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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2013	2012	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
TURNOVER	**180,011**	130,953	+37.5%
GROSS PROFIT	**4,495**	2,619	+71.6%
LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(29,940)**	(16,685)	+79.4%

RESULTS

The Board (the "Board") of Directors (the "Directors") of Pan Asia Environmental Protection Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2013, together with the comparative figures for the corresponding period in 2012:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
	Note	**2013**	2012
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**180,011**	130,953
Cost of sales		**(175,516)**	(128,334)
Gross profit		**4,495**	2,619
Other revenue		**2,074**	1,889
Other net loss		**(106)**	(239)
Selling and distribution expenses		**(1,680)**	(343)
General and administrative expenses		**(35,136)**	(19,959)
Other operating expenses		**(1,235)**	(273)
Finance costs	*5*	**(488)**	(387)
Loss before taxation	*5*	**(32,076)**	(16,693)
Income tax expenses	*6*	**(186)**	(40)
Loss for the period		**(32,262)**	(16,733)
Other comprehensive loss for the period (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements		**(1,006)**	(18)
Other comprehensive loss for the period, net of tax		**(1,006)**	(18)
Total comprehensive loss for the period		**(33,268)**	(16,751)
Loss attributable to:			
Owners of the Company		**(29,940)**	(16,685)
Non-controlling interests		**(2,322)**	(48)
		(32,262)	(16,733)
Total comprehensive loss attributable to:			
Owners of the Company		**(30,946)**	(16,703)
Non-controlling interests		**(2,322)**	(48)
		(33,268)	(16,751)
Loss per share	*7*		
Basic and diluted		**(RMB3.74 cents)**	(RMB2.09 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Non-current assets			
Prepaid lease payment		**41,400**	41,372
Property, plant and equipment		**309,063**	310,540
Available-for-sale financial asset		**9,000**	9,000
		359,463	360,912
Current assets			
Prepaid lease payment		**425**	878
Inventories		**213,418**	178,896
Trade and other receivables	*9*	**407,455**	480,896
Pledged bank deposits		**10,000**	18,500
Cash and bank balances		**593,870**	564,078
		1,225,168	1,243,248
Current liabilities			
Trade and other payables	*10*	**173,949**	173,852
Short-term bank loans		**14,000**	14,000
Deposits received and receipts in advance		**226,183**	208,671
Tax payable		**2,012**	9,094
		416,144	405,617
Net current assets		**809,024**	837,631
Total assets less current liabilities		**1,168,487**	1,198,543
Non-current liabilities			
Deferred tax liabilities		**13,272**	13,272
Net assets		**1,155,215**	1,185,271
Capital and reserves			
Share capital		**74,872**	74,872
Reserves		**1,085,710**	1,113,444
Equity attributable to owners of the Company		**1,160,582**	1,188,316
Non-controlling interests		**(5,367)**	(3,045)
Total equity		**1,155,215**	1,185,271

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 Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Suite 6302, The Center, 99 Queen's Road Central, Hong Kong, respectively.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The unaudited consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" and other relevant HKAS and Interpretations and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited consolidated interim financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 December 2012.

The Company's functional currency is Hong Kong dollar ("HK$") while the functional currencies of most of its subsidiaries are Renminbi ("RMB"). These unaudited interim financial statements are presented in RMB, as a majority of the Group's transactions are denominated in RMB and rounded to the nearest thousand, unless otherwise indicated.

(b) Judgements and estimates

Preparing the unaudited consolidated interim financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

In preparing these unaudited consolidated interim financial statements, significant judgements made by Directors in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as appropriate.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The accounting policies used in the unaudited consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except in relation to the following new and revised HKFRSs issued by the HKICPA that affect the Group and are adopted for the first time in the current period's financial statements.

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Revised HKAS 19, *Employee benefits*
- Revised HKAS 27, *Separate financial statements*
- Revised HKAS 28, *Investments in associates and Joint ventures*
- HK (IFRIC)-INT 20, *Stripping costs in the production phase of a surface mine*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12, *Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: Transition Guidance*

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

4. SEGMENT REPORTING

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

- Sales of EP products and equipment: this segment sells EP products and equipment to external customers. Currently the Group's activities in this regard are carried out in the PRC only.

- EP construction engineering projects: this segment undertakes EP engineering construction projects for external customers. Currently the Group's activities in this segment are carried out in the PRC only.

- Provision of EP related professional services: this segment provides EP related professional services to external customers and for Group companies. Currently the Group's activities in this segment are carried out in the PRC only.

- Sales of EP construction materials: this segment manufactures and sells EP construction materials to external customers. The main product is wood wool cement board.

Segment revenue and results

	Sale of EP products and equipment *RMB'000*	EP construction engineering projects *RMB'000* *(Note)*	Provision of EP related professional services *RMB'000*	Manufacture of EP construction materials *RMB'000*	Total *RMB'000*
Six months ended 30 June 2013 (Unaudited)					
Reportable segment revenue from external customers	**183,304**	**(5,124)**	**353**	**1,478**	**180,011**
Reportable segment profit/(loss) (adjusted EBITDA)	**12,646**	**(8,322)**	**341**	**(932)**	**3,733**
Depreciation and amortisation for the period	**241**	**587**	**–**	**10,221**	**11,049**
Six months ended 30 June 2012 (Unaudited)					
Reportable segment revenue from external customers	128,260	2,026	667	–	130,953
Reportable segment profit/(loss) (adjusted EBITDA)	8,988	(6,250)	311	–	3,049
Depreciation and amortisation for the period	772	144	–	395	1,311

Note: The negative reportable segment revenue of EP construction engineering projects represents the reversal of revenue from a construction contract due to a discount offered to a customer.

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

		Six months ended 30 June	
		2013	2012
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	**Finance costs**		
	Interest on bank advances wholly repayable within one year	**488**	387
	Total interest expenses on financial liabilities not at fair value through profit or loss	**488**	387
(b)	**Staff costs (including directors' emoluments)**		
	Contributions to defined contribution retirement plans	**674**	756
	Salaries, wages and other benefits	**11,654**	8,108
		12,328	8,864
(c)	**Other items**		
	Amortisation of prepaid lease payments	**425**	425
	Cost of inventories	**172,310**	119,700
	Depreciation	**11,411**	2,809
	Impairment on trade receivables	**–**	67
	Interest income	**(1,399)**	(1,624)
	Loss on disposal of property, plant and equipment	**–**	9
	Operating lease charges		
	– Property rental	**573**	500
	– Equipment	**3**	4
	Rental from properties less direct outgoings	**(27)**	(27)
	Research and development cost	**776**	–
	Written off of property, plant and equipment	**–**	101

Cost of inventories includes approximately RMB895,000 (six months period ended 30 June 2012: approximately RMB1,532,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

6. INCOME TAX IN THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Tax		
PRC enterprise income tax		
– current year	**186**	40

(i) The Company and all its subsidiaries which were established in the British Virgin Islands are not subject to local income tax.

(ii) A uniform enterprise income tax of 25% became generally applicable to all domestic and foreign investment enterprises which have an establishment in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008.

(iii) No provision for Hong Kong profits tax has been made for the periods ended 30 June 2012 and 2013 as the Group's income neither arises in, nor is derived from Hong Kong.

(iv) Pursuant to the New Enterprise Income Tax Laws, a 10% withholding tax is levied on dividends declared and paid to foreign investors from foreign investment enterprise established in the PRC. The requirement was effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 onwards. The Group recognised deferred tax liabilities in respect of expected distributable earnings from its subsidiaries established in the PRC since 1 January 2008 with reference to the Groups' dividend policy, no matter whether any dividends have been declared out of such earnings by the subsidiaries at the reporting date. The Directors of the Company will review the funding requirements of the Group from time to time and revise the dividend policy of its subsidiaries as appropriate.

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

7. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB29,940,000 (six months period ended 30 June 2012: RMB16,685,000) and the weighted average number of 800,000,000 ordinary shares (six months period ended 30 June 2012: 800,000,000 shares) in issue during the period.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the periods ended 30 June 2013 and 30 June 2012 as the exercise price of the Company's outstanding share options was higher than the average market price for shares for the period and therefore the computation of diluted loss per share does not assume the exercise of the Company's share options.

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months period ended 30 June 2013 (2012: Nil).

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are debtors (net of allowance for doubtful debts) with the following aging analysis:

	At 30 June 2013 *RMB'000* **(Unaudited)**	At 31 December 2012 *RMB'000* (Audited)
Trade receivables		
0 to 30 days	**133**	59,209
31 to 60 days	**9,171**	5,473
61 to 90 days	**195**	12,618
91 to 180 days	**19,596**	33,312
181 to 365 days	**72,912**	12,828
over 365 days	**18,895**	9,749
	120,902	133,189
Less: Allowance for doubtful debts	**(2,104)**	(2,104)
Trade receivables, net of allowance for doubtful debts	**118,798**	131,085
Other receivables	**66,364**	125,802
Less: Allowance for doubtful debts	**(186)**	(186)
	66,178	125,616
Amounts due from a director	**5**	–
Loans and receivables	**184,981**	256,701
Prepayments and deposits	**78,614**	71,569
Other tax recoverables	**39,374**	34,492
Amount due from customers for contract work	**104,486**	118,134
	407,455	480,896

The Group normally grants credit terms of 1 to 2 months to its customers. Trade receivables generally include the balances yet to be due such as the quality retention monies of approximately RMB58,439,000 as at 30 June 2013 (31 December 2012: RMB43,731,000) (typically 5% to 20% of the total contracted value) that are retained by the customers until the fulfilment of the warranty period of generally 1 to 2 years and receivable pursuant to the payment terms of the respective contracts.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following aging analysis as at the end of the reporting period:

	At 30 June 2013 *RMB'000* **(Unaudited)**	At 31 December 2012 *RMB'000* (Audited)
Trade payables		
0 to 30 days	**45,026**	50,290
31 to 60 days	**8,471**	12,081
61 to 90 days	**1,821**	7,077
91 to 180 days	**13,520**	20,146
181 to 365 days	**31,895**	6,045
Over 365 days	**40,788**	41,179
	141,521	136,818
Accruals and other payables	**26,301**	27,803
Amounts due to directors	**350**	2,677
Amounts due to related companies	**1,658**	2,258
Financial liabilities measured at amortised cost	**169,830**	169,556
Other PRC tax payables	**4,119**	4,296
	173,949	173,852

11. PLEDGE OF ASSETS

Bank deposits of a subsidiary of approximately RMB10,000,000 as at 30 June 2013 (31 December 2012: RMB18,500,000) were pledged to secure banking facilities of approximately RMB2,100,000 (31 December 2012: RMB4,000,000) granted to the subsidiary.

A building with a carrying amount of approximately RMB780,000 as at 30 June 2013 (31 December 2012: RMB801,800) was pledged to a bank to secure a short-term bank loan of RMB9,000,000 (31 December 2012: RMB9,000,000) granted to a subsidiary.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

For the six months ended 30 June 2013, the Group achieved a turnover of RMB180.0 million, an increase of 37.5% when compared with the same period last year (six months ended 30 June 2012: RMB131.0 million). Gross profit during the period was RMB4.5 million (six months ended 30 June 2012: RMB2.6 million) and gross profit margin was 2.5% (six months ended 30 June 2012: 2.0%). Loss attributable to owners of the Company was approximately RMB29.9 million (six months ended 30 June 2012: RMB16.7 million), this was mainly due to the increase in general and administrative expenses for the promotion of wood wool cement board ("WWCB") business and the depreciation of the WWCB production lines. In addition, the WWCB business was still at the development stage and had not yet contributed significant revenue to the Group. Loss per share was RMB3.74 cents (six months ended 30 June 2012: RMB2.09 cents).

Interim Dividend

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil), as the capital will be reserved for the development of the Group's different business operations, in particular, the WWCB business which offers enormous market potential.

Business Review

As an integrated EP services and eco-friendly construction materials provider in the PRC, the Group mainly designs and manufactures water and flue gas treatment products and equipment. The Group also undertakes EP construction engineering projects and provides EP-related professional services. To further develop EP-related businesses with particularly high growth potential and broaden its income stream, the Group has actively expanded the production scale of WWCB while still maintaining its focus on the sales of flue gas and water treatment products and equipment in order to generate stable income.

Sales of EP Products and Equipment

During the period under review, sales of EP products and equipment recorded a turnover of approximately RMB183.3 million, accounting for most of the Group's total turnover.

Sales of Water Treatment Products and Equipment

The water treatment systems produced by the Group are mainly used to process industrial and urban wastewater. During the period under review, the water treatment business generated a turnover of approximately RMB95.4 million, accounting for 53.0% of the Group's total turnover. The Group has completed 20 water treatment-related sales contracts and water treatment business is still the main focus of the Group's contracts on hand. Customer demand has dropped due to the slowdown in economic growth and the Group has decided to select projects more carefully to maintain its steady business growth.

Sales of Flue Gas Treatment Products and Equipment

The Group mainly provides flue gas desulphurization ("FGD") and flue gas dentrification services to clients engaged in a range of industries including non-ferrous metals, iron and steel, power generation, cement and glass. Equipped with proprietary technology, the Group has continued to focus on customers in the non-ferrous metal industry. Demand for flue gas treatment is increasing in the PRC along with the stricter control of airborne emissions by the country, which has pushed up the turnover of this business segment to approximately RMB87.9 million. During the period under review, the Group completed 3 projects related to sales of flue gas treatment equipment, representing approximately 48.8% of the Group's turnover.

EP Construction Engineering Projects

Apart from providing comprehensive EP solutions to clients, the Group has been providing one-stop EP solutions to many clients by leveraging its extensive industry expertise, professional research and development capabilities and technologies. Most of the projects in this segment spanned different financial periods and are booked to the accounts according to stage of completion. This segment recorded a negative turnover of RMB5.1 million during the period under review. The negative reportable segment revenue represents the reversal of revenue from a construction contract due to a discount offered to a customer.

Provision of EP Related Professional Services

The Group, through its subsidiary namely Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI"), provides EP-related professional services to clients. Accredited with Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design for all environmental projects. During the period under review, the segment recorded a turnover of approximately RMB350,000, accounting for approximately 0.2% of the Group's total turnover.

Sales of EP Construction Materials

The introduction of six EP wallboard production lines from the Netherlands enabled the Group to expand into the eco-friendly construction materials business. Installations and trial runs of the three new standard production lines which were purchased in 2011 are expected to be completed by the end of the year. During the period, most of the products were exported to Korea, and generated a turnover of approximately RMB1.5 million. The Group continued to collaborate closely with a number of construction and design institutes, and established demonstration projects in Shanghai, Yixing, Xiamen, Hubei and Inner Mongolia, thereby drawing the market's attention to this eco-friendly construction material. As the business was still at the stage of development, revenue generated was relatively low when compared to the expenses incurred during the period under review. However, the Board believes that this new business would be rewarding and will be the Group's profit growth driver in the near future.

Prospects

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

The PRC Government has stepped up efforts to develop the eco-friendly construction material industry. The Central Government stated in the new guidelines to accelerate development of energy-saving and EP industry (《關於加快發展節能環保產業的意見》) that it will exert considerable efforts to develop green construction materials, build green ecological districts and enhance energy saving standards for new buildings towards the target that by 2015, new green buildings will cover an area of more than 1 billion m^2 and that the proportion of two-star or above green buildings among the new buildings in urban areas will be over 20%.

In view of the huge opportunities in the eco-friendly construction material industry, the Group has introduced six EP wallboard production lines from the Netherlands in the past two years to produce WWCB and large wall components, each with an annual capacity of approximately 140,000 m^3 in a bid to actively expand the eco-friendly construction material business. WWCB is an eco-friendly inorganic energy-conserving construction material that is a composite of cement, eco-friendly fast growing timber, and non-toxic chemical additives amalgamated through a highly pressurized process. This material is widely recognised and growing popular overseas because of its distinctive heat retention and fire resistant properties, as well as being sound-proof, moisture-proof, mould-proof and insect repellant. It also does not contain formaldehyde or any other volatile organic compounds and is not harmful to the environment. WWCB has a wide range of applications and is a quality renovation and wall construction material, in particular for heat retention purpose in regions with greater temperature fluctuations. It is an ideal material for the construction of highly durable and energy-saving high-end residential and commercial buildings.

Among the six production lines, five are standard lines that produce WWCB of varying thickness from 10mm to 100mm. The other is the most advanced and fully automated large wall component production line in the world and mainly manufactures 3m x 6m x 40cm large wall components which can be directly installed. Two standard lines began operation in 2012 and mainly manufacture 15mm to 75mm thick boards to meet mainstream market need. During the period under review, the Group secured orders from both domestic and overseas markets which started to contribute revenue to the segment. In April 2013, the large wall component production line also began trial production of products of 15cm and 22cm thickness designed for the climate requirement of the PRC market. This production line is expected to start generating income to the Group in the second half of 2013. The installations of three more standard lines and the testing are expected to be completed by the end of 2013. The operation of the new production lines and the additional capacity should further optimise the Group's workflow and boost its production efficiency.

While expanding the production capacity of WWCB, the Group also strives to optimise the specifications and quality of the product. As approved by The Ministry of Housing and Urban-Rural Development of the PRC, WWCB became a standard construction material with effect from 1 August 2012. During the period, the Group strengthened collaboration with large research institutes to improve the shape and specifications of the boards in compliance with the product requirements. The research institutes also provide construction guidance for the Group's pilot and demonstration projects aiming to enhance the recognition of the products and its projects in the PRC. The Group has constantly placed a high emphasis on product innovation. During the period, it filed applications for more than 30 patents related to design, construction and application of WWCB, and successfully obtained more than 10 intellectual property right certifications, consolidating the Group's leading position in the industry. Moreover, the Group has finished the drafting of the construction standards and commissioning standards for the applications of the products and its products have also attained the Grade A Fire Resistant Standard for wall materials.

The Group has already captured market attention through the completion of several demonstration projects across five key targeted geographies for development, namely Shanghai, Yixing, Xiamen, Hubei and Inner Mongolia. It is identifying more projects which can be supported by existing resources and capabilities in response to market changes, and is striving to build more demonstration projects in the PRC in order to boost the Group's brand. The Group is also actively exploring potential new customers, including government authorities and large scale property developers, with the aim to deliver one-stop services with the provision of construction solutions that apply the features of WWCB. Several sample products have been sent for testing with quotations submitted for reference. The management believes that more collaborative projects will be confirmed in the second half of the year. The Group will seize the opportunities brought by the strong user demand of a better living environment and will look for opportunities to cooperate with other domestic enterprises to jointly develop new projects in a bid to expand the scope of its business and further promote WWCB.

Against the backdrop of the Central Government's strong endorsement of green construction materials, the market has begun to appreciate the features and benefits of WWCB. In light of the huge growth potential of this product, the Group is closely monitoring market changes and continuing to bolster product recognition. At the same time, it is optimising its production capacity and sales network to meet market demand and promote this quality eco-friendly construction material which is greatly recognised and accepted in overseas markets. The Group expects that the business will be an important income source when WWCB becomes more widely accepted and utilised in the market.

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

Most cities in the PRC have encountered severe smog problem since the beginning of 2013 and a series of related policy measures have been launched to address the pollution issues. During The National People's Congress of China and The Chinese People's Political Consultative Conference, the Ministry of Environmental Protection stressed that it would introduce various measures, including promoting the PM2.5 (particulate matter less than 2.5 micrometers in diameter) standard as a requirement for pollutant emission reduction systems, more aggressively implementing urban air quality standard management and imposing a limit for the emissions of air pollutants in specific regions. The Ministry has also issued a consultation paper for "Airborne Pollution Prevention and Control Action Plan for 2013-2017" aiming at reduction of the total emissions of air pollutants. Premier Li Keqiang has also proposed to boost the construction of waste water treatment facilities at a meeting of the State Council that the total investment in waste water treatment in urban areas is expected to reach RMB450 billion during the Twelfth Five-Year Plan period. The rate of non-toxic waste water treatment is expected to cover about 85% of the total emissions under full supervision by the end of the Twelfth Five-Year Plan period. The series of measures to restrict pollutant emissions reflects the determination and long-term planning of the new government administration to implement pollutant emission controls. With strong supportive government policies, the demand across the country for products and solutions for the EP industry is set to a further increase.

However, in view of the intense competition in the waste water treatment industry, the long account receivable period and the fact that some budget buyers are greatly influenced by the change of economic environment, the Group will be more prudent in undertaking waste water treatment projects in the future. It will select more profitable projects to maintain stable development of the business. At the same time, the Group will gradually increase the proportion of its flue gas treatment business, stepping up development efforts so as to capture the opportunities brought by the stricter supervision over air pollution emissions. The Group will also continue to provide FGD services targeting the non-ferrous metal industry. In addition, the Group will closely monitor the huge potential of flue gas treatment in the petrochemical and pharmaceutical industries and actively seek suitable projects to expand the scope of the flue gas treatment business.

Currently, the Group has 78 uncompleted water and flue gas treatment contracts with a total value of approximately RMB508.6 million on hand. Looking ahead, the Group intends to expand its EP construction engineering business including construction and operations of large-scale industrial waste water and flue gas treatment projects, so as to increase its income stream and generate a stable cashflow.

Liquidity and Financial Resources

As at 30 June 2013, the total assets of the Group amounted to RMB1,584.6 million, an decrease of RMB19.6 million as compared with RMB1,604.2 million as at 31 December 2012. Decrease in total assets was mainly due to decrease in trade and other receivables. The Group's total liabilities as at 30 June 2013 amounted to RMB429.4 million, an increase of RMB10.5 million as compared with RMB418.9 million as at 31 December 2012. The main reason for the increase in total liabilities was the increase in deposits received in advance. The Group's total equity as at 30 June 2013 was RMB1,155.2 million (31 December 2012: RMB1,185.3 million). The Group had an unpaid bank borrowings of RMB14 million as at 30 June 2013 (31 December 2012: RMB14.0 million) and the equity ratio calculated by dividing interest-bearing loans and other borrowings by total equity as at 30 June 2013 was 1.2% (31 December 2012: 1.2%). The Group's cash and cash equivalents amounted to RMB593.9 million as at 30 June 2013 (31 December 2012: RMB564.1 million).

Exposure to Fluctuations in Exchange

Business transactions and liabilities of the Group are largely denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and the majority of its bank deposits are in Renminbi and Hong Kong Dollars. As at 30 June 2013, the Group did not have any foreign currency bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. Nevertheless, the management is continuing to monitor the foreign exchange exposure and will take prudent measures as and when appropriate. As at 30 June 2013, the Group did not hold any derivative for hedging against both the interest rate and foreign exchange risks.

Capital Commitments and Contingent Liabilities

As at 30 June 2013, the Group had a capital expenditure commitment in respect of acquisition of property, plant and equipment and injection of the share capital of a subsidiary totalling RMB8.0 million (31 December 2012: RMB86.2 million). The Group provides product maintenance service to customers of FGD construction projects and certain EP products for a period ranging from six months to two years after a project is completed or a product is delivered. At the same time, the Group enjoys warranties for the work and equipment from its sub-contractors and suppliers. The Directors of the Company believe that the amount of crystallised warranty liabilities, if any, in excess of the amount covered by the warranties given by sub-contractors and suppliers, would not have any adverse material effect on the overall financial position or operating results of the Group.

Human Resources

As at 30 June 2013, the Group had approximately 270 employees. Salaries of employees are 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 shouldered by the individual director. Apart from the basic remuneration and statutory benefits required by law, the Group also provides discretionary bonuses based on its results and the performance of the individual employee. The Group also has an employee share option scheme in operation.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2013.

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 unaudited interim financial statements of the Group for the six months ended 30 June 2013.

Corporate Governance Practices

In the opinion of the Board, throughout the six months ended 30 June 2013, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

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

Hong Kong, 23 August 2013

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

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

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