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)

ANNOUNCEMENT OF 2009 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS:

	2009	2008	**Variance**
	RMB'000	*RMB'000*	
TURNOVER	**608,972**	593,765	+2.5%
GROSS PROFIT	**164,976**	208,055	-20.7%
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**88,070**	77,766	+13.3%
EARNINGS PER SHARE – BASIC AND DILUTED	**RMB 11.01 cents**	RMB 9.72 cents	+13.3%
PROPOSED FINAL DIVIDEND PER SHARE	**HK4 cents**	–	N.A.

RESULTS

The Board of Directors (the "Directors" or the "Board") of Pan Asia Environmental Protection Group Limited (the "Company" or "Pan Asia") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	**2009**	2008
		RMB'000	*RMB'000*
TURNOVER	*4*	**608,972**	593,765
Cost of sales		**(444,096)**	(385,710)
GROSS PROFIT		**164,876**	208,055
Other revenue	*4*	**12,028**	12,282
Other net income/(loss)	*4*	**9,627**	(29,966)
Selling and distribution expenses		**(17,531)**	(25,213)
General and administrative expenses		**(34,902)**	(33,693)
Other operating expenses		**(4,875)**	(10,251)
Finance costs		**(4,080)**	(3,651)
PROFIT BEFORE TAXATION	*5*	**125,143**	117,563
Income tax expenses	*6*	**(37,385)**	(41,428)
PROFIT FOR THE YEAR		**87,758**	76,135
Other comprehensive income for the year (after tax and reclassification adjustments)			
Exchange differences on translation of financial statements of foreign operation		**(205)**	(12,638)
Other comprehensive income for the year, net of tax		**(205)**	(12,638)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**87,553**	63,497
Profit attributable to:			
Owners of the Company		**88,070**	77,766
Minority interests		**(312)**	(1,631)
		87,758	76,135
Total comprehensive income attributable to:			
Owners of the Company		**87,865**	65,128
Minority interests		**(312)**	(1,631)
		87,553	63,497
EARNINGS PER SHARE – BASIC AND DILUTED	*8*	**RMB11.01cents**	RMB9.72cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	The Group 2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Prepaid lease payment		**6,745**	6,913
Property, plant and equipment		**47,951**	52,847
Available-for-sale financial asset		**6,850**	1,950
		61,546	61,710
CURRENT ASSETS			
Prepaid lease payment		**169**	169
Inventories		**32,955**	40,693
Trade and other receivables	9	**540,992**	303,145
Tax recoverable		**–**	3,836
Pledged bank deposits		**31,480**	96,740
Cash and bank balances		**739,266**	849,298
		1,344,862	1,293,881
CURRENT LIABILITIES			
Short term bank loan		**16,478**	82,000
Trade and other payables	10	**140,968**	140,797
Deposits received and receipt in advance		**69,413**	65,641
Tax payable		**19,722**	–
		246,581	288,438
NET CURRENT ASSETS		**1,098,281**	1,005,443
NET ASSETS		**1,159,827**	1,067,153
CAPITAL AND RESERVES			
Share capital		**74,872**	74,872
Reserves		**1,082,589**	989,603
Equity attributable to owners of the Company		**1,157,461**	1,064,475
Minority interests		**2,366**	2,678
TOTAL EQUITY		**1,159,827**	1,067,153

NOTES:

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The addresses of the registered office and principal place of business of the Company in Hong Kong are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Suite 6302, The Center, 99 Queen's Road Central, Hong Kong respectively.

The Group is principally engaged in the manufacture and sale of environmental protection ("EP") products and equipment, undertaking of EP construction engineering projects, provision of EP related professional services in the People's Republic of China (the "PRC") and investment holding.

2. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued one new Hong Kong Financial Reporting Standard ("HKFRS"), a number of amendments to HKFRS and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements-cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures-improving disclosures about financial instruments*
- HKAS 23 (revised), Borrowing costs
- Amendments to HKFRS 2, Share-based payment-vesting conditions and cancellations

The amendments to "Improvements to HKFRSs (2008)", Hong Kong Accounting Standard ("HKAS") 23, HKFRS 2 and HKFRS 7 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the measures reported to the Group's Chief Executive Officer for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's Chief Executive Officer.

- As a result of the adoption of HKAS 1 (revised), details of changes in equity during the period arising from transactions with owners in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this consolidated financial statements and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's statement of comprehensive income and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in statement of comprehensive income, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS

Up to the date of issue of these financial statements, the HKICPA has issued the following HKFRSs which are not yet effective for the year. The Group has not early applied any of the following New HKFRSs that have been issued but are not yet effective.

HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendments)	Classification of Rights Issues[3]
HKAS 39 (Amendments)	Eligible hedged items[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters[4]
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters[2]
HKFRS 1 (Revised)	Additional Exemptions for First-time Adopters[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[2]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[6]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-Int 17	Distributions of Non-cash assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held For Sale and Discontinued Operations – Plan to Sell the Controlling Interests in a subsidiary[1]
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Lease[2]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

4. TURNOVER, OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	2009	2008
	RMB'000	*RMB'000*
Turnover		
Turnover represents the net amounts received and receivable for goods sold and rendering of services by the Group		
Sale of EP products and equipment	**421,521**	582,846
Revenue from EP construction engineering projects	**179,386**	9,356
Revenue from professional services	**8,065**	1,563
	608,972	593,765
Other revenue		
Interest income on bank deposits	**4,466**	10,413
Total interest income on financial assets not at fair value through profit or loss	**4,466**	10,413
Bad debts recovery	**2,229**	1,235
Dividend income from available-for-sale financial asset	**5,176**	–
Reversal of impairment loss on trade receivables	**100**	54
Sundry income	**57**	580
	12,028	12,282
Other net income/(loss)		
Gain on disposal of subsidiaries	**1,120**	–
Gain/(loss) on disposal of property, plant and equipment	**47**	(1)
Net exchange gain/(loss)	**8,460**	(29,965)
	9,627	(29,966)

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging/(crediting) the following:

		2009	2008
		RMB'000	*RMB'000*
a)	Finance costs:		
	Interest on bank advances wholly repayable within one year	**4,080**	3,651
	Total interest expenses on financial liabilities not at fair value through profit or loss	**4,080**	3,651
b)	Staff costs (including directors' emoluments):		
	– Contributions to defined contribution retirement plans	**1,053**	974
	– Equity settled share-based payment expenses	**5,121**	8,720
	– Salaries, wages and other benefits	**11,154**	33,164
		17,328	42,858
c)	Other items:		
	Amortisation of prepaid lease payment	**168**	169
	Auditor's remuneration		
	– audit service	**857**	785
	– other service	**388**	282
	Bad debts written off	**–**	9,243
	Cost of inventories (Note)	**313,105**	375,328
	Depreciation (Note)	**5,300**	4,819
	(Gain)/loss on disposal of property, plant and equipment	**(47)**	1
	Impairment loss on trade receivables	**322**	257
	Net exchange (gain)/loss	**(8,460)**	29,965
	Operating lease charges – properties rental	**1,019**	806

Note:

Cost of inventories includes RMB4,066,000 (2008: RMB3,586,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) Taxation in the consolidated statement of comprehensive income represents:

	2009	2008
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax – current year	**37,385**	41,428

i) An uniform enterprise income tax of 25% became generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008.

ii) No provision for Hong Kong profits tax has been made for the years ended 31 December 2008 and 2009 as the Group's income neither arises in, nor is derived from Hong Kong.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/09. Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the year.

iii) Under the Corporate Income Tax Law of the PRC with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. On 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. No deferred tax liabilities in respect of the withholding income tax on dividends has been recognised by the Group as the Company controls dividends policy of the Group's PRC subsidiaries.

b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	**125,143**	117,563
Notional tax on profit before taxation calculated at rates applicable to profits in the countries concerned	**32,878**	32,879
Tax effect of non-taxable income	**(2,100)**	–
Tax effect of non-deductible expenses	**2,284**	8,549
Tax effect of unused tax losses not recognised	**4,323**	–
Income tax expenses	**37,385**	41,428

7. DIVIDENDS

a) Dividends payable to owners of the Company attributable to the year

	2009	2008
	RMB'000	*RMB'000*
Final dividend proposed after the reporting date of HK4 cents (equivalent to RMB3.53 cents) per share (2008: No final dividend was proposed)	**28,213**	–

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date.

b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year

	2009	2008
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of Nil cents per share (2008: HK5 cents (equivalent to RMB4.68 cents) per share)	–	37,436

8. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB88,070,000 (2008: approximately RMB77,766,000) and the weighted average number of 800,000,000 shares (2008: 800,000,000 shares) in issue during the year.

Weighted average number of ordinary shares

	2009	2008
	Number of shares	Number of shares
	'000	*'000*
Issued ordinary shares at 1 January	**800,000**	800,000
Weighted average number of ordinary shares at 31 December	**800,000**	800,000

b) Diluted earnings per share

Diluted earnings per share equal to basic earnings per share for the years ended 31 December 2009 and 2008 as the exercise price of the Company's outstanding share options were higher than the average market price for shares for the year and therefore it is anticipated that no share option to subscribe for the Company's shares will be exercised.

9. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**177,685**	233,018
Less: Allowance for doubtful debts	**(1,062)**	(840)
	176,623	232,178
Other receivables	**51,022**	36,354
Less: Allowance for doubtful debts	**(147)**	(147)
	50,875	36,207
Amount due from a related company	**2,028**	2,033
Amounts due from subsidiaries	**–**	–
Loans and receivables	**229,526**	270,418
Prepayments and deposits	**127,361**	21,514
Amounts due from customers for contract work	**184,105**	11,213
	540,992	303,145

The amount of the Group's prepayments and deposits expected to be recovered or recognised as expense after more than one year is RMB360,000 (2008: RMB237,000). All of the other trade and other receivables (including amounts due from related companies), are expected to be recovered or recognised as expense within one year.

a) Aging analysis of trade receivables net of allowance for doubtful debts as of the end of reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Current	**86,972**	132,422
Less than 1 month past due	**25,488**	17,137
1 to 3 months past due	**34,190**	26,587
More than 3 months but less than 12 months past due	**29,973**	56,032
Amounts past due	**89,651**	99,756
	176,623	232,178

Trade receivables are due within 60 days from the date of billing.

The Group normally grants credit terms from 1 to 2 months to its customers. Trade receivables generally include the balances yet to be due such as the quality retention monies (typically 5% to 20% of the total contracted value) that are retained by the customers until the fulfilment of the warranty period of generally 1 to 2 years and receivable pursuant to the payment terms of the respective contracts.

b) Impairment of trade receivables

Impairment losses in respect of trade receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**840**	637
Impairment loss recognised	**322**	257
Reversal of impairment loss	**(100)**	(54)
At 31 December	**1,062**	840

There were no movements in the allowance account for other receivables.

As at 31 December 2009, trade receivables of approximately RMB1,062,000 (2008: RMB840,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 90 days as at the end of reporting period or were due from companies with financial difficulties. The Group does not hold any collateral over these balances.

The factors which the Group considered in determining whether these trade receivables were individually impaired included the following:

- significant financial difficulty of the debtor;
- receivables that have been outstanding beyond its credit period;
- the granting to the receivables, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the receivables will enter into bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:
  - adverse changes in the payment status of receivables in the Group;
  - economic conditions that correlate with defaults on the trade receivables in the Group.

c) Trade receivable that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**83,729**	132,422
Less than 1 month past due	**25,488**	17,137
1 to 3 months past due	**34,110**	26,286
More than 3 months but less than 12 months past due	**29,973**	55,707
	89,571	99,130
	173,300	231,552

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

10. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**77,198**	87,081
Accruals and other payables	**51,213**	49,977
Amounts due to minority shareholders	**11,334**	2,763
Amount due to a director	**1,223**	976
Financial liabilities measured at amortised cost	**140,968**	140,797

The Group normally receives credit terms of 30 days from its suppliers. The aging analysis of trade payables is as follows:

	2009	2008
	RMB'000	*RMB'000*
0 to 30 days	**59,054**	52,133
31 to 60 days	**1,300**	407
61 to 90 days	**30**	453
91 to 180 days	**578**	139
181 to 365 days	**4,592**	2,870
Over 365 days	**11,644**	31,079
	77,198	87,081

11. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

Contract work-in-progress at the end of reporting period:

	2009	2008
	RMB'000	*RMB'000*
Contract costs incurred to date	**162,789**	9,993
Recognised profits less recognised losses	**70,817**	1,220
	233,606	11,213
Less: Progress billings	**(49,501)**	–
Amounts due from customers for contract work	**184,105**	11,213

In respect of construction contracts in progress at the end of reporting period, the amount of retentions receivable from customers, recorded within trade receivables at 31 December 2009, is RMB41,654,000 (2008: RMB49,281,000). The amount of those retentions expected to be recovered after more than one year is RMB1,072,000 (2008: Nil).

12. SEGMENT REPORTING

The Group manages its business by divisions and all those divisions are located in the PRC. On the first-time adoption of HKFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's Chief Executive Officer for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Sale of EP products and equipment: this segment sales EP products and equipment to external customers. Currently the Group's activities in this regard are carried out in the PRC only.

- EP construction engineering projects: this segment constructs EP engineering projects for external customers. Currently the Group's activities in this regard are carried out in the PRC only.

- Provision of EP related professional services: this segment provision of EP related professional services to external customers and for Group companies. Currently the Group's activities in this regard are carried out in the PRC only.

a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's Chief Executive Officer for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's Chief Executive Officer monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible assets, intangible assets and current assets with the exception of investments in financial assets and other corporate assets. Segment liabilities include trade and other payables attributable to individual segments and short term bank loan managed directly by the Chief Executive Officer.

Revenue and expenses are allocated to the reportable segments with reference to sales generated and services rendered by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment assistance provided by one segment to another, is not measured.

This measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as included investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly to the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

For the year ended 31 December

	Sale of EP products and equipment		EP construction engineering projects		Provision of EP related professional services		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customer	**421,521**	582,846	**179,386**	9,356	**8,065**	1,563	**608,972**	593,765
Inter-segment revenue	**–**	–	**–**	–	**–**	200	**–**	200
Reportable segment revenue	**421,521**	582,846	**179,386**	9,356	**8,065**	1,763	**608,972**	593,965
Reportable segment profit (adjusted EBITDA)	**98,964**	197,632	**45,076**	1,043	**3,332**	(506)	**147,372**	198,169
Reportable segment assets	**224,344**	287,531	**221,944**	111,208	**6,318**	5,318	**452,606**	404,057
Reportable segment liabilities	**41,807**	128,112	**111,197**	144,133	**10,085**	10,322	**163,089**	282,567

b) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

	2009	2008
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**608,972**	593,965
Elimination of inter-segment revenue	**–**	(200)
Consolidated turnover	**608,972**	593,765
Profit		
Reportable segment profit	**147,372**	198,169
Elimination of inter-segment profit	**–**	(200)
Reportable segment profit derived from Group's external customer	**147,372**	197,969
Other revenue and other net income/(loss)	**21,655**	(17,684)
Depreciation and amortisation	**(5,468)**	(4,988)
Finance costs	**(4,080)**	(3,651)
Unallocated head office and corporate expenses	**(34,336)**	(54,083)
Consolidated profit before taxation	**125,143**	117,563
Assets		
Reportable segment asset	**452,606**	404,257
Elimination of inter-segment receivables	**–**	(200)
	452,606	404,057
Non-current financial assets	**6,850**	1,950
Tax recoverable	**–**	3,836
Unallocated head office and corporate assets	**946,952**	945,748
Consolidated total assets	**1,406,408**	1,355,591
Liabilities		
Reportable segment liabilities	**163,089**	282,567
Tax payable	**19,722**	–
Unallocated head office and corporate liabilities	**63,770**	5,871
Consolidated total liabilities	**246,581**	288,438

Revenue from the major customer of the Group attributed approximately RMB95,504,000 and RMB75,600,000 of the Group for the years ended 31 December 2009 and 2008 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2009, the Group achieved a total turnover of RMB609.0 million, similar to that of last year (2008: RMB593.8 million). The sales of products and equipments and progress of work undertaken under the engineering contracts for the Group's solutions was negatively affected by the global financial crisis in the beginning of the review year. Despite this, the Group's overall business in the second half year was on an upward trend helped by economic stimulus measures and promotion of energy conservation and emission reduction. Gross profit was RMB164.9 million (2008: RMB208.1 million). Gross profit margin decreased to 27.1% (2008: 35.0%). Profit attributable to owners was RMB88.1 million (2008: RMB77.8 million), up by 13.3% from last year. This was mainly due to exchange gain of the Company's Australian bank deposits and a decrease in sales commission expenses. Earnings per share of the Group for the year were 11.01 RMB cents (2008: 9.72 RMB cents).

Final Dividend

The Board recommended payment of a final dividend of 4 HK cents per share for the year ended 31 December 2009 (2008: Nil). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 3 June 2010, the final dividend will be paid on or before 15 June 2010 to registered shareholders as at 3 June 2010.

Business Review

As an integrated EP services provider in the PRC, the Group mainly designs and manufactures water and flue gas treatment products and equipment and sells pipes. The Group also undertakes EP construction engineering projects and provides EP related professional services. As at 31 December 2009, the Group had 60 engineers from different professional backgrounds and who had experience in providing customised EP solutions to customers across different industries.

Sale of EP Products and Equipment

Business activities of this segment include selling pipes, as well as water and flue gas treatment products and equipment. During the year under review, it recorded a turnover of approximately RMB421.5 million, accounting for about 69.2% of the Group's total turnover.

Sale of Water Treatment Products and Equipment

The water treatment systems of the Group are mainly used to process industrial and urban wastewater. The Group completed 52 water treatment sales contracts during the year, which generated a turnover of approximately RMB388.3 million, accounting for 92.1% of the segmental turnover. In April 2008, the Group entered into a sewage reduction outline agreement with the Bengbu City Government in Anhui Province, where the Group is responsible for planning, designing and coordinating development of wastewater treatment systems in zones and districts within the city. The objective is to ensure that the sewage discharge level complies with the National First Class A Standard. Construction of one of the projects under the agreement was completed during the year and was pending for testing and commissioning. Furthermore, the Group is considering taking part in the water treatment project in Taihu in Wuxi, Jiangsu Province, and several other wastewater treatment projects in Zhejiang and Jiangsu Provinces.

Sale of Flue Gas Treatment Products and Equipment

The flue gas treatment systems of the Group are used in many industries to process waste gas pollution generated during production. Currently, the Group is actively in negotiation to undertake a number of new projects. This segment is expected to become one of the key development arms of the Group in the future. During the year under review, the group completed 3 projects related to the sale of equipments for flue gas treatment, contributing a turnover of RMB12.1 million to the company, representing a 2.9% of the segmental turnover.

Sale of Pipes

In addition to providing comprehensive EP solutions, the Group also produces fibre glass-reinforced plastic pipes with diametres up to 2,000 mm at its Yixing workshop with a total annual production capacity estimated at 172,680 metres. During the year under review, the pipe workshop produced around 24,200 metres of pipes at the average utilisation rate of approximately 14.0%. The Group completed 4 contracts related to sale of pipes, which generated a turnover of approximately RMB21.1 million, accounting for 5.0% of the segmental turnover.

EP Construction Engineering Projects

The Group has been undertaking EP construction engineering projects since 2004. Relying on our extensive industry expertise and professional research and development and technology capabilities, it has delivered one-stop EP solutions to many clients around the country. During the year, it recorded a turnover of approximately RMB179.4 million, accounting for about 29.5% of the Group's total turnover. Construction works of the government projects in Hunan and Lianyungang, Jiangsu were completed and earnings from them were recognised. Moreover, the Group has started work on a contract worth of RMB80.0 million flue gas desulphurisation ("FGD") project in Henan in last May. Construction work of phase one had been completed and revenues of RMB53.0 million had been recognised. The construction of phase two is expected to be completed in 2010 and revenue will be recognised by then as well.

Provision of EP Related Professional Services

The Group, through its subsidiary Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI"), provides EP-related professional services to clients. With Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design for all environmental projects. During the year, the segment recorded a turnover of approximately RMB8.0 million, accounting for around 1.3% of the total turnover of the Group.

Prospects

The PRC government has stated its determination to develop and nurture new industries, and prominent among these is energy-conservation and environmental protection industries. As 2010 is the last year in the Eleventh Five-Year Plan, the government is expected to assign a higher priority to the environmental protection industry in the Twelfth Five-Year Plan with a budget allocation of up to RMB3,100 billion, of which approximately RMB1,000 billion will be injected into treatment of environmental pollution. Therefore, the Group will adhere to its moderate business policy in order to exploit the growth potential of the industry and make the most of opportunities created by such supportive government policies. The Group currently has about 27 EP contracts with a total value of approximately RMB442.4 on hand.

The wastewater treatment business is expected to remain as the Group's stable income source. The Group is planning to expand the scope of services from construction to build and operation of large scale water treatment for industrial customers such as steel, cement and pharmaceutical industries. This will help broadening income sources, generating stable cash flow and, ultimately, boosting the return on investment for the Group. At present, the Group is conducting feasibility studies.

Moreover, it is expected the "Twelfth Five-Year Plan" of the PRC will introduce regulations for flue gas denitrification ("DeNOx") in order to reduce nitric oxide emissions. The Group will put much efforts in expanding flue gas treatment and related product manufacturing businesses to increase their portion of total turnover. The Group is in discussion to form a strategic alliance with an environmental protection company under a large PRC power group. A joint venture company will be set up to produce the catalysts used in the "Selective Catalytic Reduction Denitrification" ("SCR DeNOx") system. Pan Asia will own not less than 35% equity interest in the joint venture company and will participate in financial management as well as sales and distribution of the products in certain regions. The negotiation for the cooperation is presently in the final stage and it is hoped that an agreement will be reached in the near term. The Group also plans to establish a research and development center for the development of catalysts. It will focus on the analysis of coals in the PRC and the exploitation of raw material for the catalysts. In the past, high quality raw materials of the catalysts in the Chinese market are mainly imported from other countries, the Group is exploring the possibility of local production so as to reduce manufacturing costs of the catalysts.

Moreover, the Group endeavors to search for investment opportunities. It plans to introduce high-end manufacturing equipments for environmental friendly construction materials and produce it in the PRC for domestic use. This will help to promote the application of environmental friendly construction materials in the local market. In September 2009, the Group signed a letter of intent for a possible acquisition of approximately 20% equity interest in Jiangsu E Motors Company Limited. However, the Group had shelved the acquisition plan due to the immature condition of the target.

To maintain steady growth of its businesses in the long run, the Group will adhere to its moderate development strategies while actively exploring opportunities in order to consolidate its position in the EP market within the PRC and make the best use of its abundant cash. In addition to its water and flue gas treatment businesses, it will continue to enhance competitiveness and expand business scope by looking carefully for merger and acquisition targets and other investment opportunities, with an aim to generate better returns for shareholders.

Liquidity and Financial Resources

As at 31 December 2009, the total assets of the Group amounted to RMB1,406.4 million (31 December 2008: RMB1,355.6 million). The Group's total liabilities as at 31 December 2009 were RMB246.6 million (31 December 2008: RMB288.4 million). The main reason for the decrease in total liabilities was the decrease of short term bank loans. The Group's total equity as at 31 December 2009 was RMB1,159.8 million (31 December 2008: RMB1,067.2 million). The Group's bank borrowings outstanding as at 31 December 2009 amounted to RMB16.5 million (31 December 2008: RMB82.0 million) and were all carried at fixed interest rates. There was no particular seasonality of the Group's borrowings. The Group monitored capital using a gearing ratio, which is total debt divided by total equity of the Group. The total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity was 1.4% as at 31 December 2009 (31 December 2008: 7.7%). The Group's cash and cash equivalents amounted to RMB739.3 million as at 31 December 2009.

Exposure To Fluctuations In Exchange Rates

Business transactions and liabilities of the Group are largely denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and the majority of its bank deposits are in Renminbi, Australian Dollars and Hong Kong Dollars. As at 31 December 2009, the Group did not have any foreign currency bank liability, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Accordingly, the Group does not have material exposure to fluctuations in exchange rates other than the bank deposits denominated in Hong Kong Dollars and Australian Dollars. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when appropriate.

Capital Commitments and Contingent Liabilities

As at 31 December 2009, the Group had a capital expenditure commitment amounted to RMB51.3 million (2008: Nil).

The Group provides product maintenance service to customers of FGD construction projects and certain EP products for a period ranging from 6 months to 2 years after a project is completed or a product is delivered. At the same time, the Group enjoys warranties for the work and equipment from its sub-contractors and suppliers. The directors of the Company believe that the amount of crystallised warranty liabilities, if any, in excess of the amount covered by the warranties given by sub-contractors and suppliers, will not have any material adverse effect on the overall financial position or operating results of the Group.

Human Resources

As at 31 December 2009, the Group had approximately 280 employees. Salaries of employees are maintained at a competitive level and reviewed annually, with close reference to the relevant labour market benchmarks and the prevailing economic situation. Remuneration of the directors is determined based on a variety of factors including market conditions and the specific responsibilities shouldered by the individual director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based on the Group's results and the performance of an individual employee. The Group also has an employee share option scheme in operation.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2009.

Audit Committee

An audit committee comprising three independent non-executive directors has been established by the Company to review the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the financial statements of the Group for the year ended 31 December 2009.

Corporate Governance Practices

In the opinion of the Board, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2009, save for the code provision E.1.2. Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting. Mr. Jiang Quanlong, Chairman of the Board, was unable to attend the 2009 annual general meeting due to a business trip and Mr. Jiang Lei, an executive director, has been delegated to attend and answer questions on his behalf at the annual general meeting. Mr. Jiang Quanlong will use his best endeavours to attend all future shareholders' meetings of the Company.

Closure of Register of Members

The Register of Members of the Company will be closed from 1 June 2010 (Tuesday) to 3 June 2010 (Thursday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend and be entitled to attend and vote at the annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 31 May 2010 (Monday).

Annual General Meeting

The annual general meeting of the Company will be held on 3 June 2010 (Thursday), notice of which will be published and dispatched to the shareholders as soon as practicable in accordance with the Company's Articles of Association and the Listing Rules.

By order of the Board
Pan Asia Environmental Protection Group Limited
JIANG Quanlong
Chairman

Hong Kong, 20 April 2010

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

Executive Directors:
Mr. JIANG Quanlong
Mr. JIANG Lei
Mr. FAN Yajun
Mr. GAN Yi

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