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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)

ANNOUNCEMENT OF 2008 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

	2008	2007	Variance
	RMB'000	*RMB'000*	
TURNOVER	**593,765**	703,946	(15.7%)
GROSS PROFIT	**208,055**	301,680	(31.0%)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS	**77,766**	210,500	(63.1%)
EARNINGS PER SHARE — BASIC *(RMB CENTS)*	**9.72 cents**	34.73 cents	(72.0%)
PROPOSED FINAL DIVIDEND PER SHARE *(HK CENTS)*	**—**	5 cents	N.A.

RESULTS

The Board of Directors (the "Directors" or the "Board") of Pan Asia Environmental Protection Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	**2008** *RMB'000*	2007 *RMB'000*
TURNOVER	5	**593,765**	703,946
Cost of sales		**(385,710)**	(402,266)
GROSS PROFIT		**208,055**	301,680
Other revenue	5	**12,282**	3,461
Other net (loss)/income	5	**(29,966)**	1,736
Selling and distribution expenses		**(25,213)**	(16,701)
General and administrative expenses		**(33,693)**	(11,745)
Other operating expenses		**(10,251)**	(1,217)
Finance costs		**(3,651)**	—
PROFIT BEFORE TAXATION	6	**117,563**	277,214
TAXATION	7	**(41,428)**	(67,766)
PROFIT FOR THE YEAR		**76,135**	209,448
ATTRIBUTABLE TO:			
Equity holders of the Company		**77,766**	210,500
Minority interests		**(1,631)**	(1,052)
		76,135	209,448
DIVIDENDS	8	**—**	59,436
EARNINGS PER SHARE — BASIC AND DILUTED	9	**RMB9.72 cents**	RMB34.73 cents

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	**2008**	2007
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Prepaid lease payment		**6,913**	7,082
Property, plant and equipment		**52,847**	53,930
Available-for-sale financial asset		**1,950**	1,950
Goodwill		**—**	—
		61,710	62,962
CURRENT ASSETS			
Prepaid lease payment		**169**	169
Inventories		**40,693**	16,234
Trade and other receivables	10	**303,145**	131,652
Tax recoverable		**3,836**	—
Pledged bank deposits		**96,740**	6,880
Cash and bank balances		**849,298**	1,016,595
		1,293,881	1,171,530
CURRENT LIABILITIES			
Short terms bank loan		**82,000**	—
Trade and other payables	11	**140,797**	106,893
Trade deposits received		**65,641**	52,793
Tax payable		**—**	45,626
		288,438	205,312
NET CURRENT ASSETS		**1,005,443**	966,218
NET ASSETS		**1,067,153**	1,029,180
CAPITAL AND RESERVES			
Share capital		**74,872**	74,872
Reserves		**989,603**	953,058
Equity attributable to equity holders of the Company		**1,064,475**	1,027,930
Minority interests		**2,678**	1,250
TOTAL EQUITY		**1,067,153**	1,029,180

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations ("HK(IFRIC) — Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the Group's financial year beginning on 1 January 2008. For the purposes of preparing and presenting the financial statements for the year ended 31 December 2008, the Group has consistently adopted all these New HKFRSs throughout the year. The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment is required. At the date of this announcement, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective for the year. The Group has not early applied these standards, amendments or interpretations.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendments)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entities or Associates[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) — Int 17	Distributions of Non-cash assets to Owners[3]
HK(IFRIC) — Int 18	Transfer of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods beginning on or after 1 July 2008.

5 Effective for annual periods beginning on or after 1 October 2008.

6 Effective for transfers of assets from customers received on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

4. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments, which are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of polices and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

	2008	2007
	RMB'000	*RMB'000*
Turnover		
Turnover represents the net amounts received and receivable for goods sold and rendering of services by the Group		
Sale of EP products and equipment	**582,846**	622,788
Revenue from EP construction engineering projects	**9,356**	79,569
Revenue from professional services	**1,563**	1,589
	593,765	703,946
Other revenue		
Interest income on bank deposits	**10,413**	3,441
Total interest income on financial assets not at fair value through profit or loss	**10,413**	3,441
Bad debts recovery	**1,235**	—
Reversal of impairment loss on trade receivables	**54**	—
Reversal of impairment loss on other receivables	**—**	20
Sundry income	**580**	—
	12,282	3,461
Other net (loss)/income		
Loss on disposal of property, plant and equipment	**(1)**	—
Net exchange (loss)/gain	**(29,965)**	1,736
	(29,966)	1,736

6. PROFIT BEFORE TAXATION

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

		2008	2007
		RMB'000	*RMB'000*
(a)	Finance costs:		
	Interest on bank advances wholly repayable within one year	**3,651**	—
	Total interest expenses on financial liabilities not at fair value through profit or loss	**3,651**	—
(b)	Staff costs (including directors' remuneration):		
	— Contributions to defined contribution retirement plans	**974**	705
	— Equity settled share-based payment expenses	**8,720**	—
	— Salaries, wages and other benefits	**33,164**	20,840
		42,858	21,545
(c)	Other items:		
	Amortisation of prepaid lease payment	**169**	167
	Bad debts written off	**9,243**	—
	Impairment loss on other receivables	**—**	64
	Impairment loss on trade receivables	**257**	501
	Depreciation	**4,819**	5,286
	Loss on disposal of property, plant and equipment	**1**	—
	Net exchange loss/(gain)	**29,965**	(1,735)
	Auditor's remuneration	**785**	755
	Operating lease charges — properties rental	**806**	192
	Cost of inventory	**363,324**	353,122

7. TAXATION

	2008	2007
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax — current year	**41,428**	67,766

(i) Wuxi Pan-Asia Environmental Protection Technologies Limited ("Wuxi Pan-Asia"), which was formerly a sino-foreign joint venture enterprise, was subject to PRC enterprise income tax at a rate of 24% applicable to the company on the assessable profits for the year and is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses being the year ended 31 December 2002, followed by a 50% reduction for the next three years. Commencing from 2004, the profit generated from Wuxi Pan-Asia was subject to an income tax rate of 12%, being half of the corporate income tax rate applicable, such tax exemption expired on 31 December 2006. With effect from 2 August 2000, Wuxi Pan-Asia was changed from a sino-foreign joint venture enterprise to a wholly-foreign-owned enterprise, and the tax concession remained unchanged.

Wuxi Zhong Dian Kong Leng Technology Limited ("Wuxi Zhong Dian"), which is a PRC domestic-invested company, subject to the PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the year ended 31 December 2007.

Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI"), which is a joint stock limited company, is subject to the PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the year ended 31 December 2007.

By a legislation passed by the National People's Congress in 2007, a uniform enterprise income tax of 25% will become generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008. According to the new tax law, the enterprise income tax rate applicable to the Group's PRC subsidiaries is 25%.

Pan Asia Environmental Protection (China) Company Limited ("Pan Asia (China)"), 五河泛亞污水處理有限公司 ("五河泛亞") and 遼寧泛亞環境設計工程有限公司 ("遼寧泛亞") were newly incorporated subsidiaries of the Group during the year 2008. Pan Asia (China), which is a wholly-foreign-owned enterprise, is subject to the PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year.

五河泛亞 and 遼寧泛亞, which are domestic-invested company, are subject to the PRC enterprise income tax at a rate of 25% applicable to the companies on the assessable profits for the year.

(ii) No provision for Hong Kong profits tax has been made for the years ended 31 December 2007 and 2008 as the Group's income neither arises in, nor is derived from Hong Kong.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/09. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**117,563**	277,214
Tax calculated at the applicable tax rate	**32,879**	66,184
Tax effect of non-deductible expenses	**8,549**	1,582
Taxation	**41,428**	67,766

8. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year

	2008	2007
	RMB'000	*RMB'000*
Dividends declared and paid to the then shareholders	**—**	22,000
No final dividend was proposed after the balance sheet date (2007: a final dividend of HK5 cents per ordinary share)	**—**	37,436
	—	59,436

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

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

No dividend was declared and paid by the Company's subsidiaries to their then shareholders during the year ended 31 December 2008 (2007: RMB22,000,000).

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5 cents per ordinary share	**37,436**	—

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB77,766,000 (2007: approximately RMB210,500,000) and the weighted average number of 800,000,000 shares (2007: 606,027,000 shares) in issue during the year.

Weighted average number of ordinary shares

	2008	2007
	'000	*'000*
Issued ordinary shares at 1 January	**800,000**	600,000
Issue of shares	**—**	6,027
Weighted average number of ordinary shares at 31 December	**800,000**	606,027

In determining the weighted average number of ordinary shares in issue, a total of 600,000,000 ordinary shares were deemed to be in issue since 1 January 2007.

(b) Diluted earnings per share

Diluted earnings per share was equal to basic earnings per share for the year ended 31 December 2008 as the exercise price of the Company's outstanding share options was higher than the average market price for shares for that year.

Diluted earnings per share was equal to basic earnings per share for the year ended 31 December 2007 as there were no dilutive potential ordinary shares outstanding.

10. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**233,018**	50,514
Less: Allowance for doubtful debts	**(840)**	(637)
	232,178	49,877
Other receivables	**36,354**	3,406
Less: Allowance for doubtful debts	**(147)**	(147)
	36,207	3,259
Amounts due from a related company	**2,033**	2,153
Loans and receivables	**270,418**	55,289
Prepayments and deposits	**21,514**	11,133
Amount due from customers for contract work *(Note 12)*	**11,213**	65,230
	303,145	131,652

The amount of the Group's deposits and prepayments expected to be recovered or recognised as expense after more than one year is RMB237,000 (2007: RMB242,000). All of the other trade and other receivables (including amounts due from a related company), apart from those mentioned in note 12 are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis of trade receivables net of allowance for doubtful debts as of the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Current	**132,422**	15,556
Less than 1 month past due	**17,137**	16,226
1 to 3 months past due	**26,587**	7,303
More than 3 months but less than 12 months past due	**56,032**	10,792
Amounts past due	**99,756**	34,321
	232,178	49,877

Trade receivables are due within 60 days from the date of billing.

The Group normally grants credit terms from 1 to 2 months to its customers. Trade receivables generally include the balances yet to be due such as the quality retention monies (typically 5% to 20% of the total contracted value) that retained by the customers until the fulfilment of the warranty period of generally 1 to 2 years, receivable pursuant to the payment terms of the respective contracts.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2008	2007
	RMB'000	*RMB'000*
At 1 January	**637**	136
Impairment loss recognised	**257**	501
Reversal of impairment loss	**(54)**	—
At 31 December	**840**	637

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

As at 31 December 2008, trade receivables of approximately RMB840,000 (2007: RMB637,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 90 days as at the balance sheet date or were due from companies with financial difficulties. The Group does not hold any collateral over these balances.

The factors which the Group considered in determining whether these trade receivables were individually impaired included the following:

- significant financial difficulty of the debtor;

- receivables that have been outstanding beyond its credit period;

- the granting to the receivables, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;

- it is becoming probable that the receivables will enter into bankruptcy or other financial reorganization;

- observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:

    — adverse changes in the payment status of receivables in the Group;

    — economic conditions that correlate with defaults on the trade receivables in the Group.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade receivable that are neither individually nor collectively considered to be impaired are as follows:

	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**132,422**	15,556
Less than 1 month past due	**17,137**	15,863
1 to 3 months past due	**26,286**	7,303
More than 3 months but less than 12 months past due	**55,707**	10,490
	99,130	33,656
	231,552	49,212

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 tract record with the group. Based on past experience, management believes that no impalement 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.

11. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables	**87,081**	65,001
Accruals and other payables	**49,977**	41,199
Amounts due to minority shareholder	**2,763**	233
Amount due to a director	**976**	460
Financial liabilities measured at amortised cost	**140,797**	106,893

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

	2008	2007
	RMB'000	*RMB'000*
0 to 30 days	**52,133**	3,081
31 to 60 days	**407**	4,020
61 to 90 days	**453**	12,995
91 to 180 days	**139**	3,582
181 to 365 days	**2,870**	36,204
Over 365 days	**31,079**	5,119
	87,081	65,001

12. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

Contract work-in-progress at the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Contract costs incurred to date	**9,993**	178,232
Recognised profits less recognised losses	**1,220**	86,396
	11,213	264,628
Less: Progress billings	**—**	(199,398)
Amounts due from customers for contract work	**11,213**	65,230

In respect of construction contracts in progress at the balance sheet date, the amount of retentions receivable from customers, recorded within "Trade receivables" at 31 December 2008 is RMB49,281,000 (2007: RMB49,014,000). The amount of those retentions expected to be recovered after more than one year is RMB Nil (2007: RMB Nil).

13. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises sale of EP products and equipment, EP construction engineering projects and the provision of professional services business segments.

	For the year ended 31 December 2008			
	Sale of EP products and equipment	**EP construction engineering projects**	**Provision of professional services**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue				
Sales to external customers	**582,846**	**9,356**	**1,563**	**593,765**
Segments results	**207,718**	**1,043**	**(706)**	**208,055**
Other revenue				**12,282**
Other net loss				**(29,966)**
Unallocated corporate expenses				**(72,808)**
Profit before taxation				**117,563**
Taxation				**(41,428)**
Profit for the year				**76,135**
Segment assets	**287,531**	**111,208**	**5,318**	**404,057**
Unallocated corporate assets	**—**	**—**	**—**	**951,534**
Total assets	**287,531**	**111,208**	**5,318**	**1,355,591**
Segment liabilities	**128,112**	**144,133**	**10,322**	**282,567**
Unallocated corporate liabilities	**—**	**—**	**—**	**5,871**
Total liabilities	**128,112**	**144,133**	**10,322**	**288,438**
Other segment information:				
Depreciation	**4,457**	**—**	**362**	**4,819**
Capital expenditure	**321**	**3,192**	**37**	**3,550**
Unallocated corporate capital expenditure	**—**	**—**	**—**	**683**
	321	**3,192**	**37**	**4,233**

	For the year ended 31 December 2007			
	Sale of EP products and equipment	**EP construction engineering projects**	**Provision of professional services**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue				
Sales to external customers	622,788	79,569	1,589	703,946
Segments results	269,666	32,037	(23)	301,680
Other revenue				3,462
Other net income				1,735
Unallocated corporate expenses				(29,663)
Profit before taxation				277,214
Taxation				(67,766)
Profit for the year				209,448
Segment assets	74,435	75,420	2,603	152,458
Unallocated corporate assets	—	—	—	1,082,034
Total assets	74,435	75,420	2,603	1,234,492
Segment liabilities	59,423	51,779	6,592	117,794
Unallocated corporate liabilities	—	—	—	87,518
Total liabilities	59,423	51,779	6,592	205,312
Other segment information:				
Depreciation	4,838	—	448	5,286
Capital expenditure	35	—	2,028	2,063
Unallocated corporate capital expenditure	—	—	—	—
	35	—	2,028	2,063

Geographical segments

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market have not been presented as they are substantially generated from or situated in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2008, the Group achieved a total turnover of RMB593.8 million, representing a year-on-year decrease of 15.7%. The global economy shrank and material costs fell during the year, but contract amounts also diminished correspondingly, resulting in a drop in the overall gross profit of the Group to RMB208.1 million, 31.0% less than the previous year. Gross profit margin was down to 35.0% from 42.9% last year. Profit attributable to equity holders was approximately RMB77.8 million against last year's RMB210.5 million. The decline in revenue and profit margin for the year ended 31 December 2008, as a result of project delays and the downturn in the global economy and business environment. Also, the exchange rate of the Australian Dollar plunged in the second half of the year and, as a result, the Group incurred a net loss of approximately RMB23.5 million from its Australian Dollar fixed deposits. Moreover, the Group recorded a bad debt of RMB9.2 million and the share option scheme launched during the year also incurred an expense of RMB8.7 million. Earnings per share of the Group for the year were HK9.72 cents (2007: HK34.73 cents).

Dividend

The Board did not recommend payment of final dividend for the year ended 31 December 2008 (2007: HK5 cents per share).

Business Review

As an integrated EP services provider in the PRC, the Group mainly designs and manufactures water and flue gas treatment products and equipment, sells pipes, as well as undertakes EP construction engineering projects and provides EP related professional services. As at 31 December 2008, the Group had 51 engineers from different professional backgrounds and experienced in EP who provided tailored EP services to customers in different industries.

Sale of EP Products and Equipment

This segment is responsible for selling pipes, and water and flue gas treatment products and equipment. During the year under review, it recorded a turnover of approximately RMB582.8 million, accounting for approximately 98.1% of the Group's total turnover.

Sale of Water Treatment Products and Equipment

The water treatment systems of the Group are used mainly to process industrial and urban wastewater. During the year, the Group completed 69 water treatment sales contracts, which generated turnover of approximately RMB542.8 million, accounting for 91.4% of the total turnover. In April 2008, the Group entered into a sewage reduction outline agreement with the Bengbu City Government in Anhui Province, wherein the Group is responsible for planning, designing and coordinating development of wastewater treatment systems for various zones and districts in Bengbu City. The objective is to make sure the sewage discharge level of those zones and districts reach National First-class A Standard. Construction of the projects included in the agreement will take place between 2008 and 2010 and one of the projects had begun during the year under review and is expected to be completed and booked in May 2009. Two other projects will start in the second half year of 2009, which are expected to bring profit in 2010.

Sale of Flue Gas Treatment Products and Equipment

The Group's flue gas treatment systems are used to remove waste gases generated in a wide array of industrial processes. There was no revenue recorded for the segment during the year under review, yet the Group was in discussion with customers in relation to system construction plans for a number of new projects.

Sale of Pipes

In addition to providing comprehensive EP solutions to customers, the Group also produces fibreglass reinforced plastic pipes of diameters up to 2,000 mm at its Yixing workshop, with total annual production capacity estimated at approximately 172,700 metres. During the year under review, the pipe workshop produced about 8,200 metres of pipes. The Group completed 3 contracts related to sale of pipes during the year, which generated a turnover of approximately RMB40.0 million, accounting for 6.7% of the total turnover.

EP Construction Engineering Projects

Boasting extensive industry expertise and professional research and development capabilities and technologies, the Group started to undertake EP construction engineering projects in 2004, providing clients with one-stop EP solutions. During the year under review, the Group undertook a water treatment engineering project in Hunan Province, which translated into a RMB9.4 million income for the Group. The segment accounted for around 1.6% of the total turnover of the Group.

Provision of EP Related Professional Services

The Group, through its subsidiary SEEDRI, provides EP related professional services to clients. Holding Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design for all environmental projects. During the year under review, the segment recorded a turnover of approximately RMB1.6 million, accounting for around 0.3% of the total turnover of the Group.

Prospects

Affected by the global financial crisis, the outlook of the market in 2009 is still uncertain. However, it is clear that the PRC government is committed to support the development of the EP industry in the country. In its Economic Stimulus Plan, the government addressed the enhancement of building an ecologically friendly environment and pledged support to energy conservation and emission reduction projects. And, in late 2008, half way through the "Eleventh Five-Year Plan", the National Development and Reform Commission ("NDRC") had begun and introduced preparatory research on major issues in the country's "Twelfth Five-Year Plan" with flue gas denitrification ("DeNOx") added as a major planning focus on top of flue gas desulphurisation ("FGD") so as to reduce nitric oxide emissions.

Looking ahead, Pan Asia will operate its business with prudence and continue to consolidate its position in the EP market in the PRC. It will also strive to capture opportunities bred by supportive government policies and explore growth potential in the market. The Group currently has about 23 EP contracts of total worth approximately RMB451.7 million on hand to be completed.

Wastewater treatment business will remain as the Group's major income source, and is expected to account for significant proportion of the Group's total turnover in the one to two years ahead. In addition, in June 2007, the Group obtained a solid waste incineration power plant project from Maoming Nanya New Energy Power Generation Company Limited in which the Group is responsible for the engineering design, procurement, manufacturing, processing and assembly, installation and project management of the plant. However, since the customer defaulted payment within the agreed period, the Group decided to halt the project for the time being and focus on developing other projects. As for geographical coverage, the Group will expand its business into EP zones in Liaoning Province and push for better penetration of the Northeastern China market.

For the flue gas treatment business, the Group plans to develop DeNOx business in Yixing City, Jiangsu Province with a focus on developing catalyst, the core component of the "Selective Catalytic Reduction Denitrification System" ("SCR DeNOx System"). Currently, the technologies and raw materials for producing the catalyst have to be imported while the Group will sign a technology transfer agreement with a renowned foreign technology supplier. The total investment for the project will be approximately RMB300.0 million. The project will commence in the second half of 2009, production is estimated to begin in the second half of 2010. The targeted annual production capacity is about 10,000 cubic metres.

To maintain steady growth of its businesses and provide more diverse EP solutions to customers, the Group will adhere to its active yet prudent development strategies and make best use of its sufficient cash. Apart from the DeNOx business which is about to be developed, the Group will also continue to look for opportunities of mergers and acquisitions to enhance its competitiveness in the market as well as expand the scale of its business.

Liquidity and Financial Resources

As at 31 December 2008, the total assets of the Group amounted to RMB1,355.6 million, an increase of RMB121.1 million as compared to RMB1,234.5 million as at 31 December 2007. The Group's total liabilities as at 31 December 2008 were RMB288.4 million, an increase of RMB83.1 million against RMB205.3 million as at 31 December 2007. The main reason for the increase in total liabilities was the increase of short term bank loans in the amount of RMB82.0 million. The Group's total equity as at 31 December 2008 was RMB1,067.2 million, RMB38.0 million more than RMB1,029.2 million as at 31 December 2007. The Group's cash and cash equivalents amounted to RMB849.3 million.

Capital Commitments and Contingent Liabilities

As at 31 December 2008, the Group had no capital expenditure commitment.

The Group provides product maintenance service to customers of FGD construction projects and certain EP products for a period ranging from 6 months to 2 years after a project is completed or the product delivery. At the same time, the Group enjoys warranties for the work and equipment from its sub-contractors and suppliers. The directors of the Company believe that the amount of crystalised warranty liabilities, if any, in excess of the amount covered by the warranties given by sub-contractors and suppliers, will not have any material adverse effect on the overall financial position or operating results of the Group.

Human Resources

As at 31 December 2008, the Group had approximately 270 employees. Salaries of employees are maintained at a competitive level and reviewed annually, with close reference to the relevant labour market and economic situation. Remuneration of the directors is determined based on a variety of factors such as market conditions and the specific responsibilities shoulder by individual director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based on the Group's results and the performance of an individual employee. The Group also has an employee share option scheme in operation.

Purchase, Sale or Redemption of the Company's Listed Shares

The Company or its subsidiaries did not purchase, sell or redeem any of the Company's listed shares during the year ended 31 December 2008.

Annual General Meeting

The annual general meeting of the Company will be held on Thursday, 4 June 2009, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 2 June 2009 to Thursday, 4 June 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Monday, 1 June 2009.

Audit Committee

An audit committee has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors. The audit committee has reviewed the financial statements of the Company and its subsidiaries for the year ended 31 December 2008.

Corporate Governance Practices

In the opinion of the Board, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008, save for the deviation from code provision A.1.1. There were four Board meetings held during the year under review with two of which being regular meetings held for approving the final results for the year ended 31 December 2007 and interim results for the six months ended 30 June 2008 respectively. The other Board meetings were held as and when the business and operational needs arose.

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

Hong Kong, 17 April 2009

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

Executive Directors:	*Independent Non-Executive Directors:*
Mr. JIANG Quanlong	Mr. LAI Wing Lee
Mr. FAN Yajun	Mr. LEUNG Shu Sun, Sunny
Mr. GAN Yi	Professor WANG Guozhen
Mr. JIANG Lei	