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泛亞環保集團有限公司
Pan Asia Environmental Protection Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 556)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	Variance
TURNOVER	587,147	587,980	-0.1%
GROSS PROFIT	151,445	64,889	133.4%
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY	28,357	(21,098)	N/A
EARNINGS/(LOSS) PER SHARE			
– BASIC	RMB3.47 cents	RMB(2.64) cents	N/A
– DILUTED	RMB3.39 cents	RMB(2.64) cents	N/A
PROPOSED FINAL DIVIDEND PER SHARE	HK2 cents	–	N/A

RESULTS

The Board (the “Board”) of Directors (the “Directors”) of Pan Asia Environmental Protection Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2014 together with the comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	<i>Note</i>	2014 RMB'000	2013 <i>RMB'000</i>
TURNOVER	3	587,147	587,980
Cost of sales and services rendered		<u>(435,702)</u>	<u>(523,091)</u>
GROSS PROFIT		151,445	64,889
Other revenue	3	4,167	4,398
Other net gain	3	38	335
Selling and distribution expenses		(13,789)	(7,112)
General and administrative expenses		(51,871)	(69,692)
Other operating expenses		(42,644)	(9,868)
Finance costs	4(a)	<u>(1,004)</u>	<u>(976)</u>
PROFIT/(LOSS) BEFORE TAXATION	4	46,342	(18,026)
Income tax expenses	5	<u>(22,939)</u>	<u>(3,371)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>23,403</u>	<u>(21,397)</u>
Other comprehensive loss for the year (after tax and reclassification adjustments)			
<i>Item that will not be reclassified to profit or loss:</i>			
– Exchange differences on translation of financial statements to presentation currency		<u>(99)</u>	<u>(1,114)</u>
Total comprehensive income/(loss) for the year		<u>23,304</u>	<u>(22,511)</u>

	<i>Note</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Profit/(loss) for the year attributable to:			
Owners of the Company		28,357	(21,098)
Non-controlling interests		(4,954)	(299)
		23,403	(21,397)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		28,258	(22,212)
Non-controlling interests		(4,954)	(299)
		23,304	(22,511)
EARNINGS/(LOSS) PER SHARE			
	7		
– Basic		RMB3.47 cents	RMB(2.64) cents
– Diluted		RMB3.39 cents	RMB(2.64) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	<i>Note</i>	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Prepaid lease payments		53,339	54,551
Property, plant and equipment		451,690	366,325
Available-for-sale financial asset		9,000	9,000
Prepayments for consultation, marketing and promotional services	8	130,000	–
		644,029	429,876
CURRENT ASSETS			
Prepaid lease payments		1,195	1,178
Inventories		244,270	97,365
Trade and other receivables	9	506,684	415,568
Pledged bank deposits		6,543	10,616
Tax recoverable		20,001	–
Cash and bank balances		379,236	571,326
		1,157,929	1,096,053
CURRENT LIABILITIES			
Trade and other payables	10	176,795	175,985
Short-term bank loans		14,000	14,000
Deposits received and receipts in advance		337,347	151,728
Tax payable		10,888	3,389
		539,030	345,102
NET CURRENT ASSETS		618,899	750,951
TOTAL ASSETS LESS CURRENT LIABILITIES		1,262,928	1,180,827
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(18,202)	(14,930)
Deferred government grants		(4,709)	–
		(22,911)	(14,930)
NET ASSETS		1,240,017	1,165,897
CAPITAL AND RESERVES			
Share capital		78,073	74,872
Reserves		1,170,242	1,094,369
Equity attributable to owners of the Company		1,248,315	1,169,241
Non-controlling interests		(8,298)	(3,344)
TOTAL EQUITY		1,240,017	1,165,897

NOTES:

1. GENERAL INFORMATION

Pan Asia Environmental Protection Group Limited 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 (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Suite 6302, The Center, 99 Queen’s Road Central, Hong Kong, respectively.

The 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 Accountants (“HKICPA”) has issued the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and one new interpretation that are first effective for the current accounting period of the Group and the Company.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC*) 21	Levies

* IFRIC represents the IFRIC Interpretations Committee

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are disclosed below.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment Entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable Amount Disclosures for Non-financial Assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The application of these amendments has had no material impact on the disclosures in these financial statements.

Amendments to HKAS 39, Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedging accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group does not have any derivatives that subject to novation.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

3. TURNOVER, OTHER REVENUE AND OTHER NET GAIN

Turnover

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

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Sales of EP products and equipment	478,564	541,888
Sales of EP construction materials	102,666	2,986
Revenue from EP construction engineering projects	1,620	39,101
Revenue from EP related professional services	4,297	4,005
	<u>587,147</u>	<u>587,980</u>
Other revenue		
Interest income on bank deposits	<u>2,187</u>	<u>2,505</u>
Total interest income on financial assets not at fair value through profit or loss	2,187	2,505
Dividend income from unlisted equity securities	–	750
Reversal of impairment loss on trade receivables	161	31
Reversal of impairment loss on other receivables	343	–
Rental income from operating lease	53	53
Government grants #	908	–
Sundry income	<u>515</u>	<u>1,059</u>
	<u>4,167</u>	<u>4,398</u>

The amount included the government grants of approximately RMB658,000 (2013: Nil) relating to the subsidies from the PRC government for acquisition of property, plant and equipment which was released from deferred government grants to profit or loss during the year ended 31 December 2014.

Other net gain

Gain on disposals of property, plant and equipment	51	441
Loss on write-off of property, plant and equipment	(13)	–
Net exchange loss	–	(106)
	<u>38</u>	<u>335</u>

4. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging the following:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
a) Finance costs:		
Interest on bank loans wholly repayable within five years	1,004	976
	<hr/>	<hr/>
Total interest expenses on financial liabilities not at fair value through profit or loss	1,004	976
	<hr/> <hr/>	<hr/> <hr/>
b) Other items:		
Amortisation of prepaid lease payments	1,195	955
Depreciation of property, plant and equipment	28,919	20,567
Impairment loss on trade receivables*	23,944	1,370
Research and development expenses*	16,975	4,172
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* These items are included in other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

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

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Current Tax:		
PRC Enterprise Income Tax		
– Provision for the year	19,667	1,713
Deferred Tax:		
Origination and reversal of temporary differences	3,272	1,658
	<hr/>	<hr/>
Income tax expenses	22,939	3,371
	<hr/> <hr/>	<hr/> <hr/>

- i) The Company and its subsidiaries incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- ii) PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the Company's subsidiaries established in the PRC during the years ended 31 December 2014 and 2013.
- iii) No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2014 and 2013 as the Group did not have assessable profits arising in Hong Kong during both years.

6. DIVIDENDS

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Proposed final dividend of HK2 cents (2013: Nil) per ordinary share	<u>13,447</u>	<u>–</u>

The final dividend of HK2 cents per ordinary share for the year ended 31 December 2014 has been recommended by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting (“AGM”).

7. BASIC EARNINGS/(LOSS) PER SHARE

a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to owners of the Company of approximately RMB28,357,000 (2013: loss of RMB21,098,000) and the weighted average number of 817,863,014 ordinary shares (2013: 800,000,000 ordinary shares) in issue during the year.

b) Diluted earnings/(loss) per share

(i) Year ended 31 December 2014

The calculation of diluted earnings per share for the year ended 31 December 2014 is based on the profit attributable to owners of the Company of approximately RMB28,357,000 and the weighted average number of ordinary shares after adjusting the effect of dilutive potential ordinary shares under the Company’s share option scheme.

The calculation of weighted average number of ordinary shares for the purpose of calculating diluted earnings per share is as follows:

	Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	817,863,014
Add: Effect of dilutive potential ordinary shares from share options	<u>18,130,204</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>835,993,218</u>

(ii) Year ended 31 December 2013

Diluted loss per share was the same as the basic loss per share for the year ended 31 December 2013 as the share options outstanding had no dilutive effect on the basic loss per share for that year.

8. PREPAYMENTS FOR CONSULTATION, MARKETING AND PROMOTIONAL SERVICES

- (a) Movements of prepayments for consultation, marketing and promotional services during the year are as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
As at 1 January	–	–
Additions	230,500	–
Utilised and charged to profit or loss	<u>(14,000)</u>	<u>–</u>
As at 31 December	<u>216,500</u>	<u>–</u>
<i>Analysed for reporting purposes as follows:</i>		
Non-current portion	130,000	–
Current portion (included in trade and other receivables (<i>Note 9</i>))	<u>86,500</u>	<u>–</u>
Total	<u>216,500</u>	<u>–</u>

- (b) The analysis of the carrying amount of prepayments for consultation, marketing and promotional services which will be charged to profit or loss is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 1 year	86,500	–
After 1 year but less than 2 years	32,500	–
After 2 years but less than 5 years	<u>97,500</u>	<u>–</u>
	<u>216,500</u>	<u>–</u>

Prepayments for consultation, marketing and promotional services represent the prepayments made by the Group to several independent architectural research and design institutes and universities in the PRC (the “Parties”) for providing consultation services to set up and establish industry standards and national criteria with respect to applications of wood wool cement board (“WWCB”) related materials on different aspects, and for providing marketing and promotional services to the Group.

During the year ended 31 December 2014, the Group entered into several agreements (the “Agreements”) with the Parties for the purposes of (i) providing consultation services to the Group so as to set up and establish industry standards and national criteria for applications of WWCB related materials in the PRC and (ii) rendering marketing and promotional services to the Group for enhancing the development of the Group’s WWCB related materials and market penetration in the PRC during the years from 2015 to 2019. The total consideration of the Agreements is RMB266,000,000 of which RMB230,500,000 was paid by the Group during the year ended 31 December 2014. Pursuant to the Agreements, the Group has reserved the rights to recall part of or all of the prepayments already made to the Parties if the Parties cannot fulfill the conditions as stated in the Agreements.

During the year ended 31 December 2014, part of the consultation services with an aggregate amount of RMB14,000,000 (2013: Nil) were rendered by the Parties and the amounts were recognised as “research and development expenses” in profit or loss during the year. For the marketing and promotional services to be rendered by the Parties, the related expenses will be released from “prepayments for consultation, marketing and promotional services” and will be recognised as “marketing and promotional expenses” in profit or loss once the services have been rendered.

9. TRADE AND OTHER RECEIVABLES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables (<i>Note</i>)	158,651	127,609
Less: Allowance for doubtful debts	<u>(27,226)</u>	<u>(3,443)</u>
	<u>131,425</u>	<u>124,166</u>
Other receivables	46,036	55,700
Less: Allowance for doubtful debts	<u>(1,042)</u>	<u>(1,385)</u>
	<u>44,994</u>	<u>54,315</u>
Retention receivables	51,826	61,915
Amount due from a related company	<u>16</u>	<u>820</u>
Loans and receivables	228,261	241,216
Prepayments for consultation, marketing and promotional services (<i>Note 8</i>)	86,500	–
Other prepayments and deposits	139,727	62,322
Other tax recoverables	36,871	12,152
Amounts due from customers for contract work	<u>15,325</u>	<u>99,878</u>
	<u>506,684</u>	<u>415,568</u>

Note:

Ageing analysis

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
0 to 30 days	9,064	32,183
31 to 60 days	272	4,626
61 to 90 days	3,187	1,354
91 to 180 days	65,466	38,117
181 to 365 days	19,387	23,575
Over 365 days	<u>34,049</u>	<u>24,311</u>
	<u>131,425</u>	<u>124,166</u>

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

10. TRADE AND OTHER PAYABLES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade payables (<i>Note</i>)	114,060	117,984
Accruals and other payables	51,454	34,702
Amount due to a director	–	556
Amounts due to related companies	6,628	17,928
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	172,142	171,170
Other PRC tax payables	4,653	4,815
	<hr/>	<hr/>
	176,795	175,985
	<hr/> <hr/>	<hr/> <hr/>

Note:

Ageing analysis of trade payables

The ageing analysis of trade payables at the end of each reporting period is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
0 to 30 days	14,953	19,556
31 to 60 days	2,779	2,249
61 to 90 days	1,017	11,370
91 to 180 days	3,140	1,653
181 to 365 days	2,970	17,396
Over 365 days	89,201	65,760
	<hr/>	<hr/>
	114,060	117,984
	<hr/> <hr/>	<hr/> <hr/>

11. SEGMENT REPORTING

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

- Sales of EP products and equipment: this segment involves the sales of EP products and equipment to external customers.
- Manufacture of EP construction materials: this segment involves the manufacture and sales of EP construction materials to external customers, and the main product is WWCB.
- EP construction engineering projects: this segment undertakes the EP construction engineering projects for external customers.
- Provision of EP related professional services: this segment provides the EP related professional services to external customers and group companies.

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below:

	Sales of EP products and equipment		Manufacture of EP construction materials		EP construction engineering projects		Provision of EP related professional services		Total	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Reportable segment revenue from external customers	478,564	541,888	102,666	2,986	1,620	39,101	4,297	4,005	587,147	587,980
Inter-segment revenue	-	-	428	-	-	-	-	1,360	428	1,360
Reportable segment revenue	<u>478,564</u>	<u>541,888</u>	<u>103,094</u>	<u>2,986</u>	<u>1,620</u>	<u>39,101</u>	<u>4,297</u>	<u>5,365</u>	<u>587,575</u>	<u>589,340</u>
Reportable segment profit/(loss) (adjusted EBITDA)	<u>78,688</u>	<u>71,633</u>	<u>53,927</u>	<u>(3,909)</u>	<u>137</u>	<u>(7,424)</u>	<u>954</u>	<u>932</u>	<u>133,706</u>	<u>61,232</u>
Depreciation and amortisation for the year	<u>1,677</u>	<u>6,969</u>	<u>26,203</u>	<u>12,594</u>	<u>296</u>	<u>294</u>	<u>-</u>	<u>-</u>	<u>28,176</u>	<u>19,857</u>

Geographical information

(i) Revenue from external customers

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

	2014 RMB'000	2013 RMB'000
Mainland China (place of domicile)	584,525	585,317
South Korea	1,863	2,663
Others	759	-
	<u>587,147</u>	<u>587,980</u>

(ii) Specified non-current assets

The Group's specified non-current assets comprise property, plant and equipment, prepaid lease payments, and prepayments for consultation, marketing and promotional services.

The geographical location of these specified non-current assets is based on (i) the physical location of the assets, in the case of property, plant and equipment and prepaid lease payments, and (ii) the location of the services to be provided by the service providers, in the case of prepayments for consultation, marketing and promotional services.

The following table sets out information about the geographical location of the specified non-current assets.

	2014 RMB'000	2013 RMB'000
Mainland China (place of domicile)	634,579	420,339
Hong Kong	450	537
	<u>635,029</u>	<u>420,876</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2014, the Group achieved a total turnover of RMB587.1 million, similar to that of 2013 (2013: RMB588.0 million). Gross profit rose to about RMB151.4 million (2013: RMB64.9 million) and gross profit margin was 25.8% (2013: 11.0%). This growth was mainly attributable to the substantial rise in revenue from the WWCB business and an improvement in the gross profit margin of sales of EP products and equipment which combined to deliver a business turnaround. The Group recorded a profit attributable to owners of the Company of RMB28.4 million, a turnaround from the net loss in 2013 (2013: loss of RMB21.1 million). The basic earnings per share were RMB3.47 cents (2013: basic loss per share of RMB2.64 cents).

Final Dividend

The Board has recommended payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2014 (2013: Nil). Subject to the approval of shareholders at the forthcoming AGM of the Company to be held on Friday, 5 June 2015, the final dividend is to be paid on or before Friday, 26 June 2015 to registered shareholders of the Company as at Tuesday, 16 June 2015.

Business Overview

As an eco-friendly construction materials and integrated EP services provider, the Group is principally engaged in the development, manufacturing and sales of new eco-friendly construction materials, and the provision of EP construction engineering solutions and services for customers.

Sales of EP Products and Equipment

During the year under review, sales of EP products and equipment recorded a turnover of approximately RMB478.6 million, accounting for roughly 81.5% of the Group's total turnover.

Sales of Water Treatment Products and Equipment

Water treatment systems are mainly used for the treatment of industrial and urban waste water. After the Central Government tightened the requirements for water treatment of coal chemical companies which consume enormous quantities of water resources, the Group has also entered this potentially lucrative new sector. During the year under review, the Group completed 67 water treatment-related sales contracts, while the water treatment business generated a turnover of approximately RMB463.1 million, accounting for approximately 78.9% of the Group's total turnover.

Sales of Flue Gas Treatment Products and Equipment

The Group's comprehensive supply chain in flue gas treatment products and equipment provides services ranging from engineering design to maintenance services. The Group has been cooperating with a wide range of customers, including both government-owned corporations and private enterprises, which include Shanxi Yangquan Coal Industry Group Co. Ltd. (山西陽泉煤業(集團)有限責任公司) and United Laboratories (聯邦制藥), etc. In addition to desulphurization and denitrification services, the Group has also recently undertaken dedusting project of coal-fired power plants, expanding its scope of business and revenue in this sector. During the year ended 31 December 2014, the Group completed three projects related to the sale of equipment for flue gas treatment, generating a turnover of RMB15.5 million, which represented 2.6% of the Group's total turnover.

EP Construction Engineering Projects

Leveraging its extensive industry expertise, professional research and development (“R&D”) capabilities and technologies, the Group provides one-stop EP solutions to a diverse range of clients. Most of the projects in this segment spanned different financial periods and are booked to the accounts according to the stage of completion. Meanwhile, the Group has been involved in several non-governmental projects. Since final acceptance of these projects has yet to be confirmed, revenue generated from these projects will be reflected in 2015. During the year under review, this segment recorded a turnover of approximately RMB1.6 million, accounting for about 0.3% of the Group’s total turnover.

Provision of EP-related Professional Services

The Group’s subsidiary, the Shanghai Environmental Engineering Design & Research Institute Limited (“SEEDRI”) holds Grade A qualification in EP engineering design, which enables it to provide EP project design services for cross-sector clients around the PRC. During the year under review, this segment recorded a turnover of approximately RMB4.3 million, accounting for about 0.7% of the Group’s total turnover.

Manufacture of EP Construction Materials

As a new EP construction material for renovation and wall components, WWCB offers particularly exciting potential as it can be widely used in residential and commercial buildings, noise barriers along highways and railways, music halls, stations and car parks, and can effectively reduce engineering cost when compared to traditional construction materials. During the year under review, this segment recorded a turnover of approximately RMB102.7 million, accounting for about 17.5% of the Group’s total turnover with a profit margin of up to 47.1%.

As an eco-friendly inorganic energy-conserving construction material, WWCB is made from cement, eco-friendly fast growing timber and non-toxic additives through high pressurisation. Widely used overseas, WWCB enjoys distinctive features of heat preservation, fire resistant, sound-proof, moisture-proof, mould-proof and insect repelling properties, and its other outstanding features include sound absorption, hardness and durability, light weight and attractive appearance. As an ecologically-compatible material, it is bio-degradable and highly beneficial for environmental protection.

In view of the huge potential of WWCB, the Group has engaged in cooperation with the industry leader from the Netherlands, and has introduced WWCB and large wall components in the PRC on an exclusive basis. Among the six production lines imported from the Netherlands, each with an annual capacity of approximately 140,000m³, five are standard lines that produce WWCB of varying thickness from 10mm to 100mm. The other is the most advanced and is a fully automated large wall component production line which can manufacture large wall components with a maximum dimensions of 3m x 6m x 40cm which can be directly installed. Based on its expertise in large wall components, the Group has developed integrated wall component products boasting features of wall components, decoration and heat preservation, thus saving production cost for construction companies and contractors. As at the end of 31 December 2014, three production lines have commenced commercial operation.

As the largest and most advanced WWCB producer in the world, the Group leverages its own R&D capability to upgrade the products to meet local needs in the PRC. During the year under review, the Group has compiled and submitted the national industry standards “Technological Specifications for Application of WWCB” to the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) for approval. The national standards for WWCB construction and inspection are expected to roll out in May 2015. When put into effect as a national standard, it will further strengthen the Group’s leading position in the segment, speed up the market penetration of WWCB and facilitate the revolution of construction materials.

During the year ended 31 December 2014, the Group has secured its first order for its large wall components in a collaborative project covering a gross floor area of approximately 500,000m² with Longyuan Construction Group Co. Ltd. Marking a major step in the market development of WWCB, the Group is to provide prefabricated external wall to a residential district in Inner Mongolia. The first phase of the project has already commenced construction in mid-2014. As a cross-year project, it has contributed promising income during the year ended 31 December 2014 and will continue to generate income in 2015.

In terms of market development, the Group has stepped up promotion of WWCB as building panels and blocks in replace of traditional wall building materials, and is actively striving to develop the North America and Asia markets. The Group has recorded regular monthly sales to South Korea and received orders from Bhutan and other Southeast Asian countries. Besides, the Group has set up a dedicated team in Hong Kong for the sales and promotion of WWCB to Hong Kong and overseas markets.

PROSPECTS

Eco-friendly construction materials business – increasing popularity with immense potential

In battling the widely-publicized pollution crisis, the Central Government of the PRC (the “Central Government”) is actively promoting reduction of carbon dioxide by designating the construction of green buildings as a key strategy to save energy and reduce carbon dioxide emission. By 2020, more than 30% of new buildings in cities are to adopt green building standards. In addition, the State Council’s “Green Building Action Plan” clearly defines the country’s determination to enhance the development of green construction materials and assist the development of such material industry. Driven by the Central Government’s policies and its increased efforts to promote the construction of green buildings, the market demand for eco-friendly construction materials continues to increase, and the increasing market recognition of the benefits of WWCB underscores its strong development potential.

In view of the huge opportunities in the industry, the Group has been aggressively expanding its eco-friendly construction materials business. The Group owns the exclusive right to import WWCB production facilities from the Netherlands and operate them in the PRC and its engineering experts and sales and marketing team have been actively promoting the products. With the national standards for WWCB construction and inspection, architectural design institutes can design projects based on these standards. As a result, the market recognition of WWCB is set to expand and the application of WWCB will become more widespread across a range of projects. Meanwhile, the preliminary construction of the Yihe residence project in Inner Mongolia and a resort hotel project in Yichang, Hubei have been completed. It is expected that the construction of the first high-rise building will be completed in 2015.

The Group has commenced construction of two highway sound barrier projects. The Foshan Highway project is expected to be completed in the first half of 2015. The Group's participation in the Jiamin Highway project is also in progress with the preliminary phase completed. Besides participating in infrastructure works, the Group's participation in projects for the Yixing Cultural Center and China Communications Construction Company Real Estate Company Limited has been confirmed, and is expected to contribute income in 2015.

With three production lines already in commercial operation, the Group will conduct final test runs for two more production lines in April 2015 and for another one in mid-2015. With all these new production lines scheduled to be fully operational by June 2015, the Group's productivity in the second half of 2015 will be improved and its workflow will be optimized.

To make the most out of the business opportunities, the Group is leveraging its abundant industry experience to expand production capacity, as it enhances regional cooperation with strategic partners. At the same time, apart from cooperating with construction companies and contractors, the Group is directly selling WWCB within specific application areas and geographical regions, while improving its product specifications and quality in an effort to optimize its sales network.

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

In recent years, EP has been an increasingly important issue in the PRC. Regarding environmental pollution, especially the severe smog problem and mounting water pollution, the Central Government has launched a series of policies and specific measures to address these issues.

The strongly supportive national policies have significantly spurred domestic demand for the EP products. Around 4,500 waste water treatment plants in the PRC are required to be upgraded to Grade 1A emission standards, thus creating a strong market demand. The Group's water treatment business for its part owns several patents. Its special chemical ingredients can dissolve the organisms in sludge and reduce sludge volume by 50%, thus saving around 70% of waste water treatment cost and improving the cost efficiency of water treatment. As the Group's proprietary technology is fundamentally different from traditional sludge treatment methods, it can reduce secondary pollution as well. As a result, the Group's participation in several coal chemical water treatment projects in Inner Mongolia are expected to be confirmed soon, which promise to contribute substantial income.

On top of desulphurization and denitrification works, the Group will undertake demercuration projects. By leveraging its strong desulphurization experience, the Group will start to provide demercuration services to clients engaged in a variety of industries including non-ferrous metals, power generation, iron and steel, cement and glass production, aiming to help these clients reduce pollution from heavy metal emissions. Upon completion of the testing of its demercuration processes, the Group will provide one-stop EP solutions incorporating desulphurization, denitrification and demercuration. Currently, the Group has 53 uncompleted water and flue gas treatment contracts with a total value of approximately RMB639.7 million on hand.

Liquidity and Financial Resources

As at 31 December 2014, the total assets of the Group amounted to RMB1,802.0 million, an increase of RMB276.0 million as compared to RMB1,525.9 million in 2013. The increase was mainly due to increases in property, plant and equipment and inventories. The Group's total liabilities as at 31 December 2014 amounted to RMB562.0 million, increased by RMB202.0 million as compared to RMB360.0 million in 2013. The main reason for the increase in total liabilities was the increase in deposits received in advance. The Group's total equity as at 31 December 2014 was RMB1,240.0 million (2013: RMB1,165.9 million). The Group had an unpaid bank borrowings of RMB14.0 million as at 31 December 2014 (2013: RMB14.0 million) and the equity ratio calculated by dividing interest-bearing loans and other borrowings by total equity as at 31 December 2014 was 1.1% (2013: 1.2%). The Group's cash and cash equivalents amounted to RMB379.2 million as at 31 December 2014 (2013: RMB571.3 million).

On 8 July 2014, Praise Fortune Limited, the controlling Shareholder of the Company, entered into a placing agreement with a placing agent for placing a maximum of 60,000,000 ordinary shares (the "Placing Shares") of the Company at a placing price of HK\$1.63 per share. On the same date, the Company entered into a subscription agreement with Praise Fortune Limited for issue of a maximum of 60,000,000 new ordinary shares at HK\$1.63 per share.

On 22 July 2014, 40,000,000 ordinary shares of the Company were placed by Praise Fortune Limited to certain independent third parties at a subscription price of HK\$1.63 per share. On the same date, the Company issued 40,000,000 new ordinary shares to Praise Fortune Limited at an issue price of HK\$1.63 per share. The Company raised approximately RMB50,816,000 (net of directly attributable expenses of approximately RMB1,361,000), which will be used for future development of WWCB business and as general working capital of the Group.

Exposure to Fluctuations in Foreign 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 2014, the Group did not have any foreign currency bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. Nevertheless, the management is continuing to monitor the foreign exchange exposure and will take prudent measures as and when appropriate. As at 31 December 2014, the Group did not hold any derivatives for hedging against both the interest rate and foreign exchange risks.

Capital Commitments and Contingent Liabilities

As at 31 December 2014, the Group had a capital expenditure commitment in respect of the acquisition of property, plant and equipment totalling RMB2.3 million (2013: RMB33.0 million). The Group provides product maintenance services to customers of flue gas desulphurisation construction projects and certain EP products for a period ranging from six months to two years after a project is completed or a product is delivered. At the same time, the Group enjoys warranties for the work and equipment from its sub-contractors and suppliers. The Directors of the Company believe that the amount of crystallised warranty liabilities, if any, in excess of the amount covered by the warranties given by sub-contractors and suppliers, would not have any adverse material effect on the overall financial position or operating results of the Group.

Human Resources

As at 31 December 2014, the Group has approximately 270 employees. Salaries of employees were maintained at competitive levels and are reviewed annually, with close reference to the relevant labor market and the 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 training programmes and 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 Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

Scope of Work of Crowe Horwath (HK) CPA Limited

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2014 as set out in this preliminary announcement have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Crowe Horwath (HK) CPA Limited on this preliminary announcement.

Audit Committee

An audit committee comprising three independent non-executive directors has been established by the Company to review the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the financial statements of the Group for the year ended 31 December 2014.

Corporate Governance

In the opinion of the Board, throughout the year ended 31 December 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, save and except for code provision E.1.2 which stipulates that the chairman of the board should attend the AGM. Mr. Jiang Quanlong, Chairman of the Board, was unable to attend the 2014 AGM due to a business trip and Mr. Jiang Lei, an executive director and Chief Executive Officer, has been delegated to attend and answer questions on his behalf at the 2014 AGM. Mr. Jiang Quanlong will use his best endeavours to attend all future shareholders' meetings of the Company.

Closure of Register of Members

(a) *For determining the entitlement to attend and vote at the AGM*

The AGM is scheduled to be held on Friday, 5 June 2015. For determining the entitlement to attend and vote at the AGM, the Register of Members of the Company will be closed from Wednesday, 3 June 2015 to Friday, 5 June 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares, accompanied by the relevant share certificates and appropriate transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 2 June 2015.

(b) *For determining the entitlement to the proposed final dividend*

For determining the entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Friday, 12 June 2015 to Tuesday, 16 June 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to receive the proposed final dividend, all transfer of shares, accompanied by the relevant share certificates and appropriate transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 11 June 2015.

Publication of Annual Results and Annual Report

This annual results announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.paep.com.cn) and the 2014 Annual Report will be despatched to the shareholders and published on the Company's and the Stock Exchange's websites in due course.

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

Hong Kong, 27 March 2015

As at the date of this announcement, the Directors are:

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

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