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 2011 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS:

	2011 *RMB'000*	2010 *RMB'000*	**Variance**
TURNOVER	**476,026**	646,708	-26.4%
GROSS PROFIT	**60,045**	142,686	-57.9%
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**9,520**	76,277	-87.5%
EARNINGS PER SHARE – BASIC AND DILUTED *(RMB)*	**1.19 cents**	9.53 cents	-87.5%

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 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**2011** **RMB'000**	2010 *RMB'000*
Turnover	*3*	**476,026**	646,708
Cost of sales		**(415,981)**	(504,022)
Gross Profit		**60,045**	142,686
Other revenue	*3*	**5,404**	3,769
Other net income/(loss)	*3*	**2,169**	(1,415)
Selling and distribution expenses		**(1,503)**	(673)
General and administrative expenses		**(42,520)**	(32,065)
Other operating expenses		**(3,072)**	(1,281)
Finance costs	*4(a)*	**(537)**	(367)
Profit before taxation	*4*	**19,986**	110,654
Income tax expenses	*5*	**(11,162)**	(35,999)
Profit for the year		**8,824**	74,655
Other comprehensive income for the year (after tax and reclassification adjustments)			
Exchange differences on translation of financial statements of foreign operation		**(175)**	(753)
Other comprehensive income for the year, net of tax		**(175)**	(753)
Total comprehensive income for the year		**8,649**	73,902
Profit attributable to:			
Owners of the Company		**9,520**	76,277
Non-controlling interests		**(696)**	(1,622)
		8,824	74,655
Total comprehensive income attributable to:			
Owners of the Company		**9,345**	75,524
Non-controlling interests		**(696)**	(1,622)
		8,649	73,902
Earnings per share			
– Basic and diluted	*7*	**RMB1.19 cents**	RMB9.53 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Prepaid lease payment		**40,596**	6,576
Property, plant and equipment		**252,094**	175,881
Available-for-sale financial asset		**9,000**	6,850
		301,690	189,307
Current assets			
Prepaid lease payment		**850**	169
Inventories		**81,156**	33,750
Trade and other receivables	*8*	**514,365**	529,803
Pledged bank deposits		**11,060**	4,500
Cash and bank balances		**606,815**	685,503
		1,214,246	1,253,725
Current liabilities			
Trade and other payables	*9*	**101,663**	109,703
Short-term bank loan		**–**	9,000
Deposits received and receipt in advance		**178,256**	92,448
Tax payable	*11(a)*	**14,977**	21,204
		294,896	232,355
Net current assets		**919,350**	1,021,370
Total assets less current liabilities		**1,221,040**	1,210,677
Non-current liabilities			
Deferred tax liabilities	*11(b)*	**6,566**	4,852
Net assets		**1,214,474**	1,205,825
Capital and reserves			
Share capital		**74,872**	74,872
Reserves		**1,139,554**	1,130,209
Equity attributable to owners of the Company		**1,214,426**	1,205,081
Non-controlling interests		**48**	744
Total equity		**1,214,474**	1,205,825

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 are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-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, 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 Accountant has issued a number of new and revised 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:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

The amendments to HK(IFRIC) – Int 14 have had no material impact on the Group's financial statements as they were consistent with the policies already adopted by the Group. HK(IFRIC) – Int 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction.

The impacts of other new and revised HKFRSs are discussed below:

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because no entity within the Group is a government-related entity.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments have conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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

	2011	2010
	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	**432,167**	627,897
Revenue from EP construction engineering projects	**37,193**	13,114
Revenue from EP related professional services	**6,666**	5,697
	476,026	646,708
Other revenue		
Interest income on bank deposits	**3,061**	3,738
Total interest income on financial assets not at fair value through profit or loss	**3,061**	3,738
Dividend income from available-for-sale financial asset	**2,150**	–
Reversal of impairment loss on trade receivables	**80**	–
Sundry income	**113**	31
	5,404	3,769
Other net income/(loss)		
Gain on disposal of prepaid lease payment	**6,340**	–
Loss on disposal of property, plant and equipment	**(3,882)**	–
Net exchange loss	**(289)**	(1,415)
	2,169	(1,415)

4. PROFIT BEFORE TAXATION

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

		2011 *RMB'000*	2010 *RMB'000*
a)	**Finance costs:**		
	Interest on bank advances wholly repayable within one year	**537**	367
	Total interest expenses on financial liabilities not at fair value through profit or loss	**537**	367
b)	**Staff costs (including directors' emoluments)** *(Note):*		
	– Contributions to defined contribution retirement plans	**1,307**	947
	– Salaries, wages and other benefits	**16,810**	10,416
		18,117	11,363
c)	**Other items:**		
	Amortisation of prepaid lease payment	**518**	169
	Auditor's remuneration		
	– audit services	**1,330**	1,191
	– other services	**448**	410
	Cost of inventories *(Note)*	**345,513**	483,942
	Depreciation *(Note)*	**9,755**	5,417
	Impairment loss on trade receivables	**–**	94
	Operating lease charges		
	– leasing of properties	**1,545**	1,030
	– leasing of equipment	**6**	–
	Rental from properties less direct outgoings	**(53)**	(53)

Note:

Cost of inventories includes RMB8,036,000 (2010: RMB3,750,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax		
– current year	**9,448**	31,147
Deferred tax		
Origination of temporary differences *(Note 11(b))*	**1,714**	4,852
	11,162	35,999

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 2010 and 2011 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:

	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**19,986**	110,654
Notional tax on profit before taxation calculated at rates applicable to profits in the jurisdictions concerned	**5,649**	28,055
Tax effect of non-taxable income	**–**	(4,892)
Tax effect of non-deductible expenses	**130**	5,547
Tax effect of unrecognised temporary differences	**11**	9
Tax effect of unused tax losses not recognised	**3,658**	2,755
Tax effect of utilisation of unused tax losses not recognised in prior year	**–**	(327)
Tax effect of withholding tax at 10% on distributable profits of the PRC subsidiaries	**1,714**	4,852
Income tax expenses	**11,162**	35,999

6. DIVIDENDS

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

	2011	2010
	RMB'000	*RMB'000*
No final dividend was proposed after the end of the reporting period (2010: Nil)	**–**	–

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

	2011	2010
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK Nil cents per share (2010: HK4 cents per share (equivalent to RMB3.49 cents))	**–**	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 RMB9,520,000 (2010: approximately RMB76,277,000) and the weighted average number of 800,000,000 shares (2010: 800,000,000 shares) in issue during the year.

b) Diluted earnings per share

Diluted earnings per share equal to basic earnings per share for the years ended 31 December 2011 and 2010 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 it is anticipated that no share option to subscribe for the Company's shares will be exercised.

8. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**141,530**	209,608
Less: Allowance for doubtful debts	**(1,076)**	(1,156)
	140,454	208,452
Other receivables	**119,479**	132,422
Less: Allowance for doubtful debts	**(147)**	(147)
	119,332	132,275
Amount due from a related company	**6,100**	–
Loans and receivables	**265,886**	340,727
Prepayments and deposits	**120,581**	72,430
Other tax recoverables	**9,773**	1,769
Amounts due from customers for contract work *(Note 10)*	**118,125**	114,877
	514,365	529,803

The amount of the Group's prepayments and deposits expected to be recovered or recognised as expense after more than one year is RMB241,000 (2010: RMB249,000). All of the trade and other receivables (including amount due from a related company), apart from the quality retention monies of approximately RMB41,538,000 (2010: RMB22,389,000) 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:

	2011	2010
	RMB'000	*RMB'000*
0-30 days	**13,334**	104,110
31-60 days	**17,659**	20,057
61-90 days	**20,433**	5,003
91-180 days	**21,915**	25,438
181-365 days	**34,995**	27,471
Over 365 days	**32,118**	26,373
	140,454	208,452

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 RMB60,564,000 (2010: RMB72,981,000) (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:

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**1,156**	1,062
Impairment loss recognised	**–**	94
Reversal of impairment loss	**(80)**	–
At 31 December	**1,076**	1,156

As at 31 December 2011, trade receivables of approximately RMB1,076,000 (2010: approximately RMB1,156,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Less than 1 month past due	**6,468**	30,343
1 to 3 months past due	**14,354**	13,125
More than 3 months past due	**33,946**	16,430
	54,768	59,898

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 (2010: 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 balances are still considered fully recoverable.

Other receivables also included a total amount of approximately RMB5,000,000 (2010: RMB20,000,000) arising from the 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.

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

9. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**60,418**	59,025
Accruals and other payables	**35,250**	45,888
Amount due to a director	**1,589**	1,531
Amount due to a related company	**23**	5
Financial liabilities measured at amortised cost	**97,280**	106,449
Other PRC tax payables	**4,383**	3,254
	101,633	109,703

All of the trade and other payables (including amounts due to related parties), apart from those mentioned in note 10, are expected to be settled or recognised as income within one year or are repayable on demand.

a) Ageing analysis of trade payables

The ageing analysis of trade payables is as follows:

	2011	2010
	RMB'000	*RMB'000*
0 to 30 days	**5,306**	10,024
31 to 60 days	**565**	304
61 to 90 days	**5,510**	1,383
91 to 180 days	**3,215**	958
181 to 365 days	**2,161**	1,930
Over 365 days	**43,661**	44,426
	60,418	59,025

b) Accruals and other payables

Included an amount of approximately RMB8,784,000 (2010: RMB14,029,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Contract costs incurred to date	**204,552**	171,323
Recognised profits less recognised losses	**75,680**	75,686
	280,232	247,009
Less: Progress billings	**(162,107)**	(132,132)
Amounts due from customers for contract work	**118,125**	114,877

The amounts due from customers for contract work at 31 December 2011 that is expected to be recovered after more than one year is RMB106,171,000 (2010: RMB106,374,000).

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" at 31 December 2011 is RMB2,370,000 (2010: RMB4,708,000). The amount of those retentions expected to be recovered after more than one year is RMB Nil (2010: Nil). Receipts in advance from customers for contract work amounted to RMB21,460,000 (2010: RMB15,040,000).

11. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the statement of financial position represents

	2011	2010
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax	**9,448**	31,147
Tax paid	**(11,363)**	(21,128)
	(1,915)	10,019
Balance of PRC enterprise income tax relating to prior year	**16,892**	11,185
Tax payable	**14,977**	21,204

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 2010	**–**	–
Charged to profit or loss *(Note 5(a))*	**4,852**	4,852
At 31 December 2010 and 1 January 2011	**4,852**	4,852
Charged to profit or loss *(Note 5(a))*	**1,714**	1,714
At 31 December 2011	**6,566**	6,566

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.

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

As at 31 December 2011 and 2010, the Group has not recognised deferred tax assets in respect of tax losses of RMB16,544,000 (2010: RMB14,270,000) which will expire from 2012 to 2016 as it was not probable 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 Operating Decision Maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has presented the following 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 the 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 products are wood wool cement boards. 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 resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below:

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**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	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	**432,167**	627,897	**37,193**	13,114	**6,666**	5,697	**–**	–	**476,026**	646,708
Reportable segment profit (adjusted EBITDA)	**56,379**	137,820	**(1,070)**	1,836	**3,771**	4,934	**(933)**	–	**58,147**	144,590
Interest expenses	**–**	–	**–**	–	**–**	–	**–**	365	**–**	365
Depreciation and amortisation for the year	**2,914**	2,041	**1,337**	287	**–**	–	**3,072**	–	**7,323**	2,328
Reportable segment assets	**313,747**	392,066	**170,317**	163,898	**4,615**	613	**290,548**	156,392	**779,227**	712,969
Reportable segment liabilities	**159,356**	18,101	**71,793**	130,303	**9,748**	12,069	**1,850**	5	**242,747**	160,478

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

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue from external customers	**476,026**	646,708
Profit		
Reportable segment profit derived from external customers	**58,147**	144,590
Other revenue and other net income	**7,573**	2,354
Depreciation and amortisation	**(10,273)**	(5,586)
Finance costs	**(537)**	(367)
Unallocated head office and corporate expenses	**(34,924)**	(30,337)
Consolidated profit before taxation	**19,986**	110,654
Assets		
Reportable segment assets	**779,227**	712,969
Non-current financial assets	**9,000**	6,850
Unallocated head office and corporate assets	**727,709**	723,213
Consolidated total assets	**1,515,936**	1,443,032
Liabilities		
Reportable segment liabilities	**242,747**	160,478
Current tax liabilities	**14,977**	21,204
Deferred tax liabilities	**6,566**	4,852
Unallocated head office and corporate liabilities	**37,172**	50,673
Consolidated total liabilities	**301,462**	237,207

Information about major customers

Included in revenue arising from sales of EP products and equipment of approximately RMB432,167,000 (2010: RMB627,897,000) are revenues of approximately RMB27,897,000 (2010: RMB81,660,000) 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 2011 and 2010.

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

The year of 2011 was a challenging year for the Group. The PRC Central Government in its Twelfth Five-Year Plan covering 2011-2015 explicitly prioritised energy conservation and environmental protection ("EP"). The Government, in fact, introduced various policies to encourage EP commercialisation which fuelled the rapid growth of the domestic EP industry. However, enterprises' increased investment in the industry created intense competition and the Group's business was inevitably affected. In this competitive environment, the Group continued to develop its wood wool cement board ("WWCB") business, eyeing on its future potential while, at the same time, focusing on the sale of pipes, water and flue gas treatment products and equipment to capture the opportunities in the EP industry.

The Group believes that EP is becoming the main development direction for China. The PRC Central Government's stated priority of supporting the EP industry can be seen in its planned investment in water treatment projects for 2012 which will exceed the RMB345.2 billion earmarked last year. Meanwhile, the Central Government is accelerating the construction of subsidised housing. Thus, the management is optimistic about the prospects of the EP industry in China.

Looking forward, the Group will continue to invest more resources in developing and promoting the WWCB business and securing more sales and engineering contracts for its EP-related business. The Group is constantly exploring favorable investment opportunities created by the country's EP initiatives. The Group will also prudently implement business development strategies with reference to market environment so as to maintain the growth of its businesses and generate greater value for shareholders.

Financial Review

For the year ended 31 December 2011, the Group achieved a total turnover of RMB476.0 million, a decrease of 26.4% compared with last year (2010: RMB646.7 million), mainly due to the intense competition in the market. Affected by the rising costs, the Group recorded gross profit of RMB60.0 million (2010: RMB142.7 million) and a gross profit margin of 12.6% (2010: 22.1%) during the year. On the other hand, as the WWCB business was still in the development stage and had not yet contributed revenue to the Group, profit attributable to owners of the Company was RMB9.5 million (2010: RMB76.3 million). Earnings per share were RMB1.19 cents (2010: RMB9.53 cents).

Business Review

As an integrated EP services provider in the PRC, the Group mainly designs and manufactures water and flue gas treatment products and equipment, as well as sells pipes. The Group also 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 actively expanded the scale of WWCB production lines according to plan while focusing on the sale of pipes, water and flue gas treatment products and equipment in 2011.

Sale of EP Products and Equipment

During the year under review, sale of EP products and equipment recorded a turnover of approximately RMB432.1 million, accounting for around 90.8% of the Group's total turnover.

Sale 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 RMB342.2 million, accounting for 71.9% of the Group's turnover. The water treatment business is still the main focus of the Group's contracts on hand and during the year, the Group completed 39 water treatment related sales contracts. The Group will continue to secure more water treatment projects to maintain steady growth of the business.

Sale Of Flue Gas Treatment Products and Equipment

The Group mainly provides flue-gas desulfurisation ("FGD") services to power plants as well as to clients in the iron and steel, cement and glass industries. During the year, as growth in these industries slowed down, the demand for flue gas treatment subsequently weakened. The Group completed 7 projects related to sale of flue gas treatment, contributing a turnover of approximately RMB75.9 million, representing 16.0% of the Group's turnover.

Sale of Pipes

In addition to providing clients with comprehensive EP solutions, 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. During the year under review, the Group completed 3 contracts related to the sale of pipes, generating turnover of approximately RMB14.0 million, accounting for 2.9% of the Group's turnover. The decrease in turnover was mainly caused by the drop in selling prices due to intensified competition in the industry.

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 RMB37.2 million, accounting for about 7.8% of the Group's total turnover.

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 stable turnover of approximately RMB6.7 million, accounting for around 1.4% 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 2011 (2010: Nil), as the capital will be reserved for the development of the Group's different business operations, in particular, to capture the opportunities in the enormous market for WWCB.

PROSPECTS

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

Under the mission to helping create a greener society that uses resources more efficiently, the Group made its efforts to provide a comfortable living environment and contribute to sustainable development of the economy by producing energy conservation construction materials. The introduction of WWCB production lines from the Netherlands in 2010 marked the Group's expansion into the environmentally friendly construction materials business. WWCB is an environmentally friendly inorganic energy-conservating construction material that is made from cement, ecologically-friendly fast growing timber, and nontoxic chemical addictives through a highly pressurised process. This material is widely used overseas because of its distinctive heat retention, fire resistant and insect repellant properties, along with its being sound-proof, moisture-proof, and mould-proof properties. It also does not contain formaldehyde or any other volatile organic compounds. The benefits of WWCB make it a perfect material for renovation and wall construction, in particular, for residential and commercial buildings requiring heat conservation, high durability and savings of energy in regions with greater weather and climate temperature fluctuation.

In January 2012, the Ministry of Housing and Urban-Rural Development of the PRC approved the Group's WWCB as a standard construction product of the industry with effect from 1 August 2012. In addition, the Group has signed a cooperative agreement with Jiangsu Research Institute of the Building Science Co., Ltd. ("JRIBS") to evaluate and analyze the shape and specification of boards in relation to compliance with the national construction requirements, as well as product optimisation. JRIBS is also to provide working guidance for the Group's pilot and demonstration projects. Having JRIBS, a key construction science institutes in China, to participate in the study can help improve the quality of the Group's products and pilot projects, as well as the enhancing recognition of the Group's products in the country.

Operation of the Group's first WWCB production line commenced in March 2011. To date, the Group has received many inquiries from Government organisation and potential overseas buyers, and samples have been sent to them for testing and reference. The second production line has started a trial run, and the third line is currently under installation and is scheduled for a trial run in May 2012. To satisfy market demand, the Group continues to expand its production facilities and already placed orders for three new lines at the end of 2011, and the lines are expected to commence testing in the fourth quarter of 2012. With a capacity of 140,000 m^3 for each line, the additional capacity should optimise the Group's workflow and boost production efficiency. In addition to its Yixing factory, the Group is planning to set up new production bases in other provinces, such as Liaoning, to sell its quality wall construction material to a wider geographic area.

The Group understands that the market has just started to realise the features and benefits of WWCB. As this product has huge potential for further growth, the Group is taking advantage of the stricter regulations and requirements for construction materials and the national subsidised affordable housing programme launched by the PRC Government. To tap these opportunities, the Group is promoting its environmentally friendly construction material through various channels such as its self-operated sales network and other construction distributors' networks, as well as marketing through public media. The Group expects that the WWCB business will turn into an important income source when it is widely accepted in the market.

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

Within the Twelfth Five-Year Plan programme, the energy saving and EP industry is designated as one of seven key emerging industries by the Central Government. The Government indicated that the investment in water treatment projects will exceed RMB345.2 billion of last year. This favourable policy has boosted the demand for EP industry products and solutions in China. Currently, the Group has 47 contracts at a total value of approximately RMB446.8 million on hand. These include the construction of a waste water treatment project for an internationally well-known automobile company's production plant in Liaoning, at a total value of RMB18.0 million; the project is now in progress. Also, there is a construction contract with a large copper manufacturer in Anhui for its FGD facility project. The contract sum is about RMB45.0 million and is expected to be booked in the second half of 2012. Looking ahead, the Group will continue to expand its business coverage from construction engineering to large-scale industrial waste water treatment, construction and operation projects, so as to expand its income stream, generate a stable cashflow and maximise return on investment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the total assets of the Group amounted to RMB1,515.9 million, an increase of RMB72.9 million as compared with RMB1,443.0 million in 2010. 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 2011 were RMB301.5 million, an increase of RMB64.3 million as compared with RMB237.2 million in 2010. The main reason for the increase in total liabilities was the increase in trade and accounts payables and deposits received and receipt in advance. The Group's total equity as at 31 December 2011 was RMB1,214.5 million (2010: RMB1,205.8 million). The Group had no bank borrowings outstanding as at 31 December 2011 (2010: RMB9.0 million). The Group's cash and cash equivalents amounted to RMB606.8 million as at 31 December 2011.

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 2011, the Group did not have any foreign currency bank liability, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when appropriate. As at 31 December 2011, 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 2011, 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 RMB149.6 million (2010: RMB91.5 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 2011, the Group had approximately 300 employees. Salaries of employees are 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 2011.

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 2011.

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 2011.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 8 June 2012 (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 6 June 2012 (Wednesday) to 8 June 2012 (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 5 June 2012 (Tuesday).

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

Hong Kong, 30 March 2012

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