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 2015

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2015	2014	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
TURNOVER	**462,908**	219,437	111%
GROSS PROFIT	**123,116**	64,396	91%
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**49,955**	30,821	62%

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 2015, together with the comparative figures for the corresponding period in 2014:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

		Six months ended 30 June	
		2015	2014
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**462,908**	219,437
Cost of sales and services rendered		**(339,792)**	(155,041)
Gross profit		**123,116**	64,396
Other revenue		**13,145**	6,280
Other net gain		**37**	38
Selling and distribution expenses		**(27,580)**	(1,026)
General and administrative expenses		**(22,610)**	(23,186)
Other operating expenses		**(17,307)**	(2,595)
Finance costs	*5*	**(343)**	(425)
Profit before taxation	*5*	**68,458**	43,482
Income tax expenses	*6*	**(19,095)**	(13,248)
Profit for the period		**49,363**	30,234
Other comprehensive income for the period (after tax and reclassification adjustments):			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements to presentation currency		**9**	28
Other comprehensive income for the period		**9**	28
Total comprehensive income for the period		**49,372**	30,262
Profit for the period attributable to:			
Owners of the Company		**49,955**	30,821
Non-controlling interests		**(592)**	(587)
		49,363	30,234
Total comprehensive income for the period attributable to:			
Owners of the Company		**49,964**	30,849
Non-controlling interests		**(592)**	(587)
		49,372	30,262
Earnings per share	*7*		
Basic		**RMB5.95 cents**	RMB3.85 cents
Diluted		**RMB5.83 cents**	RMB3.76 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	**30 June 2015** *RMB'000* **(Unaudited)**	31 December 2014 *RMB'000* (Audited)
Non-current assets			
Prepaid lease payments		**67,440**	53,339
Property, plant and equipment		**442,583**	451,690
Available-for-sale financial asset		**9,000**	9,000
Prepayments for consultation, marketing and promotional services	*9*	**103,100**	130,000
		622,123	644,029
Current assets			
Prepaid lease payments		**1,524**	1,195
Inventories		**348,867**	244,270
Trade and other receivables	*10*	**579,232**	506,684
Pledged bank deposits		**6,543**	6,543
Tax recoverable		**18,620**	20,001
Cash and bank balances		**491,837**	379,236
		1,446,623	1,157,929
Current liabilities			
Trade and other payables	*11*	**254,902**	176,795
Short-term bank loans		**9,000**	14,000
Deposits received and receipts in advance		**495,525**	337,347
Tax payable		**10,888**	10,888
		770,315	539,030
Net current assets		**676,308**	618,899
Total assets less current liabilities		**1,298,431**	1,262,928
Non-current liabilities			
Deferred tax liabilities		**(18,202)**	(18,202)
Deferred government grants		**(4,314)**	(4,709)
		(22,516)	(22,911)
Net assets		**1,275,915**	1,240,017
Capital and reserves			
Share capital		**78,073**	78,073
Reserves		**1,206,732**	1,170,242
Equity attributable to owners of the Company		**1,284,805**	1,248,315
Non-controlling interests		**(8,890)**	(8,298)
Total equity		**1,275,915**	1,240,017

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 dollars ("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 2014.

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 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

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:

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*
- *Amendments to HKAS 19 Defined Benefit Plans – Employee Contributions*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 Chairman of the Board, who is the Group's Chief Operating Decision Maker, 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 involves the sales of EP products and equipment to external customers.
- EP construction engineering projects: this segment undertakes the EP engineering construction projects for external customers.
- Provision of EP related professional services: this segment provides the EP related professional services to external customers and for group companies.
- Manufacture of EP construction materials: this segment involves the manufactures and sales of 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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	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	**361,785**	162,340	**–**	1,620	**2,125**	935	**98,998**	54,542	**462,908**	219,437
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**142**	428	**142**	428
Reportable segment revenue	**361,785**	162,340	**–**	1,620	**2,125**	935	**99,140**	54,970	**463,050**	219,865
Reportable segment profit/(loss) (adjusted EBITDA)	**67,454**	36,754	**(2,793)**	143	**737**	343	**26,774**	35,500	**92,172**	72,740
Depreciation and amortisation for the period	**87**	11	**–**	148	**–**	–	**12,702**	11,308	**12,789**	11,467

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

	Revenues from external customers Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China (place of domicile)	**461,967**	218,361
South Korea	**941**	1,076
	462,908	219,437

5. PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2015	2014
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**343**	425
	Total interest expenses on financial liabilities not at fair value through profit or loss	**343**	425
(b)	**Staff costs (including directors' emoluments)**		
	Contributions to defined contribution retirement plans	**1,005**	686
	Salaries, wages and other benefits	**10,034**	9,866
		11,039	10,552
(c)	**Other items**		
	Amortisation of prepaid lease payments	**600**	596
	Cost of inventories *(Note i)*	**334,860**	152,972
	Depreciation of property, plant and equipment	**14,478**	13,067
	Government grants[Δ] *(Note ii)*	**(645)**	–
	Impairment loss on trade receivables[#]	**13,845**	–
	Marketing and promotional expenses[*]	**25,938**	–
	Operating lease charges		
	– Leasing of properties	**944**	915
	– Leasing of equipment	**4**	3
	Research and development expenses[#]	**4,064**	2,125
	Reversal of impairment loss on trade receivables[Δ]	**(11,590)**	(161)
	Reversal of impairment loss on other receivables[Δ]	**–**	(147)

\# These items are included in other operating expenses in the condensed consolidated statement of profit or loss and other comprehensive income.

Δ These items are included in other revenue in the condensed consolidated statement of profit or loss and other comprehensive income.

* This item is included in selling and distribution expenses in the condensed consolidated statement of profit or loss and other comprehensive income.

Notes:

(i) During the six months ended 30 June 2015, cost of inventories includes approximately RMB13,895,000 (six months ended 30 June 2014: RMB12,099,000) relating to staff costs, depreciation and amortisation, which amount is also included in the respective total amounts disclosed separately above.

(ii) The amount represented the government grants of approximately RMB645,000 (six months ended 30 June 2014: Nil) relating to the subsidies from the PRC government for acquisition of property, plant and equipment which was released from deferred government grants to profit or loss during the six months ended 30 June 2015.

6. INCOME TAX

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax		
– Provision for the period	**19,089**	13,242
– Under-provision in prior years	**6**	6
	19,095	13,248

(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 2015 and 2014.

(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 2015 and 2014.

(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 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 RMB49,955,000 (six months ended 30 June 2014: RMB30,821,000) and the weighted average number of 840,000,000 ordinary shares (six months ended 30 June 2014: 800,000,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2015 is based on the profit attributable to owners of the Company of approximately RMB49,955,000 (six months ended 30 June 2014: 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	
	2015	**2014**
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**840,000,000**	**800,000,000**
Add: Effect of dilutive potential ordinary shares from share options	**16,193,209**	**18,948,968**
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**856,193,209**	**818,948,968**

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

9. PREPAYMENTS FOR CONSULTATION, MARKETING AND PROMOTIONAL SERVICES

	RMB'000
As at 1 January 2014 (Audited)	–
Additions	230,500
Utilised and charged to profit or loss	(14,000)
As at 31 December 2014 and 1 January 2015 (Audited)	216,500
Utilised and charged to profit or loss	(33,650)
Refund of prepayments and classified as other receivables *(Note)*	(13,150)
As at 30 June 2015 (Unaudited)	169,700

Analysed for reporting purposes as follows:

	At 30 June 2015 ***RMB'000*** **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Non-current portion	**103,100**	130,000
Current portion (included in trade and other receivables *(Note 10)*)	**66,600**	86,500
Total	**169,700**	216,500

	At 30 June 2015 ***RMB'000*** **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Within 1 year	**66,600**	86,500
After 1 year but less than 2 years	**39,600**	32,500
After 2 years but less than 5 years	**63,500**	97,500
	169,700	216,500

Prepayments for consultation, marketing and promotional services represent the prepayments made by the Group to several independent architectural research and design institutes and universities in the PRC (the "Parties") for providing consultation services to set up and establish industry standards and national criteria with respect to applications of wood wool cement board ("WWCB") related materials on different aspects, and for providing marketing and promotional services to the Group.

During the year ended 31 December 2014, the Group entered into several agreements (the "Agreements") with the Parties for the purpose of (i) providing consultation services to the Group so as to set up and establish industry standards and national criteria for applications of WWCB related materials in the PRC and (ii) rendering marketing and promotional services to the Group for enhancing the development of the Group's WWCB related materials and market penetration in the PRC during the years from 2015 to 2019. The total consideration of the Agreements is RMB266,000,000 of which RMB230,500,000 was paid by the Group during the year ended 31 December 2014. Pursuant to the Agreements, the Group has reserved the rights to recall part of or all of the prepayments already made to the Parties if the Parties cannot fulfill the conditions as stated in the Agreements.

During the six months ended 30 June 2015, the expenses for consultation services of RMB5,000,000 (net of tax of RMB4,064,000) (six months ended 30 June 2014: Nil) and the expenses for marketing and promotional services of RMB28,650,000 (net of tax of RMB25,938,000) (six months ended 30 June 2014: Nil) were recognised as "research and development expenses" and "marketing and promotional expenses" in profit or loss respectively.

Note: On 30 June 2015, two of the Parties entered into an agreement with the Group and agreed to refund part of the prepayments for consultation, marketing and promotional services amounting to RMB13,150,000 to the Group as a result of non-fulfillment of certain conditions as stated in the Agreement. The Group then reclassified these prepayments as "other receivables" as at 30 June 2015. The receivables of RMB13,150,000 were fully received by the Group in August 2015.

10. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2015 *RMB'000* **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Trade receivables		
0 to 30 days	**70,488**	9,064
31 to 60 days	**13,037**	272
61 to 90 days	**940**	3,187
91 to 180 days	**7,609**	65,466
181 to 365 days	**46,025**	19,387
Over 365 days	**37,073**	61,275
	175,172	158,651
Less: Allowance for doubtful debts	**(29,481)**	(27,226)
	145,691	131,425
Other receivables	**47,855**	46,036
Less: Allowance for doubtful debts	**(1,042)**	(1,042)
	46,813	44,994
Retention receivables	**58,489**	51,826
Amount due from a related company *(Note)*	**16**	16
Loans and receivables	**251,009**	228,261
Prepayments for consultation, marketing and promotional services *(Note 9)*	**66,600**	86,500
Other prepayments and deposits	**191,968**	139,727
Other tax recoverables	**55,171**	36,871
Amounts due from customers for contract work	**14,484**	15,325
	579,232	506,684

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.

11. TRADE AND OTHER PAYABLES

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

	At 30 June 2015 *RMB'000* **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Trade payables		
0 to 30 days	**23,600**	14,953
31 to 60 days	**17,161**	2,779
61 to 90 days	**8,048**	1,017
91 to 180 days	**23,340**	3,140
181 to 365 days	**7,792**	2,970
Over 365 days	**81,976**	89,201
	161,917	114,060
Accruals and other payables	**57,372**	51,454
Amounts due to related companies *(Note)*	**31,712**	6,628
Financial liabilities measured at amortised cost	**251,001**	172,142
Other PRC tax payables	**3,901**	4,653
	254,902	176,795

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

12. PLEDGE OF ASSETS

(a) A bank deposit of a subsidiary of approximately RMB6,543,000 as at 30 June 2015 (31 December 2014: RMB6,543,000) was pledged to a bank to secure a banking facility of approximately RMB3,874,000 (31 December 2014: RMB4,213,000) granted to this subsidiary.

(b) The Group's building with carrying amount of approximately RMB704,000 (31 December 2014: RMB724,000) as at 30 June 2015 was pledged to a bank to secure a bank loan of approximately RMB9,000,000 (31 December 2014: RMB9,000,000) granted to a subsidiary.

13. COMMITMENTS

a) Capital commitments

	At 30 June 2015 *RMB'000* **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Capital expenditure contracted but not provided for in the condensed consolidated financial statements – in respect of the acquisition of property, plant and equipment	**1,982**	2,349

b) Operating lease commitments

The Group as lessee:

The Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises, factory premises and equipment which fall due as follows:

	At 30 June 2015	At 31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**1,884**	934
After one year but within five years	**2,765**	320
	4,649	1,254

Leases and rentals are negotiated and fixed for periods of three years. None of the leases includes contingent rentals.

The Group as lessor:

The Group had contracted with tenants for the following non-cancellable future minimum lease payments receivable:

	At 30 June 2015	At 31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**53**	53
After one year but within five years	**97**	124
	150	177

Included in the above is future minimum lease payments receivable from Wuxi Xin Wei High Temperature Ceramics Co., Ltd, a related company, of approximately RMB150,000 (31 December 2014: RMB177,000) and the non-cancellable future minimum lease payments receivables is as follows:

	At 30 June 2015	At 31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**53**	53
After one year but within five years	**97**	124
	150	177

The related company is a company of which Mr. Jiang Quanlong, a director of the Company, is also a director of its holding company.

14. CONTINGENT LIABILITIES

The Group has provided product warranties to its customers in respect of construction work completed and certain of its EP products sold for a warranty period ranging from 6 months to 2 years after project completion or product delivery. At the same time, the Group has also received warranties in respect of those construction work and equipment supplied from its sub-contractors and suppliers. The Directors believe that the amount of crystallised warranty liabilities will not have a material adverse effect on the overall financial position or results of operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2015, the Group achieved a turnover of RMB462.9 million, an increase of 111.0% when compared with the same period last year (six months ended 30 June 2014: RMB219.4 million). Gross profit during the period increased by 91.1% to RMB123.1 million (six months ended 30 June 2014: RMB64.4 million) and gross profit margin was 26.6% (six months ended 30 June 2014: 29.3%). The increase in turnover and overall gross profit were due to the substantial growth in revenue from the green construction materials business and sales of EP products and equipment. During the period under review, the increase in expenses were mainly due to expenses incurred for formulating the national standards and marketing promotions for the relevant applications of WWCB in construction totalling RMB30.0 million and RMB13.8 million for the provision of bad debts. Profit attributable to owners of the Company increased by almost 63.3% to approximately RMB49.9 million (six months ended 30 June 2014: profit of RMB30.8 million). The basic earnings per share were RMB5.95 cents (six months ended 30 June 2014: basic earnings per share of RMB3.85 cents).

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil), as the capital will be reserved for the development of the Group's different business operations, in particular, the green construction materials business with bright industry prospects which offers enormous market potential.

Business Review

As an integrated EP services and eco-friendly construction materials provider in the PRC, the Group has actively promoted WWCB in the domestic market as a means to further develop its EP-related businesses with particularly high growth potential and broaden its income stream. At the same time, the Group maintains its focus on the sales of water and flue gas treatment products and equipment in order to generate stable income and higher profit.

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 RMB361.8 million, accounting for approximately 78.1% of the Group's total turnover.

Sales of Water Treatment Products and Equipment

Water treatment systems are mainly used for the treatment of industrial and urban waste water. During the period under review, the Group completed 23 water treatment-related sales contracts, while the water treatment business generated a turnover of approximately RMB315.6 million, accounting for approximately 68.1 % of the Group's total turnover.

Sales of Flue Gas Treatment Products and Equipment

The Group's comprehensive supply chain in flue gas treatment products and equipment provides services ranging from engineering design to maintenance services. During the period under review, the Group completed 5 projects related to sales of flue gas treatment equipment and recorded a turnover of approximately RMB46.2 million, accounting for about 10.0% of the Group's total turnover.

EP Construction Engineering Projects

Leveraging its extensive industry expertise, professional research and development ("R&D") capabilities and technologies, the Group provides one-stop EP solutions to a diverse range of clients. Since final acceptance of these projects has yet to be confirmed, revenue generated from these projects will be reflected in the 2015 annual results.

Provision of EP-related Professional Services

The Group's subsidiary, the Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI") holds Grade A qualification in EP engineering design, which enables it to provide EP project design services for cross-sector clients around the PRC. During the period under review, this segment recorded a turnover of approximately RMB2.1 million, accounting for about 0.5% of the Group's total turnover.

Sales of EP Construction Materials

In view of the huge opportunities in the EP construction materials industry, the Group has increased its investment in the R&D and operation of EP wall components production lines over the past two years for the production of WWCB and large wall components. During the period under review, this segment recorded a turnover of approximately RMB99.0 million (for the six months ended 30 June 2014: RMB54.5 million), accounting for approximately 21.4% of the Group's total turnover.

As the largest and most advanced WWCB producer in the world, the Group leverages its rich industry experience and superb R&D capability to compile the national industry standards "Technological Specifications for Application of WWCB". The standards passed the primary review and have been granted with the standard label which is expected to be published soonest within the year. This will further solidify the Group's leading position in environmental construction material industry, accelerate the market penetration of WWCB and facilitate the innovation revolution of construction materials.

As an eco-friendly inorganic energy-conserving construction material, WWCB is made from a combination of cement, eco-friendly fast growing timber and non-toxic additives processed through high pressurization. Widely used overseas, WWCB enjoys distinctive heat insulation, fire resistant, sound-proof, moisture-proof, mould-proof and insect repelling properties, and has other outstanding features including sound absorption, hardness and durability, light weight and attractive appearance. As a new EP construction material for renovation and wall components, WWCB can be widely used in residential and commercial buildings, noise barriers along highways and railways, acoustic materials for music halls, stations and car parks, and can effectively reduce engineering cost when compared to traditional construction materials. Also offering higher value in redevelopment and application, WWCB can be reprocessed into decoration materials and building panels and blocks, providing greater room for generating profit in the market.

In view of these advantages, the Group has collaborated with the industry leader from the Netherlands, and has introduced WWCB and large wall components production lines in the PRC on an exclusive basis. Among the six production lines imported from the Netherlands, each with an annual capacity of approximately 140,000m^3, five are standard lines that produce WWCB with thickness varying from 10mm to 100mm. The other is the most advanced and is a fully automated large wall component production line which can manufacture large wall components with maximum dimensions of 3m x 6m x 40cm which can be installed on buildings directly. Based on its expertise in large wall components, the Group has developed new integrated wall component products incorporating decorative features and heat insulation, thus providing notable cost efficiency for construction companies and contractors. During the period under review, four production lines have commenced commercial operation. Meanwhile, the Group has also allocated increased resources to R&D to attain greater product quality. The R&D team has launched large-scale testing and adjusted the composition and density of products in accordance with the climatic needs in different regions including maritime areas.

With WWCB's advantage in sound insulation, the Group has participated in the construction of sound barrier projects, among which the Jiamin Highway project gained smooth progress during the period under review. This will be a good demonstration project for the Group to take up other sound barrier projects and is also expected to contribute income in the future.

During the period under review, the collaborative project with Longyuan Construction Group Co. Ltd. on providing prefabricated external wall to a residential district in Inner Mongolia has made good progress. This is expected to generate remarkable income in the future.

In terms of market development, the Group has stepped up with its promotion of WWCB as building panels and blocks to replace traditional wall building materials, and outside of China, it is actively striving to develop the North American and Asian markets. The Group has recorded regular monthly sales to South Korea. Besides, the Group has set up a dedicated team in Hong Kong for the sales and promotion of WWCB to Hong Kong and overseas markets.

Prospects

Green construction materials business – a new driver for the Group's development

With policies oriented in reducing carbon dioxide emissions, the Central Government of the PRC (the "Central Government") has included construction materials as a key area. Actions have been taken to increase the presence of green buildings and implement the green construction standards. The Materials Department under the Ministry of Industry and Information Technology and the Energy-saving and Technology of Construction Department under the Ministry of Housing and Urban-Rural Development have compiled a draft of the "Action Plan for Development of Green Construction" and completed a series of consultations, pending publication after approval by the Ministry of Industry and Information Technology. The plan has set clear targets on the application ratio of green construction materials, the proportion of the value of the green construction industry within the whole construction industry, energy consumption per unit and total emission of carbon dioxide by 2020, which is set to increase the demand for green construction materials and boost the growth of the EP industry.

Against the backdrop of the strong promotion of green construction by the Central Government, WWCB, an emerging EP material, has gradually gained the acceptance and appreciation through its outstanding properties and competitive edge in the market. Therefore, the Group will take WWCB as the foundation product and fully explore its market potential. By upgrading the technology and adjusting its structure, this segment is expected to generate a higher contribution to the Group's revenue and become its growth driver. The Group aims to increase the contribution from the WWCB business to more than 50% in its total income in two years, turning it into a major income source.

In terms of marketing strategy, the Group will enhance regional cooperation with strategic partners including wholesalers or end-users who utilize WWCB in their own construction projects. Besides, the Group is also setting up channels for direct sale in certain areas and establishing a regional platform to promote this quality construction material which has already been widely used overseas to the market, and the Group has become a leader in this green construction materials industry.

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

As many big cities in China have been afflicted by smog, the Central Government has been aware of the urgency to implement EP measures. As a result, a series of policies targeting on the key construction projects has been launched. The Central Government has also quantified the EP targets, such as raising emission reduction targets of sulphur dioxide and nitrogen oxide by more than 2.3 million tonnes and 2.6 million tonnes respectively by the end of 2015. To reduce water pollution, the State Council has published the "Water Pollution Prevention and Control Action Plan" to tighten up requirements on the prevention of industrial pollution and treatment of urban living waste. Led by the Ministry of Environmental Protection, the Ministry of Industry and Information Technology, the Ministry of Land and Resources and National Energy Administration, the local governments at all levels also participated in the implementation of the requirements. Under the national policies, the demand for EP products is set to surge in China.

Apart from providing flue gas desulphurization services to clients engaged in power generation and non-ferrous metals, the Group has also undertaken dedusting project of coal-fired power plants with an increasing market demand. Currently, the Group has 57 uncompleted water and flue gas treatment contracts with a total value of approximately RMB562.4 million on hand. The Group will continue to focus on business and revenue in water and flue gas treatment business to expand the revenue stream and stable cash flow.

Liquidity and Financial Resources

As at 30 June 2015, total assets of the Group amounted to RMB2,068.7 million, an increase of RMB266.7 million as compared with RMB1,802.0 million as at 31 December 2014. The increase was mainly due to the increase in inventory and cash and bank balances of the Group. The Group's total liabilities as at 30 June 2015 amounted to RMB792.8 million, an increase of RMB230.8 million as compared with RMB562 million as at 31 December 2014. The main reason for this increase in the 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 2015 was RMB1,275.9 million (31 December 2014: RMB1,240.0 million). The Group had unpaid bank borrowings of RMB9.0 million as at 30 June 2015 (31 December 2014: RMB14.0 million) and the equity ratio calculated by dividing interest-bearing loans and other borrowings by total equity as at 30 June 2015 was 0.7% (31 December 2014: 1.1%). The Group's cash and cash equivalents amounted to RMB491.8 million as at 30 June 2015 (31 December 2014: RMB379.2 million).

Exposure to Fluctuations 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 2015, 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 2015, the Group did not hold any derivatives for hedging against both the interest rate and foreign exchange risks.

Pledge of Assets

A bank deposit of a subsidiary of approximately RMB6,543,000 as at 30 June 2015 (31 December 2014: RMB6,543,000) was pledged to a bank to secure a banking facility of approximately RMB3,874,000 (31 December 2014: RMB4,213,000) granted to this subsidiary.

The Group's building with carrying amount of approximately RMB704,000 (31 December 2014: RMB724,000) as at 30 June 2015 was pledged to a bank to secure a bank loan of approximately RMB9,000,000 (31 December 2014: RMB9,000,000) granted to a subsidiary.

Capital Commitments and Contingent Liabilities

As at 30 June 2015, the Group had a capital expenditure commitment in respect of the acquisition of property, plant and equipment totalling RMB2.0 million (31 December 2014: RMB2.3 million). The Group provides product maintenance services to customers of flue gas desulphurisation 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 subcontractors 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 2015, 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 2015.

REVIEW BY 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 financial statements of the Group for the six months ended 30 June 2015.

CORPORATE GOVERNANCE

In the opinion of the Board, throughout the six months ended 30 June 2015, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.paep.com.cn) and the Interim Report for the six months ended 30 June 2015 will be despatched to the shareholders and published on the Company's and the Stock Exchange's websites in due course.

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

Hong Kong, 28 August 2015

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