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 2014

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014	2013	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
TURNOVER	**219,437**	180,011	22%
GROSS PROFIT	**64,396**	4,495	1,333%
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY	**30,821**	(29,940)	203%

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 2014, together with the comparative figures for the corresponding period in 2013:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**219,437**	180,011
Cost of sales		**(155,041)**	(175,516)
Gross profit		**64,396**	4,495
Other revenue		**6,280**	2,074
Other net gain/(loss)		**38**	(106)
Selling and distribution expenses		**(1,026)**	(1,680)
General and administrative expenses		**(23,186)**	(35,136)
Other operating expenses		**(2,595)**	(1,235)
Finance costs	*5*	**(425)**	(488)
Profit/(loss) before taxation	*5*	**43,482**	(32,076)
Income tax expenses	*6*	**(13,248)**	(186)
Profit/(loss) for the period		**30,234**	(32,262)
Other comprehensive income/(loss) for the period (after tax and reclassification adjustments):			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements to presentation currency		**28**	(1,006)
Other comprehensive income/(loss) for the period, net of tax		**28**	(1,006)
Total comprehensive income/(loss) for the period		**30,262**	(33,268)
Profit/(loss) for the period attributable to:			
Owners of the Company		**30,821**	(29,940)
Non-controlling interests		**(587)**	(2,322)
		30,234	(32,262)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**30,849**	(30,946)
Non-controlling interests		**(587)**	(2,322)
		30,262	(33,268)
Earnings/(loss) per share	*7*		
Basic		**RMB3.85 cents**	(RMB3.74 cents)
Diluted		**RMB3.76 cents**	(RMB3.74 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	**30 June 2014** **RMB'000** **(Unaudited)**	31 December 2013 RMB'000 (Audited)
Non-current assets			
Prepaid lease payments		**53,938**	54,551
Property, plant and equipment		**377,957**	366,325
Available-for-sale financial asset		**9,000**	9,000
		440,895	429,876
Current assets			
Prepaid lease payments		**1,195**	1,178
Inventories		**202,723**	97,365
Trade and other receivables	*9*	**407,088**	415,568
Pledged bank deposits		**10,616**	10,616
Cash and bank balances		**710,710**	571,326
		1,332,332	1,096,053
Current liabilities			
Trade and other payables	*10*	**241,935**	175,985
Short-term bank loans		**14,000**	14,000
Deposits received and receipts in advance		**291,510**	151,728
Tax payable		**14,693**	3,389
		562,138	345,102
Net current assets		**770,194**	750,951
Total assets less current liabilities		**1,211,089**	1,180,827
Non-current liabilities			
Deferred tax liabilities		**(14,930)**	(14,930)
Net assets		**1,196,159**	1,165,897
Capital and reserves			
Share capital		**74,872**	74,872
Reserves		**1,125,218**	1,094,369
Equity attributable to owners of the Company		**1,200,090**	1,169,241
Non-controlling interests		**(3,931)**	(3,344)
Total equity		**1,196,159**	1,165,897

NOTES:

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company's functional currency is Hong Kong dollar ("HK$") while the functional currency of most of its subsidiaries is Renminbi ("RMB"). The condensed consolidated 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

Preparation of the condensed consolidated financial statements requires the Directors to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, significant judgements made by the Directors in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied in the Group's annual financial statements for the year ended 31 December 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment Entities*
- Amendments to HKAS 32, *Offsetting Financial Assets and Financial Liabilities*
- Amendments to HKAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to HKAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*
- HK(IFRIC) 21, *Levies*

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated 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.
- EP construction engineering projects: this segment undertakes EP engineering construction projects for external customers.
- Provision of EP related professional services: this segment provides EP related professional services to external customers and for group companies.
- Manufacture of EP construction materials: this segment manufactures and sells EP construction materials to external customers, and the main product is wood wool cement board.

Segment revenue and results

	Six months ended 30 June (Unaudited)									
	Sales of EP products and equipment		EP construction engineering projects		Provision of EP related professional services		Manufacture of EP construction materials		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue from external customers	**162,340**	183,304	**1,620**	(5,124)	**935**	353	**54,542**	1,478	**219,437**	180,011
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**428**	–	**428**	–
Reportable segment revenue	**162,340**	183,304	**1,620**	(5,124) *(Note)*	**935**	353	**54,970**	1,478	**219,865**	180,011
Reportable segment profit/(loss) (adjusted EBITDA)	**36,754**	12,646	**143**	(8,322)	**343**	341	**35,500**	(932)	**72,740**	3,733
Depreciation and amortisation for the period	**11**	241	**148**	587	**–**	–	**11,308**	10,221	**11,467**	11,049

Note: The negative reportable segment revenue from EP construction engineering projects for the six months ended 30 June 2013 represented the reversal of revenue from a construction contract due to a discount offered to a customer.

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and prepaid lease payments. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and prepaid lease payments.

	Revenues from external customers		Specified non-current assets	
	Six months ended 30 June		**At 30 June**	At 31 December
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Hong Kong (place of domicile)	**–**	–	**547**	537
Mainland China	**218,361**	178,679	**431,348**	420,339
South Korea	**1,076**	1,332	**–**	–
	219,437	180,011	**431,895**	420,876

5. PROFIT/(LOSS) BEFORE TAXATION

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

		Six months ended 30 June	
		2014	2013
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**425**	488
	Total interest expenses on financial liabilities not at fair value through profit or loss	**425**	488
(b)	**Staff costs (including directors' emoluments)**		
	Contributions to defined contribution retirement plans	**686**	674
	Salaries, wages and other benefits	**9,866**	8,442
	Equity-settled share-based payments	**–**	3,212
		10,552	12,328
(c)	**Other items**		
	Amortisation of prepaid lease payments	**596**	425
	Cost of inventories *(Note)*	**152,972**	172,310
	Depreciation of property, plant and equipment	**13,067**	11,411
	Operating lease charges		
	– Leasing of properties	**915**	573
	– Leasing of equipment	**3**	3
	Research and development costs	**2,125**	776
	Reversal of impairment loss on trade receivables	**(161)**	–
	Reversal of impairment loss on other receivables	**(147)**	–

Note: During the six months ended 30 June 2014, cost of inventories includes approximately RMB12,099,000 (six months ended 30 June 2013: RMB895,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Tax		
PRC Enterprise Income Tax		
– Provision for the period	**13,242**	186
– Under-provision in prior years	**6**	–
	13,248	186

(i) The Company and its subsidiaries incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(ii) PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the Company's subsidiaries established in the PRC during the six months ended 30 June 2014 and 2013.

(iii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits arising in Hong Kong during the six months ended 30 June 2014 and 2013.

(iv) Pursuant to the Enterprise Income Tax Laws of the PRC (the "New EIT Laws"), a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprise established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. For the Group, the applicable tax rate is 10%. The Group is liable to withholding taxes on dividends distributed by its 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 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/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to owners of the Company of approximately RMB30,821,000 (six months ended 30 June 2013: loss of RMB29,940,000) and the weighted average number of 800,000,000 ordinary shares (six months ended 30 June 2013: 800,000,000 ordinary shares) in issue during the period.

(b) Diluted earnings/(loss) per share

(i) Six months ended 30 June 2014

The calculation of diluted earnings per share for the six months ended 30 June 2014 is based on the profit attributable to owners of the Company of approximately RMB30,821,000 and the weighted average number of ordinary shares after adjusting the effect of dilutive potential ordinary shares under the Company's share option scheme.

The calculation of weighted average number of ordinary shares for the purpose of calculating diluted earnings per share is as follows:

	Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**800,000,000**
Add: Effect of dilutive potential ordinary shares from share options	**18,948,968**
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**818,948,968**

(ii) Six months ended 30 June 2013

Diluted loss per share was the same as the basic loss per share for the six months ended 30 June 2013 as the share options outstanding had no dilutive effect on the basic loss per share for that period.

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: 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 2014 *RMB'000* **(Unaudited)**	At 31 December 2013 *RMB'000* (Audited)
Trade receivables		
0 to 30 days	**17,974**	32,183
31 to 60 days	**9,167**	4,626
61 to 90 days	**4,871**	1,354
91 to 180 days	**6,164**	38,117
181 to 365 days	**25,577**	23,575
Over 365 days	**31,338**	27,754
	95,091	127,609
Less: Allowance for doubtful debts	**(3,282)**	(3,443)
	91,809	124,166
Other receivables	**45,326**	55,700
Less: Allowance for doubtful debts	**(1,238)**	(1,385)
	44,088	54,315
Bills receivables	**100**	–
Retention receivables	**64,035**	61,915
Amount due from a related company *(Note)*	**16**	820
Loans and receivables	**200,048**	241,216
Prepayments and deposits	**84,737**	62,322
Other tax recoverables	**21,836**	12,152
Amounts due from customers for contract work	**100,467**	99,878
	407,088	415,568

The Group normally grants credit terms of 2 months to its customers.

Note: The amount due from a related company is unsecured, interest-free and repayable on demand.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following aging analysis:

	At 30 June 2014 *RMB'000* **(Unaudited)**	At 31 December 2013 *RMB'000* (Audited)
Trade payables		
0 to 30 days	**75,088**	19,556
31 to 60 days	**12,711**	2,249
61 to 90 days	**300**	11,370
91 to 180 days	**2,307**	1,653
181 to 365 days	**17,563**	17,396
Over 365 days	**76,494**	65,760
	184,463	117,984
Accruals and other payables	**36,169**	34,702
Amount due to a director *(Note)*	**22**	556
Amounts due to related companies *(Note)*	**16,628**	17,928
Financial liabilities measured at amortised cost	**237,282**	171,170
Other PRC tax payables	**4,653**	4,815
	241,935	175,985

Note: The amounts due to a director and related companies are unsecured, interest-free and repayable on demand.

11. PLEDGE OF ASSETS

(a) A bank deposit of a subsidiary of approximately RMB10,000,000 as at 30 June 2014 (31 December 2013: RMB10,000,000) was pledged to a bank to secure a banking facility of approximately RMB4,760,000 (31 December 2013: RMB7,758,000) granted to this subsidiary.

(b) The Group's building with carrying amount of approximately RMB743,000 (31 December 2013: RMB763,000) as at 30 June 2014 was pledged to a bank to secure a bank loan of approximately RMB9,000,000 (31 December 2013: RMB9,000,000) granted to a subsidiary. This bank loan is also guaranteed by Mr. Jiang Xin and Ms. Li Jingru. Mr. Jiang Xin is one of the ultimate beneficiaries of Praise Fortune Limited, the immediate and ultimate controlling party of the Company, and Ms. Li Jingru is the spouse of Mr. Jiang Xin.

(c) A bank deposit of a subsidiary of approximately RMB616,000 (31 December 2013: RMB616,000) as at 30 June 2014 was pledged to a bank as security in accordance with a sale contract entered into between this subsidiary and a customer.

12. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 8 July 2014, Praise Fortune Limited, the Company's immediate and ultimate controlling party, entered into a placing agreement with a placing agent for placing a maximum of 60,000,000 shares (the "Placing Shares") of the Company at a placing price of HK$1.63 per share. On the same date, the Company entered into a subscription agreement with Praise Fortune Limited for issue of a maximum of 60,000,000 new shares at HK$1.63 per share.

On 22 July 2014, 40,000,000 shares of the Company were placed by Praise Fortune Limited to certain independent third parties at a subscription price of HK$1.63 per share. On the same date, the Company issued 40,000,000 new shares to Praise Fortune Limited at an issue price of HK$1.63 per share. The Company raised approximately RMB50,639,000 (net of directly attributable expenses of approximately RMB1,519,000), which was used for future development of wood wool cement board business and as general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2014, the Group achieved a turnover of RMB219.4 million, an increase of 21.9% when compared with the same period last year (six months ended 30 June 2013: RMB180.0 million). Gross profit during the period was RMB64.4 million (six months ended 30 June 2013: RMB4.5 million) and gross profit margin was 29.3% (six months ended 30 June 2013: 2.5%). The increases in turnover and gross profit were due to the substantial growth in revenue from the Wood Wool Cement Board ("WWCB") business and an improvement in the gross profit margins of sales of EP products and equipment. Profit attributable to owners of the Company was approximately RMB30.8 million (six months ended 30 June 2013: loss of RMB29.9 million). Basic earnings per share was RMB3.85 cents (six months ended 30 June 2013: basic loss per share RMB3.74 cents).

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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 its EP-related businesses with particularly high growth potential and broaden its income stream, the Group has actively promoted WWCB in the domestic market while still maintaining its focus on the sales of water and flue gas treatment products and equipment in order to generate stable income.

Sales of EP Products and Equipment

Sales of EP products and equipment remained the largest income contributor of the Group. This segment recorded a turnover of RMB162.3 million, accounting for approximately 74.0% of the Group's total turnover. Gross profit margin has been improved to 22.6% because the Group focuses on EP projects in industrial sectors which have a higher profit margin.

Sales of Water Treatment Products and Equipment

During the period under review, the water treatment business generated a turnover of approximately RMB162.3 million, accounting for around 74.0% of total turnover. The Group completed 24 water treatment-related sales contracts during the period while the water treatment business was still the main focus of its contracts on hand and the construction sites span across China. After the Central Government of the PRC (the "Central Government") has announced strict water treatment standards for the coal chemical industry which traditionally utilises substantial water volumes, the Group has expanded into this new segment. Its first coal chemical water treatment project has been kicked off in Shanxi. Other new projects will commence soon.

Sales of Flue Gas Treatment Products and Equipment

The Group mainly provides flue gas desulphurisation ("FGD") and denitrification services to clients engaged in non-ferrous metals, power generation, iron and steel, cement and glass industries. During the period under review, several projects related to sales of flue gas treatment equipment were completed by the Group. However, since final acceptance of these projects will be confirmed in the second half of the year, revenue generated from these projects will be reflected in the second half of 2014.

EP Construction Engineering Projects

The Group also provides 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 the stage of completion. This segment recorded a turnover of approximately RMB1.6 million during the period under review.

Provision of EP-Related Professional Services

The Group, through its subsidiary the 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 RMB0.9 million, accounting for approximately 0.4% of the Group's total turnover.

Manufacture of EP Construction Materials

In view of the huge opportunities in the EP construction materials industry, the Group introduced six EP wallboard production lines, each with an annual capacity of approximately 140,000 m^3, from the Netherlands to produce WWCB and large wall components. This segment recorded a turnover of approximately RMB54.5 million, accounting for approximately 24.9% of the Group's total turnover.

Among the six production lines, five are standard lines that produce WWCB of thickness varying from 10mm to 100mm. The other is the most advanced and is a fully automated large wall components production line which can manufacture wall segments with dimensions of 3m (height), 6m (width), 15-40cm (thickness) which can be directly installed. Three production lines have commenced operation as at the end of June 2014 and testing of the remaining three production lines will be carried out in September 2014. These three production lines are scheduled to commence operation by the end of 2014. With the operation of the new production lines, the Group's workflow will be optimized and the production efficiency will improve.

During the period, the Group was dedicated to market development. Apart from orders for WWCB building panels and acoustic boards, the Group has secured its first order for its large wall components. It is a collaboration project by the Group and Longyuan Construction Group Co. Ltd. which is principally engaged in the construction business. The Group will provide prefabricated external wall to a residential district in Inner Mongolia. The first phase of the project has already commenced construction in mid 2014, with a floor area of approximately 200,000 m^2. The wall installation is expected to begin in the third quarter of 2014. The second phase of the project is to commence within the year, immediately after the completion of the first phase. The project, with a gross floor area of approximately 500,000 m^2, is expected to contribute promising income.

In terms of geographical markets, in addition to domestic sales, the Group has also recorded monthly regular sales to South Korea and received orders from Bhutan and other Southeast Asian countries. Besides, the Group has set up a team in Hong Kong to speed up sales and promotion of its products to the Hong Kong and overseas markets.

Prospects

Eco-friendly construction materials business – a new growth driver to facilitate the Group's development

The Central Government is actively promoting reduction of carbon dioxide emissions by assigning the construction of green buildings as a key area to save energy and reduce carbon dioxide emissions. More green buildings have been built. The construction of government-funded charitable buildings, large public buildings and affordable housing in all municipalities, target cities and provinces have to adopt green building standards. By 2015, 20% of new buildings in cities are to adopt green building standards, representing a floor area of 300 million m^2.

As the Central Government has been advocating environmentally sustainable construction approach, market players are now aware of the benefits of WWCB. Therefore, the Group finds this WWCB market even more promising. The Group expects that this segment will generate a bigger contribution to its revenue and will become its growth engine. The Group targets to increase the proportion of income from WWCB segment to more than 50% of the total income within the next two to three years, making it the key revenue source for the Group.

With the rolling out of the national standards for WWCB construction and inspection in October 2014, architectural design institutes will design projects based on these standards. The market recognition of WWCB will increase and the application of WWCB will become more popular. WWCB is widely used because of its heat preservation, non-flammable, sound-proof, moisture-proof, mould-proof and insect repellant properties and it does not contain formaldehyde or any other volatile organic compounds. In addition to selling WWCB as construction materials, the Group plans to promote it as noise barriers along highways or high speed train rails.

As for marketing strategy, the Group will enhance regional cooperation with strategic partners. They include wholesalers or end-users who utilize WWCB in their own construction projects. At the same time, the Group will directly sell WWCB within specific application areas and geographical regions. It will continue to optimise its productivity and sales network in response to market demand and promote this eco-friendly material which have earned reputation and recognition oversea for its superior quality to the market.

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

To deal with the highly publicised serious smog issue and to protect the environment, the Central Government has decided to accelerate the implementation of energy saving and reduction of carbon dioxide emissions through a series of key projects. Noteworthy among these include construction of desulphurisation and denitrification projects, denitrification transformation of 3 TeraWatt hours ("TWh") coal-fired units, dismantling 2.5 TWh of flue and gas bypass of coal-fired units, installation of desulphurisation facilities for 40,000 m^2 steel sintering machines and 600 million tonnes of cement clinker in new model cement production lines, as well as addition of more than 2.3 million tonnes and 2.6 million tonnes of new capacity for reduction of carbon dioxide and nitrogen oxide emissions respectively by end of 2015.

Spurred in part by the strongly supportive national policies, domestic demand for EP industries is expected to increase further. The Group's participation in desulphurisation projects for coal-fired power plants and large non-ferrous metals factories are to be confirmed in the second half of the year. On top of the desulphurisation projects, the Group will undertake the dedusting projects from coal-fired power plants and the demand from related projects is expected to increase continuously.

Currently, the Group has 64 uncompleted water and flue gas treatment contracts with a total value of RMB596.2 million on hand. Looking ahead, the Group will focus on the EP construction engineering business for large industrial sewage 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 2014, total assets of the Group amounted to RMB1,773.2 million, an increase of RMB247.3 million as compared with RMB1,525.9 million as at 31 December 2013. The increase was mainly due to increased inventory and cash and bank balances of the Group. The Group's total liabilities as at 30 June 2014 amounted to RMB577.1 million, an increase of RMB217.1 million as compared with RMB360.0 million as at 31 December 2013. The main reason for this increase in total liabilities was due to the increase in trade and other payables, as well as the increase in deposits received and receipts in advance. The Group's total equity as at 30 June 2014 was RMB1,196.2 million (31 December 2013: RMB1,165.9 million). The Group had unpaid bank borrowings of RMB14.0 million as at 30 June 2014 (31 December 2013: RMB14.0 million) and the equity ratio calculated by dividing interest-bearing loans and other borrowings by total equity as at 30 June 2014 was 1.2% (31 December 2013: 1.2%). The Group's cash and cash equivalents amounted to RMB710.7 million as at 30 June 2014 (31 December 2013: RMB571.3 million).

Exposure to Fluctuation in Foreign 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 2014, 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 2014, the Group did not hold any derivatives for hedging against both the interest rate and foreign exchange risks.

Capital Commitments and Contingent Liabilities

As at 30 June 2014, the Group had a capital expenditure commitment in respect of the acquisition of property, plant and equipment totalling RMB16.2 million (31 December 2013: RMB33.0 million). The Group provides product maintenance services 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 2014, the Group had approximately 280 employees. Salaries of employees were 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 Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

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 2014.

Corporate Governance

In the opinion of the Board, throughout the six months ended 30 June 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, save for the code provision E.1.2. Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. Mr. Jiang Quanlong, Chairman of the Board, was unable to attend the 2014 annual general meeting due to a business trip and Mr. Jiang Lei, an executive director and Chief Executive Officer, has been delegated to attend and answer questions on his behalf at the 2014 annual general meeting. Mr. Jiang Quanlong will use his best endeavours to attend all future shareholders' meetings of the Company.

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

Hong Kong, 22 August 2014

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

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

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