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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 2019

FINANCIAL HIGHLIGHTS:

	2019 RMB'000	2018 RMB'000	Variance
REVENUE	79,802	162,188	-51%
GROSS PROFIT	3,541	20,353	-83%
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Continuing operations	(58,624)	(17,353)	
– Discontinued operation	–	(2,004)	
	(58,624)	(19,357)	203%
LOSS PER SHARE (Expressed in RMB cents per share)			
Basic loss per share			
– From continuing operations	(6.98)	(2.06)	
– From discontinued operation	–	(0.24)	
	(6.98)	(2.30)	203%
Diluted loss per share			
– From continuing operations	(6.98)	(2.06)	
– From discontinued operation	–	(0.24)	
	(6.98)	(2.30)	203%

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 2019 (the “Reporting Period”) together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Note</i>	2019 RMB'000	2018 <i>RMB'000</i>
Continuing operations:			
Revenue	4	79,802	162,188
Cost of sales		<u>(76,261)</u>	<u>(141,835)</u>
Gross profit		3,541	20,353
Other income	5	3,941	2,865
Other net loss	6	(34,435)	(7,473)
Gain on disposal of a subsidiary	14(b)	–	28,702
Impairment loss on property, plant and equipment, and prepaid lease payments		–	(30,300)
Selling and distribution expenses		(713)	(702)
General and administrative expenses		(25,412)	(26,082)
Finance costs	7(a)	<u>(3,149)</u>	<u>(1,600)</u>
Loss before taxation	7	(56,227)	(14,237)
Income tax expenses	9	<u>(2,397)</u>	<u>(3,116)</u>
Loss for the year from continuing operations		(58,624)	(17,353)
Discontinued operation:			
Loss for the period from discontinued operation	8	<u>–</u>	<u>(2,004)</u>
Loss for the year attributable to owners of the Company		(58,624)	(19,357)
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>(1,225)</u>	<u>(1,802)</u>
Total comprehensive loss for the year attributable to owners of the Company		<u>(59,849)</u>	<u>(21,159)</u>

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Loss for the year attributable to owners of the Company arises from:			
– Continuing operations		(58,624)	(17,353)
– Discontinued operation		<u>–</u>	<u>(2,004)</u>
		<u>(58,624)</u>	<u>(19,357)</u>
		<i>RMB cents</i>	<i>RMB cents</i>
LOSS PER SHARE	<i>11</i>		
Basic loss per share			
– From continuing operations		(6.98)	(2.06)
– From discontinued operation		<u>–</u>	<u>(0.24)</u>
		<u>(6.98)</u>	<u>(2.30)</u>
Diluted loss per share			
– From continuing operations		(6.98)	(2.06)
– From discontinued operation		<u>–</u>	<u>(0.24)</u>
		<u>(6.98)</u>	<u>(2.30)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	<i>Note</i>	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,203	4,715
Right-of-use assets		903	–
Deferred tax assets		–	2,397
		3,106	7,112
CURRENT ASSETS			
Trade and other receivables	<i>12</i>	54,886	246,123
Cash and bank balances		1,203,070	1,037,883
		1,257,956	1,284,006
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	64,190	36,542
Corporate bonds		27,952	26,487
Lease liabilities		926	–
Tax payable		2,521	2,521
		95,589	65,550
NET CURRENT ASSETS		1,162,367	1,218,456
TOTAL ASSETS LESS CURRENT LIABILITIES		1,165,473	1,225,568
NON-CURRENT LIABILITIES			
Corporate bonds		21,302	21,548
NET ASSETS		1,144,171	1,204,020
CAPITAL AND RESERVES			
Share capital		78,073	78,073
Reserves		1,066,098	1,125,947
TOTAL EQUITY		1,144,171	1,204,020

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 Room 1101, 11/F, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong, respectively.

The Group are principally engaged in the sales of environmental protection (“EP”) products and equipment, and undertaking of EP construction engineering services in the People’s Republic of China (the “PRC”) and investment holding.

The Group’s manufacture and sales of EP construction materials business was disposed of during the year ended 31 December 2018. Details of which are set out in note 8.

2. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a new Hong Kong Financial Reporting Standards (“HKFRS”), HKFRS 16 “Leases”, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16 “Leases”, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 “Leases”

HKFRS 16 replaces HKAS 17 “Leases” and the related interpretations, HK(IFRIC) 4 “Determining whether an arrangement contains a lease”, HK(SIC) 15 “Operating leases – incentives” and HK(SIC) 27 “Evaluating the substance of transactions involving the legal form of a lease”. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.13%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	<i>RMB'000</i>
Operating lease commitments as at 31 December 2018	3,531
Less: Recognition exemption – low value assets	(15)
Less: Recognition exemption – short-term leases	(1,026)
	2,490
Less: Total future interest expenses	(93)
	2,397
Present value of remaining lease payments discounted using the relevant incremental borrowing rates and total lease liabilities recognised as at 1 January 2019	2,397
Analysed as:	
Current	1,492
Non-current	905
	2,397

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>RMB'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	2,397
By class	
Leased property	2,397

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at 31 December 2018 <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Carrying amounts under HKFRS 16 as at 1 January 2019 <i>RMB'000</i>
Non-current assets			
Right-of-use assets	–	2,397	2,397
Current liabilities			
Lease liabilities	–	(1,492)	(1,492)
Non-current liabilities			
Lease liabilities	–	(905)	(905)

3. 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 Executive Officer, who is the Group's chief operating decision maker ("CODM") for the purposes of resources allocation and performance assessment, the Group's operating and reportable segments under HKFRS 8, *Operating segments* are organised into two main operating segments including (i) EP products and equipment and (ii) EP construction engineering services. No other operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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 2019 and 2018 is set out below:

From continuing operations:	EP products and equipment		EP construction engineering services		Total	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue from external customers	78,764	159,861	1,038	2,327	79,802	162,188
Inter-segment revenue	—	—	—	—	—	—
Reportable segment revenue	78,764	159,861	1,038	2,327	79,802	162,188
Reportable segment (loss)/profit (adjusted EBITDA)	(34,553)	24,509	31	1,004	(34,522)	25,513
Depreciation of property, plant and equipment	(1,978)	(119)	—	—	(1,978)	(119)
Net impairment loss (recognised)/ reversed on:						
– trade receivables	(29,037)	1,385	—	—	(29,037)	1,385
– other receivables	—	3,525	—	—	—	3,525
– contract assets	(1,528)	—	—	—	(1,528)	—
– prepayments	(3,780)	—	—	—	(3,780)	—
Reportable segment assets	56,039	85,545	2	361	56,041	85,906
Reportable segment liabilities	28,160	15,354	8,188	8,189	36,348	23,543

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.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Mainland China (place of domicile)	<u>79,802</u>	<u>162,188</u>

(ii) *Specified non-current assets*

The Group's specified non-current assets comprise property, plant and equipment, and right-of-use assets.

The geographical location of these specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, and right-of-use assets.

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Mainland China (place of domicile)	2,102	4,532
Hong Kong	<u>1,004</u>	<u>183</u>
	<u>3,106</u>	<u>4,715</u>

4. REVENUE, OTHER INCOME AND OTHER NET LOSS

From continuing operations:

Revenue

Revenue from continuing operations represents the fair value of the amounts received and receivables for goods sold, and services rendered, which excludes value-added and other sales taxes, and is after deduction of any goods returns and trade discounts.

Disaggregation of revenue from contracts with customers during the year are as follows:

Segment	For the year ended 31 December 2019		
	EP products and equipment RMB'000	EP construction engineering services RMB'000	Total RMB'000
Types of goods or services			
Sales of goods			
– Flue gas treatment products and equipment	72,308	–	72,308
– Water treatment products and equipment	6,456	–	6,456
Design services	–	1,038	1,038
Total	<u>78,764</u>	<u>1,038</u>	<u>79,802</u>
Timing of revenue recognition			
A point in time	<u>78,764</u>	<u>1,038</u>	<u>79,802</u>

Segment	For the year ended 31 December 2018		
	EP products and equipment RMB'000	EP construction engineering services RMB'000	Total RMB'000
Types of goods or services			
Sales of goods			
– Flue gas treatment products and equipment	124,535	–	124,535
– Water treatment products and equipment	35,326	–	35,326
Design services	–	2,327	2,327
Total	<u>159,861</u>	<u>2,327</u>	<u>162,188</u>
Timing of revenue recognition			
A point in time	<u>159,861</u>	<u>2,327</u>	<u>162,188</u>

Information about the Group's performance obligation

Sales of EP products and equipment

The performance obligation is satisfied when the control of the EP products and equipment has been transferred to the customers, which is usually upon completion of the installation and on-site testing. The trading terms with customers are mainly on credit and payment in advance is normally required from customers. A certain percentage of payment is retained by customers until the end of the retention period. Warranties associated with the sales of EP products and equipment cannot be purchased separately and they serve as an assurance that the products and equipment sold comply with agreed-upon specifications.

Design services

The performance obligation is satisfied when the customer takes the possession of and accepts the design work performed. Payment is generally due upon acceptance of the design work by customers.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts with customers such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under these contracts as these contracts have an original expected duration of one year or less.

5. OTHER INCOME

From continuing operations:

	2019 RMB'000	2018 <i>RMB'000</i>
Interest income on bank deposits	3,941	1,692
Imputed interest on trade receivables with extended credit terms	–	1,067
Rental income from operating lease	–	27
Sundry income	–	79
	3,941	2,865

6. OTHER NET LOSS

From continuing operations:

	2019 RMB'000	2018 <i>RMB'000</i>
Gain on disposal of property, plant and equipment, and prepaid lease payments	–	25
Net impairment loss (recognised)/reversed on:		
– trade receivables	(29,037)	1,385
– other receivables	(92)	3,522
– contract assets	(1,528)	–
– prepayments	(3,780)	–
Loss on write-off of property, plant and equipment	–	(12,403)
Net exchange gain/(loss)	2	(2)
	(34,435)	(7,473)

7. LOSS BEFORE TAXATION

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

	2019 RMB'000	2018 RMB'000
(a) Finance costs		
Interest expenses on corporate bonds	3,067	1,600
Interest on lease liabilities	82	–
	<u>3,149</u>	<u>1,600</u>
(b) Other items		
Amortisation of prepaid lease payments	–	549
Depreciation of property, plant and equipment	2,523	6,006
Depreciation of right-of-use assets	1,531	–
	<u>1,531</u>	<u>–</u>

8. DISCONTINUED OPERATION

On 31 October 2017, Wuxi Pan Asia Environmental Protection Technologies Limited (“Wuxi Pan Asia”), a wholly-owned subsidiary of the Company, entered into an asset transfer agreement with Pan Asia Environmental Protection (Jiangsu) Company Limited (“Jiangsu Pan Asia”), a 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 (the “Asset Transfer”). The Asset Transfer was completed on 16 January 2018 and, Wuxi Pan Asia retained the assets and liabilities associated with the operation of manufacture and sales of EP construction materials.

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 interest 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 were set out in the Company’s announcements dated 31 October 2017, 14 November 2017 and 18 January 2018 respectively.

The Directors were of the opinion that the Disposal was highly probable because the Board formally approved the Disposal and there was 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 were fulfilled on 16 January 2018 and the Disposal was completed on 16 January 2018 accordingly. The Directors were 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 was classified as a discontinued operation as at 31 December 2017.

The results from the discontinued operation for the period were analysed as follows.

	2018 RMB'000
Results from discontinued operation:	
Other income	27
Selling and distribution expenses	(1,816)
General and administrative expenses	(995)
	<u>(2,784)</u>
Loss before taxation	(2,784)
Income tax expenses	(4)
Gain on disposal of a subsidiary (<i>Note 14(a)</i>)	784
Loss for the period from discontinued operation	<u>(2,004)</u>

9. 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax		
– Provision for the year	–	2,521
Deferred tax:		
Origination and reversal of temporary differences	<u>2,397</u>	<u>595</u>
Income tax expenses	<u><u>2,397</u></u>	<u><u>3,116</u></u>

- 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 2019 and 2018.
- iii) No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2019 and 2018 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 subsidiaries established in the PRC since 1 January 2008 to its overseas shareholders.

10. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

11. LOSS PER SHARE

From continuing and discontinued operations:

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Loss for the year attributable to owners of the Company for the purpose of calculating basic and diluted loss per share	<u>(58,624)</u>	<u>(19,357)</u>
	2019	2018

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>840,000,000</u>	<u>840,000,000</u>
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Diluted loss per share for the years ended 31 December 2019 and 2018 are the same as the basic loss per share 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 per share from continuing operations attributable to owners of the Company is based on the following data:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Loss for the year attributable to owners of the Company from continuing and discontinued operations	(58,624)	(19,357)
Adjusted for: Loss for the period from discontinued operation attributable to owners of the Company	<u>—</u>	<u>2,004</u>
Loss for the purpose of calculating basic and diluted loss per share from continuing operations	<u>(58,624)</u>	<u>(17,353)</u>

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

From discontinued operation:

Basic loss per share

Basic loss per share from discontinued operation for the year ended 31 December 2018 was RMB0.24 cents per share, based on the loss for the year from discontinued operation attributable to owners of the Company amounting to approximately RMB2,004,000 during the year and the denominators detailed above for basic loss per share from continuing and discontinued operations.

Diluted loss per share

Diluted loss per share from discontinued operation for the year ended 31 December 2018 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.

12. TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	86,433	153,815
Less: Impairment loss on trade receivables	<u>(49,597)</u>	<u>(100,671)</u>
Trade receivables, net	----- 36,836	----- 53,144
Other receivables	991	3,501
Less: Impairment loss on other receivables	<u>(901)</u>	<u>(809)</u>
Other receivable, net	----- 90	----- 2,692
Consideration receivable from disposal of property, plant and equipment, and prepaid lease payments	----- -	----- 160,000
Contract assets	36,926	215,836
Prepayments and deposits	14,591	22,701
Other tax recoverables	<u>3,335</u>	<u>7,552</u>
	<u>34</u>	<u>34</u>
	<u><u>54,886</u></u>	<u><u>246,123</u></u>

The Group generally allows credit period ranging from 0 to 180 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.

Credit is offered to customers following an assessment of their financial abilities and payment track record. Credit limits are set out for all customers and these can be exceeded only with the approval from management. Management also monitors overdue trade receivables, and follows up the collection of these receivables.

The following is an ageing analysis of trade receivables, net of impairment loss, presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Less than six months	31,730	42,015
Over six months but less than one year	<u>5,106</u>	<u>11,129</u>
	<u><u>36,836</u></u>	<u><u>53,144</u></u>

13. TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	29,148	16,342
Accruals and other payables	18,468	11,111
Amount due to a related company	7,320	—
Financial liabilities measured at amortised cost	54,936	27,453
Other PRC tax payables	9,254	9,089
	64,190	36,542

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Less than six months	17,815	15,354
Over six months but less than one year	2,035	—
Over one year but less than two years	8,310	—
Over two years	988	988
	29,148	16,342

14. DISPOSAL OF SUBSIDIARIES

a) Disposal of equity interest in Wuxi Pan Asia

As disclosed in note 8, the Disposal was completed on 16 January 2018. The gain from the Disposal is analysed as follows:

	<i>RMB'000</i>
Cash consideration received	<u>44,000</u>
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	184,823
Prepayments for consultation, marketing and promotional services	42,050
Deferred tax assets	406
Inventories	115,657
Trade and other receivables	68,974
Pledged bank deposits	6,543
Tax recoverable	77,523
Trade and other payables	(448,834)
Deferred tax liabilities	(1,218)
Deferred government grants	<u>(2,708)</u>
Net assets disposed of	<u>43,216</u>
Gain on disposal of a subsidiary:	
Cash consideration received	44,000
Net assets disposed of	<u>(43,216)</u>
Gain on disposal of a subsidiary	<u>784</u>

b) Disposal of equity interest in Lianyungang Minxin Investment Limited ("Lianyungang Minxin")

On 23 April 2018, the Group entered into a share transfer agreement with an independent third party to dispose of its 100% equity interest in Lianyungang Minxin at a cash consideration of RMB10,150,000. Lianyungang Minxin was principally engaged in undertaking of EP construction engineering services. The disposal was completed on 30 April 2018. The gain from the disposal is analysed as follows:

	<i>RMB'000</i>
Cash consideration received	<u>10,150</u>
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	–
Equity instrument at FVOCI	–
Other receivables	388
Bank balances	7
Trade and other payables	(8,059)
Tax payable	<u>(10,888)</u>
Net liabilities disposed of	<u>(18,552)</u>
Gain on disposal of a subsidiary:	
Cash consideration received	10,150
Net liabilities disposed of	<u>18,552</u>
Gain on disposal of a subsidiary	<u>28,702</u>

15. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2019:

(a) **Proposed acquisition of 99.99% of the issued share capital in Maye International Holdings Limited (“Mayee International”)**

On 7 November 2018 and 30 January 2019, the Company entered into a sale and purchase agreement, and a supplemental sale and purchase agreement (the “Acquisition Agreement”), respectively, with an independent third party, Zhongying International Limited (“Zhongying”), pursuant to which the Company has conditionally agreed to acquire, and Zhongying has conditionally agreed to sell 99.99% of the issued share capital of Mayee International at a total consideration of approximately HK\$1,253,220,000. The total consideration will be settled by the Company through payment of cash amounting to approximately HK\$1,013,220,000 and issuance of convertible bonds with a principal amount of HK\$240,000,000. Mayee International and its subsidiaries are principally engaged in property management and leasing of shops in a shopping mall located in Kunming, Yunnan, the PRC. This proposed acquisition constitutes a very substantial acquisition under Chapter 14 of the Listing Rules and is therefore subject to the shareholders’ approval at an extraordinary general meeting of the Company.

On 28 June 2019, the Company and Zhongying entered into the second supplemental agreement to extend the date for fulfillment of the conditions precedent set out in the Acquisition Agreement to 27 June 2020.

Further details of this proposed acquisition are set out in the Company’s announcements dated 5 December 2018, 30 January 2019, 29 April 2019, 28 June 2019, 30 September 2019, 29 November 2019 and 28 February 2020 respectively.

Up to the date of this announcement, the conditions precedent in the Acquisition Agreement have not yet been fulfilled. Accordingly, the proposed acquisition has not yet been completed.

(b) **Proposed acquisition of 51% of the issued share capital of MSC (Hong Kong) Limited (“MSC”) involving issue of consideration shares**

On 10 July 2019, the Company entered into a sale and purchase agreement (the “Agreement”) with an independent third party (the “Vendor”), pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 51% of the issued share capital of MSC at a consideration of HK\$40,260,000. The consideration will be subject to downward adjustment based on the profit guarantees given by the Vendor and will be settled by several tranches of consideration shares to be issued by the Company. MSC and its subsidiaries are principally engaged in the sales of coupons and provision of online preferential top-up services business in the PRC, such as catering memberships top-up, petrol filing cards top-up, phone call charges top-up and video website memberships top-up.

On 9 January 2020, the Company and the Vendor entered into the supplemental agreement to extend the date for fulfillment of the conditions precedent set out in the Agreement to 30 April 2020.

On 22 January 2020, the Company and the Vendor entered into a deed of termination whereby the parties have mutually agreed to terminate the Agreement and the supplemental agreement with effect from the date of a deed of termination.

Further details of this proposed acquisition are set out in the Company’s announcements dated 10 July 2019, 22 July 2019, 9 January 2020 and 22 January 2020 respectively.

(c) **Impact on Coronavirus Disease 2019 (“COVID-19”) outbreak**

Following the outbreak of coronavirus disease in late 2019, the central government of the PRC has implemented a number of measurements for disease prevention and controls. The business environment in the mainland China has been significantly affected. The World Health Organisation further declared the coronavirus pandemic in March 2020, a series of precautionary and control measures have been implemented across the globe. The future development of the coronavirus disease and its disruption to business and economic environment are highly uncertain. The Group has been assessing the operational and financial impact of the coronavirus disease on the Group. However, given the dynamic nature of the incident, it is not practicable to provide a reasonable estimate of its impacts on the Group’s financial position, performance and cashflows when this announcement is published.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group achieved a total revenue from continuing operations of RMB79.8 million, declining by 51% as compared with RMB162.2 million in 2018. Gross profit decreased to about RMB3.5 million (2018: RMB20.4 million) and gross profit margin was 4.4% (2018: 12.5%). The Group recorded a net loss of RMB58.6 million (2018: RMB19.4 million), mainly due to an intense competition in the EP industry in the PRC. The basic loss per share was RMB6.98 cents (2018: basic loss per share RMB2.30 cents).

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil) as the capital will be reserved for the development of the Group's business operations.

BUSINESS REVIEW

Sales of EP Products and Equipment Business

Sales of EP products and equipment remained the major income contributor of the Group during the year. This segment recorded a revenue of RMB78.8 million (2018: RMB159.9 million) and the gross profit amounted to RMB3.5 million (2018: RMB19.4 million), with a gross profit margin of 4.4% (2018: 12.1%). Details of the types of the sales of EP products and equipment are laid out below.

i) 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, the Group completed 7 projects related to sales of flue gas treatment equipment and recorded a revenue of approximately RMB72.3 million, accounting for about 90.6% of the total revenue.

ii) Sales of Water Treatment Products and Equipment

Water treatment systems are mainly used for the treatment of industrial and urban waste water. During the year, the Group completed 3 water treatment-related sales contracts, and the business generated a revenue of approximately RMB6.5 million, accounting for about 8.1 % of the Group's total revenue.

EP Construction Engineering Projects

With the 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. During the year, the Group completed 1 EP construction engineering-related project, and this segment recorded a revenue of approximately RMB1.0 million, accounting for about 1.3% of the Group's total revenue.

Prospects

In the light of the importance of environmental protection in China and the relevant supportive policies, the Group believes that there is still growth potential in the EP industry and the Group will continue to explore the market and grasp any opportunities. At the same time, the Group will seek other industries with development potential to ensure stable business growth and generate revenue from multiple channels. A diversified business portfolio also safeguards the Group to continue to consolidate its position in the market during periods of economic disruption.

Liquidity and Financial Resources

As at 31 December 2019, total assets of the Group amounted to RMB1,261.1 million, a decrease of RMB30.0 million as compared with RMB1,291.1 million in 2018. The Group's total liabilities as at 31 December 2019 amounted to RMB116.9 million, an increase of RMB29.8 million as compared with RMB87.1 million in 2018. The Group's total equity as at 31 December 2019 was RMB1,144.2 million (2018: RMB1,204.0 million). As at 31 December 2019, the gearing ratio of the Group, based on total borrowings (including corporate bonds) to the equity (including all capital and reserves) was 4.3% (2018: 4.0%). The Group's cash and cash equivalents amounted to RMB1,203.1 million as at 31 December 2019 (2018: RMB1,037.9 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 Dollars, so are the majority of its bank deposits. As at 31 December 2019, 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 2019, 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 2019, the Group had no capital expenditure commitment in respect of the acquisition of property, plant and equipment (2018: Nil). The Group has provided product warranties to its customers in respect of certain of its EP products and equipment sold for a warranty period ranging from six months to two years after installation. At the same time, the Group has also received the same product warranties in respect of those EP products and equipment provided by its suppliers and subcontractors. The Directors of the Company believe that the amount of crystallised warranty liabilities will not be significant at the end of the Reporting Period.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2019.

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 financial year under review.

Termination of Discloseable Transaction

After amicable discussion and careful consideration of all the circumstances surrounding the acquisition regarding 51% of the issued share capital of MSC, the Group and other parties decided not to proceed with the acquisition.

Relationship with Employees and Key Shareholders

As at 31 December 2019, the Group had approximately 106 employees. Salaries of employees remained 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 Directors. 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, for the year ended 31 December 2019 were RMB12.6 million (2018: RMB13.9 million). During the year, the Group organised professional and vocational training 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 foster a close relationship with its shareholders and investors. Specific activities are organised from time to time to communicate with and rally for support 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 2019.

Review by 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 consolidated financial statements of the Group for the year ended 31 December 2019.

Scope of Work of the Auditor

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 2019 as set out in this announcement have been agreed by the Company's auditor, Ascenda Cachet CPA Limited (the "Auditor"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on this announcement.

Corporate Governance

The Board is committed to achieving high corporate governance standards. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2019, the Company has complied with the code provisions as set out in the CG Code, save for CG code provisions A.1.1, A.2.1 and E.1.2.

At Least Four Regular Board Meetings a Year

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication. During the year ended 31 December 2019, the Board held two meetings with active participation of majority directors, either in person or through electronic means of communication. The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary.

Chairman and Chief Executive Officer

Code provision A.2.1 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.

The Chairman of the Board Should Attend the Annual General Meeting

Code provision E.1.2 stipulates that the Chairman of the board should attend the annual general meeting. Mr. JIANG Xin, the Chairman of the Board was unable to attend the annual general meeting held on 6 June 2019 due to a business trip. Mr. JIANG Xin will use his best endeavours to attend all future shareholders' meetings of the Company.

Annual General Meeting and Closure of Register of Members

The annual general meeting (“AGM”) of the Company is scheduled to be held on 23 June 2020. For considering and approving the final results of the Group for the year ended 31 December 2019 and the recommendation of a final dividend, if any, and transacting any other business.

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 18 June 2020 to Tuesday, 23 June 2020, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 June 2020.

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 annual report for the year ended 31 December 2019 will be dispatched 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, 31 March 2020

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

Executive Director:

Mr. JIANG Xin

Non-executive Director:

Mr. FAN Yajun

Independent Non-executive Directors:

Mr. LAI Wing Lee

Mr. LEUNG Shu Sun, Sunny

Professor WANG Guozhen