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 2011

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2011	2010	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
TURNOVER	**198,551**	241,691	-17.8%
GROSS PROFIT	**28,997**	63,262	-54.2%
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**5,740**	34,640	-83.4%
EARNINGS PER SHARE – BASIC AND DILUTED *(RMB)*	**0.72 cents**	4.33 cents	-83.4%

RESULTS

The Board (the "Board") of Directors (the "Directors") of Pan Asia Environmental Protection Group Limited (the "Company" or "Pan Asia") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**198,551**	241,691
Cost of sales		**(169,554)**	(178,429)
Gross profit		**28,997**	63,262
Other revenue		**1,535**	1,775
Other net loss		**(175)**	(2,452)
Distribution costs		**(1,142)**	(242)
Administrative expenses		**(19,365)**	(14,089)
Other operating expenses		**(964)**	(801)
Finance costs	*5*	**(292)**	–
Profit before taxation	*5*	**8,594**	47,453
Income tax	*6*	**(3,468)**	(14,470)
Profit for the period		**5,126**	32,983
Other comprehensive income for the period (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of foreign operation		**(161)**	(595)
		(161)	(595)
Total comprehensive income for the period		**4,965**	32,388
Profit attributable to:			
Owners of the Company		**5,740**	34,640
Non-controlling interests		**(614)**	(1,657)
		5,126	32,983
Total comprehensive income attributable to:			
Owners of the Company		**5,579**	34,045
Non-controlling interests		**(614)**	(1,657)
		4,965	32,388
Earnings per share	*7*		
Basic and diluted		**RMB0.72 cents**	RMB4.33 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	**30 June 2011 RMB'000 (Unaudited)**	31 December 2010 RMB'000 (Audited)
Non-current assets			
Prepaid lease payment		**45,242**	6,576
Property, plant and equipment		**200,149**	175,881
Available-for-sale financial asset		**6,850**	6,850
		252,241	189,307
Current assets			
Prepaid lease payment		**959**	169
Inventories		**124,797**	33,750
Trade and other receivables	*8*	**541,083**	529,803
Pledged bank deposits		**14,900**	4,500
Cash and bank balances		**613,934**	685,503
		1,295,673	1,253,725
Current liabilities			
Short-term bank loan		**9,000**	9,000
Trade and other payables	*9*	**151,240**	109,703
Deposits received and receipt in advance		**151,795**	92,448
Tax payable		**20,237**	21,204
		332,272	232,355
Net current assets		**963,401**	1,021,370
Total assets less current liabilities		**1,215,642**	1,210,677
Non-current liabilities			
Deferred tax liabilities		**(4,852)**	(4,852)
Net assets		**1,210,790**	1,205,825
Capital and reserves			
Share capital		**74,872**	74,872
Reserves		**1,135,788**	1,130,209
Total equity attributable to owners of the Company		**1,210,660**	1,205,081
Non-controlling interests		**130**	744
Total equity		**1,210,790**	1,205,825

NOTES:

1. GENERAL INFORMATION

Pan Asia 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 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 Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the sales of environmental protection ("EP") products and equipment, undertaking EP construction engineering projects, manufacture of EP construction materials, provision of EP related professional services in the People's Republic of China (the "PRC") and investment holding.

2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Company's functional currency is Hong Kong dollars ("HKD") while the functional currencies of most of its subsidiaries are Renminbi ("RMB"). These unaudited interim financial statements are presented in RMB and rounded to the nearest thousand, unless otherwise indicated.

3. ACCOUNTING POLICIES

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

The accounting policies used in the unaudited interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

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

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related party disclosures
HKAS 32 (Amendments)	Classification of right issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments

The adoption of the above new and revised HKFRSs has had no significant financial effect on the Group's financial statements.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for the current accounting period.

HKAS 1 (Amendments)	Presentation of items of other comprehensive income[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (Revised)	Employee Benefits[3]
HKAS 27 (Revised)	Separate financial statements[3]
HKAS 28 (Revised)	Investments in associates and joint ventures[3]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[1]
HKFRS 7 (Amendments)	Disclosures: Transfer of financial assets[1]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[3]
HKFRS 11	Joint arrangements[3]
HKFRS 12	Disclosure of interests in other entities[3]
HKFRS 13	Fair value measurement[3]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 July 2012

While the adoption of those changes will result in changes in the accounting policy, the changes are unlikely to have any significant impact on the Group.

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 information is reported internally to the Group's Chief Executive Officer for the purposes of resource 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 regard 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 regard are carried out in the PRC only.
- Manufacture of EP construction materials: this segment manufactures and sells EP construction materials to external customers, main product is wood wool cement board. Currently the Group's activities in this regard are carried out in the PRC only.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's Chief Executive Officer monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible and current assets with the exception of investments in financial assets and other corporate assets. Segment liabilities include trade and other payables attributable to individual segments and short-term bank loan managed directly by the Group's Chief Executive Officer.

Revenue and expenses are allocated to the reportable segments with reference to sales generated and services rendered by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment assistance provided by one segment to another is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" that is, "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, the Group's Chief Executive Officer is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from bank balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	Sale of EP products and equipment *RMB'000*	**EP construction engineering projects** *RMB'000*	**Provision of EP related professional services** *RMB'000*	**Manufacture of EP construction materials** *RMB'000*	**Total** *RMB'000*
Six months ended 30 June 2011					
Reportable segment revenue from external customers	**192,235**	**1,106**	**5,210**	**–**	**198,551**
Reportable segment profit/(loss) (adjusted EBITDA)	**26,549**	**(2,451)**	**5,210**	**–**	**29,308**
Six months ended 30 June 2010					
Reportable segment revenue from external customers	226,562	13,114	2,015	–	241,691
Reportable segment profit/(loss) (adjusted EBITDA)	63,873	1,803	(1,762)	–	63,914
Reportable segment assets					
30 June 2011	**458,961**	**167,965**	**10,753**	**251,014**	**888,693**
31 December 2010	392,066	163,898	613	156,392	712,969
Reportable segment liabilities					
30 June 2011	**181,710**	**82,375**	**3,838**	**329**	**268,252**
31 December 2010	18,101	130,303	12,069	5	160,478

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue from external customers	**198,551**	241,691
Profit		
Reportable segment profit derived from external customers	**29,308**	63,914
Other revenue and other net income/(loss)	**1,360**	(677)
Depreciation and amortisation	**(3,206)**	(2,738)
Finance costs	**(292)**	–
Unallocated head office and corporate expenses	**(18,576)**	(13,046)
Consolidated profit before taxation	**8,594**	47,453

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**888,693**	712,969
Non-current financial assets	**6,850**	6,850
Unallocated head office and corporate assets	**652,371**	723,213
Consolidated total assets	**1,547,914**	1,443,032
Liabilities		
Reportable segment liabilities	**268,252**	160,478
Current tax liabilities	**20,237**	21,204
Deferred tax liabilities	**4,852**	4,852
Unallocated head office and corporate liabilities	**43,783**	50,673
Consolidated total liabilities	**337,124**	237,207

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank advances wholly repayable within one year	**292**	–
Total interest expenses on financial liabilities not at fair value through profit or loss	**292**	–
(b) Staff costs (including directors' emoluments)		
Contributions to defined contribution retirement plans	**698**	500
Salaries, wages and other benefits	**6,795**	5,661
	7,493	6,161
(c) Other items		
Amortisation	**84**	85
Cost of inventories	**137,104**	161,985
Depreciation	**3,122**	2,653
Dividend and interest income	**(1,452)**	(1,752)
Operating lease charges		
– Property rental	**499**	517
– Equipment	**3**	–

6. INCOME TAX

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax		
– current year	**3,468**	14,470

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

ii) A uniform enterprise income tax of 25% became 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.

iii) No provision for Hong Kong profits tax has been made for the periods ended 30 June 2010 and 2011 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 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 sine 1 January 2008 with reference to the Groups' dividend policy, no matter whether such earnings have been declared or not 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. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB5,740,000 (six months ended 30 June 2010: RMB34,640,000) and the weighted average number of 800,000,000 ordinary shares (2010: 800,000,000 shares) in issue during the interim period.

(b) Diluted earnings per share

Diluted earnings per share equal to basic earnings per share for the periods ended 30 June 2011 and 30 June 2010 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 it is anticipated that no share option to subscribe for the Company's shares will be exercised.

8. 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 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 to 30 days	**66,344**	104,110
31 to 60 days	**22,415**	20,057
61 to 90 days	**9,188**	5,003
91 to 180 days	**5,086**	25,438
181 to 365 days	**51,013**	27,471
over 365 days	**33,382**	26,373
Trade debtors, net of allowance for doubtful debts	**187,428**	208,452
Other receivables	**120,447**	132,422
Less: Allowance for doubtful debts	**(147)**	(147)
	120,300	132,275
Loans and receivables	**307,728**	340,727
Prepayments and deposits	**97,971**	72,430
Other tax recoverable	**14,310**	1,769
Amount due from customers for contract work	**121,074**	114,877
	541,083	529,803

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 of approximately RMB67,613,000 as at 30 June 2011 (31 December 2010: RMB72,981,000) (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.

9. 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 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 to 30 days	**55,175**	10,024
31 to 60 days	**2,580**	304
61 to 90 days	**704**	1,383
91 to 180 days	**1,286**	958
181 to 365 days	**1,310**	1,930
Over 365 days	**42,056**	44,426
Trade payable	**103,111**	59,025
Accruals and other payables	**43,255**	45,888
Amount due to a director	**1,589**	1,531
Amount due to a related company	**14**	5
Financial liabilities measured at amortised cost	**147,969**	106,449
Other PRC tax payable	**3,271**	3,254
	151,240	109,703

10. PLEDGE OF ASSETS

A bank deposit of a subsidiary of approximately RMB14,000,000 as at 30 June 2011 (31 December 2010: RMB4,500,000) was pledged to secure a banking facility of approximately RMB19,300,000 (31 December 2010: RMB2,800,000) granted to the subsidiary.

A bank deposit of a subsidiary of approximately RMB900,000 as at 30 June 2011 (31 December 2010: Nil) was pledged to a bank as security in respect of the performance bond issued in favour of the subsidiary under EP construction engineering projects.

A building with a carrying amount of approximately RMB860,000 as at 30 June 2011 (31 December 2010: RMB880,000) was pledged to a bank to secure a short-term bank loan of RMB9,000,000 (31 December 2010: RMB9,000,000) granted to a subsidiary.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2011, the Group achieved a total turnover of RMB198.6 million. During the period under review, several projects were completed in May and June and were ready for clients' testing and commissioning which were scheduled to take place in July 2011. As such, revenue of approximately RMB80 million from these projects were not recognized in the reporting period and resulted in a decrease of 17.8% in turnover compared with the same period of last year. Overall gross profit amounted to RMB29.0 million (six months ended 30 June 2010: RMB63.3 million) and gross profit margin was 14.6%. Keen competition within the industry and increasing costs were the main reasons for the decline. Profit attributable to owners of the Company was approximately RMB5.7 million (six months ended 30 June 2010: RMB34.6 million). Net profit was 84.5% lower than the last corresponding period with net profit margin of 2.6%. The Group's new business in respect to the production of wood wool cement boards has not yet generated any revenue during the period under review, but expenses on the development of such business have been incurred and booked. As a result, the profit recorded in this period was adversely affected. Earnings per share were RMB0.72 cents (six months ended 30 June 2010: RMB4.33 cents).

Dividend

The Board recommended withholding dividend payment for the six months ended 30 June 2011, earmarking the profit to be used as capital for future development.

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, as well as sells pipes. It also undertakes EP construction engineering projects and provides EP related professional services. As at 30 June 2011, the Group continued to focus on the sale of pipes, water and flue gas treatment products and equipment. It also continued to expand the EP business through the addition of wood wool cement production lines. During the period under review, the Group had 60 engineers with different professional qualifications and experience in providing customised EP solutions to customers across different industries.

Sale of EP Products and Equipment

During the period under review, sale of EP products and equipment recorded a turnover of approximately RMB192.3 million, accounting for roughly 96.8% of the Group's total turnover.

Sale of Water Treatment Products and Equipment

The water treatment systems produced by the Group are mainly used to process industrial and urban wastewater. The water treatment business generated turnover of approximately RMB157.7 million, accounting for 82.0% of the segmental turnover.

Sale of Flue Gas Treatment Products and Equipment

Following the Twelfth Five-Year Plan, the construction of wastewater, flue gas desulphurization ("FGD") and flue gas denitrification ("DeNOx") treatments have gained strong support from the Central Government. These projects require huge investments and large operational scale. Therefore, the Group believes that projects for construction of and investment in FGD and DeNOx systems will generate significant contributions in the future. In the past, the Group mainly provided FGD services to power plants; however, as there is more room for development in the iron and steel, cement and glass industries, the Group began providing services to these market segments. In 2011, the Group planned to further expand its business scope to DeNOx. The Group believes projects for construction of DeNOx system for thermal power plants is a main direction that the Group will take in the future and is currently bidding for several projects.

During the period under review, the Group completed 3 projects related to the sale of equipment for flue gas treatment, contributing turnover of RMB20.6 million to the Group, representing 10.7% of the segmental turnover.

Sale of Pipes

In addition to providing clients with comprehensive EP solutions, the Group also produces fibreglass-reinforced plastic pipes with diameters of up to 2,000 mm at its Yixing workshop. Total annual production capacity is estimated at approximately 172,680 metres. During the period under review, the Group completed 3 contracts related to the sale of pipes, which generated turnover of approximately RMB14.0 million, accounting for 7.3% of the segmental turnover.

EP Construction Engineering Projects

In addition to providing clients with comprehensive EP solutions, leveraging its extensive industry expertise, professional research and development capabilities and technologies, the Group has been providing one-stop EP solutions to many clients. During the period under review, this segment recorded turnover of approximately RMB1.1 million, accounting for about 0.6% of the Group's total turnover.

Provision of EP-related Professional Services

The Group, through its subsidiary Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI"), provides EP-related professional services to clients. As a holder of Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design for all environmental projects. During the period under review, the Group won a number of new design and consultancy contracts. EP related professional services continued to generate stable income to the Group. It recorded a turnover of approximately RMB5.2 million, accounting for approximately 2.6% of the Group's total turnover.

Prospects

Water and Flue Gas Treatment Business: Continues to Bring Promising Revenue to the Group

The Chinese economy is growing fast. Although rapid urbanisation poses more challenges to EP, the Government gives equal support to environmental protection in the PRC, which is favourable to the development of related businesses. Environmental protection is one of seven key emerging industries under the Twelfth Five-Year Plan. Entering 2011, the Central Government launched a series of measures to improve the environment, including planning on water and waste treatment. The Central Government will invest RMB450 billion on urban water treatment. The Group believes that strong support from national policies will boost demand for EP products and services in the PRC, and create more opportunities for it.

Water treatment business continues to bring stable income to the Group in 2011. Currently, the Group has 27 contracts on hand which worth a total value of RMB361.9 million. The Group will continue to expand its scope of business from the existing construction operation to large-scale industrial water treatment, construction and operation projects in order to generate new income, increase cashflow and return on investments.

Environmentally Friendly Construction Materials Business: A New and Future Growth Driver with Enormous Potential

Apart from the sale of traditional EP products and equipment, wood wool cement board will be the focus of the Group's future development. The Group is well aware of stricter requirements placed on construction materials and the policy to build more subsidised housing for the public in the PRC, and therefore the Group expanded into the environmentally friendly construction materials business by entering into an exclusive agreement with Eltomation BV of the Netherlands in 2010. Under this agreement, the Group has exclusive right to introduce the world's most advanced wood wool cement board production lines to the Greater China.

Wood wool cement board is an environmentally friendly inorganic energy conservation construction material that is made from cement, eco-friendly and fast growing timber, and nontoxic chemical addictives after high pressure processing. This material is widely used overseas because of its distinctive features of heat preservation and fire resistance, along with sound-proof, moisture-proof, mould-proof and insect repelling properties. It also does not contain formaldehyde or any other volatile organic compounds. The benefits of wood wool cement board make it a perfect material for renovation and wall construction, in particular, for residential and commercial buildings requiring heat conservation, high durability and energy saving.

The Group has participated in various exhibitions to promote the product to governmental organisations and property developers. Market response has been positive and some potential developers have expressed interest in the product. The Group is planning a construction demonstration project in Jiangsu province in an effort to increase the popularity of using this quality wall construction material.

The Group's first production line of wood wool cement board has commenced production while two other lines will be installed by the end of this year. These production lines are expected to generate contributions to the Group's results in 2012. The Group plans to build three new production lines in Yixing by the end of 2012. Consequently, overall production capacity is expected to reach approximately 900,000 m^3 once the six production lines all commence production. It is expected that new production lines will be built under the production facilities in Anhui and Liaoning provinces.

The Group strongly believes that environmentally friendly and green building related industries will continue to grow rapidly, while the wood wool cement board will draw significant market attention. Amidst a green building trend, the Group has utmost confidence in the outlook of the EP industry and long-term development of EP business.

Liquidity and Financial Resources

As at 30 June 2011, total assets of the Group amounted to RMB1,547.9 million, RMB104.9 million more when compared to RMB1,443.0 million as at 31 December 2010. Increase in total assets was mainly due to implementation of the new wood wool cement board production facilities and increase of inventories. The Group's total liabilities as at 30 June 2011 were RMB337.1 million (31 December 2010: RMB237.2 million). The main reasons for the increase in total liabilities were the increase in trade and accounts payables and deposits received and receipt in advance. As at 30 June 2011, the Group had bank loans totalling RMB9.0 million (31 December 2010: RMB9.0 million). The Group monitored its capital on the basis of the gearing ratio. The ratio is calculated as total debt divided by total equity of the Group. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity was 0.7% as at 30 June 2011 (31 December 2010: 0.7%). The Group's cash and cash equivalents amounted to RMB613.9 million as at 30 June 2011.

Exposure to Fluctuations in Exchange Rates

Business transactions and liabilities of the Group are largely denominated in RMB and HKD. The Group adopts a conservative financial policy and the majority of its bank deposits are in RMB and HKD. As at 30 June 2011, the Group did not have any foreign currency bank liability, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. Nevertheless, the management will continue to monitor foreign exchange exposure of the Group and take prudent measures as and when appropriate. As at 30 June 2011, the Group did not have any derivative for hedging against both the interest and exchange rate risks.

Capital Commitments and Contingent Liabilities

As at 30 June 2011, the Group had a capital expenditure commitment amounted to RMB67.8 million. (31 December 2010: RMB91.5 million).

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 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 material adverse effect on the overall financial position or operating results of the Group.

Human Resources

As at 30 June 2011, the Group had approximately 250 employees. Salaries of employees are maintained at competitive levels 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 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 2011.

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 six months ended 30 June 2011.

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 Company and its subsidiaries for the six months ended 30 June 2011. At the request of the Board of Directors, the Company's external auditors have carried out a review of this unaudited interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

Despatch of Interim Report and Publication on Website

The interim report containing full details of the Company's unaudited interim results for the six months ended 30 June 2011 will be despatched to all its shareholders and be published on the websites of the Company (www.paep.com.cn) and of the Stock Exchange (www.hkexnews.hk) on or before 30 September 2011.

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

Hong Kong, 30 August 2011

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