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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
IN RELATION TO THE
ACQUISITION OF 51% OF THE ISSUED SHARE CAPITAL
OF THE TARGET COMPANY
INVOLVING ISSUE OF CONSIDERATION SHARES
UNDER GENERAL MANDATE**

THE ACQUISITION

The Board is pleased to announce that on 10 July 2019 (after the trading hours of the Stock Exchange), the Company entered into the S&P Agreement, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares of the Target Company, at the Consideration of HK\$40,260,000.

LISTING RULES IMPLICATIONS

As one or more of the applicable Percentage Ratios in respect of the Acquisition are 5% or more but all of them are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the announcement requirement under Chapter 14 of the Listing Rules.

As completion of the Acquisition is conditional upon fulfilment of Conditions Precedent as set out in the S&P Agreement, Shareholders and potential investors shall exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 10 July 2019 (after the trading hours of the Stock Exchange), the Company entered into the S&P Agreement, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares of the Target Company, at the Consideration of HK\$40,260,000.

THE S&P AGREEMENT

Principal terms and conditions of the S&P Agreement are set forth below:–

Date: 10 July 2019 (after the trading hours of the Stock Exchange)

Parties

Vendor: Mr. Chung Kam Ming (鍾錦明)

Purchaser: the Company

Target Company: MSC (HONG KONG) LIMITED

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party of the Company and its connected persons.

Subject matter

Subject to the terms and conditions of the S&P Agreement, the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase the Sale Shares of the Target Company.

Upon Completion, the Target Company will become a direct non-wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

Consideration

The Consideration for the Acquisition of HK\$40,260,000 (subject to downward adjustment) shall be paid and satisfied by the Company in the following manner:–

- (i) within 30 Business Days immediately after the Company receives the audited consolidated financial statements of the Target Group for the FY 2019, the Vendor shall receive HK\$8,052,000 if the net profit after tax of the Target Group of the FY 2019 meets the 2019 Guaranteed Profit (as defined below), which shall be settled by the Company allotting and issuing 6,600,000 Consideration Shares to the Vendor at the fixed issued price of HK\$1.22 per Share (the “**Tranche A Consideration Shares**”);
- (ii) within 30 Business Days immediately after the Company receives the unaudited consolidated financial statements of the Target Group for the 6M 2020, the Vendor shall receive HK\$8,052,000 if the net profit after tax of the Target Group for the 6M 2020 meets 50% of the 2020 Guaranteed Profit (as defined below), which shall be settled by the Company allotting and issuing 6,600,000 Consideration Shares to the Vendor at the fixed issued price of HK\$1.22 per Share (the “**Tranche B Consideration Shares**”);
- (iii) within 30 Business Days immediately after the Company receives the audited consolidated financial statements of the Target Group for the FY 2020, the Vendor shall receive HK\$8,052,000 if the net profit after tax of the Target Group for the FY 2020 meets the 2020 Guaranteed Profit (as defined below), which shall be settled by the Company allotting and issuing 6,600,000 Consideration Shares to the Vendor at the fixed issued price of HK\$1.22 per Share (the “**Tranche C Consideration Shares**”);

- (iv) within 30 Business Days immediately after the Company receives the unaudited consolidated financial statements of the Target Group for the 6M 2021, the Vendor shall receive HK\$8,052,000 if the net profit after tax of the Target Group for the 6M 2021 meets 50% of the 2021 Guaranteed Profit (as defined below), which shall be settled by the Company allotting and issuing 6,600,000 Consideration Shares to the Vendor at the fixed issued price of HK\$1.22 per Share (the “**Tranche D Consideration Shares**”); and
- (v) within 30 Business Days immediately after the Company receives the audited consolidated financial statements of the Target Group for the FY 2021, the Vendor shall receive HK\$8,052,000 if the net profit after tax of the Target Group for the FY 2021 meets the 2021 Guaranteed Profit (as defined below), which shall be settled by the Company allotting and issuing 6,600,000 Consideration Shares to the Vendor at the fixed issued price of HK\$1.22 per Share.

Guaranteed profits and adjustments to the Consideration

Guaranteed profits

The Vendor warrants and guarantees to the Company that the net profit after tax of the Target Group for the three financial years ending 31 December 2021 shall not be less than HK\$20,000,000 (the “**2019 Guaranteed Profit**”), HK\$30,000,000 (the “**2020 Guaranteed Profit**”) and HK\$40,000,000 (the “**2021 Guaranteed Profit**”), respectively.

Adjustment to the Tranche B Consideration Shares

In the event that the net profit after tax for 6M 2020 fails to meet 50% of the 2020 Guaranteed Profit, the Company shall not allot and issue any Tranche B Consideration Shares to the Vendor.

Where the 2020 Guaranteed Profit is fulfilled, the Company shall allot and issue the Tranche B Consideration Shares to the Vendor by the time the Tranche C Consideration Shares are allotted and issued to the Vendor.

Adjustment to the Tranche D Consideration Shares

In the event that the net profit after tax for 6M 2021 fails to meet 50% of the 2021 Guaranteed Profit, the Company shall not allot and issue any Tranche D Consideration Shares to the Vendor.

Where the 2021 Guaranteed Profit is fulfilled, the Company shall allot and issue the Tranche D Consideration Shares to the Vendor by the time the Tranche E Consideration Shares is allotted and issued to the Vendor.

Restrictions on transfer

The Vendor shall be subject to the following transfer restrictions on the Consideration Shares:

- (i) for the Tranche A Consideration Shares:–
 - (a) the Vendor shall only be entitled to transfer 3,300,000 Consideration Shares out of the Tranche A Consideration Shares if the unaudited consolidated financial statements of the Target Group for the 6M 2020 having been provided by the Vendor and the net profit after tax of the Target Group for the 6M 2020 meets 50% of the 2020 Guaranteed Profit; and

- (b) the Vendor shall only be entitled to transfer the remaining 3,300,000 Consideration Shares out of the Tranche A Consideration Shares if the audited consolidated financial statements of the Target Group for FY 2020 having been provided by the Vendor and the net profit after tax of the Target Group for the FY 2020 meets the 2020 Guaranteed Profit;
- (ii) for the Tranche B Consideration Shares:–
- (a) the Vendor shall only be entitled to transfer 3,300,000 Consideration Shares out of the Tranche B Consideration Shares if the audited consolidated financial statements of the Target Group for the FY 2020 having been provided by the Vendor and the net profit after tax of the Target Group for the FY 2020 meets the 2020 Guaranteed Profit; and
 - (b) the Vendor shall only be entitled to transfer the remaining 3,300,000 Consideration Shares out of the Tranche B Consideration Shares if the unaudited consolidated financial statements of the Target Group for the 6M 2021 having been provided by the Vendor and the net profit after tax of the Target Group for the 6M 2021 meets 50% of the 2021 Guaranteed Profit;
- (iii) for the Tranche C Consideration Shares:–
- (a) the Vendor shall only be entitled to transfer 3,300,000 Consideration Shares out of the Tranche C Consideration Shares if the unaudited consolidated financial statements of the Target Group for the 6M 2021 having been provided by the Vendor and the net profit after tax for the 6M 2021 of the Target Group meets 50% the 2021 Guaranteed Profit; and
 - (b) the Vendor shall only be entitled to transfer the remaining 3,300,000 Consideration Shares out of the Tranche C Consideration Shares if the audited consolidated financial statements of the Target Group for the FY 2021 having been provided by the Vendor and the net profit after tax of the Target Group for the FY 2021 meets the 2021 Guaranteed Profit; and
- (iv) the Vendor shall only be entitled to transfer the Tranche D Consideration Shares if the audited consolidated financial statement of the Target Group for the FY 2021 having been provided by the Vendor and the net profit after tax of the Target Group for the FY 2021 meets the 2021 Guaranteed Profit.

Basis of Consideration

The Consideration was determined by the Company and the Vendor following arm's length negotiations with reference to the price-to-earnings ratio of approximately 2.7 times of the average guaranteed profit after tax of the Target Group for the three financial years ending 31 December 2021 under the S&P Agreement.

Conditions Precedent to Completion

Completion is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:–

- (a) all necessary consent and approval required to be obtained on part of the Vendor in respect of the S&P Agreement and the transaction contemplated thereby (if any) having been obtained; and evidence of such relevant consent and approval having been produced to the satisfaction of the Company;
- (b) all necessary consent and approval required to be obtained on part of the Company in respect of the S&P Agreement and the transaction contemplated thereby (if any) having been obtained, including but not limited to the approvals from its members, the Stock Exchange, the SFC and other relevant government departments or regulatory authorities;
- (c) the Company being satisfied with its due diligence review on the Target Group;
- (d) the warranties as set out in the S&P Agreement remain true, accurate and not misleading in all respects;
- (e) the Company being satisfied with the forms and contents of the legal opinion or due diligence report in relation to the S&P Agreement issued by its designated PRC legal adviser; such legal opinion or due diligence report shall contain (including but not limited to) the following matters:–
 - (i) the formal establishment, and legality and validity of existence of companies of the Target Group (including the shareholding structure, articles of association and paid-up registered capital of the such companies);
 - (ii) all necessary approval, consent, licences and/or permission for business operation of companies of the Target Group having been obtained, including but not limited to, the State Administration of Foreign Exchange, Administration for Industry and Commerce, and Ministry of Commerce of the PRC;
 - (iii) the legality, validity and enforceability of all licences, permission and consent necessary for business operation of companies of the Target Group; and
 - (iv) any other matters required by the Company from time to time;
- (f) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares; and
- (g) the further allotment and issuance of 98 new shares to the Vendor by the Target Company, having been duly completed to the reasonable satisfaction of the Company.

The Company and Vendor shall not be obliged to complete the S&P Agreement or perform any of its obligations hereunder unless the other parties hereto comply fully with the Conditions Precedent to the Completion on or before the Long Stop Date or there is breach of the S&P Agreement by either the Company or Vendor before it is terminated.

Completion

Subject to the fulfilment or waiver of the conditions as set out in the paragraph headed “Conditions Precedent to Completion” above and the terms and conditions of the S&P Agreement, Completion is scheduled to take place on the third Business Day upon fulfilment of such conditions (or such other date as the parties may agree in writing), unless the Company exercises its right to waive any such condition precedent (if allowed under the applicable laws, regulations and the Listing Rules) as contained in the S&P Agreement.

Termination

If the net profit after tax for any of the FY 2019, FY 2020 or FY 2021 after Completion does not meet 2019 Guaranteed Profit, 2020 Guaranteed Profit or 2021 Guaranteed Profit, respectively, the Company shall be entitled to terminate the S&P Agreement immediately (except for the term of confidentiality and any other terms otherwise agreed in the S&P Agreement) and the terminated S&P Agreement shall be of no further effect and all rights, obligations and liabilities of the parties under the S&P Agreement will cease and determine (save for the rights of the Company and Vendor to claim against the other in respect of any breaches or any rights or remedies which shall have accrued prior to termination).

Further, the Vendor shall compensate the Company in cash for any Consideration Shares allotted by the Company under the S&P Agreement within 30 Business Days after the issuance of a written notice by the Company.

In the event that the Company elects not to terminate the S&P Agreement, the Company shall be entitled to a compensation in cash payable by the Vendor within 30 Business Days after the issuance of a written notice by the Company, equivalent to the shortfall between the net profit after tax and the guaranteed profit for the relevant year.

THE CONSIDERATION SHARES

The Consideration for the Acquisition will be satisfied by the allotment and issuance of the Consideration Shares by the Company to the Vendor under the General Mandate. The Company is authorized to allot and issue up to 168,000,000 Shares under the General Mandate granted by the Shareholders at the annual general meeting of the Company held on 6 June 2019. Up to the date of this announcement, the Company has not utilized the General Mandate. As the Consideration Shares will be issued under the General Mandate, the allotment and issuance of the Consideration Shares is not subject to Shareholders’ approval.

The Consideration Shares comprise 33,000,000 Shares, representing (a) approximately 3.93% of the existing issued share capital of the Company as at the date of this announcement; and (b) approximately 3.78% of the issued share capital of the Company as enlarged by the allotment and issuance of all the Consideration Shares.

The issue price of the Consideration Share shall be HK\$1.22 and was determined after arm’s length negotiations between the Vendor and the Company with reference to the current market price of the Shares. The Directors consider that the issue price of the Consideration Shares is fair and reasonable and on normal commercial terms.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Consideration Shares. The Consideration Shares shall at all time rank *pari passu* among themselves and with the Shares in issue as at the date of issue of the Consideration Shares.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structures of the Company as at the date of this announcement; and upon the issuance of the Consideration Shares, assuming there is no other change in the shareholding structure of the Company since the date of this announcement:–

Shareholders	As at the date of this announcement		Upon allotting and issuing the Consideration Shares	
	Number of Shares ('000)	Approximate % of the interest held	Number of Shares ('000)	Approximate % of the interest held
Substantial shareholders				
Praise Fortune Limited ⁽¹⁾	356,568	42.45%	356,568	40.84%
Caitong International Asset Management Co., Limited ⁽²⁾	250,000	29.76%	250,000	28.64%
Vendor	–	–	33,000	3.78%
Public shareholders	233,432	27.79%	233,432	26.74%
	<u>840,000</u>	<u>100%</u>	<u>873,000</u>	<u>100%</u>

Notes:–

1. The entire issued share capital of Praise Fortune Limited is owned by Mr. Jiang Xin as to 60.00% and by Ms. Qian Yuanying as to 40.00%. Accordingly, Ms. Qian Yuanying and her spouse, Mr. Jiang Quanlong, are deemed or taken to be interested in all of the Shares held by Ms. Qian Yuanying. Mr. Jiang Xin is an executive Director.
2. These 250,000,000 Shares were beneficially owned by Caitong Strategic SPC (formerly known as “Avenue Multi-Strategy Fung SPC”) on behalf of CTI Environmental Protection Industrial Fund SP (formerly known as “Avenue Multi-Strategy Fund Segregated Portfolio 1”). Caitong International Asset Management Co., Limited was interested in these 250,000,000 Shares in the capacity of investment manager.

INFORMATION OF THE COMPANY

The Company is principally engaged in the sales of environmental protection products and equipment, as well as undertaking of environmental protection construction engineering services in the PRC.

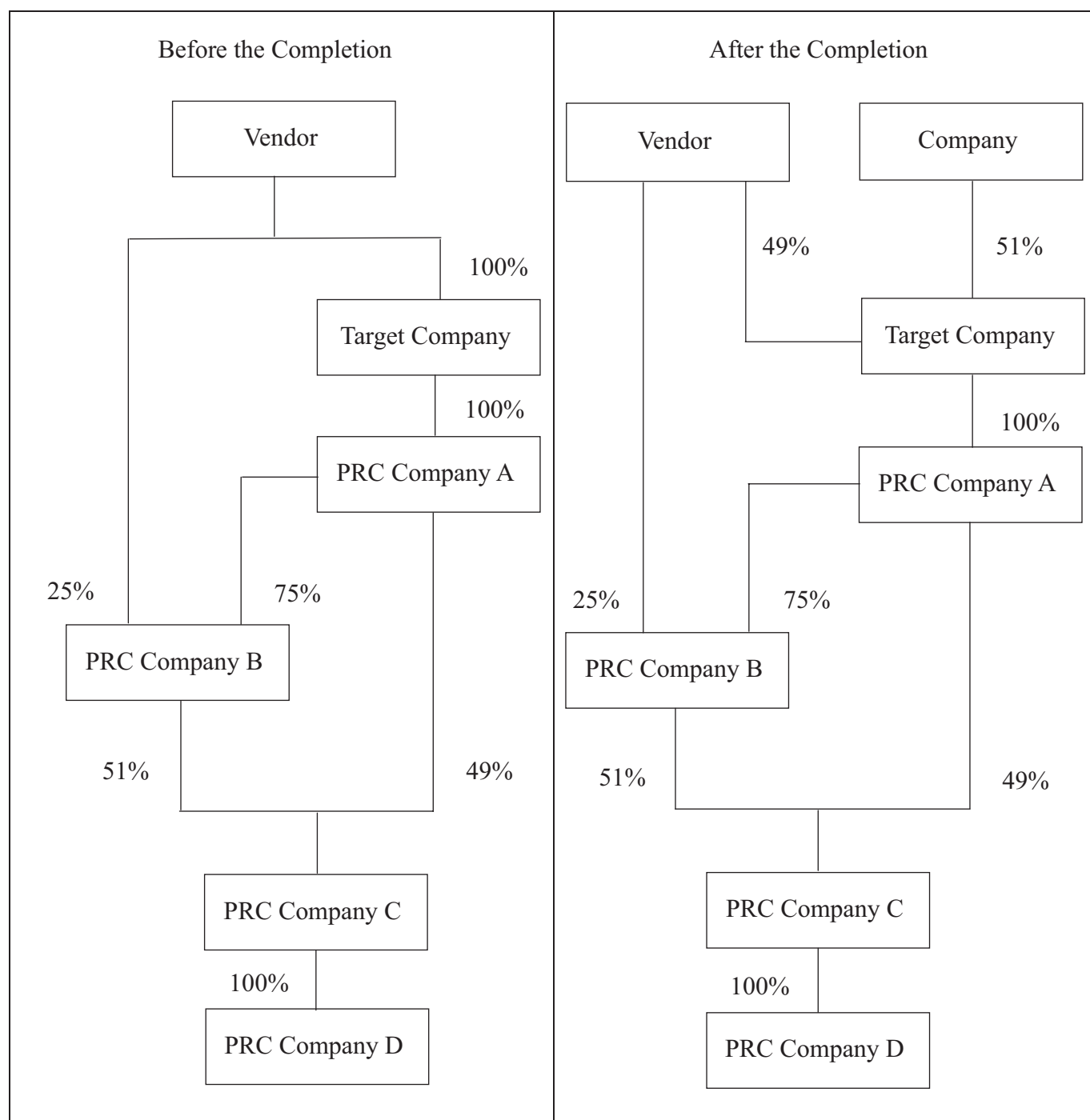
INFORMATION OF THE TARGET GROUP

The Target Company is a company established in Hong Kong with limited liability on 7 April 2017 and the two (2) ordinary shares, representing the entire issued share capital of the Target Company, are owned by the Vendor as at the date of this announcement.

As disclosed in the announcement of the Company dated 15 January 2019, the Target Group is principally engaged in the sale of coupons and provision of online preferential top-up services business, such as catering memberships top-up, petrol filing cards top-up, phone call charges top-up and video website memberships top-up.

The internet platform project owned by the Target Group (the “**Project**”), provides top-up services with favourable price discount, mainly includes top-up services for phone call charges, petrol filling cards, video website memberships, catering memberships and meal cards at present. The Project is currently coordinated and managed by Mr. Chung Kam Ming (鍾錦明) and Mr. Gong Xiaokun (龔小坤), who have extensive experience in setting up business and management in the internet platform industry.

The shareholding structure of the Target Group before and after the Completion is as follows:–



Based on the information provided by the Vendor, the Target Company, PRC Company A, PRC Company B and PRC Company D are principally engaged in investment holding and do not have any major assets as at the date of this announcement.

The following table sets forth the audited financial information of PRC Company C, which was established on 22 September 2017, for the financial year ended 31 December 2018:—

	For the year ended 31 December 2018 (RMB'000)
Revenue	17,049
Net profit/(loss) before taxation	4,083
Net profit/(loss) after taxation	3,062

Based on the unaudited management accounts of PRC Company C provided by the Vendor, the net asset value of PRC Company C as at 30 June 2019 was approximately RMB10,924,919.

REASONS AND BENEFITS FOR THE ACQUISITION

As disclosed in the annual results announcement of the Company dated 28 March 2018, it is the Company's strategy to review from time to time potential business and investment opportunities to enhance the Shareholders' value. The Company believes that the Acquisition provides an excellent opportunity for the Company to expand its business portfolio into the sale of coupons and provision of online preferential top-up services business.

Further, as disclosed in the announcement of the Company dated 15 January 2019, the Acquisition will be beneficial to the Group as it would enable the Company and the Vendor to leverage on their respective strength, resources and expertise to build a mutually-beneficial strategic relationship.

After taking into account factors such as the business development and the future earning potential of the Target Group, the Directors (including the independent non-executive Directors) are of the view that the terms of the S&P Agreement are fair and reasonable, the Acquisition is on normal commercial terms and is in the interests of the Company and Shareholders as a whole. None of the Directors has a material interest in the Acquisition or is required to abstain from voting on the board resolutions for approval of the same.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable Percentage Ratios in respect of the Acquisition are 5% or more but all of them are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the announcement requirement under Chapter 14 of the Listing Rules.

FURTHER INFORMATION

Completion of the Acquisition is conditional upon fulfilment of conditions precedent as set out in the S&P Agreement. The Shareholders and potential investors shall exercise caution when dealing in the Shares.

DEFINITIONS

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

“6M 2020”	the six months ending 30 June 2020;
“6M 2021”	the six months ending 30 June 2021;
“Acquisition”	the acquisition of the Sale Shares of the Target Company by the Company from the Vendor on and subject to the terms and conditions of the S&P Agreement;
“Board”	the board of Directors;
“Business Day”	a day (other than a Saturday, a Sunday and a public holiday) on which banks are generally open for business in Hong Kong;
“Company”	Pan Asia Environmental Protection Group Limited, a company incorporated in the Cayman Islands whose Shares are listed and traded on the Stock Exchange;
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the S&P Agreement (or such other date as the Vendor and the Purchase shall agree in writing);
“Completion Date”	the third Business Day after fulfilment of the Conditions Precedent (as set forth in the paragraph headed “Conditions Precedent to Completion” above) (or such other date as the parties to the S&P Agreement may agree in writing) when the Completion shall take place;
“Conditions Precedent”	the conditions precedent to the Completion of the Acquisition
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the consideration for the Acquisition payable by the Company to the Vendor under the S&P Agreement;
“Consideration Shares”	up to a total of 33,000,000 Shares at HK\$1.22 per Share to be allotted and issued to the Vendors under the S&P Agreement. The Consideration Shares will be issued at HK\$1.22 each which represents the 13.38% premium to the average closing price as quoted on the Stock Exchange in the last five consecutive trading days immediately prior to the Last Trading Day;
“Director(s)”	the director(s) of the Company;
“FY 2019”	the financial year ending 31 December 2019;

“FY 2020”	the financial year ending 31 December 2020;
“FY 2021”	the financial year ending 31 December 2021;
“General Mandate”	the general mandate granted to the Directors to allot, issue and deal in not more than 168,000,000 Shares by the Shareholders at the annual general meeting of the Company held on 6 June 2019;
“Independent Third Party(ies)”	party(ies) who are independent of and not connected with or acting in concert (as defined under the Codes of Takeovers and Mergers and Share Buy-backs of Hong Kong) with, the Company, any of its connected persons (as defined under the Listing Rules) or any of their respective associates (as defined under the Listing Rules);
“Main Board”	the Main Board of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Last Trading Day”	the last day where the Shares are traded on the Stock Exchange prior to the publishing of this announcement;
“Listing Committee”	the listing committee of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	the date falling on six (6) months after the date of the S&P Agreement, or such other date as may be agreed by the Vendor and the Company;
“Percentage Ratios”	the applicable percentage ratios under Rule 14.07 of the Listing Rules;
“PRC”	the People’s Republic of China;

“PRC Company A”	Code Shangchong (Zhongshan) Digital Technology Co., Ltd.* 碼尚充(中山)數碼科技有限公司, a company established in the PRC with limited liability on 13 November 2015 and the entire equity interest of which is held by the Target Company as at the date of this announcement;
“PRC Company B”	Zhongshan City Codes Joint Corporate Management Center (limited partnership)* (中山市碼尚共創企業管理中心(有限合伙)), a foreign-invested enterprise established in the PRC with limited liability on 23 March 2018 and the entire equity interest of which is held as to 75% by the PRC Company A and as to 25% by the Vendor as at the date of this announcement;
“PRC Company C”	Zhongshan Codes Network Technology Co., Ltd.* (中山碼尚網絡技術有限公司), a company established in the PRC with limited liability on 22 September 2017 and the entire equity interest of which is held as to 51% by the PRC Company B and as to 49% by the PRC Company A as at the date of this announcement;
“PRC Company D”	Code Shang Energy (Zhoushan) Co., Ltd.* (碼尚能源(舟山)有限公司), a company established in the PRC with limited liability on 30 September 2018, the entire equity interest of which is held by the PRC Company C as at the date of this announcement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Shares”	51 shares in the issued share capital of the Target Company;
“Share(s)”	the ordinary share of par value of HK\$0.01 in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“S&P Agreement”	the conditional sale and purchase agreement dated 10 July 2019 entered into between the Vendor as vendor and the Company as purchaser in relation to the Acquisition;
“Target Company”	MSC (HONGKONG) LIMITED (碼尚充(香港)有限公司), (formerly known as ALLIANCE CAR RENTAL SERVICES LIMITED (眾聯汽車租賃服務有限公司)), a company incorporated in Hong Kong with limited liability on 7 April 2017, which is wholly owned by the Vendor;

“Target Group”	collectively, the Target Company, the PRC Company A, the PRC Company B, and PRC Company C and the PRC Company D;
“Vendor”	Mr. Chung Kam Ming (鍾錦明); and
“%”	per cent.

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

Hong Kong, 10 July 2019

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

* *For identification purpose only*