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)

(1) TERMINATION OF THE PREVIOUS SHARE SALE AND PURCHASE AGREEMENT AND (2) DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 51% OF THE ISSUED SHARES OF THE TARGET COMPANY

TERMINATION OF THE PREVIOUS SHARE SALE AND PURCHASE AGREEMENT

Reference is made to the Company's announcement dated 1 March 2018 in relation to the acquisition of the Sale Shares, representing 51% of the entire issued share capital of the Target Company.

The Board is pleased to announce that, on 12 July 2018 (after trading hours), the Company entered into the Termination Agreement with the Vendor, pursuant to which the Company and the Vendor agreed to (i) terminate the Previous Share Sale and Purchase Agreement; and (ii) cancel the Previous Acquisition based on the Previous Share Sale and Purchase Agreement.

THE NEW ACQUISITION

The Board is also pleased to announce that, on 12 July 2018 (after trading hours), the Company entered into the New Share Sale and Purchase Agreement with the Vendor and the Target Company, 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$96,900,000 (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 New 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.

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THE NEW SHARE SALE AND PURCHASE AGREEMENT

Date

12 July 2018 (after trading hours)

Parties

(1) the Company, being the Purchaser;

(2) Active Light Holding Limited, being the Vendor; and

(3) Prospectous Harvest Finance Limited, being the Target Company.

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

Subject Matter

Pursuant to the New 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%, 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 New Acquisition is HK96,900,000 (subject to downward adjustment), which will be settled by the Company to the Vendor in accordance with the following manners:

(1) as to HK$9,800,000, it shall be payable in cheque, bank transfer or other ways designated by the Company to the Vendor upon Completion;

(2) as to HK$14,700,000, it shall be subject to downward adjustment based on the Profit Guarantee (as defined below) set out in the New 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 Guarantee Period is HK$60,000,000, HK$69,000,000, HK$79,350,000, HK$91,252,500 and HK$104,940,375, respectively. The mechanism for adjustment of this part of the Consideration is as follows:

If the actual net profit after tax of the Target Company for the first year in the Profit Guaranteed Period falls below the guaranteed net profit after tax for the first year in the Profit Guaranteed Period (shall be adjusted by the days remaining in the financial year after the Completion on a pro-rata basis), the aforementioned consideration of HK$14,700,000 will be downwardly adjusted by the shortfall between the actual and guaranteed net profit after tax for the first year.

Unless the Company exercises the put option to sell the Sale Shares back to the Vendor (the "**Put Option**"), the amount shall be paid within 30 Business Days after the issuance and verification of the financial report by the auditors of the Target Company; and

(3) as to HK$72,400,000, it shall be also subject to downward adjustments based on the Profit Guarantee set out in the New Share Sale and Purchase Agreement. The mechanism for adjustment of this part of the Consideration is as follows:

If the total actual net profit after tax of the Target Company for the second to fifth year in the Profit Guaranteed Period (the "**Four Years Period**") falls below the total guaranteed net profit after tax for the second to fifth year in the Profit Guaranteed Period, the amount will be downwardly adjusted by the shortfall between the total actual and guaranteed net profit after tax for the Four Years Period. If the amount of the downward adjustment is greater than the deductible amount, the Vendor shall, within 30 Business Days after the issuance and verification of the financial report by the auditors of the Target Company, compensate the Company the difference.

In any event that the actual net profit after tax is not less than the guaranteed net profit after tax in any of the five years in the Profit Guarantee Period, the Target Company will, in that particular year, distribute a dividend in cash which represents not less than 30% of the guaranteed net profit after tax to be shared between the Company, Mr. Tsoi, Mr. Zeng, Mr. Chan (as shareholders of the Target Company) on a pro-rata basis. Within 30 Business Days after the Company received its portion of the said dividend, it shall be obliged to pay to the Vendor either (i) the actual dividend paid to the Company; or (ii) 15.3% of the guaranteed net profit after tax in that particular year, whichever is lesser shall prevail, as an advance payment to satisfy the part of the consideration of HK$72,400,000.

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 and intellectual property rights currently owned by Shandong Huawen;

(iv) the client base previously owned by Shandong Huawen which has been taken over and managed by the Target Group;

(v) the secured orders currently held by Shandong Rongxiang;

(vi) the deferred payment mechanism of the Consideration and 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 New Acquisition as discussed in the paragraph headed "Reasons for the Termination of the Previous Sale and Purchase Agreement and Reasons for and Benefits of the New 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) the Vendor having obtained and produced to the Company all necessary consents or approvals in relation to the New Acquisition;

(2) 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 applicable) in relation to the New Acquisition;

(3) the Company having carried out and completed the due diligence review and being satisfied with the results thereof in all respect;

(4) the representations, warranties and undertakings given or made by the Vendor remain true, accurate and not misleading in all material aspects;

(5) the Company having obtained a legal opinion issued by a PRC legal adviser designated by the Company regarding various aspects of the Target Group;

(6) the entering into of the Joint Capital Injection Agreement by the Company, Mr. Tsoi, Mr. Zeng, Mr. Chan and the Target Company as provided in the New Share Sale and Purchase Agreement;

(7) each of Mr. Tsoi, Mr. Zeng and Mr. Chan having signed the Deed of Personal Guarantee as provided in the New Share Sale and Purchase Agreement or in the form agreeable by the Company; and

(8) each of Mr. Tsoi and Ms. Tsoi having signed the Deed of Property Guarantee as provided in the New 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 as its sole and absolute discretion. If any of the conditions precedent set out above are not fulfilled or waived on or before the Longstop Date, the New 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 New Share Sale and Purchase Agreement shall have liability and obligation to the other party, save in respect of any antecedent breaches of the New 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 New Share Sale and Purchase Agreement, the Vendor undertook 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$79,350,000, HK$91,252,500 and HK$104,940,375, respectively (the "**Profit Guarantee**"). In the event that the actual net profit after tax is less than the guaranteed net profit after tax of the Target Company, the Consideration should be adjusted in accordance with the mechanism, which is set out in the paragraph headed "Consideration". 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. Tsoi, Mr. Zeng and Mr. Chan will enter into the Deed of Personal Guarantee in favour of the Company upon Completion for the due performance of the New Share Sale and Purchase Agreement by the Vendor. Further, each of Mr. Tsoi and Ms. Tsoi will enter into the Deed of Property Guarantee in favour of the Company upon Completion for the due performance of the New 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.

Put Option

In accordance with the New Share Sale and Purchase Agreement, in the event that the Target Company's actual net profit after tax for the first year in the Profit Guaranteed Period is lower than the guaranteed net profit after tax, the Company is entitled to, by serving a written notice to the Vendor, sell the Sale Shares back to the Vendor. Upon receipt of the said written notice, the Vendor shall, within seven days, (i) pay to the Company all the monies previously paid under the New Share Sale and Purchase Agreement; and (ii) pay to the Company all the monies (without deduction) previously paid under the Joint Capital Injection Agreement.

Completion

Subject to the conditions precedent being fulfilled or waived (as the case may be), Completion is to take place on the third Business Day (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 JOINT CAPITAL INJECTION AGREEMENT

Pursuant to the Joint Capital Injection Agreement, it is agreed between the Company, the Target Company, Mr. Tsoi, Mr. Zeng and Mr. Chan (the "**Target Company Shareholders**") that both the Company and the Target Company Shareholders, in accordance with the Consideration being paid into the Target Company, are obliged to make two rounds of contribution of capital to the Target Company on a pro-rata basis.

For the first round of the capital injection, it is expected that the Company will contribute HK$10,200,000, and the Target Company Shareholders will contribute HK$9,800,000 to the Target Company.

For the second round of the capital injection, it is expected that the Company will contribute HK$15,300,000 and the Target Company Shareholders will contribute HK$14,700,000 to the Target Company.

INFORMATION OF THE GROUP, THE VENDOR AND THE TARGET GROUP

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

As at the date of the New 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 established Shandong Rongxiang on 27 December 2017, and has not commenced any operation or business until March 2018. 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 prior to the operation of the Outsourcing Agreement. Therefore, there has been no turnover and profit recorded in the books of the Target Company and Shandong Rongxiang before the operation of the Outsourcing Agreement.

As the Target Company and Shandong Rongxiang has not commenced any operation or business before 15 February 2018, set out below is a summary of the key financial data of the Target Company based on the unaudited consolidated management accounts of the Target Company subsequent to 15 February 2018:

	For the six months ended 30 June 2018 *RMB'000* (unaudited)
Net (loss) before taxation	(5,126)
Net (loss) after taxation	(5,126)

As at 30 June 2018, in accordance with the unaudited consolidated management accounts of the Target Company, the net liabilities of the Target Company were RMB5,126,000.

Shandong Huawen is a private company established in the PRC with registered capital of RMB500,000,000. Shandong Huawen is principally engaged in the production of personal care products. It owns the land use right, production facilities, licenses and intellectual property rights for the production.

On 15 February 2018, Shangdong Rongxiang entered into the Outsourcing Agreement with Shandong Huawen regarding the outsourcing of the production of personal care products by Shandong Huawen for a period of ten years and an option to renew for another ten years. However, as there was disparity between the actual operation of Shandong Huawen and Shandong Rongxiang and the Outsourcing Agreement, both parties have signed the Supplemental Outsourcing Agreement on 12 July 2018 pursuant to which Shandong Rongxiang was responsible to employ the necessary labour and source the necessary raw materials for the production of personal care products with retrospective effect from 15 February 2018.

Pursuant to the Outsourcing Agreement and Supplemental Outsourcing Agreement entered into between Shandong Rongxiang and Shandong Huawen dated 12 July 2018, Shandong Rongxiang engaged Shandong Huawen to exclusively use their land use right, production facilities, licenses and intellectual property rights for the production of personal care products in accordance with the former's instructions for a period of ten years with an option to renew for another ten years.

Further, as stated in the Outsourcing Agreement and the Supplemental Outsourcing Agreement, the customers who contracted with Shandong Huawen have been taken up and handled by Shandong Rongxiang, and now Shandong Rongxiang is solely responsible for negotiating and contracting with those customers. During the term of the Outsourcing Agreement and the Supplemental Outsourcing Agreement, Shandong Huawen is prohibited to engage 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 THE TERMINATION OF THE PREVIOUS SHARE SALE AND PURCHASE AGREEMENT AND REASONS FOR AND BENEFITS OF THE NEW ACQUISITION

Subsequent to the entering of the Supplemental Outsourcing Agreement, the Company and the Vendor mutually agreed to terminate the Previous Share Sale and Purchase Agreement and entered into the New Share Sale and Purchase Agreement due to further negotiations between the parties.

In view of the slow-paced development of the wood wool cement board market and the technical and implementation issues, the Group had reconstructed 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, 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 disposals to fund future investments 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 New 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 personal care products 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 New 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 RUES IMPLICATIONS

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules for the New 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:

"Board"	board of Directors
"Business Day(s)"	a day, excluding public holidays, Saturdays and Sundays, on which banks in the PRC 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)
"connected persons(s)"	has the meaning ascribed to it under the Listing Rules
"Completion"	completion of the New Acquisition in accordance with the terms and conditions of the New Share Sale and Purchase Agreement
"Consideration"	the aggregate consideration payable by the Company to the Vendor for the Sale Shares in accordance with the terms and conditions of the New Share Sale and Purchase Agreement
"Deed of Personal Guarantee"	a deed of guarantee to be entered into by Mr. Tsoi, Mr. Zeng and Mr. Chan, in favour of the Company for securing the due performance of the New Share Sale and Purchase Agreement by the Vendor
"Deed of Property Guarantee"	a deed of guarantee to be entered into between the Company and each of Mr. Tsoi and Ms. Tsoi, involving two properties each owned by Mr. Tsoi and Ms. Tsoi as security for the due performance of the New Share Sale and Purchase Agreement for the first two years from the date of the New Share Sale and Purchase Agreement by the Vendor
"Director(s)"	the director(s) of the 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
"Joint Capital Injection Agreement"	an agreement dated 12 July 2018 between the Company, Mr. Tsoi, Mr. Zeng, Mr. Chan and the Target Company regarding the capital injection contributed by the Company, Mr. Tsoi, Mr. Zeng and Mr. Chan to the Target Company

"Supplemental Outsourcing Agreement"	an supplemental agreement in relation to the Outsourcing Agreement dated 12 July 2018 between Shandong Rongxiang and Shandong Huawen to amend and supplement the Outsourcing 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 New 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
"Ms. Tsoi"	Ms. Tsoi Man Kwan (蔡文君), a Hong Kong permanent resident and the sister of Mr. Tsoi
"New 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 Previous Share Sale and Purchase Agreement
"New Share Sale and Purchase Agreement"	the share sale and purchase agreement dated 12 July 2018 entered into by the Company and the Vendor in relation to the New Acquisition
"Outsourcing Agreement"	an agreement dated 15 February 2018 between Shandong Rongxiang and Shandong Huawen regarding outsourcing the production of personal care products by Shandong Huawen for a period of 10 years and an option to renew for another 10 years
"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
"Previous 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 Previous Share Sale and Purchase Agreement
"Previous 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 Previous Acquisition

"Profit Guaranteed Period"	the five financial years upon completion of the New Share Sale and Purchase Agreement (inclusive of the year of completion)
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholder(s)"	holder(s) of the issued Shares from time to time
"Sale Share(s)"	5,100 ordinary shares in the Target Company, representing 51% of the entire issued share capital of the Target Company as at the date of the New 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 (山東華玟實業股份有限公司), a private limited company established in the PRC and with a registered capital of RMB500,000,000 as at the date of this announcement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	Prospectous 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, 12 July 2018

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

Executive Director:
Mr. JIANG Xin

Non-Executive Directors:
Mr. FAN Yajun

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