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 2017

FINANCIAL HIGHLIGHTS:

	Six months ended 30 June		
	2017	2016	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
REVENUE	**494,271**	366,343	34.9%
GROSS PROFIT	**78,250**	62,423	25.4%
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**33,430**	25,088	33.3%
EARNINGS PER SHARE (Expressed in RMB cents per share)			
Basic earnings per share	**3.98**	2.98	33.6%
Diluted earnings per share	**3.94**	2.98	32.2%

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 2017, together with the comparative figures for the corresponding period in 2016:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**494,271**	366,343
Cost of sales		**(416,021)**	(303,920)
Gross profit		**78,250**	62,423
Other income		**3,369**	13,277
Other net gain/(loss)		**396**	(4,422)
Selling and distribution expenses		**(19,306)**	(19,256)
General and administrative expenses		**(15,274)**	(20,133)
Other operating expenses		**–**	(2,695)
Profit before taxation	*5*	**47,435**	29,194
Income tax expenses	*6*	**(14,005)**	(4,106)
Profit for the period		**33,430**	25,088
Other comprehensive income/(loss) 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		**512**	(105)
Total comprehensive income for the period attributable to owners of the Company		**33,942**	24,983
		RMB cents	*RMB cents*
EARNINGS PER SHARE	*7*		
Basic earnings per share		**3.98**	2.98
Diluted earnings per share		**3.94**	2.98

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)
Non-current assets			
Prepaid lease payments		**50,362**	50,958
Property, plant and equipment		**385,892**	399,098
Available-for-sale financial asset		**–**	–
Prepayments for consultation, marketing and promotional services	*9*	**23,900**	43,700
Trade receivables with extended credit terms	*10*	**18,465**	17,876
Deferred tax assets		**908**	1,328
		479,527	512,960
Current assets			
Prepaid lease payments		**1,192**	1,191
Inventories		**190,414**	197,984
Trade and other receivables	*10*	**1,031,227**	908,984
Pledged bank deposits		**6,543**	6,543
Tax recoverable		**70,202**	74,796
Cash and bank balances		**246,304**	349,740
		1,545,882	1,539,238
Current liabilities			
Trade and other payables	*11*	**300,070**	270,844
Deposits received and receipts in advance		**267,038**	365,656
Tax payable		**19,332**	10,888
		586,440	647,388
Net current assets		**959,442**	891,850
Total assets less current liabilities		**1,438,969**	1,404,810
Non-current liabilities			
Deferred tax liabilities		**(22,523)**	(21,976)
Deferred government grants		**(3,063)**	(3,393)
		(25,586)	(25,369)
Net assets		**1,413,383**	1,379,441
Capital and reserves			
Share capital		**78,073**	78,073
Reserves		**1,335,310**	1,301,368
Total equity		**1,413,383**	1,379,441

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 15/F, Club Lusitano, 16 Ice House Street, Central, Hong Kong, respectively.

The Group is principally engaged in the sales of environmental protection ("EP") products and equipment, undertaking of EP construction engineering projects, and manufacture and sales 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 ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and 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 consolidated financial statements for the year ended 31 December 2016.

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of Annual Improvements to HKFRSs 2014-2016

The application of the above 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 Executive Officer, who is the Group's Chief Operating Decision Maker, for the purposes of resources allocation and performance assessment, the Group has presented the following three 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.

- Manufacture and sales 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 ("WWCB").

- EP construction engineering projects: this segment undertakes the EP engineering construction projects for external customers.

Segment revenue and results

	Six months ended 30 June (Unaudited)							
	Sales of EP products and equipment		Manufacture and sales of EP construction materials		EP construction engineering projects		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue from external customers	**479,801**	321,481	**14,470**	44,862	**–**	–	**494,271**	366,343
Inter-segment revenue	**–**	–	**–**	72	**–**	–	**–**	72
Reportable segment revenue	**479,801**	321,481	**14,470**	44,934	**–**	–	**494,271**	366,415
Reportable segment profit/(loss) (adjusted EBITDA)	**107,676**	58,641	**(34,589)**	(429)	**–**	–	**73,087**	58,212
Depreciation and amortisation	**62**	32	**11,965**	12,098	**–**	–	**12,027**	12,130

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.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China (place of domicile)	**493,308**	366,263
Australia	**35**	80
South Korea	**928**	–
	494,271	366,343

5. PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	**Staff costs (including directors' emoluments)**		
	Contributions to defined contribution retirement plans	**604**	896
	Salaries, wages and other benefits	**6,691**	6,708
		7,295	7,604
(b)	**Other items**		
	Amortisation of prepaid lease payments	**595**	595
	Cost of inventories *(Note i)*	**416,021**	303,920
	Depreciation of property, plant and equipment	**13,198**	13,103
	Gain on early settlement of trade receivables with extended credit terms^Δ	**–**	(5,004)
	Government grants^Δ *(Note ii)*	**(330)**	(330)
	Imputed interest on trade receivables with extended credit terms^Δ	**(2,474)**	(7,162)
	(Gain)/loss on disposal of property, plant and equipment^	**(16)**	3,831
	Marketing and promotional expenses*	**18,679**	18,679
	Operating lease charges		
	– Leasing of properties	**1,148**	873
	– Leasing of equipment	**4**	4
	– Leasing of car park	**23**	–
	Research and development expenses#	**–**	2,695
	Reversal of impairment loss on trade receivables^Δ	**–**	(130)
	Reversal of impairment loss on other receivables^Δ	**–**	(90)

This item is 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 income 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.

^ This item is included in other net gain/(loss) in the condensed consolidated statement of profit or loss and other comprehensive income.

Notes:

(i) During the six months ended 30 June 2017, cost of inventories includes approximately RMB11,790,000 (six months ended 30 June 2016: RMB12,441,000) relating to staff costs, depreciation and amortisation, which amount is also included in the respective total amounts disclosed separately above.

(ii) The amounts represent the government grants of approximately RMB330,000 (six months ended 30 June 2016: RMB330,000) 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 2017.

6. INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax		
– Provision for the period	**13,038**	4,492
Deferred tax		
Origination and reversal of temporary differences	**967**	(386)
Income tax expenses	**14,005**	4,106

(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 the statutory income tax rate of 25% of the estimated assessable profits of the Company's subsidiaries established in the PRC during the six months ended 30 June 2017 and 2016.

(iii) Pursuant to relevant tax laws and regulations in the PRC, Wuxi Pan Asia Environmental Protection Technologies Limited, the Company's subsidiary, is classified as foreign invested "High and New Technology Enterprises" in 2016 and is entitled to a preferential income tax rate of 15% for a period of three years from 1 January 2016.

(iv) 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 2017 and 2016.

(v) 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 Group's 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

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of calculating basic and diluted earnings per share	**33,430**	25,088

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**840,000,000**	840,000,000
Add: Effect of dilutive potential ordinary shares from share options	**8,994,491**	1,846,591
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**848,994,491**	841,846,591

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. PREPAYMENTS FOR CONSULTATION, MARKETING AND PROMOTIONAL SERVICES

	RMB'000
As at 1 January 2016 (Audited)	125,757
Utilised and charged to profit or loss	(42,457)
As at 31 December 2016 and 1 January 2017 (Audited)	83,300
Utilised and charged to profit or loss	(19,800)
As at 30 June 2017 (Unaudited)	63,500

Analysed for reporting purposes as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current portion	**23,900**	43,700
Current portion (included in trade and other receivables *(Note 10)*)	**39,600**	39,600
Total	**63,500**	83,300

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**39,600**	39,600
After 1 year but less than 2 years	**23,900**	39,600
After 2 years but less than 5 years	**–**	4,100
	63,500	83,300

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 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 purposes 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 2017, the expenses for marketing and promotional services of RMB19,800,000 (net of tax of RMB18,679,000) (six months ended 30 June 2016: RMB19,800,000 (net of tax of RMB18,679,000)) were recognised as "marketing and promotional expenses" in profit or loss.

During the six months ended 30 June 2016, the expenses for consultation services of RMB2,857,000 (net of tax of RMB2,695,000) (six months ended 30 June 2017: Nil) were recognised as "research and development expenses" in profit or loss.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Trade receivables with normal credit terms	**760,014**	597,273
Trade receivables with extended credit terms	**77,610**	95,286
Total trade receivables	**837,624**	692,559
Less: Allowance for doubtful debts	**(78,323)**	(78,323)
Total trade receivables, net of allowance for doubtful debts	**759,301**	614,236
Less: Non-current portion of trade receivables with extended credit terms	**(18,465)**	(17,876)
Current portion of trade receivables	**740,836**	596,360
Other receivables	**26,345**	27,871
Less: Allowance for doubtful debts	**(7,271)**	(7,605)
	19,074	20,266
Receivable of compensation of loss from indemnity	**–**	46,641
Retention receivables	**135,119**	88,582
Loans and receivables	**895,029**	751,849
Prepayments for consultation, marketing and promotional services *(Note 9)*	**39,600**	39,600
Prepayments and deposits	**32,506**	47,845
Other tax recoverables	**64,092**	69,690
	1,031,227	908,984

The Group generally allows credit period ranging from 0 to 365 days to its trade customers with normal credit terms and credit period up to three years to its trade customers with extended credit terms which is based on the contractual repayment schedule.

The following is an ageing analysis of trade receivables with normal credit terms and trade receivables with extended credit terms, net of allowance for doubtful debts, respectively, presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	Normal credit terms		**Extended credit terms**		**Total**	
	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)	**At 30 June 2017** *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)	**At 30 June 2017** *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
0 – 30 days	**62,784**	72,496	**–**	–	**62,784**	72,496
31 – 60 days	**178,814**	29,712	**–**	–	**178,814**	29,712
61 – 90 days	**113,775**	133,315	**–**	–	**113,775**	133,315
91 – 180 days	**154,991**	119,145	**–**	–	**154,991**	119,145
181 – 365 days	**121,225**	78,382	**–**	–	**121,225**	78,382
Over 365 days	**50,102**	85,900	**77,610**	95,286	**127,712**	181,186
	681,691	518,950	**77,610**	95,286	**759,301**	614,236

11. TRADE AND OTHER PAYABLES

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

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Trade payables		
0 – 30 days	**322**	4,822
31 – 60 days	**28,274**	7,042
61 – 90 days	**420**	6,150
91 – 180 days	**173**	22,011
181 – 365 days	**5,533**	4,557
Over 365 days	**40,597**	65,027
	75,319	109,609
Accruals and other payables	**51,570**	51,281
Amount due to a director *(Note)*	**2,712**	2,512
Amounts due to related companies *(Note)*	**38,851**	34,363
Retention payables	**60,851**	–
Payable for legal fees and liabilities from litigation claim	**69,364**	70,754
Financial liabilities measured at amortised cost	**298,667**	268,519
Other PRC tax payables	**1,403**	2,325
	300,070	270,844

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

12. PLEDGE OF ASSETS

A bank deposit of the Company's subsidiary of approximately RMB6,543,000 as at 30 June 2017 (31 December 2016: RMB6,543,000) was pledged to a bank to secure a banking facility granted to this subsidiary.

13. COMMITMENTS

a) Capital commitments

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *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	**9,680**	9,680

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 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Within one year	**1,007**	1,477
After one year but within five years	**269**	635
	1,276	2,112

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 a tenant for a lease term of 5 years. The following is the non-cancellable future minimum lease payments to be received by the Group:

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Within one year	**44**	53
After one year but within five years	**–**	18
	44	71

Included in the above is future minimum lease payments receivable from Wuxi Xin Wei High Temperature Ceramics Co., Ltd, a related company, of approximately RMB44,000 (31 December 2016: RMB71,000) and the non-cancellable future minimum lease payments receivables are as follows:

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Within one year	**44**	53
After one year but within five years	**–**	18
	44	71

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2017, the Group achieved a total revenue of RMB494.3 million (six months ended 30 June 2016: RMB366.3 million). Gross profit during the period under review amounted to RMB78.3 million (six months ended 30 June 2016: RMB62.4 million) and gross profit margin was 15.8% (six months ended 30 June 2016: 17.0%). The Group recorded a profit attributable to owners of the Company of approximately RMB33.4 million (six months ended 30 June 2016 RMB25.1 million). Basic earnings per share were RMB3.98 cents (six months ended 30 June 2016: RMB2.98 cents).

Interim Dividend

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil) and the capital will be reserved for development of the Group's business operations.

Business Review

As an integrated EP services and eco-friendly construction materials provider in the PRC, the Group is principally engaged in the provision of EP construction engineering solutions and services to customers, and the development, manufacturing and sales of new eco-friendly construction materials. During the period under review, concerns about environmental protection has increased across society. Armed with leading-edge research and development ("R&D") technology and operational capability, the Group has focused on the expansion of its core business of EP products and equipment in order to capture the enormous opportunities provided by the trend towards greater protection of the environment which contributes to the sustainable growth of the Company.

Sales of EP Products and Equipment

Sales of EP products and equipment remained as the core business segment and the largest income contributor of the Group during the period under review. Revenue generated from this segment increased by 49.2% to RMB479.8 million, accounting for approximately 97.1% of the Group's total revenue. The increase in revenue was mainly due to the completion of several large scale sales of flue gas treatment equipment which were booked during the period. Gross profit amounted to RMB105.2 million and the gross profit margin increased from 14.6% to 21.9%.

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 7 water treatment-related sales contracts, and this business generated a revenue of approximately RMB61.1 million, accounting for approximately 12.4% of the Group's total revenue.

Sales of Flue Gas Treatment Products and Equipment

The Group's comprehensive flue gas treatment supply chain provides related products and equipment plus services ranging from engineering design to maintenance services. During the period under review, the Group completed 15 projects related to sales of flue gas treatment equipment and this segment recorded a revenue of approximately RMB418.7 million, accounting for about 84.7% of the Group's total revenue.

EP Construction Engineering Projects

Applying its extensive industry expertise, professional R&D capabilities and advanced technologies, the Group provides one-stop EP solutions to a diverse range of clients. Most of the projects in this segment spanned over different financial periods and are booked to the accounts according to the stage of completion. During the period under review, this segment did not record any revenue.

Manufacture and Sales of EP Construction Materials

During the period under review, this segment recorded a revenue of approximately RMB14.5 million (six months ended 30 June 2016: RMB44.9 million), accounting for approximately 2.9% of the Group's total revenue. The decrease in the revenue was mainly due to the slow-paced development of the WWCB business which is faced with challenges, resulting in the lengthening of the lead time for project completion.

WWCB is a new eco-friendly inorganic energy-conserving construction material made by compressing cement, eco-friendly fast growing timber and non-toxic additives together under super high pressure. WWCB enjoys distinctive features including fire resistant, sound-proof, moisture-proof, mould-proof and insect repelling properties. During the period under review, the sales of decoration panels have performed steadily. However, the performance of the sales of building panels has been significantly slower than widely expected. Some building panels contracted and underwent structural alterations after delivery, and a huge amount of replenishment was required to be made. This not only increased the costs of sale, but also led to a decrease in net profit of this segment.

On 12 April 2017, the Group entered into an acquisition agreement of 100% equity interests in Jiangsu Kangmei New Materials Technology Company Limited ("Jiangsu Kangmei"). Jiangsu Kangmei is principally engaged in the business of R&D and the production of energy-conserving and eco-friendly building materials in the PRC. However, as the legal and financial due diligence results in respect of Jiangsu Kangmei were not reasonably satisfactory to the Group, the Group decided to forgo the acquisition. Going forward, the Group will focus on its core business and reduce the resources in the construction market.

Prospects

EP Construction Engineering Project Business

Energy transformation and low carbon development have become a paramount objective with a global consensus. As a responsible developing country, China is an active participant in global climate control organisations and activities. China incorporates its actions in response to climate change into its medium to long term planning for the nation's balanced social and economic development, which brings about enormous development potential for the EP industry in China.

In 2016, China's investment in EP reached RMB1.16 trillion. However, with the phasing out of government subsidies and increasing demand for industrial clean-up and purification, the investment gap has become significant. It is estimated that the size of the clean technology sector will reach RMB17 trillion by 2020, and will increase by RMB2 trillion each year. By leveraging our extensive experience on and thorough understanding of the operations for providing EP products and services, the Group continues to tap on the trend of environmental protection to exploit the market potential brought about by the country's supportive policies through a comprehensive series of initiatives.

Looking ahead to the second half of 2017, to broaden the business scope of Pan Asia Environmental (Jiangsu) Limited and Pan Asia Environmental Protection (China) Company Limited, wholly-owned subsidiaries of the Group, the Group will take advantage of its experience in the treatment of environmental pollution of headwaters points and lakes and further invest in R&D of water treatment technology through the introduction of natural nano-catalyst technology. The Group will also strive to develop large-scale wastewater treatment and flue gas treatment projects, so as to enhance its competitiveness. While expanding the current sales network, the Group will step up the development and management of major customers in order to broaden the income streams. The Group will also re-arrange work allocation as well as workflow while improving internal control systems to facilitate a smooth structural adjustment so as to achieve standardisation and professionalism across all of our operations. The Group firmly believes that these measures will be important to achieve robust growth of the Group's business in the long run.

Currently, the Group has 55 uncompleted water and flue gas treatment contracts on hand with a total value of approximately RMB478.1 million.

Eco-friendly Construction Materials Business

The performance of WWCB decoration panels was stable during the period under review. However, as WWCB is a relatively new construction material in the Chinese market, and it takes time to adjust the product structure according to the product specification of each individual project, the market penetration of this product has lagged behind expectations. In addition, the difference in weather in different regions in the PRC led to the contraction and structural alterations of some building panels after delivery. The Group needs to make a huge amount of replenishment. In light that the local adaption of the WWCB technology for it to be used as wall material in China market has not been completed and the R&D costs for this technology continues to be high. After careful consideration, the management has decided to suspend all marketing activities for the building panels. Meanwhile, the management would consider other feasible business strategies for this business including the possibility of selling this business. The Group will shift its focus to the EP construction engineering business so as to maximise utilisation of its resources.

The Group will pursue its objective of steady growth for the benefits of its shareholders. At the same time, its core management team will implement strategies for the consolidation and better allocation of work, responsibilities, performance assessment and management to ensure that the Group is moving towards its main objectives, and will strive to continuously optimise the Group's business performance and profitability.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, total assets of the Group amounted to RMB2,025.4 million, representing a decrease of RMB26.8 million as compared to RMB2,052.2 million as at 31 December 2016. The decrease was mainly due to the decrease in cash and bank balances and increase in trade and other receivables of the Group. The Group's total liabilities as at 30 June 2017 amounted to RMB612.0 million, representing a decrease of RMB60.8 million as compared to RMB672.8 million as at 31 December 2016. The main reason for this decrease in total liabilities was due to the decrease in deposits received and receipts in advance. The Group's total equity as at 30 June 2017 was RMB1,413.4 million (31 December 2016: RMB1,379.4 million). As at 30 June 2017, the Group had no bank borrowings (31 December 2016: Nil) and its gearing ratio calculated on the basis of the total borrowings over total equity was nil (31 December 2016: Nil). The Group's cash and cash equivalents amounted to RMB246.3 million as at 30 June 2017 (31 December 2016: RMB349.7 million).

EXPOSURE TO FLUCTUATIONS IN FOREIGN EXCHANGE RATES

Most of the business transactions and liabilities of the Group are 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 2017, 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 continues to monitor the Group's foreign exchange exposure and will take prudent measures as and when appropriate. As at 30 June 2017, 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 2017, the Group had a capital expenditure commitment in respect of the acquisition of property, plant and equipment amounted to RMB9.7 million in total (31 December 2016: RMB9.7 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 sub-contractors and suppliers. The Directors of the Company believe that the amount of 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.

PLEDGE OF ASSETS

A bank deposit of the Company's subsidiary of approximately RMB6.5 million as at 30 June 2017 (31 December 2016: RMB6.5 million) was pledged to a bank to secure a facility granted to the subsidiary.

EVENTS AFTER THE REPORTING PERIOD

No important event has occurred since the end of the period under review which will cause material impact on the Group.

RELATIONSHIP WITH EMPLOYEES AND KEY STAKEHOLDERS

As at 30 June 2017, the Group had approximately 110 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. The total remuneration costs, including Directors' remuneration, for the six months ended 30 June 2017 were RMB7.3 million (six months ended 30 June 2016: RMB7.6 million). During the period under review, the Group has organised professional and vocational training for its employees. The Directors believe that the Group has admirable relationship with its employees.

In addition, the Group understands that in order to achieve its long-term goals, it is important to maintain good relationships with business partners, shareholders, investors and bankers. An investor relations scheme has been formulated to foster close relationships with its shareholders and investors. Specifically designed activities are held from time to time in order to achieve the optimum results.

PURCHASE, SALES 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 for the six months ended 30 June 2017.

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 interim results and report of the Group for the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Board is committed to achieving high corporate governance standards. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, throughout the six months ended 30 June 2017, the Company has complied with the code provisions as set out in the CG Code.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.paep.com.cn) and the interim report for the six months ended 30 June 2017 will be despatched to the shareholders and published on the above-mentioned websites in due course.

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

Hong Kong, 30 August 2017

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

Executive Directors:
Mr. JIANG Quanlong
Mr. JIANG Xin
Mr. CHO Yu Chung

Non-executive Director:
Mr. FAN Yajun

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