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 2018

FINANCIAL HIGHLIGHTS:

	Six months ended 30 June		
	2018	2017	**Variance**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
		(Restated)	
REVENUE	**45,904**	479,801	-90%
GROSS PROFIT	**10,472**	105,170	-90%
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Continuing operations	**(19,921)**	80,033	
– Discontinued operation	**(2,004)**	(46,603)	
	(21,925)	33,430	-166%
(LOSS)/EARNINGS PER SHARE (Expressed in RMB cents per share)			
Basic (loss)/earnings per share			
– From continuing operations	**(2.37)**	9.53	
– From discontinued operation	**(0.24)**	(5.55)	
	(2.61)	3.98	-166%
Diluted (loss)/earnings per share			
– From continuing operations	**(2.37)**	9.43	
– From discontinued operation	**(0.24)**	(5.49)	
	(2.61)	3.94	-166%

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 2018, together with the comparative figures for the corresponding period in 2017:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited) (Restated)
Continuing operations:			
Revenue	*4*	**45,904**	479,801
Cost of sales		**(35,432)**	(374,631)
Gross profit		**10,472**	105,170
Other income		**4,908**	3,037
Other net (loss)/gain		**(12,405)**	396
Gain on disposal of a subsidiary	*7(b)*	**28,702**	–
Impairment loss on property, plant and equipment and prepaid lease payments	*13*	**(30,300)**	–
Selling and distribution expenses		**(347)**	(138)
General and administrative expenses		**(15,637)**	(14,476)
Other operating expenses		**(4,723)**	–
Finance costs		**(737)**	–
(Loss)/profit before taxation	*5*	**(20,067)**	93,989
Income tax credit/(expenses)	*8*	**146**	(13,956)
(Loss)/profit for the period from continuing operations		**(19,921)**	80,033
Discontinued operation:			
Loss for the period from discontinued operation	*6*	**(2,004)**	(46,603)
(Loss)/profit for the period attributable to the owners of the Company		**(21,925)**	33,430
Other comprehensive (loss)/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		**(283)**	512
Total comprehensive (loss)/income for the period attributable to owners of the Company		**(22,208)**	33,942

	Note	Six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
			(Restated)
(Loss)/profit for the period attributable to owners of the Company arises from:			
– Continuing operations		**(19,921)**	80,033
– Discontinued operation		**(2,004)**	(46,603)
		(21,925)	33,430
		RMB cents	*RMB cents*
(LOSS)/EARNINGS PER SHARE	*9*		
Basic (loss)/earnings per share			
– From continuing operations		**(2.37)**	9.53
– From discontinued operation		**(0.24)**	(5.55)
		(2.61)	3.98
Diluted (loss)/earnings per share			
– From continuing operations		**(2.37)**	9.43
– From discontinued operation		**(0.24)**	(5.49)
		(2.61)	3.94

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current assets			
Prepaid lease payments		–	49,767
Property, plant and equipment		5,216	187,364
Available-for-sale financial asset		–	–
Deferred tax assets		4,079	160
		9,295	237,291
Current assets			
Prepaid lease payments		–	1,191
Inventories		11,586	46,579
Trade and other receivables	11	486,582	620,439
Cash and bank balances		567,150	368,213
		1,065,318	1,036,422
Assets classified as held for sale	13	184,135	–
Assets of a disposal company classified as held for sale	14	–	480,477
		1,249,453	1,516,899
Current liabilities			
Trade and other payables	12	33,479	52,461
Tax payable		941	11,125
		34,420	63,586
Liabilities directly associated with the assets classified as held for sale	14	–	436,489
		34,420	500,075
Net current assets		1,215,033	1,016,824
Total assets less current liabilities		1,224,328	1,254,115
Non-current liabilities			
Corporate bonds		21,357	20,440
Net assets		1,202,971	1,233,675
Capital and reserves			
Share capital		78,073	78,073
Reserves		1,124,898	1,155,602
Total equity		1,202,971	1,233,675

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 in the People's Republic of China (the "PRC") and investment holding.

The Group's manufacture and sales of EP construction materials business was discontinued during the year ended 31 December 2017. Details of which are set out in note 6.

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 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.

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 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 3.

(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 2017.

3. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's condensed consolidated financial statements:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. The adoption of HKFRS 15 does not have any material impact on the financial position and the financial result of the Group. Details of the changes in accounting policies are discussed in note 3(b) and 3(c).

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity as at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the condensed consolidated statement of financial position that has been impacted by HKFRS 9 and HKFRS 15:

	As at 31 December 2017 *RMB'000*	**Impact on initial application of HKFRS 9** *RMB'000*	**Impact on initial application of HKFRS 15** *RMB'000*	**As at 1 January 2018** *RMB'000*
Deferred tax assets	160	2,832	–	2,992
Financial asset at fair value through other comprehensive income	–	–	–	–
Available-for-sale financial asset	–	–	–	–
Trade and other receivables	620,439	(11,328)	–	609,111
Contract liabilities (included in trade and other payables)	–	–	(1,091)	(1,091)
Deposits received and receipts in advance (included in trade and other payables)	(1,091)	–	1,091	–
Other assets and liabilities	614,167	–	–	614,167
Net assets	1,233,675	(8,496)	–	1,225,179
Share capital	78,073	–	–	78,073
Reserves	1,155,602	(8,496)	–	1,147,106
Total equity	1,233,675	(8,496)	–	1,225,179

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed as at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity as at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits, reserves and the related tax impact as at 1 January 2018.

	RMB'000
Retained profits	
Transferred to fair value reserve (non-recycling) relating to an equity instrument now measured at FVOCI	9,000
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	(11,328)
Related deferred tax impact	2,832
Net increase in retained profits as at 1 January 2018	504
Fair value reserve (non-recycling)	
Transferred from retained profits relating to an equity instrument now measured at FVOCI and decrease in fair value reserve (non-cycling) as at 1 January 2018	(9,000)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Group's financial assets measured at amortised cost represent those financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Applying HKFRS 9 does not change the previous classification and measurement of these assets.

For equity instruments previously classified as available-for-sale financial assets that are not held for trading, the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL as at 1 January 2018.

(ii) ***Credit losses***

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment for credit losses

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to approximately RMB11,328,000, which decreased retained profits by approximately RMB8,496,000 and increased deferred tax assets by approximately RMB2,832,000 as at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance as at 31 December 2017 under HKAS 39	123,698
Additional credit loss recognised as at 1 January 2018 on trade and other receivables	11,328
Loss allowance as at 1 January 2018 under HKFRS 9	135,026

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed as at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  • the determination of the business model within which a financial asset is held; and

  • the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue* which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts* which specify the accounting for revenue from construction contracts.

The Group is principally engaged in the sales of EP products and equipment during the six months ended 30 June 2018. Sales are recognised when control of the products has transferred, being when the products are delivered and the customer has accepted the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not have any material impact on the Group's condensed consolidated financial statements.

The following adjustment was made to the amounts recognised in the condensed consolidated statement of financial position as at 1 January 2018:

	HKAS 18 Carrying amount as at 31 December 2017	**Reclassification**	**HKFRS 15 Carrying amount as at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Deposits received and receipts in advance (included in trade and other payables)	(1,091)	1,091	–
Contract liabilities (included in trade and other payables)	–	(1,091)	(1,091)

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 ("CODM"), for the purposes of resources allocation and performance assessment, the Group has presented the following two 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. The revenue are recognised when goods are transferred at a point of time.

- EP construction engineering projects: this segment undertakes the EP engineering construction projects for external customers which involve multiple performance obligations and the revenue are recognised over the time of transferring goods or services to the customers.

Segment revenue and results

	Six months ended 30 June (Unaudited)					
Continuing operations:	**Sales of EP products and equipment**		**EP construction engineering projects**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue from external customers	**45,904**	479,801	**–**	–	**45,904**	479,801
Inter-segment revenue	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**45,904**	479,801	**–**	–	**45,904**	479,801
Reportable segment profit (adjusted EBITDA)	**9,890**	107,676	**–**	–	**9,890**	107,676
Depreciation and amortisation	**3,545**	62	**–**	–	**3,545**	62

Geographical information

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China (place of domicile)	**45,904**	479,801

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation from continuing operations is arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Amortisation of prepaid lease payments	**549**	29
Cost of inventories	**35,432**	374,631
Depreciation of property, plant and equipment	**5,298**	1,809
Imputed interest on trade receivables with extended credit terms$^{\Delta}$	**(628)**	(2,474)
Loss on write off of property plant and equipment^	**12,403**	–
Gain on disposal of property plant and equipment^	**–**	(16)
Impairment loss on trade receivables*	**3,958**	–
Impairment loss on other receivables*	**765**	–
Operating lease charges		
– Leasing of properties	**1,966**	1,148
– Leasing of equipment	**3**	4
– Leasing of car park	**22**	23
Reversal of impairment loss on trade receivables$^{\Delta}$	**(3,861)**	–

$^{\Delta}$ These items are included in other income in the condensed consolidated statement of profit or loss and other comprehensive income.

^ These items are included in other net (loss)/gain in the condensed consolidated statement of profit or loss and other comprehensive income.

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

6. DISCONTINUED OPERATION

On 31 October 2017, Wuxi Pan Asia Environmental Protection Technologies Limited ("Wuxi Pan Asia") entered into an asset transfer agreement with Pan Asia Environmental Protection (Jiangsu) Company Limited ("Jiangsu Pan Asia"), which is an indirect wholly-owned subsidiary of the Company, pursuant to which Wuxi Pan Asia agreed to sell certain assets associated with the operation of sales of EP products and equipment to Jiangsu Pan Asia (the "Asset Transfer"). The Asset Transfer was completed on 16 January 2018. Wuxi Pan Asia retained the assets and liabilities associated with the operation of manufacture and sales of EP construction materials.

On 31 October 2017, the Group entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party (the "Purchaser"), pursuant to which the Group conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire equity interests in Wuxi Pan Asia after the completion of the Asset Transfer at a consideration of RMB44,000,000 (the "Disposal").

Details of the Asset Transfer and the Disposal were set out in the Company's announcements dated 31 October 2017, 14 November 2017 and 18 January 2018.

The Directors were of the opinion that the Disposal was highly probable because the Company's board of directors formally approved the Disposal and there was no need to obtain the approval from the Company's shareholders as the Disposal constituted a disclosable transaction under Chapter 14 of the Listing Rules, In addition, the conditions precedent under the S&P Agreement were fulfilled on 16 January 2018 and the Disposal was completed on 16 January 2018 accordingly. The Directors were of the view that the disposal company constituted a separate major line of the Group's business and accordingly, the Group's operation of manufacture and sales of EP construction materials was classified as a discontinued operation.

The results from the discontinued operation were analysed as follows. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income and the condensed consolidated statement of cash flows have been restated to present the operation of manufacture and sales of EP construction materials as a discontinued operation.

The results from the discontinued operation are analysed as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Results from discontinued operation:		
Revenue	**–**	14,470
Cost of sales	**–**	(41,390)
Gross loss	**–**	(26,920)
Other income	**27**	332
Selling and distribution expenses	**(1,816)**	(19,158)
General and administrative expenses	**(995)**	(808)
Loss before taxation	**(2,784)**	(46,554)
Income tax expenses	**(4)**	(49)
	(2,788)	(46,603)
Gain on disposal of a subsidiary *(Note 7(a))*	**784**	–
Loss for the period from discontinued operation attributable to owners of the Company	**(2,004)**	(46,603)

7. DISPOSAL OF SUBSIDIARIES

a) Disposal of equity interest in Wuxi Pan Asia

As disclosed in note 6, the Disposal was completed on 16 January 2018. The gain from the Disposal is analysed as follows:

	RMB'000 **(Unaudited)**
Cash consideration received	**44,000**
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	**184,823**
Prepayments for consultation, marketing and promotional services	**42,050**
Deferred tax assets	**406**
Inventories	**115,657**
Trade and other receivables	**68,974**
Pledged bank deposits	**6,543**
Tax recoverable	**77,523**
Trade and other payables	**(448,834)**
Deferred tax liabilities	**(1,218)**
Deferred government grants	**(2,708)**
Net assets disposed of	**43,216**
Gain on disposal of a subsidiary:	
Cash consideration received	**44,000**
Net assets disposed of	**(43,216)**
Gain on disposal of a subsidiary *(Note 6)*	**784**
Net cash inflows arising on disposal:	
Cash consideration received	**44,000**
Less: Cash and cash equivalents disposed of	**–**
Net cash inflows from disposal of a subsidiary	**44,000**

b) **Disposal of equity interest in Lianyungang Minxin Investment Limited ("Lianyungang Minxin")**

On 23 April 2018, the Group entered into a share transfer agreement with an independent third party to dispose of its 100% equity interest in Lianyungang Minxin at a cash consideration of RMB10,150,000. Lianyungang Minxin was principally engaged in undertaking of EP construction engineering projects. The disposal was completed on 30 April 2018. The gain from the disposal is analysed as follows:

	RMB'000 **(Unaudited)**
Cash consideration received	**10,150**
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	**–**
Financial asset at fair value through other comprehensive income	**–**
Other receivables	**388**
Bank balances	**7**
Trade and other payables	**(8,059)**
Tax payable	**(10,888)**
Net liabilities disposed of	**(18,552)**
Gain on disposal of a subsidiary:	
Cash consideration received	**10,150**
Net liabilities disposed of	**18,552**
Gain on disposal of a subsidiary	**28,702**
Net cash inflows arising on disposal:	
Cash consideration received	**10,150**
Less: Cash and cash equivalents disposed of	**(7)**
Net cash inflows from disposal of a subsidiary	**10,143**

8. INCOME TAX

Continuing operations:	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Current tax		
PRC Enterprise Income Tax		
– Provision for the period	**941**	13,038
Deferred tax		
Origination and reversal of temporary differences	**(1,087)**	918
Income tax (credit)/expenses	**(146)**	13,956

(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% on the estimated assessable profits of the Company's subsidiaries established in the PRC during the six months ended 30 June 2018 and 2017.

(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 2018 and 2017.

(iv) The PRC Enterprise Income Tax Law also requires withholding tax of 10% upon distribution of profits by the PRC subsidiaries since 1 January 2008 to its overseas shareholders.

9. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations:

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Earnings		
(Loss)/profit for the period attributable to owners of the Company for the purposes of calculating basic and diluted (loss)/earnings per share	**(21,925)**	33,430

	Six months ended 30 June	
	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	**840,000,000**	840,000,000
Add: Effects of dilutive potential ordinary shares from share options		8,994,491
Weighted average number of ordinary shares for the purposes of calculating diluted (loss)/earnings per share		848,994,491

Diluted loss per share for the six months ended 30 June 2018 was RMB2.61 cents per share which was the same as the basic loss per share for the period because the exercise of the Company's outstanding share options would have anti-dilutive effect.

From continuing operations:

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
(Loss)/profit for the period attributable to owners of the Company from continuing and discontinued operations	**(21,925)**	33,430
Adjusted for: Loss for the period from discontinued operation attributable to owners of the Company	**2,004**	46,603
(Loss)/earnings for the purposes of calculating basic and diluted (loss)/earnings per share from continuing operations	**(19,921)**	80,033

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per share from continuing and discontinued operations.

For discontinued operation:

Basic loss per share

Basic loss per share from discontinued operation for the six months ended 30 June 2018 was RMB0.24 cents (six months ended 30 June 2017: RMB5.55 cents) per share, based on the loss for the period from discontinued operation attributable to owners of the Company amounting to approximately RMB2,004,000 (six months ended 30 June 2017: RMB46,603,000) and the denominators detailed above for basic (loss)/earnings per share from continuing and discontinued operations.

Diluted loss per share

Diluted loss per share from discontinued operation for the six months ended 30 June 2018 was RMB0.24 cents per share which was the same as the basic loss per share from discontinued operation because the exercise of the Company's outstanding share options would have anti-dilutive effect.

Diluted loss per share from discontinued operation for the six months ended 30 June 2017 was RMB5.49 cents per share, based on the loss for that period from discontinued operation attributable to owners of the Company amounting to approximately RMB46,603,000 during that period and the denominators detailed above for diluted (loss)/earnings per share from continuing and discontinued operations.

10. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Trade receivables with normal credit terms	**470,418**	583,696
Trade receivables with extended credit terms	**45,161**	79,533
Total trade receivables	**515,579**	663,229
Less: Allowance for doubtful debts	**(130,389)**	(119,367)
Total trade receivables, net of allowance for doubtful debts	**385,190**	543,862
Other receivables	**55,372**	18,247
Less: Allowance for doubtful debts	**(5,499)**	(4,331)
	49,873	13,916
Retention receivables	**38,652**	43,166
Financial assets measured at amortised cost	**473,715**	600,944
Prepayments and deposits	**12,833**	19,468
Other tax recoverables	**34**	27
	486,582	620,439

The Group generally allows credit period ranging from 0 to 180 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 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)	**At 30 June 2018** *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)	**At 30 June 2018** *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Less than six months	**50,706**	40,274	**–**	–	**50,706**	40,274
After six months but less than one year	**39,007**	119,513	**–**	–	**39,007**	119,513
After one year but less than two years	**250,316**	235,369	**–**	–	**250,316**	235,369
Over two years	**–**	69,173	**45,161**	79,533	**45,161**	148,706
	340,029	464,329	**45,161**	79,533	**385,190**	543,862

12. TRADE AND OTHER PAYABLES

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

	At 30 June 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Trade payables		
Less than six months	**–**	3,570
After six months but less than one year	**–**	25,670
After one year but less than two years	**–**	–
Over two years	**988**	3,315
	988	32,555
Accruals and other payables	**12,084**	12,035
Amount due to a former director *(Note)*	**–**	1,200
Amounts due to a related company *(Note)*	**12,372**	4,163
Financial liabilities measured at amortised cost	**25,444**	49,953
Other PRC tax payables	**6,944**	1,417
Deposits received and receipts in advance	**–**	1,091
Contract liabilities	**1,091**	–
	33,479	52,461

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

13. ASSETS CLASSIFIED AS HELD FOR SALE

On 30 June 2018, the Group entered into a sale and purchase agreement with an independent third party to dispose part of the Group's property, plant and equipment and prepaid lease payments at a total consideration of RMB190,000,000. The disposal was completed on 17 July 2018.

The assets classified as held for sale as at 30 June 2018 are as follows:

	At 30 June 2018 *RMB'000* **(Unaudited)**
Property, plant and equipment	**164,073**
Prepaid lease payments	**50,362**
Less: Impairment loss recognised *(Note)*	**(30,300)**
	184,135

Note: Impairment loss of approximately RMB30,300,000 was recognised during the six months ended 30 June 2018 as the assets classified as held for sale were measured at fair value less costs to sell which included the incremental costs directly attributable to the disposal of these assets.

14. ASSETS/LIABILITIES OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

As disclosed in note 6, the Directors were of the opinion that the Disposal was highly probable and was expected to be completed in next twelve months from 31 December 2017. Accordingly, the assets and liabilities attributable to Wuxi Pan Asia after the completion of the Asset Transfer were classified as a disposal company held for sale and were presented separately in the consolidated statement of financial position as at 31 December 2017. The consideration of the Disposal was expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss was recognised as at 31 December 2017.

The major classes of assets and liabilities comprising the assets and liabilities of a disposal company classified as held for sale as at 31 December 2017 were as follows:

	At 31 December 2017 *RMB'000* (Audited)
Assets of a disposal company classified as held for sale	
Property, plant and equipment	185,380
Prepayments for consultation, marketing and promotional services	43,700
Deferred tax assets	410
Inventories	105,395
Trade and other receivables	61,526
Pledged bank deposits	6,543
Tax recoverable	77,523
	480,477
Liabilities directly associated with the assets classified as held for sale	
Trade and other payables	432,536
Deferred tax liabilities	1,218
Deferred government grants	2,735
	436,489

15. COMMITMENTS

a) Capital commitments

	At 30 June 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *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

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 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Within one year	**2,141**	1,532
After one year but within five years	**246**	650
	2,387	2,182

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 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Within one year	**–**	18

Included in the above is future minimum lease payments receivable from Wuxi Xin Wei High Temperature Ceramics Co., Ltd, a related company, of approximately RMB18,000 as at 31 December 2017 (30 June 2018: Nil) and the non-cancellable future minimum lease payments receivables are as follows:

	At 30 June 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Within one year	**–**	18

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

16. EVENTS AFTER THE REPORTING PERIOD

a) Disposal of property, plant and equipment and prepaid lease payments

As disclosed in note 13, the Group entered into a sale and purchase agreement with an independent third party to dispose part of the Group's property, plant and equipment and prepaid lease payments at a total consideration of RMB190,000,000. The disposal was completed on 17 July 2018 and the gain on the disposal was approximately RMB25,000.

b) Proposed acquisition of subsidiaries

As announced by the Company on 1 March 2018, the Company entered into a sale and purchase agreement with an independent third party (the "Vendor"), pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell 51% of the issued share capital of Prospectus Harvest Finance Limited (the "Target Company") at a consideration of HK$122,400,000 (subject to downward adjustments).

The Company further announced on 12 July 2018 and 20 July 2018, the Vendor and the Company agreed to terminate the previous sale and purchase agreement and entered into a new sale and purchase agreement, pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the Target Company at a consideration of HK$96,900,000 (subject to downward adjustment).

The Target Company and its subsidiary are currently engaged in negotiating and handling customers for the sales of personal care products. Further details of which are set out in the Company's announcements dated 12 July 2018 and 20 July 2018.

Up to the date of this announcement, the conditions precedent in the new sale and purchase agreement have not yet been fulfilled. Accordingly, the proposed acquisition has not yet been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2018, the Group made a total revenue from continuing operations of RMB45.9 million (six months ended 30 June 2017: RMB479.8 million (restated)). The decrease in revenue was mainly due to decrease in number of sales of EP products and equipment. Gross profit during the period under review amounted to RMB10.5 million (six months ended 30 June 2017: RMB105.2 million (restated)) and gross profit margin was 23% (six months ended 30 June 2017: 22% (restated)). The Group recorded a loss attributable to owners of the Company of approximately RMB22.0 million (six months ended 30 June 2017: profit of RMB33.4 million) mainly due to: (i) a decrease in revenue as stated above; (ii) write off of property, plant and equipment; (iii) an increase in the provision of impairment loss of trade and other receivables; and (iv) increase in impairment loss on property, plant and equipment and prepaid lease payments of approximately RMB30.3 million. Basic loss per share was RMB2.61 cents (six months ended 30 June 2017: basic earnings per share RMB3.98 cents).

Interim Dividend

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil) and the capital will be reserved for supporting development of the Group's business operations.

Business Review

The Group continued to consolidate and restructure its EP service business. The disposal of EP construction materials business was completed in January 2018. To diversify its business, the Group decided to enter into the personal care products market by acquiring 51% of the entire issued share capital of a personal care product manufacturer in Shandong, the PRC. The Group will continue to seek for other investment opportunities to contribute to its growth and to diversify its business portfolio.

Sales of EP Products and Equipment – Continuing Operation

All the revenue of the Group was generated from sales of EP products and equipment during the period under review. Revenue generated from this segment decreased by 90% to RMB45.9 million. The decrease in revenue was mainly due to decrease in number of sales. Gross profit of the segment amounted to RMB10.5 million and gross profit margin increased from 22% to 23%.

i) 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 10 projects related to sales of flue gas treatment equipment and this segment recorded a revenue of approximately RMB45.9 million, accounting for 100% of the Group's total revenue.

ii) Sales of Water Treatment Products and Equipment

Water treatment systems are mainly used for treatment of industrial and urban waste water. During the period under review, the Group did not complete any sales contract related to water treatment.

EP Construction Engineering Projects – Continuing Operation

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

Manufacture and Sales of EP Construction Materials – Discontinued Operation

Due to the slow progress in the market development and technical and implementation issues, the Group disposed of its subsidiary, Wuxi Pan Asia which owned property, plant and equipment in connection with the manufacture and sales of EP construction materials in January 2018. After the disposal, the Group no longer manufactures or sells EP construction materials related mainly to the wood wool cement board business.

Prospects

EP Construction Engineering Projects Business

The first half year of 2018 was a crucial period for China to restructure her environmental protection system and the time for concrete actions to be taken instead of just chanting environmental protection slogans. The authority is stepping up environmental supervision aiming for more comprehensive coverage and environmental protection has been assumed of an unprecedentedly high strategic importance at the "19th National Congress" ("十九大"). To fully supervise and control the progress of environmental protection measures across all provinces, the Environmental Protection Inspectors ("環保督察局") kicked off a cross-bureau action plan named "Green Shield 2018" ("綠盾2018"), which achieved outstanding results. While active policies are in place, the development of environmental protection has attained an overwhelming stage. It raised out the question of how determined China is in protecting the environment in the mind of organizations and citizens.

In addition, an intense battle against pollution is being unfolded which allows China to recognize all the indicators of environmental protection campaigns for the period. To comply with related policies and rules, a lot of enterprises have undergone restructuring of their manufacturing lines and factories to lower pollutant emissions, which will in turn push up the demand for EP products. The Group is ready to meet the increasing demand and dedicate to the innovation of EP equipment. The Group is going to drive transformation and upgrade of the EP industry.

The government implementing more EP policies to help build a green China will translate into a growing and urgent demand for EP products and equipment, and EP construction engineering projects are the means that can turn policies into actions. The Group will definitely grab the opportunities brought by the green policy to expand its EP businesses. It is the mission of the Group to put its best effort to help develop a greener China for the next generations.

Proposed Business Segment – Personal Care Products Business

The Group has been actively seeking new investment opportunities so as to broaden its income source. Regarding the decision to acquire stake in a personal care product industry, the Directors see good potential development and a promising commercial outlook for the business. The Directors believe the acquisition will not only enable the Group to diversify its business into personal care product manufacturing, but also, with the knowledge, experience, resources and the brand the target company owns, the new business shall bring in sustainable business development.

There is a huge demand for personal care products in China market, and demand, especially for adult diapers and medical pads, has not been fully met, thus it is a good opportunity for the Group to tap the growth market. With climbing living standards and medical technology fast advancing in China, the average life expectancy of Chinese population is rising and that has boosted the demand for personal care products. Furthermore, the PRC Government introduced the "Two-child Policy" in 2016. We expect the spending on baby personal care products, including diapers and medical pads, will keep increasing. The Group believes the target company, which affords professional production and has extensive experience operating its own brand, will be able to greatly assist the Group in exploiting the personal care products markets in China, and overseas, thus this segment become another growth driver of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, total assets of the Group amounted to RMB1,258.7 million, representing a decrease of RMB495.4 million as compared with RMB1,754.2 million as at 31 December 2017. The decrease was mainly due to the Group's written off and impairment loss of the property, plant and equipment and prepaid lease payments of RMB42.7 million during the six months ended 30 June 2018. The Group's total liabilities as at 30 June 2018 amounted to RMB55.8 million, representing a decrease of RMB464.7 million as compared with RMB520.5 million as at 31 December 2017. The main reason for this decrease in total liabilities was due to the decrease in trade and other payables and disposal of subsidiaries. The Group's total equity as at 30 June 2018 was RMB1,203.0 million (31 December 2017: RMB1,233.7 million). As at 30 June 2018, the Group's gearing ratio calculated on the basis of the total borrowings over total equity was 2% (31 December 2017: 2%). The Group's cash and cash equivalents amounted to RMB567.2 million as at 30 June 2018 (31 December 2017: RMB368.2 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 adopted a conservative financial policy and the majority of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2018, 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 2018, the Group did not hold any derivatives for hedging against neither the interest rate nor foreign exchange risks.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any capital expenditure commitment in respect of the acquisition of property, plant and equipment (31 December 2017: RMB9.7 million). The Group provides product warranties to its customers. In respect of certain of its EP products sold for a warranty period ranging from six months to two years after product delivery. At the same time, the Group has also received warranties in respect of those equipment supplied from its suppliers. The Directors believe that the amount of crystalised warranty liabilities, will not have a material adverse effect on the overall financial position or financial performance of the Group.

PLEDGE OF ASSETS

As at 30 June 2018, the Group had no pledge of assets.

As at 31 December 2017, a bank deposit of the Company's subsidiary of approximately RMB6.5 million, which included asset of a disposal company classified as held for sale, was pledged to a bank to secure a facility granted to the subsidiary.

EVENTS AFTER THE REPORTING PERIOD

a) Disposal of property, plant and equipment and prepaid lease payments

As announced by the Company on 2 July 2018 and the Group entered into a sale and purchase agreement with an independent third party on 30 June 2018, pursuant to which the Group conditionally agreed to sell and the purchaser conditionally agreed to purchase part of the Group's property, plant and equipment and prepaid lease payments after the completion of the asset transfer at a consideration of RMB190.0 million. Subsequently, the conditions precedent in the sale and purchase agreement were fulfilled and the disposal was completed on 17 July 2018.

b) Proposed acquisition of subsidiaries

As announced by the Company on 1 March 2018, the Company entered into a sale and purchase agreement with an independent third party (the "Vendor"), pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell 51% of the issued share capital of Prospectous Harvest Finance Limited (the "Target Company") at a consideration of HK$122.4 million (subject to downward adjustments).

The Company further announced on 12 July 2018 and 20 July 2018, the Vendor and the Company agreed to terminate the previous sale and purchase agreement and entered into a new sale and purchase agreement, pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the Target Company at a consideration of HK$96.9 million (subject to downward adjustment).

The Target Company and its subsidiary are currently engaged in negotiating and handling customers for the sales of personal care products. Further details of which are set out in the Company's announcements dated 12 July 2018 and 20 July 2018.

Up to the date of this announcement, the conditions precedent in the sale and purchase agreement have not yet been fulfilled. Accordingly, the proposed acquisition has not yet been completed.

RELATIONSHIP WITH EMPLOYEES AND KEY STAKEHOLDERS

As at 30 June 2018, the Group had approximately 130 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 cost, including Directors' remuneration, for the six months ended 30 June 2018 was RMB7.2 million (six months ended 30 June 2017: RMB7.3 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 2018.

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 2018.

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 2018, 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 the Stock Exchange (www.hkexnews.hk) and the Company (www.paep.com.cn) and the interim report for the six months ended 30 June 2018 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 Xin
Chairman

Hong Kong, 30 August 2018

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

Executive Director:
Mr. JIANG Xin

Non-executive Director:
Mr. FAN Yajun

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