target Company.

The Target Company is a company incorporated in the British Virgin Islands with limited liability. As at the date of this announcement, the Target Company has an issued and paid-up share capital of one ordinary share of US\$1.00, which is legally and beneficially owned by the Vendor.

Consideration

Pursuant to the Agreement, the Consideration is in the amount of HK\$49,000,000 and shall be settled by the Purchaser by entering into the Deed of Novation with the Company and the Lender upon Completion pursuant to which the Purchaser agrees to assume all liabilities and to satisfy all claims and demands whatever arising out of or in respect of the Loan (together with the interest accrued thereof) in substitution for the Company.

As at the date of this announcement, the total outstanding amount of the Loan is in the amount of approximately HK\$53,000,000 (being the principal amount of the Loan in the amount of HK\$40,000,000 and accrued interest in the amount of approximately HK\$13,000,000). As the total outstanding amount of the Loan as at the date of this announcement is more than the Consideration, the Vendor undertook to the Purchaser under the Agreement that it will pay HK\$4,000,000 to the Lender to settle part of the outstanding principal amount of the Loan within 7 Business Days after the Completion. The remaining outstanding principal amount of the Loan (i.e. HK\$36,000,000) and all accrued interest (i.e. approximately HK\$13,000,000 as at the date of this announcement and such other interest to be accrued under the Loan) will be assumed and satisfied by the Purchaser pursuant to the Deed of Novation.

The consideration for the Disposal was determined after arms' length negotiations between the Vendor and the Purchaser having taken into consideration (i) the unaudited consolidated net asset value of the Target Group in the amount of approximately RMB44,900,000 (equivalent to approximately HK\$53,880,000) as at 30 June 2022; (ii) the loss-making performance of the Target Group for the two years ended 31 December 2021; and (iii) the benefits of the Disposal as detailed in the section headed "Reasons for and benefits of the Disposal" in this announcement.

Conditions precedent

The Completion is conditional upon and subject to the fulfilment (or waiver as the case may be) of the following conditions:

- (1) the Vendor having obtained all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Agreement and the transactions contemplated thereunder, including but not limited to the approval by the Shareholders approving, among others, the Agreement and the transaction contemplated thereunder as required under the Listing Rules;
- (2) the Vendor having completed all necessary procedures as required under the Listing Rules, including but not limited to the despatch of the circular to the Shareholders;
- (3) the Purchaser having obtained all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Agreement and the transactions contemplated thereunder;
- (4) the Purchaser being satisfied with the results of the legal and financial due diligence review on the Target Group; and
- (5) there being no material adverse change on the Target Group from the date of the Agreement.

The above conditions (4) and (5) can be waived by the Purchaser and all other conditions are not waivable. If the conditions set out in the Agreement have not been satisfied or waived (as the case may be) on or before on 30 November 2022 (or such later date as may be agreed between the Vendor and the Purchaser in writing), the Agreement shall cease and determine, and thereafter none of the parties to the Agreement shall have any obligations and liabilities towards the other save for any antecedent breaches of the terms of the Agreement, and none of the parties to the Agreement shall claim or enforce any other damages or claims against the other.

Completion

Completion shall take place within 3 Business Days after fulfilment (or waiver as the case may be) of all the conditions precedent under the Agreement or such other date as agreed by the Vendor and the Purchaser.

Upon Completion, the Target Group will cease to be subsidiaries of the Company and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements, and the Group will cease to engage in the production and processing of cigarette packaging products.

As at the date of this announcement, as a security of the Loan, the Sale Share is charged by the Company in favour of the Lender and all the equity interest in Hubei Mengke is charged by Mengke Hong Kong in favour of the Lender pursuant to the Share Charges. Upon Completion, the Purchaser will arrange with the Lender to sign new charge documents so as to release and replace the Share Charges and arrange for all necessary filing and registration procedures with respect to the new charge documents.

INFORMATION OF THE TARGET GROUP

As at the date of this announcement, (i) the Target Company is a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company. The Target Company is an investment holding company and holds the entire share capital in Mengke Hong Kong; (ii) Mengke Hong Kong is a company incorporated in Hong Kong with limited liability and is wholly-owned by the Target Company. Mengke Hong Kong is an investment holding company and holds the entire equity interest in Hubei Mengke; and (iii) Hubei Mengke is a company established in the PRC with limited liability and is a wholly-owned subsidiary of Mengke Hong Kong. Hubei Mengke is principally engaged in the production and processing of cigarette packaging products.

Consolidated financial information of the Target Group

The consolidated financial information of the Target Group for the two financial years ended 31 December 2020 and 31 December 2021 are set out below:

	For the year ended 31 December 2020 (audited) (RMB'000)	For the year ended 31 December 2021 (audited) (RMB'000)
Revenue	217,468	165,146
Net (loss) before taxation	(1,513)	(16,008)
Net (loss) after taxation	(1,513)	(16,008)

As at 30 June 2022, the unaudited consolidated net asset value of the Target Group was approximately RMB44.9 million.

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, the Company expects to recognise an unaudited estimated disposal loss of approximately HK\$5,380,000 calculated with reference to (i) the total Consideration of HK\$49,000,000 under the Disposal; (ii) the unaudited consolidated net asset value of the Target Group in the amount of approximately RMB44,900,000 (equivalent to approximately HK\$53,880,000) as at 30 June 2022; and (iii) estimated related transaction expenses payable by the Company in connection with the Disposal.

Shareholders should note that the actual loss from the Disposal will depend on, among others, (i) the carrying value of the assets of the Target Group as at the date of Completion; and (ii) the transaction cost for the Disposal, and therefore may be different from the amount mentioned above.

As the Consideration will be settled by the Purchaser by entering into the Deed of Novation with the Vendor and the Lender upon Completion, there will not be any proceeds receivable by the Company from the Disposal.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company is an investment holding company. The Group is principally engaged in the (i) production and sale of metallised packaging paper and provision of related processing services for cigarette package manufacturers; (ii) new energy operations which includes the production and sale of steam for industrial use, heating and electricity; and (iii) trading of household paper products in the PRC.

As stated in the annual report of the Company for the year ended 31 December 2021, the government of the PRC extended its effort in the structural reform of the tobacco market, which included cigarette control, promotion of mental and physical health and cancer prevention, which caused adverse impact on the Group's cigarette packaging business. The Directors expect that the structural reform of the tobacco market will continue to weaken the performance of the Group's cigarette packaging business. Since the Target Group has been making losses for the financial years ended 31 December 2020 and 2021 and the operating environment of the Target Group has become more difficult in light of the aforesaid government policies, the Directors believe that the Disposal is a good opportunity for the Group to realise the assets of the Target Company and settle the Loan. The Directors are of the view that it is in the interests of the Company and its Shareholders as a whole to dispose of the Target Company so that the Group can focus its resources on its other existing businesses which the Directors believe can generate better return to the Company and its Shareholders as a whole. The Directors believe that the Disposal is beneficial to the long-term development and profitability of the Company.

In addition, the Company understands that the Purchaser agreed to settle the Consideration by entering into the Deed of Novation to assume all liabilities and to satisfy all claims and demands under the Loan as there would not be any immediate cashflow burden on the Purchaser to pay for the Consideration whereas the Company agreed to this settlement method as this would settle all the Loan owing by the Company to the Lender and the Lender would only claim against the Purchaser for the Loan if the Purchaser fails to fulfill its obligations under the Deed of Novation.

Taking into consideration of the aforesaid, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Agreement are on normal commercial terms and are fair and reasonable and that the Disposal is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 25% but all of them are less than 75%, the Disposal constitutes a major transaction on the part of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal. The Company has received a written approval of the Disposal by Champion Alliance, which holds 350,000,000 Shares, representing approximately 64.09% of the entire issued share capital of the Company as at the date of this announcement. Accordingly, pursuant to Rule 14.44 of the Listing Rules, no general meeting of the Company will be convened for the purpose of approving the Disposal and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information on the Agreement and the transactions contemplated thereunder; (ii) financial information of the Target Group; (iii) financial effects of the Disposal; and (iv) other information required under the Listing Rules shall be despatched within 15 business days after publication of this announcement, which is expected to be on or before 23 September 2022 for Shareholders' information only as additional time is required to prepare the information to be contained in the circular.

Completion of the Disposal is conditional upon fulfilment (or waiver as the case may be) of the conditions precedent under the Agreement. There is no assurance that Completion will take place or as to when it may take place. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company and, if in any doubt, are recommended to consult their professional adviser(s).

DEFINITIONS

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

“Agreement”	the sale and purchase agreement dated 5 August 2022 entered into between the Vendor and the Purchaser for the sale and purchase of the Sale Share
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong

“Champion Alliance”	Champion Alliance International Corporation, a company incorporated in the British Virgin Islands with limited liability and a controlling shareholder (as defined under the Listing Rules) of the Company holding 350,000,000 Shares, representing approximately 64.09% of the entire issued share capital of the Company as at the date of this announcement
“Company” or “Vendor”	Champion Alliance International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Disposal in accordance with the terms of the Agreement
“Completion Date”	the date falling within the 3 Business Days after the fulfilment (or waiver as the case may be) of all conditions precedent under the Agreement
“Consideration”	the total consideration in the amount of HK\$49,000,000 for the Disposal under the Agreement
“Deed of Novation”	the deed of novation to be entered into among the Purchaser, the Vendor and the Lender upon Completion pursuant to which the Purchaser agrees to assume all liabilities and to satisfy all claims and demands whatever arising out of or in respect of the Loan (together with the interest accrued thereof) in substitution for the Company
“Directors”	directors of the Company
“Disposal”	the disposal of the Sale Share pursuant to the Agreement
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hubei Mengke”	Hubei Mengke Paper Company Limited* (湖北盟科紙業有限公司), a company established in the PRC with limited liability, a wholly owned subsidiary of Mengke Hong Kong

“Lender”	Singapore Overseas Chinese Holdings Limited (新加坡華僑控股有限公司), the lender of the Loan and together with its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan in the principal amount of HK\$40,000,000 granted by the Lender to the Company in January 2019 and due in January 2023, with interest waived for the first year and interest accruing at the rate of 18% for the second year, and at the rate 9% for each subsequent year
“Mengke Hong Kong”	Mengke (Hong Kong) Company Limited (盟科(香港)有限公司), a company incorporated in Hong Kong with limited liability, a wholly owned subsidiary of the Target Company and holds the entire equity interest in Hubei Mengke
“PRC”	the People’s Republic of China
“Purchaser”	Sage Height Limited (哲峰有限公司), the purchaser under the Agreement
“Sale Share”	one share of the Target Company, representing the entire issued share capital of the Target Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Charges”	(i) the charge of the Sale Share by the Company in favour of the Lender; and (ii) the charge of the all equity interest in Hubei Mengke by Mengke Hong Kong in favour of the Lender as security for the Loan
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Lucky Glorious Limited (瑞顯有限公司), a company incorporated in the British Virgin Islands with limited liability, a wholly owned subsidiary of the Vendor and holds the entire issued share capital of Mengke Hong Kong

“Target Group”	collectively, the Target Company, Mengke Hong Kong and Hubei Mengke
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

In this announcement, amounts in RMB are translated into HK\$ on the basis of RMB1 = HK\$1.20. The conversion rate is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at such rate or at all.

By order of the Board
Champion Alliance International Holdings Limited
Chen Shuming
Chairman and Executive Director

Hong Kong, 5 August 2022

As at the date of this announcement, the Board comprises Mr. Chen Shuming, Mr. Chen Xiaolong, Mr. Hu Enfeng, Mr. Zhang Shihua and Ms. Chen Xiaoyan as executive directors and Mr. Chen Hua, Mr. Zhao Zhendong and Mr. Chin Chi Ho Stanley as independent non-executive directors.

* *For identification purposes only*