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 2017

FINANCIAL HIGHLIGHTS:

	2017 *RMB'000*	2016 *RMB'000* (Restated)	**Variance**
REVENUE	**588,549**	637,846	-7.7%
GROSS PROFIT	**115,907**	135,218	-14.3%
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Continuing operations	**36,103**	57,684	
– Discontinued operation	**(183,462)**	17,759	
	(147,359)	75,443	-295.3%
(LOSS)/EARNINGS PER SHARE (Expressed in RMB cents per share)			
Basic (loss)/earnings per share			
– From continuing operations	**4.30**	6.87	
– From discontinued operation	**(21.84)**	2.11	
	(17.54)	8.98	-295.3%
Diluted (loss)/earnings per share			
– From continuing operations	**4.30**	6.77	
– From discontinued operation	**(21.84)**	2.09	
	(17.54)	8.86	-298.0%

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 2017 together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017** ***RMB'000***	2016 *RMB'000* (Restated)
Continuing operations:			
Revenue	*3*	**588,549**	637,846
Cost of sales		**(472,642)**	(502,628)
Gross profit		**115,907**	135,218
Other income	*3*	**6,005**	16,669
Other net loss	*3*	**(3,089)**	(802)
Selling and distribution expenses		**(274)**	(286)
General and administrative expenses		**(31,436)**	(33,156)
Other operating expenses		**(62,112)**	(43,100)
Finance costs		**(314)**	–
Profit before taxation	*5*	**24,687**	74,543
Income tax credit/(expenses)	*8*	**11,416**	(16,859)
Profit for the year from continuing operations		**36,103**	57,684
Discontinued operation:			
(Loss)/profit for the year from discontinued operation	*6*	**(183,462)**	17,759
(Loss)/profit for the year attributable to owners of the Company		**(147,359)**	75,443
Other comprehensive income/(loss) for the year (after tax and reclassification adjustments)			
Item that will not be reclassified to profit or loss:			
– Exchange differences on translation of financial statements to presentation currency		**1,593**	(583)
Total comprehensive (loss)/income for the year attributable to owners of the Company		**(145,766)**	74,860

	Note	2017 RMB'000	2016 RMB'000 (Restated)
(Loss)/profit for the year attributable to owners of the Company arises from:			
– Continuing operations		**36,103**	57,684
– Discontinued operation		**(183,462)**	17,759
		(147,359)	75,443
		RMB cents	*RMB cents*
(LOSS)/EARNINGS PER SHARE	*10*		
Basic (loss)/earnings per share			
– From continuing operations		**4.30**	6.87
– From discontinued operation		**(21.84)**	2.11
		(17.54)	8.98
Diluted (loss)/earnings per share			
– From continuing operations		**4.30**	6.77
– From discontinued operation		**(21.84)**	2.09
		(17.54)	8.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Prepaid lease payments		**49,767**	50,958
Property, plant and equipment		**187,364**	399,098
Available-for-sale financial asset		**–**	–
Prepayments for consultation, marketing and promotional services	*11*	**–**	43,700
Trade receivables with extended credit terms	*12*	**–**	17,876
Deferred tax assets		**160**	1,328
		237,291	512,960
CURRENT ASSETS			
Prepaid lease payments		**1,191**	1,191
Inventories		**46,579**	197,984
Trade and other receivables	*12*	**620,439**	908,984
Pledged bank deposits		**–**	6,543
Tax recoverable		**–**	74,796
Cash and bank balances		**368,213**	349,740
		1,036,422	1,539,238
Assets of a disposal company classified as held for sale	*7*	**480,477**	–
		1,516,899	1,539,238
CURRENT LIABILITIES			
Trade and other payables	*13*	**51,370**	270,844
Deposits received and receipts in advance		**1,091**	365,656
Tax payable		**11,125**	10,888
		63,586	647,388
Liabilities directly associated with the assets classified as held for sale	*7*	**436,489**	–
		500,075	647,388
NET CURRENT ASSETS		**1,016,824**	891,850
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,254,115**	1,404,810
NON-CURRENT LIABILITIES			
Corporate bonds		**20,440**	–
Deferred tax liabilities		**–**	21,976
Deferred government grants		**–**	3,393
		20,440	25,369
NET ASSETS		**1,233,675**	1,379,441
CAPITAL AND RESERVES			
Share capital		**78,073**	78,073
Reserves		**1,155,602**	1,301,368
TOTAL EQUITY		**1,233,675**	1,379,441

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 (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 15/F, Club Lusitano, 16 Ice House Street, Central, Hong Kong, respectively.

The Group is principally engaged in the sales of environmental protection ("EP") products and equipment, undertaking of EP construction engineering projects, and manufacture and sales of EP construction materials in the People's Republic of China (the "PRC") and investment holding.

The Group's manufacture and sales of EP construction materials business was discontinued during the current year. Details of which are set out in note 6.

2. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued several amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. None of these amendments have any material impact on the accounting policies of the Group. However, additional disclosure has been included in the Group's consolidated financial statements for the year ended 31 December 2017 to satisfy the new disclosure requirements introduced by the Amendments to Hong Kong Accounting Standard 7 "Statement of Cash Flows: Disclosure Initiative", which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE, OTHER INCOME AND OTHER NET LOSS

From continuing operations:

Revenue

Revenue from continuing operations represents the fair value of the amounts received and receivable for goods sold and revenue from EP construction engineering projects, which excludes value-added and other sales taxes, and is after deduction of any goods returns and trade discounts.

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

	2017 *RMB'000*	2016 *RMB'000* (Restated)
Sales of EP products and equipment	**588,549**	637,846
Revenue from EP construction engineering projects	**–**	–
	588,549	637,846

	2017 *RMB'000*	2016 *RMB'000* (Restated)
From continuing operations:		
Other income		
Interest income on bank deposits	**1,093**	1,223
Total interest income on financial assets not at fair value through profit or loss	**1,093**	1,223
Gain on early settlement of trade receivables with extended credit terms *(Note 12(b))*	**–**	5,004
Imputed interest on trade receivables with extended credit terms *(Note 12(b))*	**4,397**	10,249
Rental income from operating lease	**53**	103
Reversal of impairment loss on trade receivables *(Note 12(a))*	**462**	–
Reversal of impairment loss on other receivables	**–**	90
	6,005	16,669

	2017 *RMB'000*	2016 *RMB'000* (Restated)
From continuing operations:		
Other net loss		
Loss from litigation claim *(Note 4)*	**(3,783)**	(46,641)
Compensation of loss from indemnity *(Note 4)*	**–**	46,641
	(3,783)	–
Net exchange gain/(loss)	**545**	(802)
Gain on disposals of property, plant and equipment	**149**	–
	(3,089)	(802)

4. LOSS FROM LITIGATION CLAIM AND COMPENSATION OF LOSS FROM INDEMNITY, NET

In 2007, Wuxi Pan Asia Environmental Protection Technologies Limited ("Wuxi Pan Asia"), an indirect wholly-owned subsidiary of the Company, undertook several sales of EP products and equipment to Guannan County Government (灌南縣人民政府). It was agreed that Guannan County Government would grant a specified area of land to Wuxi Pan Asia as settlement for the trade receivables arising from the sales of EP products and equipment. In anticipation of the grant of the land, Wuxi Pan Asia established two companies in the PRC, namely 連雲港泛亞置業有限公司 (Lianyungang Pan Asia Properties Limited) ("Pan Asia Properties") and 連雲港民心置業有限公司 (Lianyungang Minxin Properties Limited) ("Minxin Properties") for the purpose of transfer of the land. On 16 October 2007, Wuxi Pan Asia entered into an agreement (the "Agreement") with two independent third parties (the "Plaintiffs"), with an aim to carry out a property development project on certain area of the land (the "First Land"). Under the Agreement, Wuxi Pan Asia was obliged to contribute the First Land to Pan Asia Properties as capital injection.

However, Wuxi Pan Asia failed to receive the First Land as specified in the Agreement from Guannan County Government and another parcel of land (the "Second Land") was then granted by Guannan County Government to Wuxi Pan Asia. As the Second Land was not within the scope of the Agreement and with the view that the Agreement had no legal binding effect on the Second Land, Wuxi Pan Asia assigned the Second Land to Minxin Properties (the "Assignment") on 28 December 2009. According to the Assignment, Minxin Properties should undertake, among other things, to compensate any loss Wuxi Pan Asia may incur in consequence of breaching the Agreement. On the same day, Wuxi Pan Asia disposed of its entire equity interests in Minxin Properties to an independent third party.

In 2014, a civil case was brought against Wuxi Pan Asia by the Plaintiffs for breach of the Agreement (the "Litigation"). After subsequent proceedings and appeals, the case was finally adjudicated by the Jiangsu Higher People's Court (江蘇省高級人民法院). With reference to the Jiangsu Higher People's Court's judgment dated 26 December 2016, Wuxi Pan Asia was liable for a total claimed amount of approximately RMB70,754,000 (the "Claimed Amount").

Part of the Claimed Amount amounting to approximately RMB24,113,000 was accrued by the Group as "other payables" and included in trade and other payables in the consolidated statement of financial position in previous years and was reclassified as "payable for legal fees and liabilities arising from litigation claim" and included in trade and other payables in the consolidated statement of financial position as at 31 December 2016. The remaining balance of the Claimed Amount amounting to approximately RMB46,641,000 was provided for as "payable for legal fees and liabilities from litigation claim" and a loss from litigation claim amounting to approximately RMB46,641,000 was recognised in profit or loss during the year ended 31 December 2016.

In accordance with the Assignment, Minxin Properties was to compensate the loss of approximately RMB46,641,000 arising from the Litigation. On 28 December 2016, Minxin Properties signed an agreement with Wuxi Pan Asia and agreed to compensate the loss of approximately RMB46,641,000 arising from the Litigation, which was credited against the loss from the litigation claim in profit or loss and a receivable of compensation of loss from indemnity (Note 12) was recorded by the Group as at 31 December 2016. Minxi Properties subsequently settled the full amount to Wuxi Pan Asia on 27 March 2017.

On 24 September 2017, Wuxi Pan Asia entered into settlement agreement for the Litigation with the Plaintiffs and agreed to settle the Claimed Amount of approximately RMB70,754,000 together with additional costs and interests of approximately RMB3,783,000 (totaling RMB74,537,000). The additional costs and interests amounting to RMB3,783,000 was recognised as a loss from litigation claim during the year ended 31 December 2017. Wuxi Pan Asia settled the first instalment of approximately RMB17,012,000 in September 2017 and the remaining balance of approximately RMB57,525,000 was settled in March 2018.

5. PROFIT BEFORE TAXATION

Profit before taxation from continuing operations is arrived at after charging the following:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Amortisation of prepaid lease payments	**59**	59
Depreciation of property, plant and equipment	**3,536**	3,361
Impairment loss on trade receivables* *(Note 12(a))*	**61,168**	38,129
Impairment loss on other receivables*	**–**	4,911

* These items are included in other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

6. DISCONTINUED OPERATION

On 31 October 2017, Wuxi Pan Asia entered into an asset transfer agreement with Pan Asia Environmental Protection (Jiangsu) Company Limited ("Jiangsu Pan Asia"), which is an indirect wholly-owned subsidiary of the Company, pursuant to which Wuxi Pan Asia agreed to sell certain assets associated with the operation of sales of EP products and equipment to Jiangsu Pan Asia at a consideration of approximately RMB1,231,008,000 (the "Asset Transfer"). After completion of the Asset Transfer, Wuxi Pan Asia will only retain the assets and liabilities associated with the operation of manufacture and sales of EP construction materials. The Asset Transfer was completed on 16 January 2018.

On 31 October 2017, the Group entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party (the "Purchaser"), pursuant to which the Group conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire equity interests in Wuxi Pan Asia after the completion of the Asset Transfer at a consideration of RMB44,000,000 (the "Disposal").

Details of the Asset Transfer and the Disposal are set out in the Company's announcements dated 31 October 2017, 14 November 2017 and 18 January 2018.

Subject to the fulfillment of the two conditions precedent in the S&P Agreement which include (a) the Group and the Purchaser having obtained all necessary consents or approvals from relevant government authorities or regulatory authorities (if required) and (b) the completion of the Asset Transfer, the Directors are of the opinion that the Disposal is highly probable because the Board has formally approved the Disposal and there is no need to obtain the approval from the Company's shareholders as the Disposal constituted a disclosable transaction under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In addition, the conditions precedent under the S&P Agreement have been fulfilled on 16 January 2018 and the Disposal was completed on 16 January 2018 accordingly. The Directors are of the view that the disposal company constituted a separate major line of the Group's business and accordingly, the Group's operation of manufacture and sales of EP construction materials is classified as a discontinued operation.

The results and cash flows from the discontinued operation are analysed as follows. The comparative figures in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows have been restated to present the operation of manufacture and sales of EP construction materials as a discontinued operation.

The results from the discontinued operation are analysed as follows:

	2017	2016
	RMB'000	*RMB'000*
Results from discontinued operation:		
Revenue	**18,249**	176,500
Cost of sales	**(58,017)**	(100,417)
Gross (loss)/profit	**(39,768)**	76,083
Other income	**9,572**	788
Other loss	**–**	(3,831)
Selling and distribution expenses	**(38,281)**	(38,438)
General and administrative expenses	**(1,442)**	(1,535)
Other operating expenses	**(113,444)**	(11,697)
(Loss)/profit before taxation	**(183,363)**	21,370
Income tax expenses	**(99)**	(3,611)
(Loss)/profit for the year from discontinued operation attributable to owners of the Company	**(183,462)**	17,759

(Loss)/profit before taxation from discontinued operation are arrived at after charging/(crediting) the following:

	2017	2016
	RMB'000	*RMB'000*
Allowance for write down of inventories[5]	**19,984**	–
Amortisation of prepaid lease payments	**1,132**	1,132
Cost of inventories	**58,017**	100,417
Depreciation of property, plant and equipment	**22,786**	22,854
Government grants[1]	**(658)**	(658)
Impairment loss on trade receivables *(Note 12(a))*[5]	**91,125**	9,002
Impairment loss on other receivables[5]	**2,335**	–
Loss on disposals of property, plant and equipment[3]	**–**	(3,831)
Marketing and promotional expenses *(Note 11(b))*[4]	**37,358**	37,358
Reversal of impairment loss on trade receivables *(Note 12(a))*[2]	**(8,914)**	(130)
Research and development expenses *(Note 11(b))*[5]	**–**	2,695

1 The amount represents the government grants of approximately RMB658,000 (2016: RMB658,000) 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 2017, and the amount is included in other income in the results from discontinued operation as disclosed above.

2 This item is included in other income in the results from discontinued operation as disclosed above.

3 This item is included in other loss in the results from discontinued operation as disclosed above.

4 This item is included in selling and distribution expenses in the results from discontinued operation as disclosed above.

5 These items are included in other operating expenses in the results from discontinued operation as disclosed above.

7. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in note 6, the Directors are of the opinion that the Disposal is highly probable and is expected to be completed in next twelve months from the end of the reporting period. The Group will cease to have control over Wuxi Pan Asia upon completion of the Disposal. The Disposal was completed on 16 January 2018. The assets and liabilities attributable to Wuxi Pan Asia after the completion of the Asset Transfer, have been classified as a disposal company held for sale and are presented separately in the consolidated statement of financial position at 31 December 2017. The consideration of the Disposal is expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised during the year ended 31 December 2017.

The major classes of assets and liabilities comprising the assets and liabilities of a disposal company classified as held for sale as at 31 December 2017 are as follows:

	2017 ***RMB'000***
Assets held for sale	
Property, plant and equipment	**185,380**
Prepayments for consultation, marketing and promotional services	**43,700**
Deferred tax assets	**410**
Inventories	**105,395**
Trade and other receivables	**61,526**
Pledged bank deposits	**6,543**
Tax recoverable	**77,523**
	480,477
Liabilities directly associated with the assets held for sale	
Trade and other payables	**155,764**
Deposits received and receipts in advance	**276,772**
Deferred tax liabilities	**1,218**
Deferred government grants	**2,735**
	436,489

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

Taxation relating to continuing operations in the consolidated statement of profit or loss and other comprehensive income represents:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Current tax:		
PRC Enterprise Income Tax		
– Provision for the year	**8,683**	14,628
Deferred tax:		
Origination and reversal of temporary differences	**(20,099)**	3,180
Effect on change in tax rate	**–**	(949)
	(20,099)	2,231
Income tax (credit)/expenses	**(11,416)**	16,859

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 2017 and 2016.

iii) No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2017 and 2016 as the Group did not have assessable profits arising in Hong Kong during both years.

iv) The PRC Enterprise Income Tax Law also requires withholding tax of 10% upon distribution of profits by the PRC subsidiaries since 1 January 2008 to its overseas shareholders.

9. DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

10. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations:

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Earnings		
(Loss)/profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	**(147,359)**	75,443

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	**840,000,000**	840,000,000
Add: Effects of dilutive potential ordinary shares from share options		11,455,388
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share		851,455,388

Diluted loss per share for the year ended 31 December 2017 was RMB17.54 cents per share which was the same as the basic loss per share for the year because the exercise of the Company's outstanding share options would have anti-dilutive effect.

From continuing operations:

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
(Loss)/profit for the year attributable to owners of the Company from continuing and discontinued operations	**(147,359)**	75,443
Adjusted for: Loss/(profit) for the year from discontinued operation attributable to owners of the Company	**183,462**	(17,759)
Earnings for the purposes of basic and diluted earnings per share from continuing operations	**36,103**	57,684

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per share from continuing and discontinued operations.

From discontinued operation:

Basic (loss)/earnings per share

Basic (loss)/earnings per share from discontinued operation for the year ended 31 December 2017 was RMB(21.84) cents (2016: basic earnings of RMB2.11 cents) per share, based on the loss for the year from discontinued operation attributable to owners of the Company amounting to approximately RMB183,462,000 (2016: profit of RMB17,759,000) during the year and the denominators detailed above for basic (loss)/earnings per share from continuing and discontinued operations.

Diluted (loss)/earnings per share

Diluted loss per share from discontinued operation for the year ended 31 December 2017 was RMB21.84 cents per share which was the same as the basic loss per share from discontinued operation because the exercise of the Company's outstanding share options would have anti-dilutive effect.

Diluted earnings per share from discontinued operation for the year ended 31 December 2016 was RMB2.09 cents per share, based on the profit for that year from discontinued operation attributable to owners of the Company amounting to approximately RMB17,759,000 during that year and the denominators detailed above for diluted earnings per share from continuing and discontinued operations.

11. PREPAYMENTS FOR CONSULTATION, MARKETING AND PROMOTIONAL SERVICES

(a) Movements of prepayments for consultation, marketing and promotional services, based on estimated dates of services rendered, during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**83,300**	125,757
Utilised and charged to profit or loss	**(39,600)**	(42,457)
Transfer to assets held for sale *(Note 7)*	**(43,700)**	–
As at 31 December	**–**	83,300
Analysed for reporting purposes as follows:		
Non-current portion	**–**	43,700
Current portion (included in trade and other receivables *(Note 12)*)	**–**	39,600
Total	**–**	83,300

(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:

	2017	2016
	RMB'000	*RMB'000*
Within one year	–	39,600
After one year but less than two years	–	39,600
After two years but less than five years	–	4,100
	–	83,300

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 service agreements (the "Service Agreements") with the Parties for the purpose 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 Service 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 Service 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 Service Agreements.

During the year ended 31 December 2017, the expenses for marketing and promotional services of approximately RMB39,600,000 (net of tax of approximately RMB37,358,000) (2016: RMB39,600,000 (net of tax of approximately RMB37,358,000)) were recognised as "marketing and promotional expenses" in the results from discontinued operation as disclosed in note 6.

During the year ended 31 December 2016, the expenses for consultation services of approximately RMB2,857,000 (net of tax of approximately RMB2,695,000) (2017: Nil) were recognised as "research and development expenses" in the results from discontinued operation as disclosed in note 6.

12. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables with normal credit terms *(Note a)*	**583,696**	597,273
Trade receivables with extended credit terms *(Note b)*	**79,533**	95,286
Total trade receivables	**663,229**	692,559
Less: Allowance for doubtful debts	**(119,367)**	(78,323)
Total trade receivables, net of allowance for doubtful debts	**543,862**	614,236
Less: Non-current portion of trade receivables with extended credit terms	**–**	(17,876)
Current portion of trade receivables	**543,862**	596,360
Other receivables	**18,247**	27,871
Less: Allowance for doubtful debts	**(4,331)**	(7,605)
	13,916	20,266
Receivable of compensation of loss from indemnity *(Note 4)*	**–**	46,641
Retention receivables	**43,166**	88,582
Loans and receivables	**600,944**	751,849
Prepayments for consultation, marketing and promotional services *(Note 11)*	**–**	39,600
Prepayments and deposits	**19,468**	47,845
Other tax recoverables	**27**	69,690
	620,439	908,984

The Group generally allows credit period ranging from 0 to 365 days to its trade customers with normal credit terms and credit period up to three years to its trade customers with extended credit terms which is based on the contractual repayment schedule.

The following is an ageing analysis of trade receivables with normal credit terms and trade receivables with extended credit terms, net of allowance for doubtful debts, respectively, presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	Normal credit terms		Extended credit terms		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Less than six months	**40,274**	354,668	**–**	–	**40,274**	354,668
After six months but less than one year	**119,513**	78,382	**–**	–	**119,513**	78,382
After one year but less than two years	**235,369**	85,900	**–**	95,286	**235,369**	181,186
Over two years	**69,173**	–	**79,533**	–	**148,706**	–
	464,329	518,950	**79,533**	95,286	**543,862**	614,236

a) **Trade receivables with normal credit terms**

The ageing analysis of trade receivables with normal credit terms that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**–**	181,846
Less than six months past due	**67,137**	301,864
More than six months but less than one year past due	**119,513**	35,240
More than one year past due	**277,679**	–
	464,329	518,950

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.

Impairment losses in respect of trade receivables with normal credit terms 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 receivables directly.

The movement in the allowance for doubtful debts of trade receivables with normal credit terms during the year, including both specific and collective loss components, is as follows:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**78,323**	31,322
Impairment loss recognised		
– from continuing operations *(Note 4)*	**61,168**	38,129
– from discontinued operation *(Note 6)*	**91,125**	9,002
	152,293	47,131
Reversal of impairment loss		
– from continuing operations *(Note 3)*	**(462)**	–
– from discontinued operation *(Note 6)*	**(8,914)**	(130)
	(9,376)	(130)
Transfer to assets held for sale	**(101,873)**	–
As at 31 December	**119,367**	78,323

Reversal of impairment loss on trade debtors represents the recovery of debts due from these debtors previously considered to be impaired. An allowance for these receivable amounts that had been made in previous years was reversed back accordingly.

As at 31 December 2017, trade receivables with normal credit terms of approximately RMB119,367,000 (2016: RMB78,323,000) were individually determined to be impaired. These individually impaired receivables were outstanding for over one year as at the end of the reporting period or were due from debtors with financial difficulties. The Group does not hold any collateral over these balances.

b) Trade receivables with extended credit terms

The amount represented the carrying amount of trade receivables arising from the sales of EP products and equipment to certain government authorities in the PRC during the year ended 31 December 2015. At initial recognition, the consideration to be received by the Group was RMB237,050,000 which will be settled by several instalments as stipulated in the sale contracts in which the last settlement date will be on or before 31 October 2018.

The movements of trade receivables with extended credit terms during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**95,286**	216,334
Imputed interest recognised during the year *(Note 3)*	**4,397**	10,249
Gain on early settlement of trade receivables with extended credit terms *(Note 3)*	**–**	5,004
Settlement from customers (including the portion of early settlement of trade receivables)	**(20,150)**	(136,301)
As at 31 December	**79,533**	95,286
Less: Amounts due within one year included in trade receivables – current	**(79,533)**	(77,410)
Amounts shown under non-current assets	**–**	17,876

At the end of the reporting period, the Group has trade receivables with extended credit terms which fall due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**79,533**	77,410
After one year but less than two years	**–**	17,876
	79,533	95,286

As at 31 December 2017 and 2016, no allowance for doubtful debts was provided for trade receivables with extended credit terms.

The ageing analysis of trade receivables with extended credit terms that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**59,383**	95,286
Less than six months past due	**20,150**	–
	79,533	95,286

As at 31 December 2017, the trade receivables with extended credit terms of approximately RMB79,533,000 (2016: RMB95,286,000) were due from certain government authorities in the PRC which will be settled by several instalments up to three years.

13. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**32,555**	109,609
Accruals and other payables	**12,035**	51,281
Amount due to a former director	**1,200**	2,512
Amounts due to related companies	**4,163**	34,363
Payable for legal fees and liabilities from litigation claim *(Note 4)*	**–**	70,754
Financial liabilities measured at amortised cost	**49,953**	268,519
Other PRC tax payables	**1,417**	2,325
	51,370	270,844

Ageing analysis of trade payables

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

	2017	2016
	RMB'000	*RMB'000*
Less than six months	**3,570**	40,025
After six months but less than one year	**25,670**	4,557
After one year but less than two years	**–**	47,330
Over two years	**3,315**	17,697
	32,555	109,609

14. 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 two 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.

- EP construction engineering projects: this segment undertakes the EP construction engineering projects for external customers.

An operating segment regarding the manufacture and sales of EP construction materials was discontinued during the year ended 31 December 2017. The segment information reported in this note does not include any amounts for the discontinued operation, which are described in more details in note 6.

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 2017 and 2016 is set out below:

Continuing operations:	**Sales of EP products and equipment**		**EP construction engineering projects**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000* (Restated)
Reportable segment revenue from external customers	**588,549**	637,846	**–**	–	**588,549**	637,846
Inter-segment revenue	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**588,549**	637,846	**–**	–	**588,549**	637,846
Reportable segment profit (adjusted EBITDA)	**58,812**	107,490	**–**	–	**58,812**	107,490
Depreciation and amortisation	**(61)**	(61)	**–**	–	**(61)**	(61)
Impairment loss on trade receivables	**(61,168)**	(38,129)	**–**	–	**(61,168)**	(38,129)
Impairment loss on other receivables	**–**	(4,911)	**–**	–	**–**	(4,911)
Reversal of impairment loss on trade receivables	**462**	–	**–**	–	**462**	–
Reversal of impairment loss on other receivables	**–**	90	**–**	–	**–**	90
Reportable segment assets	**649,851**	745,883	**6**	18,606	**649,857**	764,489
Reportable segment liabilities	**29,240**	470,468	**10,520**	14,162	**39,760**	484,630

Note:

There were no additions to non-current segment assets to both reportable segments during the years ended 31 December 2017 and 2016.

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 arising from continuing operations. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Mainland China (place of domicile)	**588,549**	637,846

(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.

	2017	2016
	RMB'000	*RMB'000*
Mainland China (place of domicile)	**237,013**	493,507
Hong Kong	**118**	249
	237,131	493,756

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2017, the Group achieved a total revenue from continuing operations of RMB588.5 million, declining by 7.7% as compared to RMB637.8 million (restated) in 2016. Gross profit decreased to about RMB115.9 million (2016: RMB135.2 million (restated)) and gross profit margin was 19.7% (2016: 21.2% (restated)). The Group recorded a net loss of RMB147.4 million (2016: net profit of RMB75.4 million) mainly due to: (i) a decrease in revenue as the Group has ceased to be engaged in the manufacture and sales of EP construction materials segment during the financial year; (ii) an increase in the bad debts of trade receivables; (iii) an increase in the impairment loss on the Group's inventories, in particular, the written-down value of the inventories relating to the Group's WWCB business to net realisable value during the financial year; and (iv) an increase in the amount of replenishment of building panels which increased the cost of sales. The basic loss per share was RMB17.54 cents (2016: basic earnings per share was RMB8.98 cents).

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil) as the capital will be reserved for the development of the Group's business operations.

Business Review

The Group has restructured its businesses during the year under review, and is now an integrated EP services provider which specializes not only in the provision of EP construction engineering solutions, but also seeks to diversify its business portfolio by investing in related industries that could leverage the Group's expertise for the aim of expanding income sources.

Sales of EP Products and Equipment Business – Continuing Operation

Sales of EP products and equipment remained as the income contributor of the Group during the year under review. This segment recorded a revenue of RMB588.5 million (2016: RMB637.8 million) and the gross profit amounted to RMB115.9 million (2016: RMB135.2 million), with a gross profit margin of 19.7% (2016: 21.2%). Details of the types of the sales of EP products and equipment are set out below.

(i) Sales of Water Treatment Products and Equipment

Water treatment systems are mainly used for treating industrial and urban waste water. During the year under review, the Group completed 14 water treatment-related sales contracts, and generated a revenue of approximately RMB111.3 million, accounting for approximately 18.9% of the Group's total revenue.

(ii) Sales of Flue Gas Treatment Products and Equipment

The Group's comprehensive flue gas treatment supply chain provides related products and equipment. During the year under review, the Group completed 31 projects relating to sales of flue gas treatment equipment and the Group recorded a revenue of approximately RMB477.2 million, accounting for about 81.1% of the Group's total revenue.

EP Construction Engineering Projects Business – Continuing Operation

This segment did not record any revenue during the year under review.

Manufacture and Sales of EP Construction Materials Business – Discontinued Operation

In view of the slow-paced development of the WWCB market and the technical and implementation issues, particularly the difference in weather in different regions of the PRC which had led to contraction and structural alterations of some building panels after delivery, the Group encountered difficulties in operating this business. As a result, the Group disposed of its subsidiary which owned property, plant and equipment in connection with the manufacture and sales of EP construction materials. After the disposal, the Group will no longer manufacture or sell EP construction materials (mainly the WWCB business). The proceeds from the disposal will be used as general working capital and/or to fund future investment opportunities for the Group as and when appropriate.

Proposed Business Segment – Personal Care Products

The Group has entered into a sales and purchase agreement with an independent third party, Active Light Holdings Limited (the "Vendor"), pursuant to which the Group conditionally agreed to purchase and the Vendor conditionally agreed to sell 51% of the issued share capital of Prospectous Harvest Finance Limited (the "Target Company") at a consideration of HK$122,400,000 (subject to downward adjustments). The Target Company and its subsidiary are currently engaged in negotiating and handling customers for the sales of personal care products. The Directors are confident that by leveraging the knowledge, experience and resources of the Target Company and its subsidiary, the Group can diversify its business portfolio by entering the sales of the personal care products market and it can bring a new income stream to the Group.

Pursuant to the sales and purchase agreement, the Vendor has undertaken to the Company that the net profit after tax of the Target Company for each of the subsequent five financial years ending 31 December 2022, being the profit guaranteed period, shall not be less than HK$65,000,000, HK$69,000,000, HK$80,000,000, HK$92,000,000 and HK$150,000,000, respectively.

Up to the date of this announcement, the conditions precedent in the sales and purchase agreement have not yet been fulfilled. Accordingly, the proposed acquisition has not yet been completed.

Prospects

EP Construction Engineering Projects Business

According to the report issued by the State Council of the PRC about the government work in 2018, the emissions of sulfur dioxide and nitrogen oxides are required to be reduced by 3% in 2018, the concentration of fine particulate matter (PM2.5) in major cities should continue to decline, and ammonia nitrogen emissions should decrease by 2%. The expected energy consumption per unit of Gross Domestic Product (GDP) in 2018 should be declined by more than 3%. Here the EP targets and direction are clearly identified. In addition, it is proposed to promote non-electrical power reform and fully implement the treatment of black and odorous water.

Further measures have been stated in more detail for achieving emissions reduction in air pollution.

Firstly, to promote ultra-low emissions reforms in steel and other industries. Secondly, to upgrade pollution emission standards and requirements and set deadlines for compliance. Thirdly, to implement special treatment for excessive emissions of diesel trucks. Measures for reducing water pollution have also been similarly set. Firstly, to implement comprehensive treatment of key river basins and sea areas and comprehensively remediate black and odorous water bodies. Secondly, to intensify the construction of sewage treatment facilities and improve the charging and assessment policies.

It is expected that non-electricity labeling, non-electricity and ultra-low emissions reforms, and the management of river basins and black and odorous rivers will become the focus of EP work in 2018. All factories should align their manufacturing standards with the PRC government guidelines and EP targets. The potential market size for the overall procedures involved will exceed RMB65 billion. We are privileged to be a participant in the EP industry and anticipate our future business growth in this market will offer such great potentials.

Future Investments

The Group will continue reviewing its business structure to identify any redundant businesses that adversely affect its overall performance and will address any related problems with suitable solutions so as to bring the greatest benefits to the Group. Disposal of the EP construction materials segment stopped any further loss incurred from operation in the contracting market while the proceeds thereby gained serves as funding for future investment opportunities.

Achieving synergies arising from potential acquisition of or strategic cooperation with other companies is our top priority when evaluating potential investments, as they would probably bring financial benefits in the short term, and very likely growth opportunities in the long term, which in turn increases the value and performance of all parties involved and realizes a "win-win" situation. It is also a reason for justifying our investment in entering the new business in personal care products and undergoing discussion for potential cooperation with renowned E-Sports leagues. The latter ones could further assist in improving our corporate brand image.

Liquidity and Financial Resources

As at 31 December 2017, total assets of the Group amounted to RMB1,754.2 million, a decrease of RMB298.0 million as compared with RMB2,052.2 million as at 31 December 2016. The decrease was mainly due to decreases in inventories and trade and other receivables. The Group's total liabilities as at 31 December 2017 amounted to RMB520.5 million, a decrease of RMB152.3 million as compared with RMB672.8 million as at 31 December 2016. The main reason for this decrease in total liabilities was due to the decreases in trade and other payables, and deposits received and receipts in advance. The Group's total equity as at 31 December 2017 was RMB1,233.7 million (2016: RMB1,379.4 million). As at 31 December 2017, the Group had no bank borrowings (2016: Nil) and its gearing ratio calculated on the basis of total borrowings over total equity was Nil (2016: Nil). The Group's cash and cash equivalents amounted to RMB368.2 million as at 31 December 2017 (2016: RMB349.7 million).

Exposure to Exchange Rate Fluctuation

The Group adopts a conservative financial policy. Business transactions and liabilities of the Group are largely denominated in Renminbi and Hong Kong Dollar, with the same or longer periods offered to the Group's customers and so is the majority of the Group's bank balances and deposits. As at 31 December 2017, 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 will continue to monitor the Group's foreign exchange exposure and will take relevant measures with prudence as and when appropriate. As at 31 December 2017, the Group did not hold any derivatives for hedging against interest rate and foreign exchange risks.

Capital Commitments and Contingent Liabilities

As at 31 December 2017, the Group had capital expenditure commitment in respect of the acquisition of property, plant and equipment in the total amount of RMB9.7 million (2016: RMB9.7 million). The Group provides product warranties to its customers for certain EP products and equipment for a period ranging from six months to two years after the products and equipment are delivered. At the same time, the Group enjoys warranties for the work and equipment from its sub-contractors and suppliers with the same or longer periods offered to the Group's customers. The Directors of the Company believe that the amount of warranty liabilities, if any, will be sufficiently covered by the warranties given by sub-contractors and suppliers, and it will not have any adverse material effect on the overall financial position or operating results of the Group.

Pledge of Assets

A bank deposit of the Company's subsidiary of approximately RMB6.5 million as at 31 December 2017 (2016: RMB6.5 million) was pledged to a bank to secure a facility granted to the subsidiary.

Significant Investments, Acquisition and Disposal of Assets

Save as disclosed in this announcement, the Group did not have any other significant investments, acquisitions and disposal of assets during the year under review.

Events After the Reporting Period

(a) Completion of Asset Transfer

Wuxi Pan Asia entered into an asset transfer agreement with Jiangsu Pan Asia on 31 October 2017 and Wuxi Pan Asia agreed to sell certain assets associated with the operation of sales of EP products and equipment to Jiangsu Pan Asia. The Asset Transfer was completed on 16 January 2018.

(b) Disposal of a subsidiary

The Group entered into a sales and purchase agreement (the "S&P Agreement") with an independent third party (the "Purchaser") on 31 October 2017, pursuant to which the Group conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire equity interests in Wuxi Pan Asia after the completion of the Asset Transfer at a consideration of RMB44,000,000. The conditions precedent in the S&P Agreement were fulfilled and the Disposal was completed on 16 January 2018.

(c) Proposed acquisition of subsidiaries

As announced by the Company on 1 March 2018, the Company entered into a sale and purchase agreement with the Vendor, pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell 51% of the issued share capital of the Target Company at a consideration of HK$122,400,000 (subject to downward adjustments). The Target Company and its subsidiary are currently engaged in negotiating and handling customers for the sales of personal care products. Further details of which are set out in the Company's announcement dated 1 March 2018.

Up to the date of this announcement, the conditions precedent in the sales and purchase agreement have not yet been fulfilled. Accordingly, the proposed acquisition has not yet been completed.

Relationship with Employees and Key Shareholders

As at 31 December 2017, the Group had approximately 120 employees. Salaries of employees were maintained at competitive levels and are reviewed annually, with close reference to the relevant labour market and economic situations. Remuneration of the Directors is determined based on a variety of factors such as market conditions and the specific responsibilities of the individual Director. Apart from the basic remuneration and 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 place. Total remuneration costs, including Directors' remuneration, from continuing operations for the year ended 31 December 2017 were RMB11.5 million (2016: RMB11.4 million (restated)). During the year under review, the Group organized professional and vocational trainings for its employees. The Directors believe that the Group has maintained cordial and professional relations with its employees. In addition, the Group understands that in order to achieve its long-term goals, it is important to maintain a good relationship with business partners, shareholders, investors and bankers. Thus, the Group has formulated an investor relations scheme to help in fostering a close relationship with shareholders and investors. Specific activities are organized from time to time to communicate with and rally rapport of key stakeholders.

Purchase, Sales or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

Audit Committee

An audit committee comprising three independent non-executive directors has been established by the Company to review the financial reporting process, risk management and internal control systems of the Group. The audit committee had reviewed the consolidated financial statements of the Group for the year ended 31 December 2017.

Corporate Governance

In the opinion of the Board, throughout the year ended 31 December 2017, the Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, save for the code provision A.2.1 which stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Chairman and Chief Executive Officer of the Company are held by Mr. Jiang Xin since 15 September 2017. The Board believes that Mr. Jiang Xin has the requisite experience and knowledge and that vesting in both roles would maintain efficient business operation which is in the best interest of the Group.

Closure of Register of Members

The annual general meeting ("AGM") of the Company is scheduled to be held on 7 June 2018. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 4 June 2018 to Thursday, 7 June 2018 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, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 1 June 2018.

Publication of Annual Results and Annual Report

This annual results announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.paep.com.cn) and the 2017 Annual Report will be despatched to the shareholders and published on the above-mentioned websites in due course.

By order of the Board
Pan Asia Environmental Protection Group Limited
Jiang Xin
Chairman

Hong Kong, 28 March 2018

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

Executive Director:
Mr. JIANG Xin

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

Non-executive Director:
Mr. FAN Yajun