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 2010 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS:

	2010 *RMB'000*	2009 *RMB'000*	**Variance**
TURNOVER	**646,708**	608,972	+6.2%
GROSS PROFIT	**142,686**	164,876	-13.5%
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**76,277**	88,070	-13.4%
EARNINGS PER SHARE – BASIC *(RMB)*	**9.53 cents**	11.01 cents	-13.4%
PROPOSED FINAL DIVIDEND PER SHARE *(HK CENTS)*	**–**	HK 4 cents	N.A.

RESULTS

The Board of Directors (the "Directors" or the "Board") 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 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010**	2009
		RMB'000	*RMB'000*
Turnover	*3*	**646,708**	608,972
Cost of sales		**(504,022)**	(444,096)
Gross profit		**142,686**	164,876
Other revenue	*3*	**3,769**	12,028
Other net (loss)/income	*3*	**(1,415)**	9,627
Selling and distribution expenses		**(673)**	(17,531)
General and administrative expenses		**(32,065)**	(34,902)
Other operating expenses		**(1,281)**	(4,875)
Finance costs	*4(a)*	**(367)**	(4,080)
Profit before taxation	*4*	**110,654**	125,143
Income tax expenses	*5*	**(35,999)**	(37,385)
Profit for the year		**74,655**	87,758
Other comprehensive income for the year (after tax and reclassification adjustments)			
Exchange differences on translation of financial statements of foreign operation		**(753)**	(205)
Other comprehensive income for the year, net of tax		**(753)**	(205)
Total comprehensive income for the year		**73,902**	87,553
Profit attributable to:			
Owners of the Company		**76,277**	88,070
Non-controlling interests		**(1,622)**	(312)
		74,655	87,758
Total comprehensive income attributable to:			
Owners of the Company		**75,524**	87,865
Non-controlling interests		**(1,622)**	(312)
		73,902	87,553
Earnings per share	*7*		
– Basic and diluted		**RMB9.53 cents**	RMB11.01 cents

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Prepaid lease payment		**6,576**	6,745
Property, plant and equipment		**175,881**	47,951
Available-for-sale financial asset		**6,850**	6,850
		189,307	61,546
Current assets			
Prepaid lease payment		**169**	169
Inventories		**33,750**	32,955
Trade and other receivables	8	**529,803**	540,992
Pledged bank deposits		**4,500**	31,480
Cash and bank balances		**685,503**	739,266
		1,253,725	1,344,862
Current liabilities			
Trade and other payables	9	**109,703**	140,968
Short-term bank loan		**9,000**	16,478
Deposits received and receipt in advance		**92,448**	69,413
Tax payable	11(a)	**21,204**	19,722
		232,355	246,581
Net current assets		**1,021,370**	1,098,281
Total assets less current liabilities		**1,210,677**	1,159,827
Non-current liabilities			
Deferred tax liabilities	11(b)	**4,852**	–
Net assets		**1,205,825**	1,159,827
Capital and reserves			
Share capital		**74,872**	74,872
Reserves		**1,130,209**	1,082,589
Equity attributable to owners of the Company		**1,205,081**	1,157,461
Non-controlling interests		**744**	2,366
Total equity		**1,205,825**	1,159,827

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 sales of environmental protection ("EP") products and equipment, undertakes of EP construction engineering projects, provision of EP related professional services in the People's Republic of China (the "PRC") and investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the financial year beginning on 1 January 2010. For the purposes of preparing and presenting these financial statements for the year ended 31 December 2010, the Group has adopted the following New HKFRSs that are mandatory for the first time for the financial period beginning on 1 January 2010:

HKAS 27 (Revised 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement – Eligible hedged items
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised 2008)	Business combinations
HK(IFRIC) Int 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of improvements to HKFRSs issued in 2008

The application of these new and revised standards and interpretations has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for the current accounting period:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[7]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2013
[7] Effective for annual periods beginning on or after 1 July 2011

While the adoption of those changes will result in changes in the accounting policy, the changes are unlikely to have any significant impact on the Group. Further information about those changes that are expected to have a significant impact on the Group's policies is as follows:

HKFRS 9 Financial instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

– HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial instruments: Recognition and measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

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

	2010	2009
	RMB'000	*RMB'000*
Turnover		
Turnover represents the net amounts received and receivable for goods sold and rendering of services by the Group		
Sales of EP products and equipment	**627,897**	421,521
Revenue from EP construction engineering projects	**13,114**	179,386
Revenue from EP related professional services	**5,697**	8,065
	646,708	608,972
Other revenue		
Interest income on bank deposits	**3,738**	4,466
Total interest income on financial assets not at fair value through profit or loss	**3,738**	4,466
Bad debts recovery	**–**	2,229
Dividend income from available-for-sale financial asset	**–**	5,176
Reversal of impairment loss on trade receivables	**–**	100
Sundry income	**31**	57
	3,769	12,028
Other net (loss)/income		
Gain on disposal of subsidiaries	**–**	1,120
Gain on disposal of property, plant and equipment	**–**	47
Net exchange (loss)/gain	**(1,415)**	8,460
	(1,415)	9,627

4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging the following:

		2010 *RMB'000*	2009 *RMB'000*
(a)	**Finance costs:**		
	Interest on bank advances wholly repayable within one year	**367**	4,080
	Total interest expenses on financial liabilities not at fair value through profit or loss	**367**	4,080
(b)	**Staff costs (including directors' emoluments)** *(Note)*:		
	– Contributions to defined contribution retirement plans	**947**	1,053
	– Equity settled share-based payment expenses	**–**	5,121
	– Salaries, wages and other benefits	**10,416**	11,154
		11,363	17,328
(c)	**Other items:**		
	Amortisation of prepaid lease payment	**169**	168
	Auditor's remuneration		
	– audit service	**1,191**	857
	– other service	**410**	388
	Cost of inventories *(Note)*	**483,942**	313,105
	Depreciation *(Note)*	**5,417**	5,300
	Impairment loss on trade receivables	**94**	322
	Operating lease charges – properties rental	**1,030**	1,019

Note:

Cost of inventories includes RMB3,750,000 (2009: RMB4,066,000) 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

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

	2010	2009
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax – current year	**31,147**	37,385
Deferred tax		
Origination of temporary differences *(Note 11(b))*	**4,852**	–
	35,999	37,385

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

(ii) 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.

(iii) No provision for Hong Kong profits tax has been made for the years ended 31 December 2009 and 2010 as the Group's income neither arises in, nor is derived from Hong Kong.

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

	2010	2009
	RMB'000	*RMB'000*
Profit before taxation	**110,654**	125,143
Notional tax on profit before taxation calculated at rates applicable to profits in the jurisdictions concerned	**28,055**	32,878
Tax effect of non-taxable income	**(4,892)**	(2,097)
Tax effect of non-deductible expenses	**5,547**	3,565
Tax effect of unrecognised temporary difference	**9**	13
Tax effect of unused tax losses not recognised	**1,100**	2,283
Tax effect of utilisation of unused tax losses not recognised in prior year	**1,328**	743
Tax effect of withholding tax at 10% on distributable profits of the PRC subsidiaries	**4,852**	–
Income tax expenses	**35,999**	37,385

6. **DIVIDENDS**

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

	2010	2009
	RMB'000	*RMB'000*
No final dividend was proposed after the end of the reporting period (2009: HK4 cents (equivalent to RMB3.53 cents))	**–**	28,213

The directors have resolved not to recommend the payment of a final dividend for the year.

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

	2010	2009
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents per share (equivalent to RMB3.49 cents) (2009: Nil)	**27,904**	–

7. **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 RMB76,277,000 (2009: approximately RMB88,070,000) and the weighted average number of 800,000,000 shares (2009: 800,000,000 shares) in issue during the year.

(b) **Diluted earnings per share**

The diluted earnings per share does not take into account outstanding share options at the end of the reporting period as the effect of potential shares to be issued on exercising the share options was anti-dilutive for the years ended 31 December 2010 and 2009.

8. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**209,608**	177,685
Less: Allowance for doubtful debts	**(1,156)**	(1,062)
	208,452	176,623
Other receivables	**132,422**	134,944
Less: Allowance for doubtful debts	**(147)**	(147)
	132,275	134,797
Amount due from a related company	**–**	2,028
Loans and receivables	**340,727**	313,448
Prepayments and deposits	**72,430**	34,361
Other tax recoverables	**1,769**	9,078
Amounts due from customers for contract work *(Note 10)*	**114,877**	184,105
	529,803	540,992

The amount of the Group's prepayments and deposits expected to be recovered or recognised as expense after more than one year is RMB249,000 (2009: RMB360,000). All of the trade and other receivables (including amount due from a related company), apart from the quality retention monies of approximately RMB22,389,000 (2009: RMB1,072,000) mentioned in note 8(a) are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts with the following ageing analysis presented as of the end of the reporting period:

	2010	2009
	RMB'000	*RMB'000*
0-30 days	**104,110**	61,525
31-60 days	**20,057**	12,651
61-90 days	**5,003**	2,725
91-180 days	**25,438**	15,915
181-365 days	**27,471**	15,407
Over 365 days	**26,373**	68,400
	208,452	176,623

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 of approximately RMB72,981,000 (2009: RMB41,654,000) (typically 5% to 20% of the total contracted value) that are retained by the customers until the fulfillment 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:

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**1,062**	840
Impairment loss recognised	**94**	322
Reversal of impairment loss	**–**	(100)
At 31 December	**1,156**	1,062

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

As at 31 December 2010, trade receivables of approximately RMB1,156,000 (2009: approximately RMB1,062,000) were individually determined to be impaired and full allowance had been made. 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 are as follows:

	2010	2009
	RMB'000	*RMB'000*
Less than 1 month past due	**30,343**	25,488
1 to 3 months past due	**13,125**	34,110
More than 3 months past due	**16,430**	29,973
	59,898	89,571

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.

Included an amount of approximately RMB97,230,000 (2009: RMB93,000,000) was advance 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 balances are still considered fully recoverable.

Included a total amount of approximately RMB20,000,000 (2009: RMB20,000,000) arose from disposal of subsidiaries in 2009. The management believes that no impairment allowance is necessary in respect of this balance as the balances are still considered fully recoverable.

9. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**59,025**	77,198
Accruals and other payables	**45,888**	47,563
Amounts due to non-controlling interests	**–**	11,334
Amount due to a related company	**5**	–
Amount due to a director	**1,531**	1,223
Financial liabilities measured at amortised cost	**106,449**	137,318
Other PRC tax payables	**3,254**	3,650
	109,703	140,968

(a) Ageing analysis of trade payables

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

	2010	2009
	RMB'000	*RMB'000*
0 to 30 days	**10,024**	59,054
31 to 60 days	**304**	1,300
61 to 90 days	**1,383**	30
91 to 180 days	**958**	578
181 to 365 days	**1,930**	4,592
Over 365 days	**44,426**	11,644
	59,025	77,198

(b) Accruals and other payables

Included a total amount of approximately RMB11,370,000 which was reclassified from "Amounts due to non-controlling interests" as the non-controlling interests disposed of all its equity interest in Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI") to an independent third party during the year. The amounts due are unsecured, interest free and repayable on demand.

An amount of approximately RMB14,029,000 (2009: RMB14,029,000) was 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 reporting period:

	2010	2009
	RMB'000	*RMB'000*
Contract costs incurred to date	**171,323**	162,789
Recognised profits less recognised losses	**75,686**	70,817
	247,009	233,606
Less: Progress billings	**(132,132)**	(49,501)
Amounts due from customers for contract work	**114,877**	184,105

In respect of construction contracts in progress at the end of the reporting period, the amount of retentions receivables from customers, recorded within "trade receivable" as at 31 December 2010 is RMB4,708,000 (2009: RMB10,628,000). The amount of those retentions expected to be recovered after more than one year is RMB Nil (2009: RMB1,072,000). Receipts in advance from customers for contract work amounted to RMB15,040,000 (2009: RMB45,624,000).

11. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents

	2010	2009
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax	**31,147**	37,385
Tax paid	**(21,128)**	(8,712)
	10,019	28,673
Balance of PRC enterprise income tax relating to prior year	**11,185**	(8,951)
Tax payable	**21,204**	19,722

(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 of undistributed profits	**Total**
	RMB'000	*RMB'000*
At 1 January 2009, 31 December 2009 and 1 January 2010	–	–
Charged to profit or loss *(Note 5(a))*	4,852	–
At 31 December 2010	4,852	–

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 such earnings have been declared or not 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.

As at 31 December 2010 and 2009, the Group had not recognised deferred tax assets in respect of tax losses of RMB14,270,000 (2009: RMB12,100,000) as it was not profitable that future 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 the information is reported internally to the Group's Chief Executive Officer for the purposes of resources allocation and performance assessment, the Group has presented the following reportable segments. No operating segment has 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 regard are carried out in the PRC only.
- EP construction engineering projects: this segment undertakes EP engineering construction 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 provides 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.
- Manufacture of EP construction materials: this segment manufactures and sells EP construction materials to external customers, main products are wood wool cement boards. Currently the Group's activities in this regard 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 Chief Executive Officer 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 Group's 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.

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 incomes 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, the Group's Chief Executive Officer 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.

For the year ended 31 December

	Sales of EP products and equipment		EP construction engineering projects		Provision of EP related professional services		Manufacture of EP construction materials		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	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	**627,897**	421,521	**13,114**	179,386	**5,697**	8,065	**–**	–	**646,708**	608,972
Reportable segment profit (adjusted EBITDA)	**137,820**	98,964	**1,836**	45,076	**4,934**	3,332	**–**	–	**144,590**	147,372
Interest expenses	**–**	–	**–**	3,977	**–**	–	**365**	–	**365**	3,977
Depreciation and amortisation for the year	**2,041**	1,974	**287**	287	**–**	–	**–**	–	**2,328**	2,261
Reportable segment assets	**392,066**	224,344	**163,898**	221,944	**613**	6,318	**156,392**	–	**712,969**	452,606
Reportable segment liabilities	**18,101**	41,807	**130,303**	111,197	**12,069**	10,085	**5**	–	**160,478**	163,089

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

	2010	2009
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue from external customer	**646,708**	608,972
Profit		
Reportable segment profit derived from external customer	**144,590**	147,372
Other revenue and other net income	**2,354**	21,655
Depreciation and amortisation	**(5,586)**	(5,468)
Finance costs	**(367)**	(4,080)
Unallocated head office and corporate expenses	**(30,337)**	(34,336)
Consolidated profit before taxation	**110,654**	125,143
Assets		
Reportable segment assets	**712,969**	452,606
Non-current financial assets	**6,850**	6,850
Unallocated head office and corporate assets	**723,213**	946,952
Consolidated total assets	**1,443,032**	1,406,408
Liabilities		
Reportable segment liabilities	**160,478**	163,089
Current tax liabilities	**21,204**	19,722
Deferred tax liabilities	**4,852**	–
Unallocated head office and corporate liabilities	**50,673**	63,770
Consolidated total liabilities	**237,207**	246,581

Information about major customer

Included in revenues arising from sales of EP products and equipment of approximately RMB627,897,000 (2009: arising from undertake of EP engineering construction project of approximately RMB179,386,000) were revenues of approximately RMB81,660,000 (2009: RMB95,504,000) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2010 and 2009.

Geographical Information

The Group operates all its reportable segments in the PRC. All revenue of operations and location of its non-current assets are in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from various financial stimulus measures introduced by governments at provincial and municipal levels, the overall Chinese economy gradually recovered in 2010. However, while the economy was recovering, the global environment was worsening. Therefore, there has been a major call for more focus in energy conservation and environmental protection. Indeed, governments around the world have been putting efforts to foster this movement, aiming at achieving sustainable economic and social development.

The Chinese Central Government states explicitly in its Twelfth Five-Year Plan of 2011-2015 that energy conservation and environmental protection are among the most critical focus of the country. The Government has also introduced many policies to support the EP industry. As a result of these initiatives, the standards for wastewater and flue gas emissions are expected to be raised and the demand for EP products in the PRC will rise as well. The Group's EP business is well poised to benefit from these favorable policies. In 2010, the Group embarked a variety of projects, many of which have been completed and recognised in phases, thus delivering a stable sales performance for the year.

To broaden the scope of its EP business and to tap the expanding market for environmentally friendly construction materials, the Group has introduced wood wool cement board production lines from The Netherlands.

In the future, the Group aims at securing more sales and engineering contracts for different EP products and equipments, and exploring suitable investment opportunities to capture opportunities presented by the country's environmental protection initiatives.

Financial Review

For the year ended 31 December 2010, the Group achieved a total revenue of RMB646.7 million, an increase of 6.2% compared with last year (2009: RMB609.0 million). It completed a number of contracts on water treatment and two contracts on flue gas desulphurisation ("FGD"). As the gross profit margin of the FGD projects was low, the Group's overall gross profit decreased to RMB142.7 million (2009: RMB164.9 million) with gross profit margin at 22.0% (2009: 27.1%). Profit attributable to owners of the Company amounted to RMB76.3 million (2009: RMB88.1 million). Earnings per share were RMB9.53 cents (2009: RMB11.01 cents).

Business Review

As an integrated EP service 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 2010, the Group had 60 engineers with different professional background and who had experience in providing customised EP solutions to customers across different industries.

Sales of EP Products and Equipment

Business activities of this segment include selling water and flue gas treatment products and equipment as well as pipes. During the year under review, it recorded a turnover of approximately RMB627.9 million, accounting for about 97.1% 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. Water treatment business generated a turnover of approximately RMB492.2 million, accounting for 78.4% of the segmental turnover. Water treatment business is still the main focus of the Group's contracts on hands and during the year, the Group completed 42 water treatment related sales contracts. The Group will continue to focus on the development of water treatment projects and the business will maintain steady growth.

Sales of Flue Gas Treatment Products and Equipment

The flue gas treatment systems manufactured by the Group are used in many industries to process polluted gas generated during the course of industrial production. In the past, the Group mainly provided FGD services to power plants; however, as there is more room for development in the iron and steel, cement and glass industries, the Group began to provide services to these market segments. During the year under review, the Group completed 3 projects related to the sales of equipment for flue gas treatment, contributing a turnover of RMB107.7 million to the Group, representing a 17.1% of the segmental turnover. In 2010, the Group planned to expand further its business scope to flue gas denitrification ("DeNOx"). Denitrification reduces nitrogen oxide emissions, which is a major objective of the country's EP targets. The DeNOx system construction for thermal power plant is a main direction of the Group's future development. According to the Twelfth Five-Year Plan of the PRC, there will be huge investments in the construction and operation of wastewater, FGD and DeNOx treatments. Therefore, the Group believes projects for construction of FGD and DeNOx systems will generate a significant contribution in the future.

Sales of Pipes

In addition to providing clients with comprehensive EP solutions, the Group also produces fibre glass-reinforced plastic pipes with diameters up to 2,000 mm at its Yixing workshop with a total annual production capacity estimated at 172,680 metres. During the year, the Group completed 3 contracts related to sales of pipes, which generated a turnover of approximately RMB28.0 million, accounting for 4.5% of the segmental turnover. The utilisation rate of the pipe workshop was approximately 15.7%.

EP Construction Engineering Projects

Leveraging 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 RMB13.1 million, accounting for about 2.0% of the Group's total turnover.

Provision of EP related Professional Services

The Group, through its subsidiary 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 RMB5.7 million, accounting for around 0.9% of the total turnover of the Group.

Final Dividend

The Board did not recommend payment of a final dividend for the year ended 31 December 2010 (2009: HK4 cents per share), earmarking the profit to be used as capital for further development of various businesses, and also to capture opportunities arising from the rapid developing EP market.

PROSPECTS

Water and flue gas treatment business – continue to bring promising revenue to the Group

The Twelfth Five-Year Plan officially commences in 2011, during which energy conservation and environmental protection are regarded as among one of the seven key emerging industries by the PRC Government and are the focus of the country's future development. It is believed that the country's demand for EP products and services will increase under the implementation of the Government policies, and will bring favourable opportunities to the Group. The Group currently has 23 contracts with a total value of approximately RMB522.0 million on hand.

The water treatment business will continue to bring stable income to the Group in 2011. It will further expand its scope of services from constructing large scale industrial water treatment projects to building and operating them. This business direction will help broaden income sources, generate steady cash flow and boost return on investment for the Group.

The Group will devote more energy in developing its FGD and DeNOx businesses with the aim of increasing the proportion of this business segment in the Group's overall turnover. The Central Government has proposed a standard for DeNOx in its Twelfth Five-Year Plan, and DeNOx engineering has also been designated as a key measure to reduce environmental pollution, indicating its great market potential. As such, the Group has decided to focus on developing engineering and construction of DeNOx systems and will suspend its earlier plan to research, develop and produce catalysts used in DeNOx systems until a viable partner is identified. It has also reached an agreement with an overseas supplier whereby the Group will be supplied with quality catalysts to meet its future project needs. The Group will continue to expand the scope of its FGD business in the light of tremendous demand for EP projects from the iron and steel industries. This thus constitutes the Group's future development direction.

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

Apart from its traditional core business areas, the Group is well aware of the stricter requirements placed on construction materials and the policy to build more affordable housing for the public. It has successfully expanded into the environmentally friendly construction materials business by entering into an cooperation agreement with Eltomation BV of The Netherlands in May 2010 regarding the introduction of wood wool cement board production lines. Wood wool cement board is an environmentally friendly inorganic energy conserving construction material which is made by cement, eco-friendly and fast growing timber, and nontoxic chemical addictives after high-pressure processing. This material is widely used overseas because of its distinctive features of heat preservation, fire resistant, sound-proof, and moisture-proof, mould-proof and insect repelling properties. It also does not contain formaldehyde or any other volatile organic compounds. The benefits of wood wool cement board make it a perfect material for renovation and wall construction, in particular, for residential and commercial buildings requiring heat conservation, high durability and energy saving.

The Group has set strict requirements on the timber it uses for the production of wood wool cement boards. All of the timber used complies with environmental protection standards and is provided by qualified suppliers. Most of the timber is from eco-friendly fast-growing trees to ensure minimum negative impact on the environment. Working towards a greener society that uses resources more efficiently has always been the Group's mission. With this in mind, the Group will continue its efforts to provide a comfortable living environment for people and contribute to sustainable development of the economy by providing energy-saving construction materials.

The Group's first wood wool cement board production line had completed the trial run in March 2011 while two other lines are planned to commence production by the end of 2011. These production lines are expected to generate significant profit contributions to the Group's results in 2012. To increase capacity, the Group plans to actively increase production lines. In addition to the Yixing factory, it will also set up production stations in other areas, including Anhui and Liaoning provinces, targeting to sell this high-quality construction material to more areas.

To promote wood wool cement board, the Group participated in "The Seventh International Conference on Green and Energy-Efficiency Building & New Technologies and Products Expo" as an exhibitor on 28 March 2011. This annual EP expo is launched by the Ministry of Housing and Urban-Rural Development of the PRC and is a highly influential event among the PRC EP industry. The requirements on selecting exhibitors are also very stringent. The expo showcases the latest technologies and applications relating to energy saving construction and is expected to attract people from around the world, especially local participation. Amid a green building trend, it is expected that the Group's wood wool cement boards will draw considerable interest from different industries, bringing significant contributions to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the total assets of the Group amounted to RMB1,443.0 million (2009: RMB1,406.4 million). The Group's total liabilities as at 31 December 2010 were RMB237.2 million (2009: RMB246.6 million). The main reason for the decrease in total liabilities was the decrease in accounts payables and short term bank loans. The Group's total equity as at 31 December 2010 was RMB1,205.8 million (2009: RMB1,159.8 million). The Group's bank borrowings outstanding as at 31 December 2010 amounted to RMB9.0 million (2009: RMB16.5 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 0.7% as at 31 December 2010 (2009: 1.4%). The Group's cash and cash equivalents amounted to RMB685.5 million as at 31 December 2010.

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 2010, 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 significant interest rate and foreign exchange risk of Hong Kong 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 2010, the Group had a capital expenditure commitment amounted to RMB91.5 million (2009: RMB51.3 million).

The Group provides product maintenance service to customers of EP 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 subcontractors 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 2010, 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 purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2010.

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.

REVIEW OF FINANCIAL STATEMENTS

The Group's consolidated financial statements for the year ended 31st December 2010 have been reviewed by the Company's Audit Committee. Also, the figures in respect of this preliminary results announcement have been agreed by the Company's external auditors, CCIF CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year ended 31st December 2010. The work performed by CCIF 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 HKICPA and consequently no assurance has been expressed by CCIF CPA Limited on this preliminary results announcement.

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 2010.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 3 June 2011 (Friday), 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 June 2011 (Wednesday) to 3 June 2011 (Friday), 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 31 May 2011 (Tuesday).

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

Hong Kong, 29 March 2011

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