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PanAsialum Holdings Company Limited

榮陽實業集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2078)

VERY SUBSTANTIAL DISPOSAL LAND DISPOSAL AGREEMENT

Financial Adviser to the Company



Reference is made to the circular of the Company dated 29 July 2020 (the “**Circular**”) and the announcement of the Company dated 13 August 2020 in relation to the poll results of the EGM.

THE PROPOSED DISPOSAL

The Board is pleased to announce that subsequent to the passing of an ordinary resolution in respect of the granting of the Proposed Mandate at the EGM, the Land Disposal Agreement has been entered into between the Group and the PRC Government Bodies on 13 August 2020. Pursuant to the Land Disposal Agreement, the Proposed Disposal will go through a public land auction process and the Group will be compensated by the Local Office of Zengcheng People’s Government from proceeds derived from the sale of the Land.

The actual compensation for the Proposed Disposal will depend on the highest bid received in the public land auction and is expected to be no less than the Expected Compensation Amount.

Reference is made to the circular of the Company dated 29 July 2020 and the announcement of the Company dated 13 August 2020 in relation to the poll results of the EGM.

THE PROPOSED DISPOSAL

Subsequent to the passing of an ordinary resolution in respect of the granting of the Proposed Mandate at the EGM, the Land Disposal Agreement has been entered into between the Group and the Planning and Natural Resources Bureau, the Land Reserve Centre and the Local Office of Zengcheng People's Government (collectively the "**PRC Government Bodies**") on 13 August 2020. Pursuant to the Land Disposal Agreement, the Proposed Disposal will go through a public land auction process and the Group will be compensated by the Local Office of Zengcheng People's Government from proceeds derived from the sale of the Land. Set forth below are the major terms of the Land Disposal Agreement:

LAND DISPOSAL AGREEMENT

Date : 13 August 2020

Parties : (i) the Planning and Natural Resources Bureau;
(ii) the Land Reserve Centre;
(iii) the Local Office of Zengcheng People's Government; and
(iv) PanAsia Aluminum (China) Company Limited, an indirect wholly-owned subsidiary of the Company

Subject matter

The Land comprises land parcel with an aggregate area of 129,132 square metre located at No. 318 Zengcheng Avenue, Licheng Street, Zengcheng, Guangzhou, the PRC, the land use rights of which are held by the Group. The land use rights of the Land have been granted by the PRC government to the Group until 21 November 2050 and 11 April 2054 for commercial and industrial use respectively. As at the date of this announcement, the Land is used for industrial purposes.

As at 31 December 2019, the fair value and carrying amount of the Land was HK\$516 million (approximately RMB474 million) and HK\$6.25 million (approximately RMB5.74 million) respectively. The fair value of the Land as at 31 December 2019 was appraised by the Valuer based on its existing use of land (i.e. industrial use) without taking into account any redevelopment potential under the Redevelopment Scheme.

As disclosed in the Circular, the market value of the Land and the compensation amount as appraised by the Valuer is approximately RMB1,558.0 million as at 31 May 2020. The valuation of the Land was conducted with reference to the development scheme of relevant comparable land transactions in the vicinity and estimated compensation amount according to the relevant PRC regulations, details of which have been set out in Appendix II to the Circular.

Upon completion of the Proposed Disposal, the Group will no longer hold any interests in the Land.

Procedure for the Proposed Disposal

As contemplated under the Land Disposal Agreement, the Land will be disposed of in a public land auction to be administered by the Planning and Natural Resources Bureau and the Group will commence removing all buildings erected on the Land. The Group will conduct a soil examination on the Land of which is expected to be completed within 180 days from the date of the Land Disposal Agreement. An authorised professional firm will simultaneously be appointed to carry out the evaluation of the Land. Upon completion of the site clearance and soil examination, the Land will officially be transferred to the Local Office of Zengcheng People's Government.

A public land auction will be held to auction off the Land and as advised by the Company's PRC legal adviser, land auction notice will be published 30 days before the auction. The minimum bid price shall be determined by the Planning and Natural Resources Bureau with reference to, amongst others, applicable PRC laws and policies. Pursuant to the applicable PRC policy promulgated by the Planning and Natural Resources Bureau on 21 January 2020 which took effect on 1 February 2020, the minimum bid price or agreed disposal price shall be no less than 70% of the Benchmark Land Price (being the estimated land value determined by the relevant PRC government authorities with reference to, among other things, types of land use zoning, location of land, valuation of land of similar classification and the price variation on the real estate market). According to relevant publication as announced by the Planning and Natural Resources Bureau, the applicable Benchmark Land Price per square metre of the Land is RMB6,285 and RMB6,701 for residential and commercial use respectively. The total Benchmark Land Price of the Land is approximately RMB1,588.6 million, which is computed by multiplying the total expected gross floor area considering its expected future usage and the Benchmark Land Price. Based on the above assumptions, the Theoretical Minimum Bid Price (being 70% of the total Benchmark Land Price) shall be no less than RMB1,112.2 million and on the assumption that the final bid price is equivalent to the Theoretical Minimum Bid Price, the Group will receive a compensation of approximately RMB667 million from the Proposed Disposal. The actual minimum bid price shall be determined by the Planning and Natural Resources Bureau with reference to, amongst others, applicable PRC laws and policies.

Following the auction of the Land, the highest bidder will enter into an agreement relating to the transfer of the land use right of the Land and complete all necessary registration procedures relating to the Land with the relevant government authorities. The above process is expected to take approximately two months to complete.

To the best of the Directors’ knowledge and based on information currently available to the Directors, no connected person of the Company (including but not limited to the Directors and Easy Star Holdings Limited, being the controlling shareholder of the Company) will participate in the bidding of the Land.

Consideration for the Proposed Disposal

The consideration to be received by the Group from the Proposed Disposal will be the compensation entitled by the Group from the Local Office of Zengcheng People’s Government under the Redevelopment Scheme. Pursuant to the Land Disposal Agreement, the compensation will be calculated based on the following formula and with reference to the Plot Ratio:

For the portion of the Land with Plot Ratio less than or equivalent to 2.0:

$$\frac{\text{Land area under the Redevelopment Scheme}}{\text{Total land area under redevelopment}} \times \frac{2}{\text{Plot Ratio}} \times \text{Final bid price of the Land} \times 60\%$$

For the portion of the Land with Plot Ratio above 2.0:

$$\frac{\text{Land area under the Redevelopment Scheme}}{\text{Total land area under redevelopment}} \times \frac{2}{\text{Plot Ratio}} \times \text{Final bid price of the Land} \times 60\%$$

+

$$\frac{\text{Land area under of the Redevelopment Scheme}}{\text{Total land area under redevelopment}} \times \frac{\text{Plot Ratio} - 2}{\text{Plot Ratio}} \times \text{Final bid price of the Land} \times 10\%$$

The Group will receive the first tranche of compensation (being total compensation amount less contingent payment held for restoration purposes) for the Proposed Disposal within three months from the completion of (i) the transfer of the Land to the Local Office of Zengcheng People's Government; (ii) the transfer of the Land to the highest bidder; and (iii) the soil examination and the corresponding evaluation report. The expected contingent costs would be approximately RMB38.7 million, which is computed based on approximately RMB300.0 per square metre multiplied by the registered area of the Land. The remaining compensation, after deducting any contingent costs incurred for land restoration purposes, will be released to the Group within one year from the fulfilment of the abovementioned conditions.

The Company has considered the expected compensation amount of approximately RMB1,558.0 million as appraised by the Valuer, the valuation methodology and calculation basis for arriving at the valuation. Based on the above compensation formula and the expected compensation amount as appraised by the Valuer, the Company expects the compensation amount from the Proposed Disposal to be approximately RMB1.5 billion on the assumption that approximately 126,000 square metre of the Land will be developed under the Redevelopment Scheme with a plot ratio of 3.0 by making reference to the relevant land comparable transactions in the vicinity and the expected length of time the Company will take to receive the compensation. In the unlikely event that the final bid price is equivalent to the Theoretical Minimum Bid Price, the Group will receive a compensation of approximately RMB667 million from the Proposed Disposal.

As advised by the Company's PRC legal adviser, should the Planning and Natural Resources Bureau fail to complete the public land auction process within one year from the date on which the Land is transferred, the Group is entitled to receive an initial advance payment of 60% of the Benchmark Land Price of the Land. The remaining compensation will be payable to the Group once the public land auction process is completed. It is envisaged that the Group will receive compensation in full for the Proposed Disposal approximately 12 months after the transfer of the land use right of the Land to the Local Office of Zengcheng People's Government.

The exact compensation amount for the Proposed Disposal will be subject to the final bid price offered by the highest bidder in the public land auction and is expected to be no less than the Expected Compensation Amount. Hence, the Directors are unable to ascertain or determine the exact compensation amount to be received from the Local Office of Zengcheng People's Government as at the date of this announcement.

Expected timetable for the Proposed Disposal

The transfer of land use right of the Land to the Local Office of Zengcheng People's Government is expected to take place by the end of 2020. The expected timetable below is for illustrative purposes only.

Event	Expected Amount (assuming the actual compensation to be received by the Group to be equivalent to RMB1,500 million) (RMB)	Expected Amount (assuming the final bid price to be equivalent to the Theoretical Minimum Bid Price) (RMB)	Expected Date
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Scenario 1: –

In the event that the land auction is conducted by the Planning and Natural Resources Bureau within one year from the date on which the Land is transferred to the Local Office of Zengcheng People's Government.

Receipt of first tranche of compensation (being total compensation amount less contingent payment held for restoration purposes) from the Proposed Disposal, assuming that the Company has fulfilled all the necessary conditions contemplated under the Land Disposal Agreement	1,461 million	628 million	On or before 31 August 2021
Receipt of second tranche of compensation (being the remaining amount after deducting the contingent payment incurred, if any)	no more than 39 million	no more than 39 million	On or before 30 April 2022

Scenario 2: –

In the event that the land auction is not conducted by the Planning and Natural Resources Bureau within one year from the date on which the Land is transferred to the Local Office of Zengcheng People's Government.

Payment of initial advance payment of compensation (60% of the Benchmark Land Price ^(Note i)) from the Local Office of Zengcheng People's Government	953 million	N/A ^(Note ii)	On or before 28 February 2022
Receipt of remaining compensation amount (being the total compensation amount after deducting the initial advance payment of compensation and the contingent payment incurred, if any)	no more than 547 million	N/A ^(Note ii)	Approximately three to six months from the completion of land auction

Notes:

- (1) Assuming that the actual compensation to be received by the Group to be RMB1,500 million and total Benchmark Land Price of the Land is approximately RMB1,588 million. As advised by the Land Reserve Centre, the actual minimum bid price will normally be set higher than the Benchmark Land Price.
- (ii) As advised by the Company's PRC legal advisor, there is no precedent that the initial advance compensation amount exceeds the compensation amount based on the final bid price.

INFORMATION OF THE REDEVELOPMENT SCHEME

The Redevelopment Scheme relating to the rezoning of land for redevelopment in Zengcheng District, Guangzhou, the PRC was announced by the Planning and Natural Resources Bureau on 28 February 2018 and 26 February 2020.

As disclosed in the Circular and as advised by the PRC legal advisor of the Company, the applicable laws and regulations relating to the Redevelopment Scheme include, among others:

- (i) The Land Administration Law of the PRC* (《中華人民共和國土地管理法》);
- (ii) Measures on Land Reserve Administration of the PRC* (《中華人民共和國土地儲備管理辦法》);
- (iii) Provisional Regulations of the PRC on Assigning and Transferring of the Urban State-owned Land Use Rights* (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》);
- (iv) Rules of Public Tender, Auction and Listing of State-owned Construction Land Use Rights* (《招標拍賣掛牌出讓國有建設用地使用權規定》);
- (v) Guangzhou Urban Renewal Regulations* (《廣州市城市更新辦法》);
- (vi) Guangzhou Old Factories Renewal Regulations* (《廣州市舊廠房更新實施辦法》);
- (vii) Guangzhou Land Reserve Administration Regulations* (《廣州市土地儲備管理辦法》);
- (viii) The Implementation Guidance on the Three Old Transformation* (《關於深入推進“三舊”改造工作的實施意見》);

- (ix) Notice of the Guangzhou Municipal Government of the PRC General Office on the Implementation Rules of Urban Renewal Work in Guangzhou* (《廣州市人民政府辦公廳關於印發廣州市深入推進城市更新工作實施細則的通知》); and
- (x) The Implementation Guidance of the Guangzhou Municipal Government of the PRC General Office on Promoting the Saving and Intensive Use of Land* (《廣州市人民政府關於提升城市更新水準促進節約集約用地的實施意見》).

REASONS AND BENEFITS FOR THE PROPOSED DISPOSAL

As mentioned in the Circular, the Planning and Natural Resources Bureau announced that certain areas in Zengcheng District, Guangdong Province of the PRC have been rezoned for redevelopment in late February 2018 and the Land is located within that area. In February 2020, the Planning and Natural Resources Bureau further announced its intention to acquire the Land for urban renewal projects in Zengcheng District. The Group has since commenced the relocation of its manufacturing facilities from Zengcheng to other manufacturing sites of the Group in the PRC and is halfway through its relocation process, which is expected to be completed by the end of 2020.

The Board is of the view that the Proposed Disposal provides an excellent opportunity for the Group to realize the value of the Land in a public land auction under the Redevelopment Scheme. Considering the expected proceeds from the Proposed Disposal and the potential unaudited capital gain from the Proposed Disposal, the Board is of the view that the Group's financial position will be greatly strengthened and the proceeds will provide the Group with additional working capital for its future business development. Given that the Group has been relocating its equipment and machinery and diverting its orders to its manufacturing facility in Nanyang which has sufficient production capacity, the Company is of the view that the Proposed Disposal will have no material effect on the Group's business and operations.

Based on the factors mentioned above, the Board is of the view that the terms and conditions contemplated under the Land Disposal Agreement are fair and reasonable and are on normal commercial terms, and the Proposed Disposal is in the interest of the Group and the Shareholders as a whole.

USE OF PROCEEDS AND FINANCIAL IMPACT OF THE PROPOSED DISPOSAL

As mentioned in the Circular, the Group expects to record a net gain of at least approximately RMB1.39 billion (equivalent to approximately HK\$1.53 billion) from the Proposed Disposal, which is estimated based on the Expected Compensation Amount less the carrying amounts of the Land and the expenses directly attributed to it (including the estimated costs for the removal work on the Land to be approximately RMB30 million (equivalent to approximately HK\$33 million)). The actual gain from the Proposed Disposal will be determined based on the actual compensation amount to be received by the Group, and there will be no material impact on the total liabilities of the Group.

It is expected that the net proceeds from the Proposed Disposal will be approximately RMB1.40 billion, which will be used in the following manner: (i) approximately RMB900 million will be used for the repayment of bank loans and other borrowings of the Group (comprising bank borrowings in the principal amount of approximately RMB643 million with maturity dates of approximately 2 to 3.5 years from the date of this announcement and other borrowings in the principal amount of approximately RMB257 million with maturity dates of approximately 1 to 1.5 year from the date of this announcement), which is expected to be settled within one month upon completion of the Proposed Disposal; (ii) approximately RMB120 million will be reserved for potential investment opportunities aimed to geographically expand its production capacity and distribution network as and when suitable opportunities arise; and (iii) approximately RMB380 million will be utilised as general working capital of the Group for the manufacturing and production of aluminium products, approximately RMB100 million of which will be used for the purchasing of raw material and the remainder will be reserved for other future operating expenses, as and when required. As at the date of this announcement, the Company is currently identifying suitable investment opportunities and will keep the Shareholders informed of the progress as and when appropriate. In the unlikely event that the final bid price is equivalent to the Theoretical Minimum Bid Price, the Group will record a net gain of at least approximately RMB562 million (equivalent to approximately HK\$618 million) from the Proposed Disposal. On this basis, the net proceeds from the Proposed Disposal will be approximately RMB567 million and will be used for the repayment of bank loans and other borrowings of the Group.

INFORMATION OF THE GROUP

The Group is one of PRC's leading manufacturers of aluminium products. The Group focuses on three segments including: (i) aluminium components for electronics and appliances; (ii) construction and industrial products; and (iii) high-end aluminium doors and windows.

INFORMATION OF THE PRC GOVERNMENT BODIES

The Planning and Natural Resources Bureau, a PRC Governmental Body (which has the same meaning as ascribed thereto under Rule 19A.04 of the Listing Rules), is responsible for, among other things, the planning, reviewing, executing and monitoring of the city redevelopment policies and schemes in Guangzhou, the PRC.

The Land Reserve Centre, a PRC Governmental Body (which has the same meaning as ascribed thereto under Rule 19A.04 of the Listing Rules), is responsible for, among other things, resumption of collective lands within the administrative area, resumption of buildings erected on state-owned lands, urban planning of government reserve lands and implementation and preparation of plans on supply of government reserve lands.

The Local Office of Zengcheng People's Government, a PRC Governmental Body (which has the same meaning as ascribed thereto under Rule 19A.04 of the Listing Rules), is responsible for, among other things, the administrative work and implementation of the resolutions, decisions and instructions of the district government and district government offices.

To the best knowledge of the Directors' knowledge, information and belief having made all reasonable enquiry, the PRC Government Bodies and each of their ultimate beneficial owners are third parties independent of and not connected with any member of the Group, the directors, chief executive and substantial shareholders of the Company and its subsidiaries and their respective associates (within the meaning of the Listing Rules) and are not connected persons of the Company.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Proposed Disposal exceeds 75%, the Proposed Disposal, using the Expected Compensation Amount as the basis of calculation, if materialised, will constitute a very substantial disposal of the Group and is subject to, among other things, announcement and circular disclosing all the major terms contemplated under the subject agreement.

DEFINITIONS

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

“Benchmark Land Price”	the estimated land value determined by the relevant PRC government authorities with reference to, among other things, types of land use zoning, location of land, valuation of land of similar classification and the price variation on the real estate market (基準地價);
“Board”	the board of Directors of the Company;
“Business Day(s)”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business;
“Company”	PanAsialum Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company held on 13 August 2020 to approve, among others, the Proposed Disposal and the Proposed Mandate;
“Expected Compensation Amount”	the estimated compensation amount to be received by the Group of no less than RMB1.5 billion (equivalent to approximately HK\$1.65 billion) for the Proposed Disposal taking into account the Theoretical Minimum Bid Price, the standard calculation formula for the compensation, the market value of the Land as appraised by the Valuer and the prevailing market conditions;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$” or “HKD”	Hong Kong dollar, the lawful currency of Hong Kong;

“Land”	land parcel with an aggregate area of 129,132 square metre located at No. 318 Zengcheng Avenue, Licheng Street, Zengcheng, Guangzhou, the PRC, the land use rights of which are held by the Group;
“Land Disposal Agreement”	the land disposal agreement entered into between the Group and the PRC Government Bodies on 13 August 2020 in relation to the Proposed Disposal;
“Land Reserve Centre”	Guangzhou City Zengcheng District Land Development Reserve Centre* (廣州市增城區土地開發儲備中心);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Local Office of Zengcheng People’s Government”	Lihu Street Office, the People’s Government of Zengcheng district of Guangzhou City* (廣州市增城區人民政府荔湖街道辦事處)
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with the GEM of the Stock Exchange;
“Planning and Natural Resources Bureau”	the Planning and Natural Resources Bureau of the Guangzhou municipal government of the PRC (Zengcheng branch)* (廣州市規劃和自然資源局增城區分局);
“Plot Ratio”	the plot ratio to be determined by the Planning and Natural Resources Bureau for the Land;
“PRC”	the People’s Republic of China;
“Proposed Disposal”	the proposed disposal of the Land by the entering into of the Land Disposal Agreement with the PRC Government Bodies;
“Proposed Mandate”	the mandate granted in advance to the Directors to enter into and complete the Proposed Disposal by the Shareholders at the EGM;
“Redevelopment Scheme”	the redevelopment scheme as announced by the Planning and Natural Resources Bureau in the PRC government notices on 28 February 2018 and 26 February 2020 respectively, relating to the rezoning of land for redevelopment in Zengcheng District, Guangzhou, the PRC;

“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the issued Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“Theoretical Minimum Bid Price”	the theoretical statutory minimum bid price of the Land amount to approximately RMB1,112.2 million, being 70% of the total Benchmark Land Price of the Land of approximately RMB1,588.6 million;
“Valuer” or “Knight Frank”	Knight Frank Petty Limited, an independent and professional qualified valuer; and
“%”	per cent.

For the purpose of this announcement, unless otherwise stated, the exchange rate of HKD1.1 = RMB1.0 is for the purpose of illustration only and does not constitute a representation that any amounts in HKD and RMB have been, could have been or may be converted at such rate or any other exchange rate.

By order of the Board of
PanAsialum Holdings Company Limited
Cheung Wah Keung
*Independent Non-executive Director and Independent
Non-executive Chairman*

Hong Kong, 14 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Gao Mingjie, Ms. Li Jiewen and Mr. Pan Zhaolong; and the independent non-executive directors of the Company are Mr. Mar Selwyn, Mr. Leung Ka Tin, Dr. Cheung Wah Keung and Mr. Chan Kai Nang.

* *For identification purpose only*