

香港聯合交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

This case involves public sanctions against a listed issuer and a director for failing to provide complete, accurate and up-to-date information to the Exchange relating to an RTO enquiry made by the listed issuer.

The Exchange frequently receives requests from listed issuers in relation to compliance with the Exchange Listing Rules. Such requests may be to verify the listed issuer's compliance with the Exchange Listing Rules, to ascertain whether or to what extent any provisions in the Exchange Listing Rules apply, or to seek a waiver from compliance with the Exchange Listing Rules.

When making such requests, listed issuers and directors are under an obligation to provide complete, accurate and up-to-date information to enable the Listing Division to consider the matter on a fully-informed basis. Failure to provide complete, accurate and up-to-date information to the Exchange may result in disciplinary action against the listed issuer and its directors.

The Listing Committee of The Stock Exchange of Hong Kong Limited ("Listing Committee")

CENSURES:

- (1) **State Energy Group International Assets Holdings Limited ("Company")** (Stock Code: 918)

for breaching Rule 2.12A of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("**Exchange Listing Rules**") by failing to provide the Exchange with information relevant and required by the Exchange to verify the Company's compliance with the Exchange Listing Rules;

AND CENSURES:

- (2) **Mr Zhou Xin Yu**, former executive director ("**ED**") and CEO of the Company ("**Mr Zhou**")

for breaching (i) Rule 3.08(f), (ii) his obligation under the *Declaration and Undertaking with regard to Directors* given to the Exchange in the form set out in Appendix 5B to the Exchange Listing Rules (the "**Undertaking**") for failing to comply with the Exchange Listing Rules to the best of his ability, and (iii) his Undertaking to use his best endeavours to procure the Company's compliance with the Exchange Listing Rules.

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For the avoidance of doubt, the Exchange confirms that the sanctions in this news release apply only to the Company and Mr Zhou, and not to any other past or present members of the board of directors ("**Board**") of the Company.

HEARING

On 19 May 2020, the Listing Committee conducted a hearing into the conduct of the Company and Mr Zhou in relation to their obligations under the Exchange Listing Rules and the Undertaking.

FACTS

In August 2017, the Company wrote to the Listing Division to seek confirmation that its proposed acquisition of a hotel in the Czech Republic ("**Proposed Acquisition**") would not constitute a reverse takeover ("**RTO**") for the Company under the Exchange Listing Rules ("**RTO Enquiry**"). Over 96 per cent of the Company's turnover for the three years prior to the RTO Enquiry was attributable to the sourcing and subcontracting of garments and sportswear products in the PRC, which were then exported to the USA ("**Export Business**"). The Company also held six investment properties in the PRC and one investment property in Hong Kong for generating rental income.

In considering the RTO Enquiry, the Listing Division was concerned about whether the Company's existing businesses were viable and sustainable, and whether the existing businesses would become immaterial after the Proposed Acquisition. The Company assured the Listing Division that, amongst others, its existing businesses were viable and sustainable, and that the Proposed Acquisition would not cause a fundamental change to the Company's existing business or result in the existing business of the Company becoming immaterial.

On 10 November 2017, the Listing Division informed the Company of its decision that the Proposed Acquisition would not constitute an RTO under Rule 14.06(6) ("**RTO Decision**").

On 28 November 2017, the Company announced its results for the six months ended 30 September 2017 ("**2017 Interim Results**"), which showed that the revenue derived from the Export Business decreased by 99.6 per cent when compared to the corresponding period for 2016.

On 27 December 2017, after making further enquiries with the Company, the Listing Division retracted the RTO Decision.

Following a change in the Company's control on 22 August 2018, the entire Board was replaced. The members of the current Board were all appointed in or after September 2018.

Exchange Listing Rule Requirements

Rule 2.12A provides that an issuer must provide the Exchange with (a) any information that the Exchange reasonably considers appropriate to protect investors or ensure the smooth operation of the market, and (b) any other information or explanation that the Exchange may reasonably require for the purpose of investigating a suspected breach of or verifying compliance with the Exchange Listing Rules.

The Exchange's Guidance Letter (HKEX-GL78-14) provides guidance on the application of the RTO requirements under Rule 14.06(6) ("**Guidance Letter**").

Rule 3.08 provides that the Exchange expects the directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include a duty to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office within the issuer (Rule 3.08(f)).

Mr Zhou was under an obligation, pursuant to his Undertaking, to:

- (a) comply to the best of his ability with the Exchange Listing Rules;
- (b) use his best endeavours to procure the Company's compliance with the Exchange Listing Rules; and
- (c) provide to the Exchange any information and documents or explanation that the Exchange may reasonably require for the purpose of verifying compliance with the Exchange Listing Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee considered the written and/or oral submissions of the Listing Division, the Company, and Mr Zhou and concluded as follows:

Company's breach

The RTO Enquiry was in essence an application by the Company that it did not have to comply with the additional requirements under Chapter 14 of the Exchange Listing Rules which relate to RTOs, when proceeding with the Proposed Acquisition. As the Listing Division was asked to verify the Company's compliance with the Exchange Listing Rules, Rule 2.12A is applicable.

Pursuant to Rule 2.12A, the Company has to provide information or explanation that the Listing Division reasonably requires for the verification exercise. In the context of the RTO Enquiry, this would include complete, accurate and up-to-date information concerning the Proposed Acquisition, and information relevant to the determination of whether Chapter 14 was applicable.

The evidence suggested that the Company was or should have been aware of the significant drop in the performance of the Export Business after 31 March 2017. Indeed, a 99.6 per cent drop in the Export Business meant that if the Proposed Acquisition were to take place, the Export Business would become immaterial to the Company. By reference to the Guidance Letter, it should have been apparent to the Company that such a substantial drop was likely to affect the outcome of the RTO Decision. As such, the Listing Committee found that the Company had breached Rule 2.12A by failing to disclose information about the material change in the Export Business when the Exchange was considering the RTO Enquiry.

Mr Zhou's breaches

As the ED and CEO of the Company, Mr Zhou was responsible for and led the Proposed Acquisition. He was the only director who approved the Company's submissions to the Listing Division in respect of the RTO Enquiry. The Listing Committee concluded that Mr Zhou:

- (a) breached his obligation under the Undertaking to provide complete, accurate and up-to-date information to the Listing Division for the purpose of verifying compliance with the Exchange Listing Rules;
- (b) breached his obligation under the Undertaking to use his best endeavours to procure the Company's compliance with the Exchange Listing Rules; and
- (c) breached Rule 3.08(f) by failing to exercise sufficient skill, care and diligence in respect of the submissions made to the Listing Division in the furtherance of the Company's RTO Enquiry.

REGULATORY CONCERN

Listed issuers are expected to provide the Listing Division with complete, accurate and up-to-date information when they are making enquiries with or responding to requests for information or explanation from the Listing Division. Directors of a listed issuer are under a similar obligation by way of their Undertaking. This essential obligation enables the proper function of the Exchange, which is to provide a fair, orderly and efficient market for the trading of securities. Failure to provide complete, accurate and up-to-date information, which may necessitate the retraction or withdrawal of a decision made by the Listing Division, is likely to result in disciplinary action against the listed issuer and its directors.

SANCTIONS

Having made the findings of breach stated above, the Listing Committee decides to:

- (1) censure the Company for its breach of Rule 2.12A; and
- (2) censure Mr Zhou for his breach of Rule 3.08(f) and his Undertaking.

Hong Kong, 8 July 2020