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泛亞環保集團有限公司
Pan Asia Environmental Protection Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 556)

**(I) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE
ACQUISITION OF 100% EQUITY INTEREST IN JIANGSU KANGMEI
NEW MATERIALS TECHNOLOGY COMPANY LIMITED;
(II) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;
AND
(III) RESUMPTION OF TRADING**

THE ACQUISITION AGREEMENT

On 16 March 2017, the Company (as the purchaser) and the Vendors entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the Equity Interest for a maximum Consideration of RMB800,000,000 (equivalent to approximately HK\$896,000,000), which shall be subject to adjustments in accordance with the terms of the Acquisition Agreement, and will be satisfied by (i) payment in cash; and (ii) allotment and issue of Consideration Shares.

The Consideration Shares will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) under Rule 14.07 of the Listing Rules in respect of the Acquisition Agreement exceed(s) 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval by the Shareholders at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendors and their respective associates, and the ultimate beneficial owner(s) of Vendor 1 did not hold any Shares, options or securities convertible into Shares as at the date of this announcement. As such, no Shareholder is required to abstain from voting at the EGM.

Pursuant to the Acquisition Agreement, an independent valuer has to determine the the valuation of the Target Company. Such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. As the valuer has not been appointed by the Company, the Company will comply with the requirements under Rules 14.61 and 14.62 of the Listing Rules in the circular to be despatched to the Shareholders.

GENERAL

A circular containing, among other matters, (i) further details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) further information on the Specific Mandate; (iii) financial information of the Target Company; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 31 May 2017 in order to allow sufficient time for the Company to prepare for the information to be included in the circular.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended at the request of the Company with effect from 9:00 a.m. on 16 March 2017 pending release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m on 13 April 2017.

As Completion is conditional upon the fulfillment and/or waiver (if applicable) of the conditions precedent set out in the Acquisition Agreement, and is conditional upon, among other things, the Company being satisfied with the results of the due diligence review and the obtaining of the Shareholders' approval for the Acquisition, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

On 16 March 2017, the Company (as the purchaser) and the Vendors entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the Equity Interest for a maximum Consideration of RMB800,000,000 (equivalent to approximately HK\$896,000,000), which will be satisfied by (i) payment in cash; and (ii) allotment and issue of Consideration Shares. The principle terms of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

Date: 16 March 2017

Parties:

- (i) The Company, as the purchaser; and
- (ii) Vendor 1 and Vendor 2, collectively as the Vendors.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Vendor 2, Vendor 1 and its ultimate beneficial owner(s) is an Independent Third Party. Further, to the best of the Directors' knowledge, information and belief, Vendor 2 and Vendor 1 (and its ultimate beneficial owner(s)) are independent from each other.

Subject matter

The Company has conditionally agreed to acquire from the Vendors the Equity Interest.

As at the date of this announcement, the Target Company was owned as to approximately 82.57% by Vendor 1 and as to approximately 17.43% by Vendor 2.

The Target Company is principally engaged in the business of research and development, and production of energy-conserving and eco-friendly building materials in the PRC. Further information on the Target Company is set out in the paragraph headed "Information on the Target Company" below.

Conditions precedent

Completion is conditional upon the following conditions having been fulfilled or waived (as the case may be):

- (i) the Target Company, the Vendors and the Company having obtained all necessary consents and approvals for the Acquisition, including (but not limited to) all consents and approvals from the Stock Exchange, the SFC and any government and/or regulatory authorities and all consent and approvals as required under the laws of Cayman Islands, or the Stock Exchange (as the case may be) or the SFC (if required) or having granted a waiver concerning compliance with any relevant rules or regulations;
- (ii) the Company being satisfied that no events, facts or circumstances having occurred which constitute or may constitute any serious breach of the Acquisition Agreement or any of the warranties stipulated therein, and the Vendors having fulfilled and complied with all of their respective obligations under the Acquisition Agreement;
- (iii) the Stock Exchange granting the listing of, and the permission to deal in, the Consideration Shares;

- (iv) the passing of resolution(s) at the EGM in accordance with the requirements of the Listing Rules and all other applicable laws and regulations to approve, among other matters, the Acquisition Agreement and the transactions contemplated thereunder and the proposed grant of the Specific Mandate to issue the Consideration Shares;
- (v) the delivery to the Company of a PRC legal opinion (in form and substance satisfactory to the Company) by a PRC legal adviser appointed by the Company in relation to the Acquisition Agreement and the transactions contemplated thereunder;
- (vi) the legal and financial due diligence results in respect of the Target Company is reasonably satisfactory to the Company; and
- (vii) the delivery to the Company of a valuation report issued by an independent professional valuer appointed by the Company.

Parties to the Acquisition Agreement shall use their best endeavour to satisfy and fulfill all of the above conditions precedent. The Vendors shall assist the Company in providing all information and documents required pursuant to the Listing Rules and other applicable rules, codes and regulations whether in connection with the preparation of the Acquisition Agreement, announcement(s), circular(s) or otherwise to the Stock Exchange, the SFC and other relevant regulatory authorities.

The Company may waive the condition numbered (ii) above at its sole and absolute discretion. Save as disclosed, all other conditions are not waived by either party to the Acquisition Agreement. In the event that the above conditions have not been fulfilled or waived (as the case may be) on or before 30 June 2017, the Acquisition Agreement shall lapse and be of no further effect, the Company and the Vendors shall not have any claim against each other by any means save for any antecedent breaches of the Acquisition Agreement.

As at the date of this announcement, no independent professional valuer has been appointed by the Company. Details of the valuation will be included in the circular to be despatched to the Shareholders. The Directors confirm that as at the date of this announcement, none of the above conditions has been fulfilled and the Company has no intention to waive any of the above conditions.

Consideration

The aggregate amount of the Consideration, which shall be subject to adjustments in accordance with the terms of the Acquisition Agreement, payable by the Company to the Vendors in respect of the Acquisition is RMB800,000,000 (equivalent to approximately HK\$896,000,000), which shall be satisfied by (i) payment in cash; and (ii) allotment and issue of Consideration Shares. The transfer of the Equity Interest and the payment of the Consideration shall be settled in three tranches:

1. *first tranche* – upon (i) completion of the due diligence exercise on the Target Company and the result of which is satisfactory to the Company; and (ii) all of the conditions precedent being satisfied or waived (as the case may be), the Company shall (aa) pay RMB80,000,000 (equivalent to approximately HK\$89,600,000) in aggregate to the Vendors in cash; and (bb) allot and issue 135,000,000 Consideration Shares in aggregate at the Issue Price of RMB1.48 (equivalent to approximately HK\$1.66) to the Vendors (“**First Tranche Consideration Shares**”) in proportion with their respective Equity Interest in the Target Company as at the date of the Acquisition Agreement. The Vendors shall transfer 51% of the Equity Interest to the Company;

2. *second tranche* – if the net profit after tax of the Target Company for the 12 months ending 31 December 2017 (“**2017 NPAT**”) is equal to or more than RMB35,000,000 (equivalent to approximately HK\$39,200,000), the Company shall (i) pay RMB80,000,000 (equivalent to approximately HK\$89,600,000) in aggregate to the Vendors in cash (“**Second Tranche Consideration**”); and (ii) allot and issue 80,000,000 Consideration Shares in aggregate at the Issue Price of RMB1.75 (equivalent to HK\$1.96) to the Vendors (“**Second Tranche Consideration Shares**”) in proportion with their respective Equity Interest in the Target Company as at the date of the Acquisition Agreement. The Vendors shall transfer up to 75% of the Equity Interest to the Company. However, if the 2017 NPAT is less than RMB35,000,000 (equivalent to approximately HK\$39,200,000), the Second Tranche Consideration shall be adjusted downwards in proportion with the shortfall of the 2017 NPAT against the threshold of RMB35,000,000 (equivalent to approximately HK\$39,200,000); and
3. *third tranche* – if the net profit after tax of the Target Company for the 12 months ending 31 December 2018 (“**2018 NPAT**”) is equal to or more than RMB50,000,000 (equivalent to approximately HK\$56,000,000), the Company shall (i) pay RMB90,000,000 (equivalent to approximately HK\$100,800,000) in aggregate to the Vendors in cash (“**Third Tranche Consideration**”); and (ii) allot and issue 85,000,000 Consideration Shares in aggregate at the Issue Price of RMB2.47 (equivalent to approximately HK\$2.77) to the Vendors (“**Third Tranche Consideration Shares**”) in proportion with their respective Equity Interest in the Target Company as at the date of the Acquisition Agreement. The Vendors shall transfer up to 100% of the Equity Interest to the Company. However, if the 2018 NPAT is less than RMB50,000,000 (equivalent to approximately HK\$56,000,000), the Third Tranche Consideration shall be adjusted downwards in proportion with the shortfall of the 2018 NPAT against the threshold of RMB50,000,000 (equivalent to approximately HK\$56,000,000).

The 2017 NPAT and the 2018 NPAT refer to the net profit after tax and non-recurring expenses as shown in the audited accounts of the Target Company for the year ending 31 December 2017 (the “**2017 Audited Accounts**”) and 31 December 2018 (the “**2018 Audited Accounts**”), respectively. The 2017 Audited Accounts and the 2018 Audited Accounts shall be prepared in accordance with the International Financial Reporting Standards by the auditors as appointed by the Company. The second tranche and the third tranche of the Consideration shall be settled within 15 business days from the date of which the 2017 Audited Accounts and 2018 Audited Accounts were issued, respectively.

The maximum number of Consideration Shares to be allotted and issued by the Company to the Vendors pursuant to the Acquisition Agreement represents (i) approximately 35.71% of the total Shares in issue as at the date of this announcement; and (ii) approximately 26.32% of the total Shares in issue as enlarged by the allotment and issue of the maximum number of Consideration Shares, assuming that there is no exercise of any share options in issue at the date of this announcement up to the date of payment of Third Tranche Consideration and the issue of Third Tranche Consideration Shares.

The allotment and issue of the Consideration Shares is conditional upon obtaining the listing approval from the Stock Exchange. An application will be made to the Exchange for the listing of and permission to deal in the Consideration Shares. Moreover, pursuant to the supplemental agreements to the Acquisition Agreement dated 31 March 2017 and 11 April 2017, respectively, the allotment and issue of the Consideration Shares shall be subject to the Company meeting the minimum public float requirement under Rule 8.08 of the Listing Rules from time to time, such that no allotment and issue of Consideration Shares would result in the Company not meeting the minimum public float as required under the Listing Rules. Any unissued Consideration Shares as a result of which will be substituted and paid by the Company to the Vendors in cash. The Consideration Shares will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The Consideration Shares will rank equally among themselves and *pari passu* in all respects with the Shares in issue on the date of the allotment and issue of the Consideration Shares.

The Consideration was determined after arm's length negotiations between the Vendors and the Company after taking into account of, among others, the (i) preliminary assessment and analysis by the management of the Company internally based on the prospects of the Target Company and the projection of future profits to be generated by the Target Company in accordance with its feasibility study and its business proposal; and (ii) the requirement that the net profit after tax of the Target Company for the 12 months ending 31 December 2017 and 2018 having to meet certain thresholds for the payment of the Second Tranche Consideration and the Third Tranche Consideration, and the allotment and issue of the Second Tranche Consideration Shares and the Third Tranche Consideration Shares. Although the Target Company was running at a loss for the year ended 31 December 2016, the Directors consider that the Target Company would have positive prospects in the future. The Target Company is undergoing construction of new factories and production lines which is expected to increase its production capacity and hence its revenue. The aforesaid construction project commenced in June 2015 and is expected to complete in mid 2018. The Target Company was loss-making due to the large amount of expenses incurred on such construction project. However, it is believed that after the construction is completed, there would be (i) an increase in the net asset value of the Target Company deriving from the increase in value of the newly built factories and production lines; (ii) an increase in revenue of the Target Company due to expansion of production capacity; and (iii) a decrease in expenses as the construction project has been completed, and the production lines become more efficient.

Further, the Directors also take into account the market demand for the products produced by the Target Company in the future. The Directors noted that there has been a rapid development in the PRC with substantial amount of new construction projects for green buildings and prefabricated houses; while society awareness on environmental protection is also growing rapidly due to increase in education level of the citizens in the PRC. As such, it is believed that environmentally-friendly and energy-saving materials will become more popular for new construction projects in the near future.

In light of the above, the Directors are of the view that the Consideration is fair and reasonable.

The 2017 NPAT and the 2018 NPAT were determined based on (i) the expected profit to be generated from the current production capacity and the amount of purchase orders received by the Target Company; (ii) the expected increase in revenue due to increase in the production capacity of the Target Company in 2018 when the construction project has been completed; and (ii) the future market demand and prospects of the products manufactured by the Target Company.

The Issue Price was arrived at after arm's length negotiation between the Company and the Vendors taking into account (i) the current market price of the Shares; and (ii) the future prospects of the Group after Completion.

The Issue Price of RMB1.48 (equivalent to approximately HK\$1.66) per First Tranche Consideration Share represents:

- (i) a premium of approximately 76.60% over the closing price of HK\$0.940 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium approximately 60.54% over the average closing price of HK\$1.034 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a premium approximately 49.68% over the average closing price of HK\$1.109 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 30.20% over the average closing price of approximately HK\$1.275 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and
- (v) a premium of approximately 12.09% over the average closing price of HK\$1.481 per Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Day.

The Issue Price of RMB1.75 (equivalent to approximately HK\$1.96) per Second Tranche Consideration Share represents:

- (i) a premium of approximately 108.51% over the closing price of HK\$0.940 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 89.56% over the average closing price of HK\$1.034 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 76.74% over the average closing price of HK\$1.109 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 53.73% over the average closing price of approximately HK\$1.275 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and

- (v) a premium of approximately 32.34% over the average closing price of HK\$1.481 per Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Day.

The Issue Price of RMB2.47 (equivalent to approximately HK\$2.77) per Third Tranche Consideration Share represents:

- (i) a premium of approximately 194.68% over the closing price of HK\$0.940 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 167.89% over the average closing price of HK\$1.034 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 149.77% over the average closing price of HK\$1.109 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 117.25% over the average closing price of approximately HK\$1.275 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and
- (v) a premium of approximately 87.04% over the average closing price of HK\$1.481 per Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Day.

Completion

Completion shall take place within 10 days after all the conditions precedent to the Acquisition have been fulfilled or waived (if applicable). The Vendors shall complete the updating of the register of members, business registrations and licenses of the Target Company within 30 days from the date on which all the conditions precedent to the Acquisition have been fulfilled or waived (as the case may be).

Upon Completion, the Target Company will become a direct subsidiary of the Company and the Company will be legally and beneficially interested in 51% Equity Interest. As such, the financial results of the Target Company will be consolidated into the financial statements of the Group.

EFFECT OF THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has 840,000,000 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the allotment and issue of the First Tranche Consideration Shares; (iii) immediately after the allotment and issue of the Second Tranche Consideration Shares; and (iv) immediately after the allotment and issue of the Third Tranche Consideration Shares, assuming that (aa) the maximum number of Second Tranche Consideration Shares and Third Tranche Consideration Shares will be issued; and (bb) there have been no exercise of the share options in issue since the date of this announcement and up to the respective date of payment of the Consideration and the allotment and issue of the Consideration Shares, are as follows:

Shareholders	As at the date of this announcement		Immediately after the allotment and issue of the First Tranche Consideration Shares		Immediately after the allotment and issue of the Second Tranche Consideration Shares		Immediately after the allotment and issue of the Third Tranche Consideration Shares	
	No. of shares	Approx. %	No. of shares	Approx. %	No. of shares	Approx. %	No. of shares	Approx. %
Substantial Shareholders								
Praise Fortune Limited ("Praise Fortune") (Notes 1 and 3)	356,568,000	42.45	356,568,000	36.57	356,568,000	33.80	356,568,000	31.28
Avenue Multi-Strategy Fund SPC On Behalf Of Avenue Multi- Strategy Fund Segregated Portfolio 1 ("Avenue") (Notes 2 and 3)	250,000,000	29.76	250,000,000	25.64	250,000,000	23.70	250,000,000	21.93
Vendors								
Vendor 1	–	0.00	111,469,500	11.43	177,525,500	16.83	247,710,000	21.73
Vendor 2	–	0.00	23,530,500	2.41	37,474,500	3.55	52,290,000	4.59
Other Shareholders	233,432,000	27.79	233,432,000	23.94	233,432,000	22.13	233,432,000	20.48
Total	840,000,000	100.00	975,000,000	100.00	1,055,000,000	100.00	1,140,000,000	100.00

Notes:

1. Praise Fortune Limited was held by Mr. Jiang Lei, Mr. Jiang Xin and Ms. Qian Yuanying as to approximately 49.92%, 49.92% and 0.16%, respectively.
2. Based on the disclosure of interest notices filed by the Shareholder as at the date of this announcement.
3. Praise Fortune and Avenue were deemed parties acting in concert with each other in respect of the 250,000,000 Shares under the Takeovers Code as at the date of this announcement (as each of them owns or controls 20% or more of the voting rights of the Company each of them was deemed as an associated company of each other, and hence were deemed parties acting in concert under class (1) of the definition of "acting in concert" in the Takeovers Code). Accordingly, the Board is of the view that there is no change in control of the Company immediately after the allotment and issue of the Consideration Shares.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC on 23 April 2014 with limited liability. The Target Company began its business and operations in September 2016. It is principally engaged in the business of research and development, and production of energy-conserving and eco-friendly building materials in the PRC.

As at the date of this announcement, the Target Company was owned as to approximately 82.57% by Vendor 1 and as to approximately 17.43% by Vendor 2.

Financial information on the Target Company

Set out below is the summary of the key unaudited financial information of the Target Company for the two years ended 31 December 2016:

	For the year ended 31 December 2016 (RMB'000)	For the year ended 31 December 2015 (RMB'000)
Loss before tax	1,973	173
Loss after tax	1,973	173
	As at 31 December 2016 (RMB'000)	As at 31 December 2015 (RMB'000)
Net assets value	197,852	89,689

As at 31 December 2016, the major assets of the Target Company include construction projects in progress. There was a significant increase in the net assets of the Target Company from 31 December 2015 to 31 December 2016 as there was a significant injection of capital into the Target Company which was used for construction of new production lines and factories in the PRC.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of integrated environmental protection construction engineering solutions and services for customers, and the development, manufacturing and sale of new eco-friendly construction materials.

INFORMATION ON THE VENDORS

To the best of the knowledge, information and belief of the Directors, Vendor 1 is a company established in the PRC with limited liability. The equity interest of Vendor 1 is legally owned by 張娟 (Ms. Zhang Juan), who is holding the interest on trust for the beneficiary owner, namely 馬偉 (Mr. Ma Wei).

As at the date of this announcement, Vendor 1 is principally engaged in import and export businesses; sale of coal, chemical products, mineral products, plastic and rubber products, security equipment, electronics, hardware and plumbing equipment, textiles and commodities goods; and research, development and sale of new materials.

To the best of the knowledge, information and belief of the Directors, each of Vendor 2, Vendor 1 and its ultimate beneficial owner(s) is an Independent Third Party. Further, to the best of the Directors' knowledge, information and belief, Vendor 2 and Vendor 1 (and its ultimate beneficial owner(s)) are equity holders of the Target company and are independent from each other.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of integrated environmental protection construction engineering solutions and services for customers, and the development, manufacturing and sale of new eco-friendly construction materials. The Target Company is principally engaged in the business of research and development, and production of energy-conserving and eco-friendly building materials in the PRC.

The current business of the Target Company is in line with the existing business of the Group. The Target Company specialises in producing (i) inorganic pre-coating board; (ii) calcium silicate board; (iii) new composite wall materials; and (iv) eco-friendly and energy saving doors and windows. It is expected that the Acquisition will allow the Group to offer customers with a wider choice of materials and provide prefabricated housing solution services to real-estate developers and companies that undergo decoration projects, sound barrier projects and fireproof projects.

Further, the Group has been producing large wall components which are environmentally-friendly, energy saving, sound absorbing and insulating and fire-resistant through its existing operation lines. The production line of the Target Company possesses the labour and skills which will allow the Group to produce construction materials of a wider variety. The Directors believe that the Acquisition not only will save time and cost in setting up and developing a new production line, but also help maintaining the standard and quality of the products to be produced. The Company will also save costs in training, and research and development of the products and materials which have been producing by the Target Company.

In addition, the skills and products of the Target Company may be further developed and integrated with our existing products, and allow the Group to create high quality construction materials which are environmentally-friendly and cost-effective, and provide the customers with tailor-made and integrated products. It is expected that this will allow the Group to adapt to new market trends by developing products that (i) are highly demanded in the market; and (ii) serve the customers' needs, which will in turn broaden the customer base of the Group, and increase loyalty of the customers to the Group.

Taking into account the business nature of the Target Company, the Board anticipates a synergy effect to be created by the business of the Target Company with the operation of the Group upon Completion, as the Target Company's business complements with the Group's current principal businesses. Through the Acquisition, the Group will increase its competitive advantage in the industry of eco-friendly construction materials. The Directors believe that the Acquisition not only will expand the product variety of the Group in the field of eco-friendly construction materials, but also help the Group in adapting to the needs of its customers. Further, through the Acquisition, the Group can also expand its business and market share in northern Jiangsu, the PRC. The Company intends to move certain existing production lines to the factories of the Target Company after Completion, whereby the Company can reduce transportation cost in delivering raw materials and products. The Directors believe that the Acquisition will help strengthen the Group's revenue stream and enhance the Group's competitiveness profitability.

Having considered the above, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

EQUITY FUND-RAISING ACTIVITIES OF THE COMPANY FOR THE PAST 12 MONTHS

As at the date of this announcement, the Group has not engaged in any equity fund-raising activities for the past 12 months.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) under Rule 14.07 of the Listing Rules in respect of the Acquisition Agreement exceed(s) 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval by the Shareholders at the EGM.

The allotment and issue of the Consideration Shares are subject to the Specific Mandate to be sought from the Shareholders at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendors and their respective associates, and the ultimate beneficial owner(s) of Vendor 1 did not hold any Shares, options or securities convertible into Shares as at the date of this announcement. As such, no Shareholder is required to abstain from voting at the EGM.

Pursuant to the Acquisition Agreement, an independent valuer has to determine the the valuation of the Target Company. Such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. As the valuer has not been appointed by the Company, the Company will comply with the requirements under Rules 14.61 and 14.62 of the Listing Rules in the circular to be despatched to the Shareholders.

GENERAL

A circular containing, among other matters, (i) further details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) further information on the Specific Mandate; (iii) financial information of the Target Company; (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 31 May 2017 in order to allow sufficient time for the Company to prepare for the information to be included in the circular.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended at the request of the Company with effect from 9:00 a.m. on 16 March 2017 pending release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m on 13 April 2017.

As Completion is conditional upon the fulfillment and/or waiver (if applicable) of the conditions precedent set out in the Acquisition Agreement, and is conditional upon, among other things, the Company being satisfied with the results of the due diligence review and the obtaining of the Shareholders' approval for the Acquisition, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares or other securities of the Company.

DEFINITIONS

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

“Acquisition”	the acquisition of the Equity Interest in the Target Company by the Company from the Vendors pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement entered into between the Company and the Vendors dated 16 March 2017 (and as amended and supplemented by the supplemental agreements dated 31 March 2017 and 11 April 2017, respectively) in relation to the Acquisition
“Board”	the board of Directors
“Company”	Pan Asia Environmental Protection Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 556)
“Completion”	completion of the acquisition of 51% equity interest in the Target Company pursuant to the terms of the Acquisition Agreement
“Consideration”	the total amount of consideration payable, including the allotment and issue of Consideration Shares, by the Company to the Vendors pursuant to the Acquisition Agreement

“Consideration Share(s)”	a maximum of 300,000,000 Shares in aggregate to be allotted and issued to the Vendors to settle part of the Consideration
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among others, the Acquisition Agreement and the transactions contemplated thereunder, and the Specific Mandate
“Equity Interest”	100% equity interest of the Target Company
“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 PRC
“Independent Third Party(ies)”	third parties independent of the Company and its connected persons
“Issue Price”	the issue price per Consideration Share
“Last Trading Day”	15 March 2017, being the last trading day prior to the entering into of the Acquisition Agreement by the Company and the Vendors
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which shall, for the purposes of this announcement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	the specific mandate to be granted to the Directors by the Shareholders at the EGM to allot and issue the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Takeovers Code”	the Hong Kong Coders on Takeovers and Mergers
“Target Company”	江蘇康美新材料科技有限公司 (Jiangsu Kangmei New Materials Technology Company Limited*), a company established in the PRC with limited liability
“Vendor 1”	徐州美興達國際貿易有限公司 (Xuzhou Meixingda International Trading Company Limited*), a company established in the PRC with limited liability and an Independent Third Party
“Vendor 2”	賈根路 (Mr. Jia Genlu), an Independent Third Party
“Vendors”	collectively, Vendor 1 and Vendor 2
“%”	per cent

Unless otherwise specified, in this announcement, conversions of RMB to HK\$ are based on the exchange rate of RMB1.00 to HK\$1.12 for illustration purpose only.

By order of the Board
Pan Asia Environmental Protection Group Limited
Jiang Quanlong
Chairman

Hong Kong, 12 April 2017

As at the date of this announcement, the members of the Board are:

Executive Directors:

Mr. JIANG Quanlong
Mr. JIANG Xin
Mr. CHO Yu Chung

Independent non-executive Directors:

Mr. LAI Wing Lee
Mr. LEUNG Shu Sun, Sunny
Professor WANG Guozhen

Non-executive Director:

Mr. FAN Yajun

* for identification purposes only