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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS:

	2013	2012	**Variance**
	RMB'000	*RMB'000*	
TURNOVER	**587,980**	410,838	43.1%
GROSS PROFIT	**64,889**	44,630	45.4%
LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(21,098)**	(30,157)	-30.0%
LOSS PER SHARE – BASIC AND DILUTED	**RMB(2.64) cents**	RMB(3.77) cents	-30.0%

RESULTS

The Board (the "Board") of Directors (the "Directors") of Pan Asia Environmental Protection Group Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2013 together with the comparative figures for the year ended 31 December 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**2013** ***RMB'000***	2012 *RMB'000*
TURNOVER	*3*	**587,980**	410,838
Cost of sales		**(523,091)**	(366,208)
GROSS PROFIT		**64,889**	44,630
Other revenue	*3*	**4,398**	4,113
Other net gain/(loss)	*3*	**335**	(4,020)
Selling and distribution expenses		**(7,112)**	(4,504)
General and administrative expenses		**(69,692)**	(54,926)
Other operating expenses		**(9,868)**	(11,583)
Finance costs	*4(a)*	**(976)**	(976)
LOSS BEFORE TAXATION	*4*	**(18,026)**	(27,266)
Income tax expenses	*5*	**(3,371)**	(5,984)
LOSS FOR THE YEAR		**(21,397)**	(33,250)
Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements to presentation currency		**(1,114)**	23
Total comprehensive loss for the year		**(22,511)**	(33,227)

	Note	2013 RMB'000	2012 RMB'000
Loss for the year attributable to:			
Owners of the Company		**(21,098)**	(30,157)
Non-controlling interests		**(299)**	(3,093)
		(21,397)	(33,250)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(22,212)**	(30,134)
Non-controlling interests		**(299)**	(3,093)
		(22,511)	(33,227)
LOSS PER SHARE	*7*		
Basic and diluted		**RMB(2.64) cents**	RMB(3.77) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Prepaid lease payments		**54,551**	41,372
Property, plant and equipment		**366,325**	310,540
Available-for-sale financial asset		**9,000**	9,000
		429,876	360,912
CURRENT ASSETS			
Prepaid lease payments		**1,178**	878
Inventories		**97,365**	178,896
Trade and other receivables	8	**415,568**	480,896
Pledged bank deposits		**10,616**	18,500
Cash and bank balances		**571,326**	564,078
		1,096,053	1,243,248
CURRENT LIABILITIES			
Trade and other payables	9	**175,985**	173,852
Short-term bank loans		**14,000**	14,000
Deposits received and receipts in advance		**151,728**	208,671
Tax payable		**3,389**	9,094
		345,102	405,617
NET CURRENT ASSETS		**750,951**	837,631
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,180,827**	1,198,543
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(14,930)**	(13,272)
NET ASSETS		**1,165,897**	1,185,271
CAPITAL AND RESERVES			
Share capital		**74,872**	74,872
Reserves		**1,094,369**	1,113,444
Equity attributable to owners of the Company		**1,169,241**	1,188,316
Non-controlling interests		**(3,344)**	(3,045)
TOTAL EQUITY		**1,165,897**	1,185,271

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 a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKAS 1 (Amendments)	Presentation of financial statements – Presentation of items of other comprehensive income
HKAS 19 (Revised)	Employee benefits
HKAS 27 (Revised)	Separate financial statements
HKAS 28 (Revised)	Investments in associates and joint ventures
HKFRSs (Amendments)	Annual improvements to HKFRS 2009-2011 cycle
HKFRS 1 (Amendments)	Government loans
HKFRS 7 (Amendments)	Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities; transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Except for the below mentioned, the adoption of new HKFRSs and amendments to HKFRSs has had no significant financial effect on these financial statements.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new title of "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements, relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

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

Turnover

Turnover represents the net amounts received and receivable for goods sold, and revenue from construction contracts and rendering of professional services by the Group.

The amount of each significant category of revenue recognised in turnover during the year is as follow:

	2013	2012
	RMB'000	*RMB'000*
Sales of EP products and equipment	**541,888**	402,969
Sales of EP construction materials	**2,986**	199
Revenue from EP construction engineering projects	**39,101**	6,068
Revenue from EP related professional services	**4,005**	1,602
	587,980	410,838

	2013	2012
	RMB'000	*RMB'000*
Other revenue		
Interest income on bank deposits	**2,505**	2,694
Total interest income on financial assets not at fair value through profit or loss	**2,505**	2,694
Dividend income from unlisted equity securities	**750**	1,000
Reversal of impairment loss on trade receivables	**31**	–
Rental income from operating lease	**53**	53
Sundry income	**1,059**	366
	4,398	4,113
Other net gain/(loss)		
Gain/(loss) on disposals of property, plant and equipment	**441**	(9)
Loss on written off of property, plant and equipment	**–**	(3,942)
Net exchange loss	**(106)**	(69)
	335	(4,020)

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	2013	2012
	RMB'000	*RMB'000*
a) Finance costs:		
Interest on bank loans wholly repayable within five years	**976**	976
Total interest expenses on financial liabilities not at fair value through profit or loss	**976**	976
b) Other items:		
Amortisation of prepaid lease payments	**955**	878
Depreciation of property, plant and equipment	**20,567**	21,845
Impairment loss on trade receivables	**1,370**	1,028
Impairment loss on deposits	**–**	818
Impairment loss on other receivables	**1,199**	39
Research and development costs	**4,172**	8,568

5. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2013	2012
	RMB'000	*RMB'000*
Current Tax:		
PRC Enterprise Income Tax		
– provision for the year	**1,713**	310
– over-provision in respect of prior years	**–**	(1,032)
	1,713	(722)
Deferred Tax:		
Origination and reversal of temporary differences	**1,658**	6,706
	3,371	5,984

i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

ii) PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the Company's subsidiaries established in the PRC during the years ended 31 December 2013 and 2012.

iii) No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2013 and 2012 as the Group did not have assessable profits arising in Hong Kong during both years.

6. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2013 (2012: Nil).

7. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB21,098,000 (2012: RMB30,157,000) and the weighted average number of 800,000,000 ordinary shares (2012: 800,000,000 ordinary shares) in issue during the year.

b) Diluted loss per share

Diluted loss per share equals to the basic loss per share for the years ended 31 December 2013 and 2012 as the share options outstanding had no dilutive effect on the basic loss per share for both years.

8. TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**127,609**	89,458
Less: Allowance for doubtful debts	**(3,443)**	(2,104)
	124,166	87,354
Other receivables	**55,700**	125,802
Less: Allowance for doubtful debts	**(1,385)**	(186)
	54,315	125,616
Retention receivables	**61,915**	43,731
Amounts due from related companies	**820**	–
Loans and receivables	**241,216**	256,701
Prepayments and deposits	**62,322**	71,569
Other tax recoverables	**12,152**	34,492
Amounts due from customers for contract work	**99,878**	118,134
	415,568	480,896

a) Ageing analysis

The ageing analysis of trade receivables (net of allowance for doubtful debts) at the end of each reporting period is as follow:

	2013	2012
	RMB'000	*RMB'000*
0 to 30 days	**32,183**	49,251
31 to 60 days	**4,626**	3,101
61 to 90 days	**1,354**	8,191
91 to 180 days	**38,117**	21,526
181 to 365 days	**23,575**	10
Over 365 days	**24,311**	5,275
	124,166	87,354

The Group normally grants credit terms of 2 months to its customers.

b) Other receivables

Included in other receivables as at 31 December 2013 is an advance of approximately RMB17,230,000 (2012: RMB97,230,000) to the local government departments of Guannan County, Lianyungang City, Jiangsu Province, the PRC. The management believes that no impairment allowance is necessary in respect of this balance as the balance is still considered fully recoverable.

9. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**117,984**	136,818
Accruals and other payables	**34,702**	27,803
Amounts due to directors	**556**	2,677
Amounts due to related companies	**17,928**	2,258
Financial liabilities measured at amortised cost	**171,170**	169,556
Other PRC tax payables	**4,815**	4,296
	175,985	173,852

a) Ageing analysis of trade payables

The ageing analysis of trade payables is as follows:

	2013	2012
	RMB'000	*RMB'000*
0 to 30 days	**19,556**	50,290
31 to 60 days	**2,249**	12,081
61 to 90 days	**11,370**	7,077
91 to 180 days	**1,653**	20,146
181 to 365 days	**17,396**	6,045
Over 365 days	**65,760**	41,179
	117,984	136,818

10. 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 Chairman, being 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.
- EP construction engineering projects: this segment undertakes EP construction engineering projects for external customers.
- Provision of EP related professional services: this segment provides EP related professional services to external customers and for group companies.
- Manufacture of EP construction materials: this segment manufactures and sells EP construction materials to external customers, and the main product is wood wool cement board.

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 2013 and 2012 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**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	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 customers	**541,888**	402,969	**39,101**	6,068	**4,005**	1,602	**2,986**	199	**587,980**	410,838
Inter-segment revenue	**–**	–	**–**	–	**1,360**	–	**–**	–	**1,360**	–
Reportable segment revenue	**541,888**	402,969	**39,101**	6,068	**5,365**	1,602	**2,986**	199	**589,340**	410,838
Reportable segment profit/(loss) (adjusted EBITDA)	**70,263**	65,021	**(7,424)**	(20,493)	**932**	188	**(3,909)**	(335)	**59,862**	44,381
Depreciation and amortisation for the year	**6,969**	1,218	**294**	1,509	**–**	–	**12,594**	16,936	**19,857**	19,663

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and prepaid lease payments. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and prepaid lease payments.

	Revenues from external customers		**Specified non-current assets**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hong Kong (place of domicile)	**–**	–	**537**	27
Mainland China	**585,317**	410,707	**420,339**	351,885
South Korea	**2,663**	131	**–**	–
	587,980	410,838	**420,876**	351,912

MANAGEMENT DISCUSSION AND ANALYSIS

Financial 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 undertakes EP construction engineering projects and provides EP-related professional services. In recent years, the Group has strived to develop its production scale of Wood Wool Cement Board ("WWCB") utilising production equipment and technology imported from the Netherlands with the aim to create a new growth driver for business development.

For the year ended 31 December 2013, the Group achieved a total turnover of RMB588.0 million, an increase of 43.1% compared with last year (2012: RMB410.8 million). Attributable to the increased turnover, gross profit rose to about RMB64.9 million (2012: RMB44.6 million) and gross profit margin was 11.0% (2012: 10.9%) during the year. The Group recorded a loss attributable to owners of the Company of RMB21.1 million (2012: loss of RMB30.2 million). The loss per share was RMB2.64 cents (2012: loss per share of RMB3.77 cents).

Sales of EP Products and Equipment

During the year under review, sales of EP products and equipment recorded a turnover of approximately RMB541.9 million, accounting for around 92.1% 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 RMB417.1 million, accounting for around 70.9% of the Group's total turnover. The Group completed 58 water treatment-related sales contracts in the year while the water treatment business was still the main focus of the Group's contracts on hand.

Sales of Flue Gas Treatment Products and Equipment

The Group mainly provides flue gas desulphurisation ("FGD") and flue gas denitrification services to clients engaged in a range of industries including non-ferrous metals, iron and steel, power generation, cement and glass. By utilising its proprietary technology, the Group has continued to focus on customers in the non-ferrous metal industry during the year. With the stricter control of airborne emissions in the PRC, the demand for flue gas treatment is increasing, which drives the turnover of this business segment to approximately RMB124.8 million. During the year under review, the Group completed 10 projects related to sales of flue gas treatment equipment, representing approximately 21.2% of the Group's turnover.

EP Construction Engineering Projects

Apart from comprehensive EP solutions, the Group has been providing one-stop EP solutions to many clients by leveraging its extensive industry expertise, professional research and development ("R&D") capabilities and technologies. Most of the projects in this segment spanned different financial periods and are booked to the accounts according to the stage of completion. This segment recorded a turnover of approximately RMB39.1 million during the year under review.

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. Accredited with Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design for all environmental projects. During the year under review, the segment recorded a turnover of approximately RMB4.0 million, accounting for approximately 0.7% of the Group's total turnover.

Sales of EP Construction Materials

The introduction of six EP wallboard production lines from the Netherlands enabled the Group to expand into the eco-friendly construction materials business. Two WWCB production lines commenced operation in 2013 and installation and testing of the other four are to be completed by mid-2014. During the year, most of these products were exported to South Korea, generating a turnover of approximately RMB3.0 million. The Group continued to collaborate closely with a number of construction and design institutes, and established model projects in Shanghai, Yixing, Xiamen, Hubei and Inner Mongolia, thereby drawing the market's attention to this eco-friendly construction material. As the business was still at the stage of development, the revenue generated was relatively low during the year under review when compared to the expenses incurred. However, the Group had been engaged in negotiations for several projects during the year and the response was positive. Thus, the eco-friendly construction material business is expected to generate substantial income for the Group in 2014.

Business Review

Water and flue gas treatment business

Severe smog problems have occurred in most Chinese cities since 2013, which attracted the attention of the Central Government. As a result, the government launched the "Airborne Pollution Prevention and Control Action Plan" on 12 September 2013. The "10 Measures" of the plan include the proposal of adopting the PM2.5 standard (particulate matters less than 2.5 micrometers in diameter) in pollution emission reduction systems standard, intending to more effectively manage urban air quality standards through the investment of more than RMB1,700 billion. A budget of RMB70 billion for water works to promote pollution treatment of major rivers was proposed at the "Two Sessions" of National People's Congress. It is believed that the launch of "Wastewater Prevention and Control Action Plan" will further strengthen the regulation of pollution emissions. These measures of pollutant emission restriction demonstrate the determination and long-term planning of the Central Government on pollution emission controls. The nation-wide demand for EP products and services is set to further expand under the strong support of government policies.

However, in view of the intense competition in the waste water treatment industry, the Group has become more prudent in undertaking projects by selecting more profitable projects to maintain stable growth of the business. During the year, the Central Government also prepared to launch strict water treatment standards for the coal chemical industry which would utilise substantial amount of water. Thus, the Group is looking into this new segment to further boost its income stream from waste water treatment.

Eco-friendly construction materials business

The Central Government is striving to accelerate public adoption of renewable energy resources in the construction industry. The government has also clearly stated at the urbanisation work meetings that the country should advocate energy conservation and environmental protection while pushing forward urbanisation. The new guidelines on fostering development of energy saving and the EP industry launched during the year also pointed to raising the standards for energy conservation in new buildings. The Central Government encourages developers and owners of government-invested buildings, affordable housing projects and large scale public projects to take the initiative to implement green buildings standards in order to meet the 2015 target which is to have more than 20% of two stars or above green buildings among the new buildings in urban areas. Driven by the rapid urbanisation and the greater efforts of the Central Government to develop the industry, market demand for eco-friendly construction materials continues to increase.

The Group has continued to expand the eco-friendly construction materials business. In view of the huge opportunities in the industry, it has introduced six EP wallboard production lines, each with an annual capacity of approximately 140,000 m^3, from the Netherlands to produce WWCB and large wall components. WWCB is an eco-friendly inorganic energy-conserving construction material that is made from cement and eco-friendly fast growing timber through high pressurisation. This material is widely used overseas because of its distinctive heat retention and fire resistant qualities, as well as its sound-proof, moisture-proof, mould-proof and insect repellant properties. It also does not contain formaldehyde or any other volatile organic compounds. These features make WWCB ideal 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 lines that produce WWCB of varying thickness from 10mm to 100mm. The other is the most advanced and is a fully automated large wall component production line which can manufacture large wall components with maximum dimensions of 3m x 6m x 40cm which can be directly installed. Two standard lines which have commenced operation mainly manufacture 15mm to 75mm thick boards to meet mainstream market demand. The large wall component production line, which will commence production in 2014, mainly manufactures products of 15cm, 22cm and 30cm in thickness designed to cater for the climate in the PRC. Building on its experience in large wall components, the Group has developed an integrated wallboard product which combines the wallboard's lamination, protection, and heat retention functions. As this product is aligned with the country's development direction for the prefabricated construction industry, it is expected to become a new focus in the Group's products. The other three standard lines will also gradually commence production in early 2014 as planned.

During the year, the Group finished drafting of the construction and commissioning standards and its products also attained the Grade A Fire Resistant Standard for wall materials. The Group continued to work with famous research institutes to improve the shape and specifications of the boards in compliance with product and construction requirements. In 2013, it filed applications for more than 30 patents related to product design, construction and application of WWCB, and successfully obtained several intellectual property rights certifications. The research institutes also provide construction guidance for the Group's pilot and demonstration projects. The products of the Group gained recognition in the PRC. The completion of several demonstration projects in five provinces and cities, namely Shanghai, Yixing, Xiamen, Hubei and Inner Mongolia had received major attention in the industry.

Final Dividend

The Board did not recommend payment of a final dividend for the year ended 31 December 2013 (2012: Nil). Capital would be reserved for the development of the Group's various business operations which aimed at realising the enormous potential of the eco-friendly construction materials market.

Prospects

EP has been a priority of the government of the PRC. In 2013, a series of EP policies were launched to address the environmental pollution problems. The State Council of the PRC included energy saving and EP as one of the nine key tasks of the Central Government in its Government Work Report this year. With the strong support and facilitation by the Central Government, the demand for products and services of the EP industry continued to increase. Riding on its rich experience and thorough understanding of the industry, the Group consolidated its position as an integrated EP services and eco-friendly construction materials provider during the year. Its efforts in accelerating the development of various businesses also led to positive results.

As the Central Government continued to implement the EP industry development plans as part of the Twelfth Five-Year Plan programme (「十二五」), a number of EP policies were launched to enhance market standardization. The State Council also embarked on the "Green Building Action Plan" which explicitly laid out directions for the development of safe, durable, energy-saving and construction-friendly green construction materials, which facilitated the development of green construction materials industry and the commencement of demonstration projects of green buildings materials. According to the "Development Plan of Green Building and Green Ecological Districts" (「綠色建築和綠色生態城區發展規劃」) in the Twelfth Five-Year Plan programme, affordable housing in provincial capitals as well as large-scale projects such as airports, train stations, hotels, malls and offices buildings will start to adopt green construction standards from 2014. Moreover, property developers are encouraged to establish green residential districts. The target is to have more than 50% of the new property projects in municipalities and cities in the Eastern coastal areas meeting green construction standards by 2015. The high priority and promotion of EP by the Central Government has created favourable opportunities for the industry and the Group.

The management has been adapting to the changing market and has further consolidated and diversified its business conditions to capture opportunities. The Group is bolstering its efforts in developing the eco-friendly construction materials business and expanding WWCB business to seize the opportunities brought by the increasing market demand for green construction materials. The launch of the new WWCB construction standards within 2014 should boost the popularity of the product and stimulate market demand. The Group will continue to focus on the development of flue gas and waste water treatment businesses but will be more prudent in selecting suitable projects so as to continuously optimise business structure and strengthen bargaining power to ensure long term and healthy business growth.

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

The testing of the three standard lines is expected to be completed one by one in the first half of 2014. To tap the growing demand for eco-friendly construction materials, the Group plans to have at least four more production lines installed during the year to further expand its production capacity. The operation of the new production lines should further optimise the Group's workflow and boost its production efficiency.

In 2014, the Group will start several projects as scheduled and embark on establishing more model projects in the PRC. The Group will construct a clubhouse project with a Gross Floor Area ("GFA") of about 100,000 m^2 in Yichang, Hubei in the first half of 2014. The first phase of the project will be completed by the end of the year and the second phase will commence immediately afterwards. Besides, the Group will participate in the construction of a residential project in Inner Mongolia, which includes several 17 to 20 storey residential buildings with a GFA reaching 500,000 m^2. The whole residential project is expected to be completed by the end of the year. Proactively engaged in the construction of large-scale venues, the Group has already kicked off theatre projects in Shenyang and Yichang. Keeping abreast of the country's promotion of urbanization, the Group will seize the opportunity presented by the rapid growth of the construction of affordable housing and identify opportunities in different cities in the PRC to further promote WWCB by offering quality, innovative and competitive projects. The Group is currently in negotiation for a project in Northern Jiangsu and has already signed design contracts for its model area. Apart from the domestic market, the Group will also consider the international market and identify suitable projects under existing resources and capacity. The Group also plans to expand its sales coverage in Japan and Southeast Asia in 2014, and the Group had signed contracts with customers in Macau and Bhutan.

Increasing market recognition of WWCB underscores its strong development potential. Besides, WWCB construction and inspection standards are to be announced in September 2014, at which time the product can directly enter the construction materials market via different sales channels, creating huge opportunities for the Group's business development.

To make the most of these opportunities, the Group will leverage our abundant industry experience to expand production capacity, improve our product specifications and quality and continue to optimise our sales network in order to promote this green construction material that is widely accepted overseas in the market.

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

To capture the opportunities presented by tighter restrictions on emissions in the PRC, the Group will seek to implement more landmark projects. It will also gradually increase the proportion of the flue gas treatment business and continue to provide FGD services targeting the non-ferrous metals industry.

Currently, the Group has 52 uncompleted water and flue gas treatment contracts with a total value of approximately RMB366.8 million on hand. Looking ahead, the Group intends to expand its EP construction engineering business, including construction and operations of large-scale industrial waste water and flue gas treatment projects, so as to broaden income stream and generate a stable cashflow.

In summary, the Group will expand steadily in two key areas of the EP industry, namely the flue gas and waste water treatment, and the eco-friendly construction materials business. The Group will continue to advance its R&D and leverage its proprietary technology to capture the opportunities brought by the country's continuous enhancement of the EP regulation system. The Group will strive to deliver better results to reward its shareholders and staff and to become the leading EP enterprise in the PRC. The management of the Group will collectively pursue innovation and development while committing to corporate standard which will open a new chapter for the Group in the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, total assets of the Group amounted to RMB1,525.9 million, a decrease of RMB78.3 million as compared with RMB1,604.2 million as at 31 December 2012. This decrease was mainly due to decrease in inventories. The Group's total liabilities as at 31 December 2013 amounted to RMB360.0 million, a decrease of RMB58.9 million as compared with RMB418.9 million as at 31 December 2012. The main reason for this decrease in total liabilities was due to decrease in deposits received and receipts in advance. The Group's total equity as at 31 December 2013 was RMB1,165.9 million (2012: RMB1,185.3 million). The Group had unpaid bank borrowings of RMB14 million as at 31 December 2013 (2012: RMB14 million) and the equity ratio calculated by dividing interest-bearing loans and other borrowings by total equity as at 31 December 2013 was 1.2% (2012: 1.2%). The Group's cash and cash equivalents amounted to RMB571.3 million as at 31 December 2013 (2012: RMB564.1 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE

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 2013, the Group did not have any foreign currency bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. Nevertheless, the management is continuing to monitor the foreign exchange exposure and will take prudent measures as and when appropriate. As at 31 December 2013, the Group did not hold any derivative for hedging against both the interest rate and foreign exchange risks.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2013, the Group had a capital expenditure commitment in respect of acquisition of property, plant and equipment totaling RMB33.0 million for the construction of WWCB product lines and factories (2012: RMB86.2 million for the acquisition of property, plant and equipment and injection of the share capital of a subsidiary). The Group provides product maintenance service to customers of FGD construction projects and certain EP products for a period ranging from six months to two 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 adverse material effect on the overall financial position or operating results of the Group.

HUMAN RESOURCES

As at 31 December 2013, the Group had approximately 280 employees. Salaries of employees were maintained at competitive levels and are reviewed annually, with close reference to the relevant labour market and economic situation. 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 had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2013.

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 2013.

SCOPE OF WORK OF CROWE HORWATH (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2013 as set out in this preliminary announcement have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath (HK) CPA Limited on this preliminary announcement.

CORPORATE GOVERNANCE

In the opinion of the Board, throughout the year ended 31 December 2013, the Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 4 June 2014 to Friday, 6 June 2014, 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 (which address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration no later than 4:30 p.m. on Tuesday, 3 June 2014.

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

Hong Kong, 28 March 2014

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