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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)

DISCLOSEABLE TRANSACTION ACQUISITION OF 51% OF THE ISSUED SHARES OF THE TARGET COMPANY

The Board is pleased to announce that, on 1 March 2018, after trading hours, the Company entered into the Share Sale and Purchase Agreement with the Vendor, pursuant to which the Company agreed to purchase, and the Vendor agreed to sell the Sale Shares, representing 51% of the entire issued share capital of the Target Company, at the Consideration of HK\$122,400,000 (subject to downward adjustments).

Immediately after Completion, the Target Company will become a direct non wholly-owned subsidiary of the Company. Accordingly, the financial status of the Target Company will be consolidated into the Company's financial statements upon Completion.

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules for the Acquisition exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company under the Listing Rules and is subject to the reporting and announcement requirements but exempted from the circular, Shareholder's approval and accountant's report requirements under the Listing Rules.

THE ACQUISITION

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THE SHARE SALE AND PURCHASE AGREEMENT

Date

1 March 2018 (after trading hours)

Parties

- (1) the Company, being the Purchaser; and
- (2) Active Light Holdings Limited, being the Vendor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and the ultimate beneficial owner are third parties independent of the Company and its connected persons.

Subject Matter

Pursuant to the Share Sale and Purchase Agreement, the Company agreed to purchase, and the Vendor agreed to sell the Sale Shares, representing 51% of the entire issued share capital of the Target Company.

As at the date of this announcement, the Target Company is directly owned by the Vendor, Mr. Tsoi, Mr. Zeng, Mr. Chan as to 51.00%, 24.99%, 14.70% and 9.31%, respectively. The Target Company owns the entire equity interest of Shandong Rongxiang as at the date of this announcement.

Consideration

The Consideration for the Acquisition is HK\$122,400,000 (subject to downward adjustments), which will be settled by the Company to the Vendor in accordance with the following manners:

- (1) as to HK\$20,000,000, it shall be payable in cheque, bank transfer or other ways as designated by the Company to the Vendor upon Completion. Upon direction by the Vendor, that amount will be paid into the Target Company for settling part of the amount to be contributed by the Vendor for the unpaid issued share capital;
- (2) as to HK\$50,000,000, it shall be satisfied by the Company allotting and issuing 33,333,333 Consideration Shares credited as fully paid at the Issue Price of HK\$1.5 per Consideration Share to the Vendor upon Completion; and
- (3) as to the remaining balance of HK\$52,400,000, it shall be payable by five instalments annually in the Profit Guaranteed Period and each instalment shall be a maximum of HK\$10,480,000. Each of the instalments in the Profit Guaranteed Period is subject to downward adjustment based on the Profit Guarantee (defined below) set out in the Share Sale and Purchase Agreement. As stated below, the guaranteed net profit after tax of the Target Company for each of the five years in the Profit Guaranteed Period is HK\$60,000,000, HK\$69,000,000, HK\$80,000,000, HK\$92,000,000 and HK\$150,000,000, respectively. The mechanism for adjustment of the instalments are as follows:

If (i) the aggregate actual net profit after tax of the Target Company for any of the two consecutive years (the “**Two Years Period**”) in the Profit Guaranteed Period fall below the aggregated guaranteed net profit after tax for those two years and (ii) the actual net profit after tax of the Target Company for the first year in this Two Years Period falls below the guaranteed net profit after tax for that year, the amount of the instalment for the second year will be downwardly adjusted by either (i) the shortfall between the actual and guaranteed net profit after tax for the first year or (ii) the shortfall between the actual and guaranteed net

profit after tax for the Two Years Period, whichever is lesser shall prevail. If the fourth and fifth year of the Profit Guaranteed Period constitute the Two Years Period, the amount of the last instalment shall be downwardly adjusted by the shortfall between the aggregated actual and guaranteed net profit after tax for the Two Years Period. If the amount of the downward adjustment is greater than the amount of the deductible instalment, the Vendor shall be liable to compensate the Company the difference.

This mechanism shall operate during the Profit Guaranteed Period on a rolling basis. The amount of each instalment shall be paid by the Company to the Vendor within 30 Business Days after the issue of the audited consolidated financial statements.

The Basis of the Consideration

The Consideration was determined after arm's length negotiations between the parties after taking into consideration of various factors including:

- (i) the business development and prospects of the Target Group;
- (ii) the expected readily available income stream to be brought by the operation of the Target Group;
- (iii) the exclusive use of land use right, production facilities, licenses, intellectual property rights and personnel currently owned by Shandong Huawen;
- (iv) the higher P/E ratio of transactions relating to OEM providers or similar types;
- (v) the client base previously owned by Shandong Huawen which has been taken over and managed by the Target Group;
- (vi) the provision of the Profit Guarantee to the Company as a risk allocation mechanism to provide downside protection to the Company and the Shareholders as a whole; and
- (vii) the reasons for the Acquisition as discussed in the paragraph headed "Reasons For and Benefits of the Acquisition" in this announcement.

Conditions Precedent

The Completion is subject to fulfilment or waiver of the following conditions being satisfied or waived before the Longstop Date:

- (1) Shandong Rongxiang and Shandong Huawen having signed the Outsourcing Agreement as provided in the Share Sale and Purchase Agreement or in the form agreeable by the Company;
- (2) the Vendor has paid the unpaid share capital in the Target Company on or before Completion;
- (3) the Vendor having obtained and produced to the Company all necessary consents or approvals in relation to the Acquisition;
- (4) the Company having obtained all necessary consents or approvals (including but not limited to the approvals from its members, the Stock Exchange, the Securities and Futures Commission, relevant government departments or regulatory authorities (if required)) in relation to the Acquisition;

- (5) the Company having carried out and completed the Due Diligence Review and being satisfied with the results thereof in all respect;
- (6) the representations, warranties and undertakings given or made by the Vendor remaining true, accurate and not misleading in all material aspects;
- (7) the Company having obtained a legal opinion issued by a PRC legal adviser designated by the Company regarding various aspects of the Target Group and the Outsourcing Agreement;
- (8) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares; and
- (9) each Mr. Tsoi, Mr. Zeng, Mr. Chan having signed the Deed of Guarantee as provided in the Share Sale and Purchase Agreement or in the form agreeable by the Company.

Conditions precedent as set out above may be waived in writing by the Company at its sole and absolute discretion. If any of the conditions precedent set out above are not fulfilled or waived at or before the Longstop Date, the Share Sale and Purchase Agreement shall lapse and be of no further effect (except the confidentiality and certain clauses as specified therein), and no party to the Share Sale and Purchase Agreement shall have liability and obligation to the other party, save in respect of any antecedent breaches of the Share Sale and Purchase Agreement.

Management of the Target Company

Concerning the management of the Target Company upon Completion, the Target Company will form a new board of directors with the maximum number of board of directors be set at three and the Company will be entitled to appoint two directors into the board of the Target Company from time to time.

Profit Guarantee

Pursuant to the Share Sale and Purchase Agreement, the Vendor undertaked to the Company that the net profit after tax of the Target Company for each of the five financial year ended 31 December 2022, being the Profit Guaranteed Period, shall not be less than HK\$60,000,000, HK\$69,000,000, HK\$80,000,000, HK\$92,000,000 and HK\$150,000,000, respectively (the “**Profit Guarantee**”). In the event that the net profit after tax of the Target Company is less than the amount stated above, the amount of the relevant instalment shall be downwardly adjusted and/or the Vendor shall compensate the Purchaser for the difference for the shortfall. In relation to the Profit Guarantee for the first year, the actual guaranteed profit shall be adjusted by the days remaining in the financial year after the Completion on a pro rata basis.

Each of Mr. Choi, Mr. Chan and Mr. Zeng will enter into the Deed of Guarantee in favour of the Company upon Completion for the due performance of the Share Sale and Purchase Agreement by the Vendor.

The Company shall keep the market informed about the performance of the Target Company by publishing announcements and/or disclosing the Target Company’s performance in the Company’s annual report and whether the Profit Guarantee is met.

Completion

Subject to the conditions precedent being fulfilled or waived (as the case may be), Completion is to take place on the third Business Days (or such later date as may be mutually agreed between the parties). Upon Completion, the Vendor shall deliver all relevant documents to the Company.

Immediately after Completion, the Target Company will become a direct non wholly-owned subsidiary of the Company. Accordingly, the financial status of the Target Company will be consolidated into the Company's financial statements upon Completion.

THE CONSIDERATION SHARES

The Consideration Shares represent:

- (i) approximately 3.97% of the entire issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 3.82% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, assuming there will be no change in the issued share capital of the Company between the date of this announcement and the Completion (save for the allotment and issue of the Consideration Shares).

The Consideration Shares will be allotted and issued under the General Mandate. The Consideration Shares when allotted and issued, will utilise approximately 19.84% of the General Mandate. As at the date of this announcement, the General Mandate has not been previously utilised. The issue of the Consideration Shares falls within the limit of the General Mandate and is not subject to any approval by the Shareholders.

The Consideration Shares, when fully paid, will rank pari passu in all respects among themselves and with the existing Shares in issue, including the right to receive all dividends and distributions which may be declared, made or paid after the Completion and will be issued free and clean of all liens, encumbrances, equities or other third party rights.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

THE ISSUE PRICE

The Issue Price of HK\$1.5 per Consideration Share represents:

- (i) a premium of approximately 53.06% of the closing price of HK\$0.98 per Share as quoted on the Stock Exchange on 1 March 2018, being the Last Trading Day;
- (ii) a premium of approximately 66.67% of the average of the closing prices of approximately HK\$0.9 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 72.41% of the average of the closing prices of approximately HK\$0.87 per Share as quoted on the Stock Exchange for the last ten (10) trading days immediately up to and including the Last Trading Day.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the date of this announcement and assuming completion of the Acquisition having taken place, without taking into account any other new Shares, if any, issued and allotted after the date of this announcement and prior to the allotment and issue of the Consideration Shares:

Shareholders	As at the date of this announcement		Immediately after the issue and allotment of the Consideration Shares	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Praise Fortune Limited	356,568,000	42.45%	356,568,000	40.83%
Caitong International Asset Management Co., Limited	250,000,000	29.76%	250,000,000	28.63%
Mr. Jiang Xin	2,000,000	0.24%	2,000,000	0.23%
The Vendor	—	—	33,333,333	3.82%
Other shareholders	231,432,000	27.55%	231,432,000	26.50%
Total	<u>840,000,000</u>	<u>100%</u>	<u>873,333,333</u>	<u>100%</u>

INFORMATION OF THE GROUP AND THE TARGET GROUP

The Group is principally engaged in the provision of environmental protection construction engineering solutions and services to customers.

As at the date of the Share Sale and Purchase Agreement, the Target Group consists of the Target Company and Shandong Rongxiang.

The Target Company is a company established under the laws of Hong Kong on 28 December 2016, and is principally engaged in investment holding activities and is owned by the Vendor, Mr. Tsoi, Mr. Zeng and Mr. Chan as to 51.00%, 24.99%, 14.70% and 9.31%, respectively. The Target Company has not commenced any operation or business apart from establishing Shandong Rongxiang on 27 December 2017. Shandong Rongxiang is a wholly owned subsidiary of the Target Company and a wholly foreign owned enterprise established in the PRC with a registered capital of USD20,000,000 and it had not commenced any business operation prior to the entering of the Outsourcing Agreement. Therefore, there has been no turnover and profit recorded in the books of the Target Company and Shandong Rongxiang.

As at 31 December 2017, the total assets and net assets of the Target Company and Shandong Rongxiang were nil.

In February 2018, the Shandong Rongxiang entered into the Outsourcing Agreement with Shandong Huawen, a private company established in the PRC with registered capital of RMB500,000,000. Shandong Huawen is principally engaged in the production of feminine care products. It owns the land use right, production facilities, licenses, intellectual property rights and personnel for production.

Pursuant to the Outsourcing Agreement entered into between Shandong Rongxiang and Shandong Huawen dated 15 February 2018, Shandong Rongxiang engaged Shandong Huawen as their exclusive contractor, original equipment manufacturer (OEM) and processor for the production of feminine products in accordance with the former's instructions for a period of ten years with an option to renew for another ten years. The Target Group shall be entitled to have exclusive use of Shandong Huawen's resources including, land use right, production facilities, licenses, intellectual property rights and personnel.

Further, as stated in the Outsourcing Agreement, the customers who contracted with Shandong Huawen have been taken up and handled by Shandong Rongxiang and Shandong Rongxiang now is solely responsible for negotiating and contracting with those customers. During the term of the Outsourcing Agreement, Shandong Huawen is prohibited engaged in any production in its own capacity or for other third parties. In addition, it is prohibited to engage in any activities which would likely to constitute competition against Shandong Rongxiang during the term and for the subsequent one year of expiry of the Outsourcing Agreement.

REASONS FOR AND BENEFITS OF THE ACQUISITION

In view of the slow-paced development of the wood wool cement board market and the technical and implementation issues, the Group had restructured its construction materials business since 31 October 2017. Details of the restructuring are stated in the announcements of the Company dated 31 October 2017, 14 November 2017 and 18 January 2018. Further, as stated in the announcement of the Company dated 31 October 2017, the Board intends to use the proceeds from the said disposal to fund future investment opportunities of the Group as and when appropriate.

The Group has been actively seeking new investment opportunities in order to broaden its income source. In the present case, the Directors consider that the Acquisition has a good development potential and commercial outlook. With the knowledge, experience and resources owned by Shandong Huawen, the Directors are confident to diversify the business profile by entering the production of feminine care segment and bring a new income stream to the Group.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Share Sale and Purchase Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules for the Acquisition exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company under the Listing Rules and is subject to the reporting and announcement requirements but exempted from the circular, Shareholder's approval and accountant's report requirements under the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the Sale Shares, representing 51% of the entire issued share capital by the Company subject to and upon the terms and conditions of the Share Sale and Purchase Agreement
“Board”	board of Directors
“Business Day(s)”	a day, excluding public holidays, Saturdays and Sundays, on which banks in Hong Kong are open for business throughout their normal business hours
“Company”	Pan Asia Environmental Protection Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 556)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Share Sale and Purchase Agreement
“connected persons(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate consideration payable by the Company to the Vendor for the Sale Shares in accordance with the terms and conditions of the Share Sale and Purchase Agreement
“Consideration Share(s)”	33,333,333 new Shares to be allotted and issued by the Company to the Vendor at the Issue Price to satisfy part of the Consideration
“Deed of Guarantee”	a deed of guarantee to be entered into between the Company and each of Mr. Tsoi, Mr. Zeng and Mr. Chan, in favour of the Company for securing the due performance of the Share Sale and Purchase Agreement by the Vendor
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by resolution of the Shareholders passed at the annual general meeting of the Company held on 16 June 2017 to allot, issue and deal with up to 20% of the issued share capital of the Company as at the date of passing the relevant resolution
“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

“Issue Price”	HK\$1.5 per Consideration Share
“Last Trading Day”	1 March 2018, being the last trading day immediately prior to the entering into of the Share Sale and Purchase Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	the date falling on six(6) months after the date of the Share Sale and Purchase Agreement, or such other date as may be agreed by the Company and the Vendor in writing
“Mr. Chan”	Mr. Chan Chun On Joshua (陳振安), a Hong Kong permanent resident and a third party independent of the Company and its connected persons
“Mr. Tsoi”	Mr. Tsoi Wai (蔡偉), a Hong Kong permanent resident and a third party independent of the Company and its connected persons
“Mr. Zeng”	Mr. Zeng Xiang Chao (曾祥超), a PRC citizen and a third party independent of the Company and its connected persons
“Outsourcing Agreement”	an agreement dated 15 February 2018 between Shandong Rongxiang and Shandong Huawen regarding outsourcing the production of feminine productions by Shandong Huawen for a period of 10 years and an option to renew for another 10 years
“Party(ies)”	the party(ies) to the Share Sale and Purchase Agreement
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Profit Guaranteed Period”	the five financial years upon completion of the Share Sale and Purchase Agreement (inclusive of the year of completion)
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share(s)”	5100 ordinary shares in the Target Company, representing 51% of the entire issued share capital of the Target Company as at the date of the Share Sale and Purchase Agreement and on Completion
“Shandong Rongxiang”	Shandong Rongxiang Technology Co., Ltd (山東融象智能科技有限公司), a wholly foreign owned enterprise established in the PRC and directly wholly-owned by the Target Company with a registered capital of USD20,000,000 as at the date of this announcement
“Shandong Huawen”	Shandong Huawen Industrial Co., Ltd (山東華玖實業股份有限公司), a private limited company established in the PRC and with a registered capital of RMB500,000,000 as at the date of this announcement

“Share Sale and Purchase Agreement”	the share sale and purchase agreement dated 1 March 2018 entered into by the Company and the Vendor in relation to the Acquisition
“Shareholder(s)”	holder(s) of the issued Shares from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Target Company”	Prospectus Harvest Finance Limited (鴻豐信貿融資有限公司), a company incorporated under the laws of Hong Kong with limited liability
“Target Group”	Target Company and its subsidiaries
“Vendor”	Active Light Holdings Limited (勤光集團有限公司), a company incorporated under the laws of Hong Kong with limited liability
“%”	per cent

By Order of the Board
Pan Asia Environmental Protection Group Limited
Jiang Xin
Chairman

Hong Kong, 1 March 2018

As at the date of this announcement, the directors of the Company are:

Executive Director:
Mr. JIANG Xin

Non-Executive Director:
Mr. FAN Yajun

Independent Non-Executive Directors:
Mr. LAI Wing Lee
Mr. LEUNG Shu Sun, Sunny
Professor WANG Guozhen