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 2012

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2012	2011	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
TURNOVER	**130,953**	198,551	-34.0%
GROSS PROFIT	**2,619**	28,997	-91.0%
(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(16,685)**	5,740	-390.7%

RESULTS

The Board of Directors (the "Board") of Pan Asia Environmental Protection Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Turnover	4	**130,953**	198,551
Cost of sales		**(128,334)**	(169,554)
Gross profit		**2,619**	28,997
Other revenue		**1,889**	1,535
Other net loss		**(239)**	(175)
Selling and distribution expenses		**(343)**	(1,142)
General and administrative expenses		**(19,959)**	(19,365)
Other operating expenses		**(273)**	(964)
Finance costs	5	**(387)**	(292)
(Loss)/profit before taxation	5	**(16,693)**	8,594
Income tax expenses	6	**(40)**	(3,468)
(Loss)/profit for the period		**(16,733)**	5,126
Other comprehensive loss for the period (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of foreign operation		**(18)**	(161)
Other comprehensive loss for the period, net of tax		**(18)**	(161)
Total comprehensive (loss)/income for the period		**(16,751)**	4,965
(Loss)/profit attributable to:			
Owners of the Company		**(16,685)**	5,740
Non-controlling interests		**(48)**	(614)
		(16,733)	5,126
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(16,703)**	5,579
Non-controlling interests		**(48)**	(614)
		(16,751)	4,965
(Loss)/earnings per share	7		
Basic and diluted		**(RMB2.09 cents)**	RMB0.72 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	**30 June 2012** *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
Non-current assets			
Prepaid lease payment		**40,171**	40,596
Property, plant and equipment		**271,026**	252,094
Available-for-sale financial asset		**9,000**	9,000
		320,197	301,690
Current assets			
Prepaid lease payment		**850**	850
Inventories		**125,507**	81,156
Trade and other receivables	*9*	**506,162**	514,365
Pledged bank deposits		**18,660**	11,060
Cash and bank balances		**597,614**	606,815
		1,248,793	1,214,246
Current liabilities			
Short-term bank loan		**9,000**	–
Trade and other payables	*10*	**140,116**	101,663
Deposits received and receipt in advance		**202,312**	178,256
Tax payable		**12,897**	14,977
		364,325	294,896
Net current assets		**884,468**	919,350
Total assets less current liabilities		**1,204,665**	1,221,040
Non-current liabilities			
Deferred tax liabilities		**(6,566)**	(6,566)
Net assets		**1,198,099**	1,214,474
Capital and reserves			
Share capital		**74,872**	74,872
Reserves		**1,123,227**	1,139,554
Total equity attributable to owners of the Company		**1,198,099**	1,214,426
Non-controlling interests		**–**	48
Total equity		**1,198,099**	1,214,474

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 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 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 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 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 interim financial statements requires directors of the Company (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. Actual results may differ from these estimates.

In preparing these unaudited 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 as at and for the year ended 31 December 2011.

3. SIGNIFICANT 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 2011, 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.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

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 new and revised standards, amendments or interpretations which have been issued but are not yet effective for the current accounting period.

4. SEGMENT REPORTING

The Group manages its business by divisions and all these 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 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.

- Sales of EP construction materials: this segment manufactures and sells EP construction materials to external customers, main product is wood wool cement board ("WWCB"). 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 CODM 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 managed directly by respective segment.

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' emoluments and auditor's remuneration and other corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, the Group's CODM 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 2012					
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**
Interest expenses	–	–	–	–	–
Depreciation and amortisation for the period	**772**	**144**	**–**	**395**	**1,311**
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
Interest expenses	–	–	–	–	–
Depreciation and amortisation for the period	848	–	–	–	848
Reportable segment assets					
30 June 2012	**333,823**	**166,189**	**4,628**	**333,801**	**838,441**
31 December 2011	313,747	170,317	4,615	290,548	779,227
Reportable segment liabilities					
30 June 2012	**221,209**	**75,046**	**9,591**	**5,105**	**310,951**
31 December 2011	159,356	71,793	9,748	1,850	242,747

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue from external customers	**130,953**	198,551
Profit		
Reportable segment profit derived from external customers	**3,049**	29,308
Other revenue and other net income	**1,650**	1,360
Depreciation and amortisation	**(3,234)**	(3,206)
Finance costs	**(387)**	(292)
Unallocated head office and corporate expenses	**(17,771)**	(18,576)
Consolidated (loss)/profit before taxation	**(16,693)**	8,594

	At 30 June	At 31 December
	2012	2011
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**838,441**	779,227
Non-current financial assets	**9,000**	9,000
Unallocated head office and corporate assets	**721,549**	727,709
Consolidated total assets	**1,568,990**	1,515,936
Liabilities		
Reportable segment liabilities	**310,951**	242,747
Current tax liabilities	**12,897**	14,977
Deferred tax liabilities	**6,566**	6,566
Unallocated head office and corporate liabilities	**40,477**	37,172
Consolidated total liabilities	**370,891**	301,462

5. PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2012	2011
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest on bank advances wholly repayable within one year	**387**	292
	Total interest expenses on financial liabilities not at fair value through profit or loss	**387**	292
(b)	**Staff costs (including directors' emoluments)**		
	Contributions to defined contribution retirement plans	**756**	698
	Salaries, wages and other benefits	**8,108**	6,795
		8,864	7,493
(c)	**Other items**		
	Amortisation	**425**	84
	Cost of inventories	**119,700**	137,104
	Depreciation	**2,809**	3,122
	Impairment on trade receivables	**67**	–
	Interest income	**(1,624)**	(1,452)
	Loss on disposal of property, plant and equipment	**9**	–
	Operating lease charges		
	– Property rental	**500**	499
	– Equipment	**4**	3
	Rental from properties less direct outgoings	**(27)**	(27)
	Written off of property, plant and equipment	**101**	–

Costs of inventories includes RMB1,532,000 (for the period ended 30 June 2011: RMB1,642,000) relating to staff costs and depreciation, which 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	
	2012	2011
	RMB'000	*RMB'000*
Current Tax		
PRC enterprise income tax		
– current year	**40**	3,468

(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 2011 and 2012 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 since 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. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB16,685,000 (earnings per share for the six months ended 30 June 2011: RMB5,740,000) and the weighted average number of 800,000,000 ordinary shares (2011: 800,000,000 shares) in issue during the interim period.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equal to basic (loss)/earnings per share for the periods ended 30 June 2012 and 30 June 2011 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. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: 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 2012 *RMB'000*	At 31 December 2011 *RMB'000*
0 to 30 days	**5,517**	13,334
31 to 60 days	**18,667**	17,659
61 to 90 days	**15,838**	20,433
91 to 180 days	**10,714**	21,915
181 to 365 days	**33,934**	34,995
over 365 days	**32,080**	33,194
	116,750	141,530
Less: Allowance for doubtful debts	**(1,143)**	(1,076)
Trade debtors, net of allowance for doubtful debts	**115,607**	140,454
Other receivables	**128,601**	119,479
Less: Allowance for doubtful debts	**(147)**	(147)
	128,454	119,332
Amounts due from related companies	**6,100**	6,100
Loans and receivables	**250,161**	265,886
Prepayments and deposits	**123,553**	120,581
Other tax recoverables	**20,014**	9,773
Amount due from customers for contract work	**112,434**	118,125
	506,162	514,365

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 RMB49,760,000 as at 30 June 2012 (31 December 2011: RMB60,564,000) (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 2012	At 31 December 2011
	RMB'000	*RMB'000*
0 to 30 days	**39,927**	5,306
31 to 60 days	**740**	565
61 to 90 days	**499**	5,510
91 to 180 days	**15,546**	3,215
181 to 365 days	**5,822**	2,161
Over 365 days	**42,495**	43,661
Trade payable	**105,029**	60,418
Accruals and other payables	**28,663**	35,250
Amount due to a director	**2,131**	1,589
Amount due to a related company	**8**	23
Financial liabilities measured at amortised cost	**135,831**	97,280
Other PRC tax payables	**4,285**	4,383
	140,116	101,663

11. PLEDGE OF ASSETS

A bank deposit of a subsidiary of approximately RMB16,000,000 as at 30 June 2012 (31 December 2011: RMB10,000,000) was pledged to secure a banking facility of approximately RMB12,800,000 (31 December 2011: RMB26,416,000) granted to the subsidiary.

A bank deposit of a subsidiary of approximately RMB2,660,000 as at 30 June 2012 (31 December 2011: RMB1,060,000) was pledged to a bank as security in respect of banking facility granted to a subsidiary.

A building with a carrying amount of approximately RMB821,000 as at 30 June 2012 (31 December 2011: Nil) was pledged to a bank to secure a short-term bank loan of RMB9,000,000 (31 December 2011: Nil) granted to a subsidiary.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2012, the Group achieved a turnover of RMB131.0 million. During the period under review, several projects were completed during June and were ready for clients' final testing and commissioning which were scheduled to take place in July 2012. Due to this timing, approximately RMB87.7 million revenue from these projects were not recognised in the reporting period which contributed to a decrease of 34.0% in turnover compared with the same period of last year. Gross profit was RMB2.6 million (six months ended 30 June 2011: RMB29.0 million) and gross profit margin was 2.0% (six months ended 30 June 2011: 14.6%). The decrease in gross profit margin was mainly due to keen competition within the industry and increase in cost during the period under review. In addition, the WWCB business was still at the development stage and had not yet contributed revenue to the Group. Loss attributable to owners of the Company was approximately RMB16.7 million (profit for the six months ended 30 June 2011: RMB5.7 million).

Dividend

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil), as the capital will be reserved for the development of the Group's different business operations, in particular, to capture the opportunities in the enormous market for WWCB.

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. The Group also undertakes EP construction engineering projects and provides EP-related professional services. To further develop EP-related business with high growth potential in order to broaden its income stream, the Group continued to actively expand the scale of WWCB production lines according to plan while focusing on the sales of water and flue gas treatment products and equipment and pipes in 2012.

Sales of EP Products and Equipment

During the period under review, the sales of EP products and equipment recorded a turnover of approximately RMB128.3 million, accounting for around 98.0% 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 RMB90.1 million, accounting for 68.8% of the Group's turnover. The water treatment business is still the main focus of the Group's contracts on hand. During the period, the Group completed nine water treatment-related sales contracts. The Group intends to continue to secure more water treatment projects so as to maintain steady growth of the business.

Sales of Flue Gas Treatment Products and Equipment

The Group mainly provides flue gas desulphurization ("FGD") services to power plants as well as to clients in the iron and steel, cement and glass industries. During the period, as growth in these industries slowed down, the demand for flue gas treatment subsequently weakened. The Group completed two projects related to sale of flue gas treatment equipment, contributing a turnover of approximately RMB38.2 million, representing 29.2% of the Group's turnover.

Sales 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. During the period under review, the Group relocated the workshop to the new production base, to centralise management of all of its production lines. As a result, no revenue was recorded for this segment during the period. The Group expects production will resume in the second half of this year.

EP Construction Engineering Projects

Leveraging its extensive industry expertise, professional research and development capabilities as well as advanced technologies, the Group has been providing one-stop EP solutions to many clients. During the period, this segment recorded a turnover of approximately RMB2.0 million, accounting for about 1.5% 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. With Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design works for all environmental projects. During the period, the segment recorded a turnover of approximately RMB700,000, accounting for around 0.5% of the total turnover of the Group.

Prospects

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

The introduction of WWCB production lines from the Netherlands marked the Group's expansion into the environmentally friendly construction materials business, contributing to sustainable development of the economy by producing energy conserving construction materials. WWCB is an environmentally friendly inorganic energy-conserving construction material that is made from cement, ecologically-friendly fast growing timber, and nontoxic chemical addictives through a highly pressurised process. This material is widely used overseas because of its distinctive heat retention, fire resistant and insect repellant properties, along with its being sound-proof, moisture-proof and mould-proof. It also does not contain formaldehyde or any other volatile organic compounds. The benefits of WWCB make it a perfect material for renovation and wall construction, in particular, for high-end residential and commercial buildings requiring heat conservation, high durability and savings of energy in regions with greater weather and climate temperature fluctuation.

The Ministry of Housing and Urban-Rural Development of the PRC has approved WWCB as a standard construction product for the industry with effect from 1 August 2012. During the period under review, the Group cooperated with Jiangsu Research Institute of the Building Science Co., Ltd. ("JRIBS") to evaluate and analyse the shape and specifications of boards in relation to compliance with national construction requirements, as well as product optimisation. JRIBS is also to provide working guidance for the Group's pilot and demonstration projects. Having JRIBS, an authoritative construction science institution in the PRC, participate in the analysis can help enhancing the reputation of the Group's products and pilot projects across the country. In addition, the Group is working to secure the approved standard on construction as well as testing and commissioning for its product applications. The Group is also working to improve the fireproof standard of its products.

Operations of the Group's first and second WWCB production lines have commenced and the Group has received many inquiries from Government organisations and potential overseas buyers, including those from Venezuela. Samples and price lists had been provided for testing and reference. The Group is also currently actively developing the third production line which is in the trial run stage. This production line is to mainly produce 6m X 3m X 40cm large wall components which can be installed directly. It is the second large wall component production line of its kind in the world with strict regulations and requirements. The other one is in Sweden.

To meet market demand, the Group acquired three new WWCB production lines late last year to expand its business. The Group has secured specification certification for related equipments. These production lines are expected to commence production in the first half of 2013. With a capacity of 140,000 m^3 for each line, the additional capacity should optimise the Group's workflow and boost production efficiency.

Complementing the booming economic growth and accelerating urbanisation in the PRC, energy conservation and EP has already become one of the key development focuses of the country in the future. The PRC Central Government has stated in its Twelfth Five-Year Plan that the growth of the energy conservation and EP business should increase by more than 15% annually on average. The total production value of the energy conservation and EP business will reach RMB4.5 trillion by 2015, demonstrating the immense market potential. The Central Government has also proposed to increase the number of low rent housing and Government subsidised housing units to not less than 4.0 million and not less than 10.0 million respectively by 2015. The construction of subsidised housing across the country is also favorable to the development of the Group's WWCB business.

As the industry has just started to understand the features and benefits of WWCB, and in view of the huge potential of this product, the Group has been actively partnered with JRIBS to promote this quality environmentally-friendly construction material which is highly recognised and accepted in overseas markets. The Group expects that the WWCB business will turn into an important income source when it is more widely accepted and used in the market. It is expected that this segment will account for 50% or above of the Group's total turnover within the next three years.

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

Within the Twelfth Five-Year Plan programme, the energy-saving and EP industry has been designated as one of seven key emerging industries by the Central Government. The Central Government has indicated that there will be huge investment in water treatment projects, which will be mainly used in optimising and constructing new pipe network, enhancing urban sewage processing capability, upgrading urban sewage processing plants and constructing sludge processing facilities and reusable water facilities. This favorable policy shall further boost the demand for EP industry products and solutions in the PRC.

Currently, the Group has 45 contracts with a total value of approximately RMB483.2 million on hand. Looking ahead, the Group will continue to expand its EP engineering business including large-scale industrial waste water treatment, construction and operation projects, so as to expand its income stream, generate a stable cashflow and maximise return on investment.

Liquidity and Financial Resources

As at 30 June 2012, the total assets of the Group amounted to RMB1,569.0 million, an increase of RMB53.1 million as compared with RMB1,515.9 million as at 31 December 2011. The increase in total assets was mainly due to the addition of the new WWCB production facilities and increase of inventories. The Group's total liabilities as at 30 June 2012 were RMB370.9 million, an increase of RMB69.4 million as compared with RMB301.5 million as at 31 December 2011. The main reasons for the increase in total liabilities was the increases in short-term bank loan, trade and other payables and deposits received in advance. The Group's total equity as at 30 June 2012 was RMB1,198.1 million (31 December 2011: RMB1,214.5 million). As at 30 June 2012, the Group had bank loans totalling RMB9.0 million (31 December 2011: Nil). 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 0.8% as at 30 June 2012. The Group's cash and cash equivalents amounted to RMB597.6 million as at 30 June 2012.

Exposure to Fluctuations in Exchange Rates

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 2012, 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 the foreign exchange exposure and will take prudent measures as and when appropriate. As at 30 June 2012, the Group did not have any derivatives for hedging against both the interest rate and foreign exchange risks.

Capital Commitments and Contingent Liabilities

As at 30 June 2012, the Group had capital expenditure commitments in respect of acquisition of property, plant and equipment for WWCB production lines totaling RMB42.8 million (31 December 2011: RMB75.5 million) and injection of the share capital of a subsidiary totaling RMB73.6 million (31 December 2011: RMB74.1 million) respectively. The Group provides product maintenance services to customers in respect of construction work completed and certain of its EP products sold for a warranty period ranging from six months to two years after project completion or 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 crystallised warranty liabilities, if any, in excess of the amount covered by the warranties given by sub-contractors and suppliers, would not have any materially adverse effect on the overall financial position or operating results of the Group.

Human Resources

As at 30 June 2012, the Group had approximately 300 employees. Salaries of employees are maintained at competitive levels and are 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 2012.

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 financial statements of the Company and its subsidiaries for the six months ended 30 June 2012.

Corporate Governance Practices

In the opinion of the Board, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2012.

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

Hong Kong, 24 August 2012

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