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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)

SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF
51% OF THE ISSUED SHARES OF THE TARGET COMPANY

Reference is made to the announcement of Pan Asia Environmental Protection Group Limited (the “**Company**”) dated 12 July 2018 (the “**Announcement**”) in relation to the New Acquisition. Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless otherwise specified.

In addition to the information disclosed in the Announcement, the Company wishes to provide its shareholders and the public with the following additional information.

1. MAJOR TERMS OF THE OUTSOURCING AGREEMENT (AS REVISED AND SUPPLEMENTED BY THE SUPPLEMENTAL OUTSOURCING AGREEMENT)

Date

15 February 2018

Parties

Shandong Rongxiang, as principal

Shandong Huawen, as contractor

Terms of the Outsourcing Agreement

Ten (10) years from the date of signing of the Outsourcing Agreement with an option to renew for another ten (10) years based on the existing terms of the Outsourcing Agreement.

Nature of transaction/services covered

Shandong Rongxiang engages Shandong Huawen to exclusively use the latter's land use right, production facilities, certificates, licenses and intellectual property rights in the production of personal care products, in accordance with the former's instructions and directions.

Fee

Shandong Rongxiang has to pay to Shandong Huawen a monthly fee (or on a pro-rata basis) and the calculation of which is stated below:

- (1) fixed monthly fee of RMB1,000,000; and
- (2) if the revenue for the relevant month exceeds RMB30,000,000, Shandong Rongxiang will have to pay to Shandong Huawen an additional fee of 3% of the exceeded revenue.

The fee of RMB1,000,000 shall be paid within the first five days of each month. For the additional fee, Shandong Rongxiang shall pay to Shandong Huawen within 10 business days after the issuance of the management account of the relevant month.

Termination

Shandong Rongxiang is entitled, by giving not less than three month's written notice to Shandong Huawen, to terminate the Outsourcing Agreement.

Save as disclosed above, upon occurrence of the following event(s) on either Shandong Rongxiang or Shandong Huawen, the other party would be entitled to terminate the Outsourcing Agreement:

- (a) material breach of the Outsourcing Agreement which is not remediable; or that the breach is remediable but was not sufficiently remedied within 30 days after the responsible party is requested to rectify the breach;
- (b) the presentation of any voluntary or involuntary winding-up petition, the making of any winding-up order or the appointment of a provisional liquidator or equivalent action in the country of incorporation or other establishment, against or in respect of either party; being insolvent or bankrupt; entering into any arrangement with its creditor or appointment of receiver or receiver and manager against its business or assets or any part thereof;
- (c) the revocation, withdrawal or termination (or temporary revocation or withdrawal) of the Outsourcing Agreement or any of the license, qualification, consent, permit (if any) as required under the Outsourcing Agreement by the government or regulatory authorities; or
- (d) force majeure event(s) as mentioned in the Outsourcing Agreement for more than 30 consecutive days.

For the avoidance of doubt, save for the circumstances mentioned above, Shandong Huawen is not entitled to terminate the Outsourcing Agreement.

2. KEY FINANCIAL INFORMATION OF SHANDONG HUAWEN

Set out below is the financial information of Shandong Huawen for the three financial years ended 31 December 2017:

	For the year ended 31 December		
	2017	2016	2015
	(unaudited) RMB	(audited) RMB	(audited) RMB
Revenue	197,619,000	807,305,000	787,566,000
Consolidated net profit before taxation	18,537,000	136,706,000	122,985,000
Consolidated net profit after taxation	13,903,000	102,530,000	92,239,000

The net assets of Shandong Huawen as at 31 December 2015, 31 December 2016 and 31 December 2017 was approximately RMB501,596,000, RMB604,126,000 and RMB618,029,000, respectively.

3. CAPITAL CONTRIBUTION UNDER THE JOINT CAPITAL INJECTION AGREEMENT

In accordance with the Joint Capital Injection Agreement, each of the Company, Mr. Tsoi, Mr. Zeng and Mr. Chan has to make two rounds of capital injection into the Target Company on a pro rata basis.

For the first round of the capital injection, the Company, Mr. Tsoi, Mr. Zeng and Mr. Chan shall pay into the Target Company HK\$10,200,000, HK\$4,998,000, HK\$2,940,000 and HK\$1,862,000, respectively, on or before Completion.

For the second round of the capital injection, the Company, Mr. Tsoi, Mr. Zeng and Mr. Chan shall pay into the Target Company HK\$15,300,000, HK\$7,497,000, HK\$4,410,000 and HK\$2,793,000, respectively, within thirty (30) Business Days after the issuance of the audited financial statements for the financial year ending 31 December 2019 by the auditors of the Target Company.

4. THE BOARD'S VIEW ON THE NEW ACQUISITION

Having considered the following factors, the Board considers that the New Acquisition is fair and reasonable and in the interests of the Company and its shareholders:

- (i) the operating history of Shandong Huawen;
- (ii) the operation of the Outsourcing Agreement between Shandong Huawen and Shandong Rongxiang since 15 February 2018;
- (iii) the development potential of Shandong Rongxiang in the personal care products industry based on the Outsourcing Agreement;
- (iv) the fee and the termination mechanism of the Outsourcing Agreement as stated above; and
- (v) the deferred payment of Consideration, the Put Option and the provision of Profit Guarantee under the New Share Sale and Purchase Agreement and the entering into of the Deed of Personal Guarantee and the Deed of Property Guarantee as risk allocation mechanism.

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

Hong Kong, 20 July 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