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 2012 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS:

	2012 ***RMB'000***	2011 *RMB'000*	**Variance**
TURNOVER	**410,838**	476,026	-13.7%
GROSS PROFIT	**44,630**	60,045	-25.7%
(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(30,157)**	9,520	N.A.
(LOSS)/EARNINGS PER SHARE – BASIC AND DILUTED *(RMB)*	**(3.77) cents**	1.19 cents	N.A.

RESULTS

The Board (the "Board") of Directors (the "Directors") of Pan Asia Environmental Protection Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RMB'000	2011 RMB'000
TURNOVER	3	**410,838**	476,026
Cost of sales		**(366,208)**	(415,981)
GROSS PROFIT		**44,630**	60,045
Other revenue	3	**4,113**	5,404
Other net (loss)/income	3	**(4,020)**	2,169
Selling and distribution expenses		**(4,504)**	(1,503)
General and administrative expenses		**(54,926)**	(42,520)
Other operating expenses		**(11,583)**	(3,072)
Finance costs	4(a)	**(976)**	(537)
(LOSS)/PROFIT BEFORE TAXATION	4	**(27,266)**	19,986
Income tax expenses	5	**(5,984)**	(11,162)
(LOSS)/PROFIT FOR THE YEAR		**(33,250)**	8,824
Other comprehensive income/(loss) for the year (after tax and reclassification adjustments)			
Exchange differences arising from translation of functional currency to presentation currency		**23**	(175)
Other comprehensive income/(loss) for the year, net of tax		**23**	(175)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		**(33,227)**	8,649
(Loss)/profit attributable to:			
Owners of the Company		**(30,157)**	9,520
Non-controlling interests		**(3,093)**	(696)
		(33,250)	8,824
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(30,134)**	9,345
Non-controlling interests		**(3,093)**	(696)
		(33,227)	8,649
(LOSS)/EARNINGS PER SHARE	7		
Basic and diluted		**RMB(3.77) cents**	RMB1.19 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Prepaid lease payment		**41,372**	40,596
Property, plant and equipment		**310,540**	252,094
Available-for-sale financial asset		**9,000**	9,000
		360,912	301,690
CURRENT ASSETS			
Prepaid lease payment		**878**	850
Inventories		**178,896**	81,156
Trade and other receivables	*8*	**480,896**	514,365
Pledged bank deposits		**18,500**	11,060
Cash and bank balances		**564,078**	606,815
		1,243,248	1,214,246
CURRENT LIABILITIES			
Trade and other payables	*9*	**173,852**	101,663
Short-term bank loans		**14,000**	–
Deposits received and receipt in advance		**208,671**	178,256
Tax payable	*11(a)*	**9,094**	14,977
		405,617	294,896
NET CURRENT ASSETS		**837,631**	919,350
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,198,543**	1,221,040
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*11(b)*	**13,272**	6,566
NET ASSETS		**1,185,271**	1,214,474
CAPITAL AND RESERVES			
Share capital		**74,872**	74,872
Reserves		**1,113,444**	1,139,554
Equity attributable to owners of the Company		**1,188,316**	1,214,426
Non-controlling interests		**(3,045)**	48
TOTAL EQUITY		**1,185,271**	1,214,474

NOTES:

1. GENERAL INFORMATION

Pan Asia Environmental Protection Group Limited (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 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 Company and its subsidiaries (together the "Group") are principally engaged in the manufacture and sales of environmental protection ("EP") products and equipment, undertaking EP construction engineering projects, provision of EP related professional services, and manufacture of EP construction materials 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 several amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and the Company. Of these, the following new and revised HKFRSs are relevant to the Group's financial statements:

Amendments to HKFRS 7	Financial Instruments, Disclosures – Transfer of financial assets
Amendments to HKAS 12	Income taxes – Deferred tax, Recovery of underlying assets

The Group has not applied any new and revised HKFRSs that is not yet effective for the current accounting period.

Amendments to HKFRS 7, Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group or the Company does not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group or the Company does not have any interest in investment property, therefore it is not expected to have a material impact on the Group's or Company's financial statements.

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

	2012	2011
	RMB'000	*RMB'000*
Turnover		
Turnover represents the net amounts received and receivable for goods sold and revenue from construction contracts and rendering of services by the Group		
Sales of EP products and equipment	**402,969**	432,167
Sales of EP construction materials	**199**	–
Revenue from EP construction engineering projects	**6,068**	37,193
Revenue from EP related professional services	**1,602**	6,666
	410,838	476,026

	2012	2011
	RMB'000	*RMB'000*
Other revenue		
Interest income on bank deposits	**2,694**	3,061
Total interest income on financial assets not at fair value through profit or loss	**2,694**	3,061
Dividend income from available-for-sale financial asset	**1,000**	2,150
Reversal of impairment loss on trade receivables	**–**	80
Rental income	**53**	–
Sundry income	**366**	113
	4,113	5,404
Other net (loss)/income		
Gain on disposal of prepaid lease payment	**–**	6,340
Loss on disposal of property, plant and equipment	**(9)**	(3,882)
Loss on written off of property, plant and equipment	**(3,942)**	–
Net exchange loss	**(69)**	(289)
	(4,020)	2,169

4. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting) the following:

	2012	2011
	RMB'000	*RMB'000*
a) Finance costs:		
Interest on bank advances wholly repayable within one year	**976**	537
Total interest expenses on financial liabilities not at fair value through profit or loss	**976**	537
b) Staff costs (including directors' emoluments) *(Note)*:		
– Contributions to defined contribution retirement plans	**1,432**	1,307
– Salaries, wages and other benefits	**17,428**	16,810
– Equity-settled share-based payments	**4,024**	–
	22,884	18,117
c) Other items:		
Amortisation of prepaid lease payment	**878**	518
Auditor's remuneration		
– audit services	**1,231**	1,330
– other services	**458**	448
Cost of inventories *(Note)*	**339,260**	345,513
Depreciation *(Note)*	**13,352**	9,755
Impairment loss on trade receivables	**1,028**	–
Impairment loss on other receivables	**39**	–
Impairment loss on deposits	**818**	–
Operating lease charges		
– leasing of properties	**999**	1,545
– leasing of equipment	**6**	6
Research and development fee	**8,568**	–
Rental from properties less direct outgoings	**(53)**	(53)

Note:

Cost of inventories includes RMB3,015,000 (2011: RMB8,036,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

5. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Taxation in the consolidated statement of comprehensive income represents:

	2012	2011
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax		
– current year	**310**	9,448
– over provision in respect of prior years	**(1,032)**	–
	(722)	9,448
Deferred Tax		
Origination of temporary differences *(note 11(b))*	**6,706**	1,714
	5,984	11,162

i) The Company and its subsidiaries established in the British Virgin Islands are not subject to income tax.

ii) A 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.

iii) No provision for Hong Kong profits tax has been made for the years ended 31 December 2011 and 2012 as the Group's income neither arises in, nor is derived from Hong Kong.

6. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil).

7. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB30,157,000 (2011: profit attributable to owners of the Company of approximately RMB9,520,000) and the weighted average number of 800,000,000 ordinary shares (2011: 800,000,000 ordinary shares) in issue during the year.

b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equal to basic (loss)/earnings per share for the years ended 31 December 2012 and 2011 as the exercise price of the Company's outstanding share options were higher than the average market price of the Company's shares for the year and therefore the computation of diluted loss or earnings per share does not assume the exercise of the Company's share options.

8. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**133,189**	141,530
Less: Allowance for doubtful debts	**(2,104)**	(1,076)
	131,085	140,454
Other receivables	**125,802**	119,479
Less: Allowance for doubtful debts	**(186)**	(147)
	125,616	119,332
Amount due from a related company	**–**	6,100
Loans and receivables	**256,701**	265,886
Prepayments and deposits	**71,569**	120,581
Other tax recoverables	**34,492**	9,773
Amounts due from customers for contract work *(Note 10)*	**118,134**	118,125
	480,896	514,365

The amount of the Group's prepayments and deposits expected to be recovered or recognised as expense after more than one year is RMB400,593 (2011: RMB241,000). All of the trade and other receivables (including amount due from a related company), apart from those mentioned in note 10 are expected to be recovered or recognised as expense within one year.

a) Ageing analysis

Trade receivables are net of allowance for doubtful debts and the ageing analysis presented as of the end of the reporting period is as follow:

	2012	2011
	RMB'000	*RMB'000*
0-30 days	**59,209**	13,334
31-60 days	**5,473**	17,659
61-90 days	**12,618**	20,433
91-180 days	**33,312**	21,915
181-365 days	**12,828**	34,995
Over 365 days	**7,645**	32,118
	131,085	140,454

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 of approximately RMB43,731,000 (2011: RMB60,564,000) (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 receivables 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:

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**1,076**	1,156
Impairment loss recognised	**1,028**	–
Reversal of impairment loss	**–**	(80)
At 31 December	**2,104**	1,076

As at 31 December 2012, trade receivables of approximately RMB2,104,000 (2011: approximately RMB1,076,000) were individually determined to be impaired. These individually impaired receivables were outstanding for over 90 days as at the end of the 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;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- receivables that have been outstanding for a certain period;
- the granting to the debtor, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;
- it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

c) **Trade receivables that are past due but not impaired**

The ageing analysis of trade receivables that are past due but not impaired is as follows:

	2012	2011
	RMB'000	*RMB'000*
Less than 1 month past due	**8,191**	6,468
1 to 3 months past due	**21,911**	14,354
More than 3 months past due	**5,285**	33,946
	35,387	54,768

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.

d) **Other receivables**

The amounts due are unsecured, interest-free and repayable on demand and included an amount of approximately RMB97,230,000 (2011: RMB97,230,000) advanced to the local government departments of Guannan County, Lianyungang City, Jiangsu Province, PRC. The management believes that no impairment allowance is necessary in respect of this balance as the balance is still considered fully recoverable.

Other receivables as at 31 December 2012 also included a total amount of approximately RMBNil (2011: RMB5,000,000) arising from the disposal of subsidiaries in 2009, which was fully recovered during the year.

9. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**136,818**	60,418
Accruals and other payables	**27,803**	35,250
Amount due to a director	**2,677**	1,589
Amounts due to related companies	**2,258**	23
Financial liabilities measured at amortised cost	**169,556**	97,280
Other PRC tax payables	**4,296**	4,383
	173,852	101,663

a) Ageing analysis of trade payables

The ageing analysis of trade payables is as follows:

	2012	2011
	RMB'000	*RMB'000*
0 to 30 days	**50,290**	5,306
31 to 60 days	**12,081**	565
61 to 90 days	**7,077**	5,510
91 to 180 days	**20,146**	3,215
181 to 365 days	**6,045**	2,161
Over 365 days	**41,179**	43,661
	136,818	60,418

b) Accruals and other payables

Included an amount of approximately RMB8,784,000 (2011: RMB8,784,000) due to a former subsidiary. The amount due is unsecured, interest-free and repayable on demand.

10. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

	2012	2011
	RMB'000	*RMB'000*
Contract costs incurred to date	**249,577**	204,552
Recognised profits less recognised losses	**54,433**	75,680
	304,010	280,232
Less: Progress billings	**(185,876)**	(162,107)
Amounts due from customers for contract work	**118,134**	118,125

The amounts due from customers for contract work at 31 December 2012 that is expected to be recovered after more than one year is RMBNil (2011: RMB106,171,000).

In respect of construction contracts in progress at the end of the reporting period, the amount of retention receivables from customers, recorded within "Trade receivable" at 31 December 2012 is RMB5,584,000 (2011: RMB2,370,000). The amount of those retentions expected to be recovered after more than one year is RMBNil (2011: Nil). Receipt in advance from customers for contract work amounted to RMB39,418,000 (2011: RMB21,460,000) which is included in "Deposit received and receipt in advance".

11. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the statement of financial position represents

	2012	2011
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax	**310**	9,448
Tax charge waived	**(96)**	–
Over provision in previous years	**(1,032)**	–
Tax paid	**(3,057)**	(11,363)
	(3,875)	(1,915)
Balance of PRC enterprise income tax relating to prior year	**12,969**	16,892
Tax payable	**9,094**	14,977

b) Deferred taxation

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Withholding tax on undistributed profits *RMB'000*	Depreciation allowances in excess of related depreciation *RMB'000*	Total *RMB'000*
At 1 January 2011	4,852	–	4,852
Charged to profit or loss *(Note 5)*	1,714	–	1,714
At 31 December 2011 and 1 January 2012	6,566	–	6,566
Charged to profit or loss *(Note 5)*	1,105	5,601	6,706
At 31 December 2012	7,671	5,601	13,272

Pursuant to the New Enterprise Income Tax Laws of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprise established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 10%. The Group is therefore liable to withholding taxes on dividend distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 onwards. The Group recognised deferred tax liabilities in respect of expected distributable earnings from its subsidiaries established in the PRC since 1 January 2008 with reference to the Group's dividend policy, no matter whether any dividends have been declared out of such earnings by the subsidiaries at the reporting date. The directors of the Company will review the funding requirements of the Group from time to time and revise the dividend policy of its subsidiaries as appropriate.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

As at 31 December 2012 and 2011, the Group has not recognised deferred tax assets in respect of tax losses of RMB18,446,000 (2011: RMB16,544,000) which will expire from 2013 to 2017 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

12. SEGMENT REPORTING

The Group manages its business by divisions and all those divisions are located in the PRC. In a manner consistent with the way in which information is reported internally to the Group's Chief Operating Decision Maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

- Manufacture of EP construction materials: this segment manufactures and sells EP construction materials to external customers, main product is wood wool cement board. Currently the Group's activities in this segment have not yet commenced.

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible 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 respective segment.

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.

The measure used for reporting segment profit is "adjusted EBITDA" that is, "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including 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' emoluments and auditor's remuneration and other corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, the Group's CODM is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by 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.

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below:

	Sales of EP products and equipment		EP construction engineering projects		Provision of EP related professional services		Manufacture of EP construction materials		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue from external customer	**402,969**	432,167	**6,068**	37,193	**1,602**	6,666	**199**	–	**410,838**	476,026
Reportable segment profit/(loss) (adjusted EBITDA)	**65,021**	56,379	**(20,493)**	(1,070)	**188**	3,771	**(8,828)**	(933)	**35,888**	58,147
Interest expenses	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Depreciation and amortisation for the year	**1,218**	2,914	**1,509**	1,337	**–**	–	**8,443**	3,072	**11,170**	7,323
Reportable segment assets	**345,210**	313,747	**158,593**	170,317	**3,172**	4,615	**360,503**	290,548	**867,478**	779,227
Additions to non-current segment assets during the year	**692**	580	**–**	–	**–**	–	**71,574**	92,563	**72,266**	93,143
Reportable segment liabilities	**256,843**	159,356	**77,147**	71,793	**10,036**	9,748	**4,882**	1,850	**348,908**	242,747

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

	2012	2011
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue from external customers	**410,838**	476,026
Profit		
Reportable segment profit derived from external customers	**35,888**	58,147
Other revenue and other net income	**93**	7,573
Depreciation and amortisation	**(14,230)**	(10,273)
Finance costs	**(976)**	(537)
Unallocated head office and corporate expenses	**(48,041)**	(34,924)
Consolidated (loss)/profit before taxation	**(27,266)**	19,986
Assets		
Reportable segment assets	**867,478**	779,227
Non-current financial assets	**9,000**	9,000
Unallocated head office and corporate assets	**727,682**	727,709
Consolidated total assets	**1,604,160**	1,515,936
Liabilities		
Reportable segment liabilities	**348,908**	242,747
Current tax liabilities	**9,094**	14,977
Deferred tax liabilities	**13,272**	6,566
Unallocated head office and corporate liabilities	**47,615**	37,172
Consolidated total liabilities	**418,889**	301,462

Information about major customers

Included in revenue arising from sales of EP products and equipment of approximately RMB402,969,000 (2011: RMB432,167,000) are revenues of approximately RMB23,680,000 (2011: RMB27,897,000) which arose from sales to the Group's largest customer. No other single customers contributed 10% or more to the Group's revenue for both 2012 and 2011.

Geographical information

The Group's turnover and results from operations mainly derived from activities in the PRC. All material non-current assets of the Group were located in the PRC during the year. Accordingly, no geographical information is provided.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2012, the Group achieved a total turnover of RMB410.8 million, a decrease of 13.7% compared with last year (2011: RMB476.0 million), mainly due to intense competition in the market. Affected by rising costs, the Group recorded a reduced gross profit of RMB44.6 million (2011: RMB60.0 million) and a gross profit margin of 10.9% (2011: 12.6%) during the year. On the other hand, the new eco-friendly construction materials business just started generating revenue for the Group in the fourth quarter of the financial year 2012, and yet the amount of such revenue was still small as compared to the increasing expenses incurred on development of such business for the whole financial year 2012. The Group recorded a loss attributable to owners of the Company of RMB30.2 million (2011: profit of RMB9.5 million). The loss per share was RMB3.77 cents (2011: earnings per share of RMB1.19 cents).

Final Dividend

The Board did not recommend payment of a final dividend for the year ended 31 December 2012 (2011: Nil). Capital will be reserved for the development of the Group's different business operations, in particular, to capture the enormous potential of the market for wood wool cement boards ("WWCB"), the eco-friendly construction material.

Business Review

As an integrated environmental protection ("EP") services and eco-friendly construction materials provider in the PRC, the Group mainly designs and manufactures water and flue gas treatment products and equipment. The Group also sells pipes, undertakes EP construction engineering projects and provides EP-related professional services. To further develop EP-related businesses with high growth potential to broaden its income stream, the Group has actively expanded the production scale of WWCB in accordance with its strategy while still maintaining its focus on the sales of pipes, flue gas and water treatment products and equipment in order to generate stable income.

Sales of EP Products and Equipment

During the year under review, sales of EP products and equipment recorded a turnover of approximately RMB402.9 million, accounting for around 98.1% of the Group's total turnover.

Sales of Water Treatment Products and Equipment

The water treatment systems produced by the Group are mainly used to process industrial and urban wastewater. During the year under review, the water treatment business generated a turnover of approximately RMB317.2 million, accounting for approximately 77.2% of the Group's turnover. Although favorable PRC government policies accelerated the demand for water treatment system, competition within the industry was fierce. As a result, enterprises reduced their prices in order to compete, which led to a significant decrease in gross profit margin. During the year, the Group completed 43 water treatment related sales contracts. The Group intends to secure more water treatment projects with greater profits to maintain a steady growth of the business.

Sales of Flue Gas Treatment Products and Equipment

The Group mainly provides flue gas desulphurisation ("FGD") and flue gas dentrification services to clients in non-ferrous metals, iron and steel, power generation, cement and glass industries. Equipped with proprietary technology, the Group turned its focus from traditional power generation clients to those in the non-ferrous metals and the iron and steel industries. During the year under review, the Group completed 9 projects related to sales of flue gas treatment equipment, contributing a turnover of approximately RMB85.7 million, representing approximately 20.9% of the Group's turnover.

Sales of Pipes

The Group also produces fibreglass-reinforced plastic pipes with diameters of up to 2,000 mm at its Yixing workshop. The estimated total annual production capacity is approximately 172,680 metres. However, during the year, the Group relocated the workshop in a new production base in order to streamline management of all of its production lines. Therefore, the production of pipes was temporarily suspended during the year.

EP Construction Engineering Projects

Leveraging on its extensive industry expertise, professional research and development capabilities and technologies, the Group has been providing one-stop EP solutions to many clients. During the year, this segment recorded a turnover of approximately RMB6.1 million, accounting for about 1.5% of the Group's total turnover. Most of the projects in this segment spanned over different financial periods and are booked to the accounts according to stage of completion.

Provision of EP Related Professional Services

The Group, through its subsidiary namely 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 RMB1.6 million, accounting for approximately 0.4% of the Group's total turnover.

Sales of EP Construction Materials

The introduction of EP wallboard production lines from the Netherlands enabled the Group to expand into the eco-friendly construction materials business. During the year, most of the products were exported to Korea, and generated a turnover of approximately RMB200,000. The Group cooperated closely with a number of construction and design institutes, and established demonstration projects in Shanghai, Yixing, Jingmen and Xiamen, thereby raising the market's attention to this eco-friendly construction material. This segment started to generate income for the Group in the fourth quarter of 2012. As the business was still at the developmental stage, the revenue generated was relatively low when compared to the expenses incurred for developing the business during the year. However, the Board believes that continuing development of such new business would eventually be rewarding and beneficial to the Group as the revenue is expected to be growing in future.

PROSPECTS

Eco-friendly construction materials business – a new growth driver with huge potential

Energy-conserving construction is an important element of the Twelfth Five-Year Plan programme. The Central Government is striving to accelerate the wide application of renewable energy resources in the construction industry, and promote the development and popularity of green construction. A range of policy initiatives were introduced by the government during the year. For example the "Guide on Energy Conservation Reform of Current Residential Buildings" announced by the Ministry of Housing and Urban-Rural Development of China stipulates the implementation of energy-conserving residential construction reform in four areas including walls and roofing, heating systems, heat pipe networks and integrated energy saving. The Central Government is also imposing mandatory energy-saving standards on the construction of new buildings in cities and towns during the Twelfth Five-year Plan period, so as to increase the proportion of eco-friendly buildings to more than 30% by 2020.

In this regard, the Group has actively expanded into the eco-friendly construction materials business. It has introduced six EP wallboard production lines from the Netherlands to produce WWCB and large wall components, each with an annual capacity of 140,000 m^3. WWCB is an eco-friendly inorganic energy-conserving construction material that is made from cement, eco-friendly fast growing timber, and non-toxic chemical addictives amalgamated through a highly pressurised process. This material is widely used overseas because of its distinctive heat retention, fire resistant and insect repellant properties, as well as being sound-proof, moisture-proof and mould-proof. It also does not contain formaldehyde or any other volatile organic compounds. The benefits of WWCB make it ideal for renovation and wall construction, in particular, for high-end residential and commercial buildings requiring high durability and energy saving in regions with greater weather and temperature fluctuations.

Among the six production lines, five are standard production lines that can produce WWCB of varying thickness from 10 to 100mm. The other large wall component production line principally manufactures 3m x 6m x 40cm large wall components which can be installed directly. It is the most advanced and fully automated production line in the world.

Two standard production lines began operation in 2012 and mainly manufacture 15 to 75mm thick boards in meeting market demand. During the year under review, the Group secured orders from overseas which started to contribute profit to the segment. The installation of three more standard production lines procured in late 2011 is expected to be completed in 2013. The additional capacity should further optimise the Group's workflow and boost production efficiency.

In addition, the large wall component production line completed its standard testing after the 2013 Chinese New Year. The engineering staff is starting trial production of products of 30cm and 22cm thickness in April. These products are exclusively produced by the Group and designed based on climate requirements in the PRC.

The Ministry of Housing and Urban-Rural Development of the PRC approved WWCB as a standard construction material with effect from 1 August 2012. The Group continued to work with large research institutes including Jiangsu Research Institute of the Building Science Co., Ltd. ("JRIBS") and China Academy of Building Research Institute of Building Design to test and verify the shape and specifications of the boards in compliance with the national construction requirements, and to optimise the specifications of the WWCB. The partners also provide working guidance for the Group's pilot and demonstration projects aiming to enhance the recognition of the products and such projects in the PRC. The Group is drafting the construction standards and commissioning standards for the applications of the products, and is applying for Grade A Fire Resistant Standard for wall materials, and expects to obtain the certifications in the first half of 2013.

The Group has already captured market attention through the completion of several demonstration projects in key targeted cities for development such as Shanghai, Yixing and Xiamen. At the same time, it is evaluating joint projects with potential customers, including government authorities and property developers. Several sample products have been sent for testing with the quotations submitted for reference. Looking ahead, in addition to building more demonstration projects in the PRC, the Group will also develop markets overseas to further promote this material.

As the market has begun to realize the features and benefits of WWCB, the Group believes this product has huge potential for future growth. The Group has established a sound sales network through its self-operated sales platform and distributors to promote this quality eco-friendly construction material which is highly recognised and accepted in overseas markets. The Group expects that the business will be an important income source when WWCB becomes more widely accepted and utilised in the market within the next five years.

Water and flue gas treatment business – continues to bring stable revenue

In the "Energy-saving and Environmental Protection Industry Development Programme under the Twelfth Five-Year Plan," the Central Government indicated that the total production value of the energy-saving and EP industry will reach RMB4,500 billion by 2015. Of this total, approximately RMB816 billion will be invested into key pollution elimination projects with the aim to substantially reduce emissions of major pollutants. During the Twelfth Five-Year Plan period, revisions of 600 EP standards are expected to be completed, thereby creating a better national EP standard system. Moreover, the Ministry of Environmental Protection announced the imposition of special limits on emissions in February 2013, mainly targeting new projects in six heavily-polluting industries including thermal power generation, iron and steel, petrochemical, cement, non-ferrous metal and chemical industries as well as coal-fired furnace projects.

Because water treatment planning has been launched for a long time and the industry is more developed, the price competition is more fierce. Therefore, the Group will be more prudent in undertaking projects in the future. On the other hand, the Group is putting greater effort into developing the flue gas treatment business capitalizing on its proprietary technology and the advantage of one-stop production. The Group is also providing desulfurisation services targeting the non-ferrous metal and iron and steel industries among the above-mentioned six heavily polluting industries. Following the successful collaboration with Jinlong Copper Co, Ltd., the Group is discussing similar cooperation with several enterprises. The Group expects to finalise landmark projects within the coming one to two years so as to significantly increase the revenue contribution from the flue gas treatment business.

Currently, the Group has 52 uncompleted water and flue gas treatment contracts with a total value of approximately RMB478.9 million on hand. Looking ahead, the Group intends to expand its EP engineering business including large-scale industrial waste water and flue gas treatment, construction and operations projects, so as to expand its income stream and generate a stable cashflow.

In summary, the Group will expand steadily in two key areas of the EP industry, namely flue gas treatment and waste water treatment, and the eco-friendly construction materials business. The Group will leverage its proprietary technology for ongoing transformation of its business and capture the opportunities made available by the improving EP system in the country. This will be done in a bid to achieve better results to reward its shareholders and staff and strive to become the leading enterprise in the EP industry in the PRC. The management of the Group will unite together to collectively pursue innovation and development while working to ensure that the operations as well as its products comply with relevant standards. All these arrangements are expected to open a new chapter of growth for the Group in the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the total assets of the Group amounted to RMB1,604.2 million, an increase of RMB88.3 million as compared with RMB1,515.9 million in 2011. Increase in total assets was mainly due to the implementation of the new WWCB production facilities and increase of inventories. The Group's total liabilities as at 31 December 2012 amounted to RMB418.9 million, an increase of RMB117.4 million as compared with RMB301.5 million in 2011. The main reason for the increase in total liabilities was the increase in trade and other payables and deposits received in advance, as well as new short-term bank loans. The Group's total equity as at 31 December 2012 was RMB1,185.3 million (2011: RMB1,214.5 million). The Group had an unpaid bank borrowings of totalling RMB14.0 million as at 31 December 2012 (2011: Nil) and the equity ratio calculated by dividing interest-bearing loans and other borrowings by total equity was 1.2% (2011: Nil). The Group's cash and cash equivalents amounted to RMB564.1 million as at 31 December 2012 (2011: RMB606.8 million).

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 and Hong Kong Dollars. As at 31 December 2012, the Group did not have any foreign currency bank liability, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when appropriate. As at 31 December 2012, the Group did not have any derivative for hedging against both the interest rate and foreign exchange risks.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2012, the Group had a capital expenditure commitment in respect of acquisition of property, plant and equipment and injection of the share capital of a subsidiary totalling RMB86.2 million (2011: RMB149.6 million). 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, would not have any material adverse effect on the overall financial position or operating results of the Group.

HUMAN RESOURCES

As at 31 December 2012, the Group had approximately 250 employees. Salaries of employees are maintained at competitive levels and are reviewed annually, with close reference to the relevant labour market and economic situations. Remuneration of the Directors is determined based on a variety of factors such as market conditions and the specific responsibilities shouldered by the individual director. Apart from the basic remuneration and statutory benefits required by law, the Group also provides discretionary bonuses based on its results and the performance of the 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 purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2012.

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 Company and its subsidiaries for the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 4 June 2013 to Thursday, 6 June 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to 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 Monday, 3 June 2013.

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

Hong Kong, 28 March 2013

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