

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.*



**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)**

**SUPPLEMENTAL ANNOUNCEMENT ON  
DISCLOSEABLE TRANSACTION IN RELATION TO  
THE PROPOSED ACQUISITION OF INTEREST IN  
THE BUSINESS OF UNMANNED AERIAL VEHICLES**

Reference is made to the announcement of the Company dated 29 March 2023 in relation to the Acquisition (the “**Announcement**”). Unless otherwise stated, all the capitalised terms used herein shall have the same meaning as those adopted in the Announcement.

The Board wishes to provide the supplemental information in relation to the Acquisition.

**FURTHER INFORMATION OF THE TARGET GROUP**

The Target Company was incorporated on 8 May 2015 and that the Subsidiary was incorporated on 10 October 2019. The Target Group has been carrying out the business of research and development, design, production, sales, training and service of UAVs. The production base of the Target Group is situated at the High-tech Zone, Jining City, Shandong Province, Shandong, the PRC which attracts tax benefits from the local government. The production base has a gross area of 10,000 square meters and an exhibition hall of 2,000 square meters. The Target Group has around 60 employees at present. Mr. Yang Zeyun (“**Mr. Yang**”), the general manager and legal representative of the Target Group has been involved in the business of UAVs since 2006 and employed as a production supervisor by 佛山市安爾康姆航空科技有限公

司 (Foshan An Er Kang Mu Aviation Technology Company Limited) (“**An Er Kang Mu**”) until 2013, which was regarded as a pioneer in the area of UAVs in the PRC. Mr. Yang had received training in Germany for the development and production of UAVs when he was with An Er Kang Mu.

The UAVs can be categorized according to their functions including (1) fire-fighting; (2) logistics; and (3) agricultural uses. The Target Group also manufactures accessories of UAVs and fire extinguishers. At present, the UAVs manufactured by the Target Group are also applied in the areas of surveying and mapping, inspection, security, logistics, tethering and environmental protection. The research and development department of the Target Group is carrying out research in the areas of (i) UAVs for fire-fighting of up to 100 to 500 meters in height which would replace 101 meters fire engines and only costs one tenth of its price; (ii) tethering system for use in logistics services; and (iii) landing system for UAVs. The business of the Target Group is mainly in the PRC. The Target Group is actively promoting the UAVs to overseas markets including middle east countries, Malaysia and Thailand, etc.

## **FURTHER INFORMATION OF THE VALUATION**

### **Methodology of the Valuation**

In the process of valuing a business subject, the Valuer has taken into consideration of business nature, assets type, specialty of its operations, assets owned, and liabilities assumed and industry it is participating. Having considered the three general valuation methodologies, it is considered that the income approach would be appropriate and reasonable in the valuation of the Target Group.

- Having reviewed the historical financial results and discussed with the Board, the historical financial performance was not representative and failed to reflect the continual improvements in profitability of the Target Group, and to capture the potential growth driven by the sales contracts, which could be a representative, solid and reliable basis for income forecast;
- Comparable transaction method is not recommended as there are insufficient direct comparable transactions in the market to form a reliable opinion on value;
- Valuation multiple based on sales is not appropriate as sales does not capture relevant cost of productions and operations, and thereby fails to reflect the true earning power of the subject;
- The Target Group has been incurring net operating loss over the historical financial periods; and thus multiples based on EBITDA and EBIT are not good and applicable indicators;

- The Target Group is engaged in a high-technology business of new economy with a light asset business model which had intangibles of economic value that were not measured and reported on its latest accounts. The use of current net book value ignores the potential economic benefit brought by such non-reported intangible assets and possibly underestimates the true value of the Target Group and thus the Price-to-Net Book ratio is not a good and relevant indicator; and
- The cost of reproducing and replacing its assets ignore the future economic benefits of the business as a whole, and thus the asset approach is not a good and relevant valuation method.

Based on the above concerns, the Valuer therefore relied solely on the income approach in determining their opinion on value as reasonable future projections could be estimated on the basis of the sales contracts and the historical financial results.

## **Principal Assumptions and Parameters of the Valuation**

### ***(1) Revenue & Expenses Forecast***

Projections were provided and prepared by the Board for the periods from January 2023 through December 2027. Revenue mainly includes income from sales and supply of UAV products and other airborne equipment which are used across for civilian and commercial applications. The revenue is projected by making reference to the historical sales and the coming sales orders placed to the Target Group. The revenue growth is mainly based on the historical gross domestic product (“GDP”) and inflation rate in the PRC, which is approximately 3.0% throughout the projections. The cost of sales mainly comprises materials cost, labour cost and other direct cost incurred in the production of UAV products and is based on the latest financial year cost to sales ratio. The operating expenses are mainly related to depreciation, management fee and other general administrative costs, which are based on actual costs incurred in latest financial year or historical cost to sales ratio over the historical financial periods.

### ***(2) Tax and Other Surcharges***

The tax and other surcharges are based on the PRC statutory rates including VAT tax of 13.0%, urban construction and maintenance tax of 7.0%, educational surcharge of 3.0%, local education surcharge of 2.0% and corporate income tax of 15.0%. The lower corporate income tax is the tax benefit for qualified high-and-new enterprise as entitled by the Target Group.

**(3) *Discount Rate***

The discount rate of approximately 17.8% is the weighted average cost of capital by making reference to the comparable of publicly listed companies that are engaged in similar industry of the Target Group.

**(4) *Non-cash Working Capital***

The non-cash working capital to sales of 17.2% is estimated by making reference to the historical track record of the valuation subject and comparable companies.

**(5) *Capital Investment***

The maintenance capital expenditure throughout the projections is approximated to the annual depreciation, which is based on the historical track record of the valuation subject.

**(6) *Terminal Growth***

The terminal growth rate adopted is 3.0%, which is based on the historical GDP and inflation rate.

**(7) *Marketability Discount***

The lack of marketability discount of approximately 15.7% has been applied in the Valuation as the Target Group is a closely held companies which are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. The discount is benchmarked to the Stout Restricted Stock Study Companion Guide, a commonly and widely used research study to assist the valuation profession in determining such discount.

**Sales Contracts**

The Valuer has taken into account seven sales contracts and purchase orders in the total value of approximately RMB16,400,000 and three memoranda of understanding in the total value of approximately RMB6,185,000 entered into by the Target Group with its nine customers in performing the Valuation. Those customers are Independent Third Parties to the Target Group and situate in the PRC and Malaysia. The businesses of the customers ranging from crop production and trade, consulting services for drones and aviation technology, UAV application sales, sales of fire-fighting equipment drone application and service, research and development and manufacturing of small intelligent aircraft, emergency rescue services and technology import and export.

The customers purchase flight drones (multi rotor drone), forest fire bomb and laser ranging modules, large multi-rotor UAVs, flame retardant bombs and fire retardant fluid, LY-FT60 logistics transportation drone and AP50 oil-electric hybrid logistics transportation drone, drones and accessories, rota UAVs, Integrated control, video ground station, visible light camera and accessories from the Target Group.

The revenue projections from the financial year from 2024 to 2027 is based on the sales in the financial year in 2023 and is expected to grow at 3.0%, which is mainly based on the historical GDP and inflation rate in the PRC.

## Comparable

In searching the comparable companies, the Valuer adopted search criteria including (i) publicly listed with financial information available and (ii) major revenue generated from the manufacture and sales of drones for commercialization use. It is shortlisted below comparable companies on the best endeavours and are exhaustive and representative. The details of selected comparable companies are as follow:

<b>Company name</b>	<b>Stock code</b>	<b>Principal business activities</b>	<b>Location of business operation</b>
AeroVironment, Inc.	AVAV US	AeroVironment, Inc. designs, develops, and produces small unmanned aircraft and fast charge systems for electric industrial vehicle batteries. The Company offers long range tracking antenna, sensors, and missile systems. AeroVironment markets its products in the United States.	U.S. & international
Ehang Holdings Limited	EH US	EHang Holdings Limited operates as a holding company. The Company, through its subsidiaries, focuses on aerial vehicle technology, as well as offers passenger transportation and logistics services. EHang Holdings serves customers in China.	Mainly in China
Parrot S.A.	PAOTF US	Parrot S.A. provides camera drones and application products. The Company offers professional drones, accessories, and spare parts. Parrot serves customers in France	Mainly in U.S. & France

In deriving the discount rate of the valuation, the Valuer applied the weighted average cost of capital which primarily relies on the beta and debt-to-equity ratio of the comparable companies.

In search of comparable companies, it is noted that there is no perfect comparable which match all the attributes of the underlying subject of valuation. However, in valuation practice, business nature is the most determinant factor in selecting the most relevant and appropriate comparable companies. Given that the selected comparable companies are all engaged in similar business activities and industry, they are exposed to the similar risks and returns faced by the Target Group. Though there are differences in certain aspects between the Target Group and the comparable companies, it is theoretically applicable to control such differences by applying weight or adjustments on the basis of valuer's judgement, which are widely accepted methods or practices that without affecting the comparability of the comparable to the subject valuation. To accommodate the differences in operation location and scale between the selected comparable companies and the Target Group, incremental risk premiums have been added to the discount rate for further adjustments of (i) the country risk of Mainland China which is based on the volatilities of China stock market index, (ii) the size risk in relation to the higher return of smaller company stocks which is based on the research published by Dff & Phelps, LLC, and (iii) the company specific risk in relation to the profitability and track record which is based on the professional judgement of the Valuer. Based on the above, it is considered that the identified comparable companies are fair and reasonable and representative for the valuation of the Target Group.

## EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structures of the Company as at the date of this announcement and immediately following Completion, assuming there will not be any other issue or repurchase of Shares prior to Completion, are set out as follows:

Shareholders	As at the date of this announcement		Immediately following Completion	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. Zhang Jinbing ("Mr. Zhang") (Note 1)	527,238,938	68.15	527,238,938	56.79
Mr. Tian Wenxi ("Mr. Tian") (Note 2)	13,774,277	1.78	13,774,277	1.48
The Vendors	—	—	154,731,827	16.67
Public Shareholders	<u>232,645,924</u>	<u>30.07</u>	<u>232,645,924</u>	<u>25.06</u>
Total	<u>773,659,139</u>	<u>100.0</u>	<u>928,390,996</u>	<u>100.0</u>

Notes:

- (1) Always Profit Development Limited is wholly owned by Mr. Zhang who is a Director and the Chairman of the Board.

- (2) 8,608,923 out of 13,774,277 shares were held by Wenxi Investment Management Co., Ltd. (“**Wenxi Investment**”) and 5,165,354 out of 13,774,277 shares were held by Dye Culture Development Limited (“**Dye Culture**”). Both Wenxi Investment and Dye Culture were wholly-owned by Mr. Tian. Hence Mr. Tian was deemed to be interested in the 13,774,277 Shares in the Company held by Wenxi Investment and Dye Culture pursuant to the SFO. Mr. Tian was an executive director of the Company until he has resigned as a director of the Company on 17 October 2022.

By order of the Board  
**State Energy Group International Assets Holdings Limited**  
**Zhang Jinbing**  
*Chairman*

Hong Kong, 4 May 2023

*For the purpose of this announcement, the conversion rate of Hong Kong dollar to Renminbi is HK\$1: RMB0.885.*

*As at the date of this announcement, the executive Directors of the Company are Mr. Zhang Jinbing and Mr. Wu Tingjun; and the independent non-executive Directors of the Company are Ms. Choi Ka Ying, Mr. Chen Conghu and Ms. He Xiaodong.*