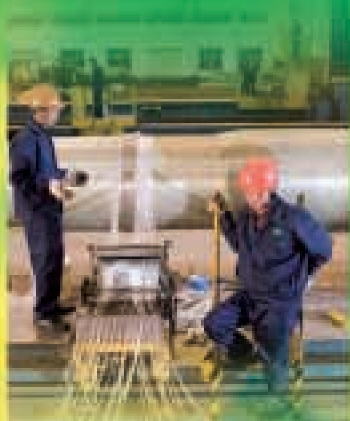
泛亞環保集團有限公司
Pan Asia Environmental Protection Group Limited

(Incorporated in the Cayman Islands with limited liability)

stock code: 556

Annual Report 2007



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Corporate Information

DIRECTORS

Executive Directors

Mr. Jiang Quanlong *(Chairman)*
Mr. Fan Yajun
Mr. Fang Guohong
Mr. Gan Yi
Mr. Jiang Lei

Independent Non-executive Directors

Professor Wang Guozhen
Mr. Lai Wing Lee
Mr. Leung Shu Sun, Sunny

COMPANY SECRETARY

Mr. Wan San Fai, Vincent

QUALIFIED ACCOUNTANT

Mr. Wan San Fai, Vincent

AUTHORISED REPRESENTATIVES

Mr. Jiang Quanlong
Mr. Wan San Fai, Vincent

PRINCIPAL BANKERS

China Construction Bank
Bank of Communications
Hang Seng Bank

AUDITOR

CCIF CPA Limited
20/F., Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

LEGAL ADVISERS

Chiu & Partners
41st Floor
Jardine House
1 Connaught Place
Hong Kong

COMPLIANCE ADVISER

Taifook Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

HSBC Trustee (Cayman) Limited
P.O. Box 484
2nd Floor, Strathvale House
90 North Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PUBLIC RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29/F., Admiralty Centre I
18 Harcourt Road
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

1 Chuanshan Road
Yixing
Jiangsu Province
The PRC
214222

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3712, The Center,
99 Queen's Road Central
Hong Kong

WEBSITE

www.paep.com.cn

STOCK CODE

556

TO SHAREHOLDERS,

On behalf of the board of directors (the "Board" or the "Directors"), I am pleased to present the annual report of Pan Asia Environmental Protection Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2007. This is the first annual result announcement after the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 December 2007.

The year 2007 was an important one for the Group. By offering 200,000,000 shares at HK$2.80 each through placing and public offer, Pan Asia was listed on the Stock Exchange and landed on this international financing platform. The listing has not only enhanced our capital position and corporate governance, but also strengthened our market reputation. In all, it will allow us speed up growth of our business in the future.

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group achieved a total turnover of RMB703.9 million, which represented a year on year growth of 38.4%. Overall gross profit increased by RMB92.4 million or 44.1% from the previous year to approximately RMB301.7 million. Gross profit margin slightly improved to 42.9% from 41.2% in the previous year. In 2007, surging steel costs had pushed up material costs. To cope, the Group passed on the cost increase to customers and thereby kept its gross profit margin at a satisfactory level. During the year, profit attributable to equity holders of the Company was approximately RMB210.5 million, up 27.4% over the pervious year.

DIVIDENDS

The Board has recommended payment of final dividend of HK5 cents. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 30 May 2008, the final dividend will be paid on or before 20 June 2008 to registered shareholders as at 30 May 2008.

The Register of Members of the Company will be closed from 28 May 2008, Wednesday to 30 May 2008, Friday, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on 27 May 2008, Tuesday.

BUSINESS REVIEW

The Group is an integrated environmental protection ("EP") services provider in the PRC engaging principally in the design, sale and manufacturing of water and flue gas treatment products and equipment, sale of pipes, as well as undertaking of environmental protection construction engineering projects and provision of EP related professional services. As at 31 December 2007, the Group had 49 engineers with various professional backgrounds and work experiences in EP to provide customized EP services to customers in different industries.

Chairman's Statement

In 2007, the Chinese government pushed ahead with the country's Eleventh Five Year Plan. In addition to implementing a number of mandatory regulations to eliminate products and technologies that consume massive energy, cause pollution and were out-dated, the government also forbids companies that fail to meet environmental protection standards to seek listing. As the Chinese economy thrives and the government continues to step up pollutant emission control and public awareness of environmental protection rises, market demand for the Group's environmental protection products and services has also risen, translating into steadily advances of the Group different businesses.

Sale of EP Products and Equipment

This segment is principally engaged in the sale of pipes, water and flue gas treatment products and equipment. During the year under review, the segment recorded a turnover of approximately RMB622.8 million, accounting for around 88.5% of the Group's total turnover.

Sale of Water Treatment Products and Equipment

The Group's water treatment system is mainly used to process industrial and urban wastewater. During the year under review, the Group completed 48 water treatment sales contracts, which generate turnover of approximately RMB447.2 million, accounting for 71.8% of the segment's turnover.

Sale of Flue Gas Treatment Products and Equipment

The Group's flue gas treatment systems are used to remove waste gas generated by various industries. During the year under review, the Group completed three flue gas treatment sales contracts, which generate turnover of approximately RMB44.7 million, accounting for 7.2% of the segment's turnover.

Sale of Pipes

The Group produces fibre glass reinforced plastic pipes of diameters up to 2,000 mm at its Yixing workshop, which is estimated to have a total annual production capacity of approximately 172,680 metres. In 2007, the pipe workshop produced around 129,403 metres of pipes and the utilization rate was approximately 74.9%. These pipe products are not only for direct sale, they are also commonly used in water and flue gas treatment equipment, and as such they are in increasing demand in the prospering water and flue gas treatment markets. During the year under review, the Group completed four contracts related to the sale of pipes, which generated a turnover of approximately RMB130.9 million, accounting for around 21.0% of the segment's turnover.

EP Construction Engineering Projects

Combining its industry expertise and professional R&D capabilities and technologies, the Group started to undertake EP construction engineering projects, providing clients with one-stop EP solutions since 2004. The Group had undertaken three flue gas treatment projects for power plants of installed capacity totaling 1,755 MW and with total contract sum of approximately RMB309.6 million. These projects had brought significant turnover contribution for the Group in 2005 and 2006. With all construction engineering work completed during the year, the balance of the contract sum amounting to approximately RMB79.6 million was recognised for the year under review, which accounted for approximately 11.3% of the Group's total turnover.

Provision of EP Related Professional Services

The Group, through its subsidiary — Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI"), provides EP related professional services for clients. SEEDRI holds Grade A engineering design certificates, is permitted to carry out engineering design for all environmental projects. During the year under review, the segment recorded a turnover of approximately RMB1.6 million, accounting for around 0.2% of the Group's total turnover.

PROSPECTS

The Chinese Government's Eleventh Five Year Plan reflects its commitment to environmental protection. Regarding flue gas control, the government plans to reduce sulphur dioxide discharge through speeding up construction of desulphurization facilities in existing coal-fired power plants and compelling installation of desulphurization facilities in new coal-fired power plants. It targets to reduce sulphur dioxide discharge by 10% by 2010 against the 2005 level. As for water pollution control, requires all enterprises to pay water tariff, which encourages enterprises to reduce water consumption and increase investment in water recycling and wastewater treatment facilities. It also embarks on re-development of older urban areas and replacement of old pipeline networks and rebuild of sewage network. In the remaining three years of the Eleventh Five Year Plan period, the Chinese government will place greater emphasis on environmental protection, which is expected to continuously push up demand for and price of related products and services, hence drive growth of the industry in the PRC and the Group's business.

Looking ahead, the Group will ride on the global environmental protection trend to consolidate its industry position in the PRC and explore the market with growing potential. The Group currently has about 19 EP contracts with an aggregate contract sum of approximately RMB676.0 million yet to be completed. This will bring notable turnover contribution to the Group which helps facilitate its business development and sustainable growth.

In 2008, sale of EP products and equipment, especially the water treatment related ones will remain as the Group's major growth driver. The Group will also gradually expand the EP construction engineering business, including implementing flue gas desulphurization ("FGD") and solid waste incineration power plant projects and other flue gas treatment engineering projects, and secure more sales contracts in the area of flue gas treatment to maintain a balanced development portfolio. Currently, the Group is in active negotiation for water and flue gas treatment engineering construction projects in Liaoning and Anhui provinces with the aim of expanding its footprint in EP market in Northeastern and Central China.

Expecting market demand for EP products and services to continue continuously in coming years, the Group has formulated a series of development strategies for including expansion of production capacity, enhancement of sales service, extension of sales network, enhancement of technological and R&D capabilities and establishment of simulated control facilities for flue gas treatment to provide training to customers. In addition, it will also identify acquisition targets and investment opportunities to enhance competitiveness and expand the scope of its business. The Group will capitalize on market opportunities to expand business scale and enhance cost effectiveness, with the ultimate aim of providing more diverse environment protection solutions to its customers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, total assets of the Group were RMB1,229.2 million, an increase of RMB714.3 million compared with RMB514.9 million as at 31 December 2006. The main reason for the increase was due to cash received from initial public offering and increase in net profit. The Group's total liabilities as of 31 December 2007 were RMB200.0 million, an increase of RMB42.1 million compared to RMB157.9 million as of 31 December 2006. The main reason for the increase in total liabilities was due to increase of trade deposits received and tax payables. The Group's total equity as of 31 December 2007 was RMB1,029.2 million, an increase of RMB672.2 million compared with RMB357.0 million as of 31 December 2006. As of 31 December 2007, the Group's cash and cash equivalents amounted to RMB1,016.6 million, an increase of RMB708.7 million compared with RMB307.9 million as of 31 December 2006. The increase was mainly due to cash generated from operations and financing activities during the year.

CHARGES ON GROUP ASSETS

Details of charges on the Group's assets are set out in note 36 of the financial statements.

RISK OF EXCHANGE RATE FLUCTUATION

The Group mainly operates in the PRC, so most of its revenue and expenses are measured in Renminbi. In 2007, the exchange rates of Renminbi to Hong Kong dollars kept on increasing. The Group is actively engaging in the process of remitting of the Hong Kong dollars IPO proceeds to China and converting into Renminbi. The Directors expect that any fluctuation of Renminbi's exchange rate will not have material adverse effect on the operation of the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no capital expenditure commitment.

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

USE OF PROCEEDS FROM LISTING

Excluding relevant expenses, net proceeds from initial public offering amounted to approximately HK$518.0 million, which was deposited in bank accounts. As stated on the prospectus published on 10 December 2007, the proceeds will be applied as follows:

- approximately HK$228.0 million for setting up new production facilities to facilitate business expansion:
  - (i) approximately HK$118.0 million for acquiring new production equipment;
  - (ii) approximately HK$60.0 million for constructing new production facilities; and
  - (iii) approximately HK$50.0 million for acquiring land;

- approximately HK$119.0 million for acquiring and/or establishing EP related business or investment targets;

- approximately HK$45.0 million for enhancing research and development capability:
  - (i) approximately HK$25.0 million for acquiring EP related technologies and development of new technologies; and
  - (ii) approximately HK$20.0 million for establishing a research and development center;

- approximately HK$25.0 million for establishing simulated control facilities for flue gas treatment;

- approximately HK$25.0 million for establishing sales and support centres at different locations in the PRC; and

- the balance of approximately HK$76.0 million as general working capital of the Group.

HUMAN RESOURCES

As at 31 December 2007, the Group employed approximately 250 employees. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff. The Group also adopts an employee share option scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during 2007.

APPRECIATION

Last but not least, on behalf of the Board and management, I would like to express my gratitude to all staff for their hard work and dedication in the past year. My thanks also go to our shareholders, investors, clients, suppliers and business partners for their tireless support to the Group.

Jiang Quanlong
Chairman

Hong Kong, 21 April 2008

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

蔣泉龍先生 (Mr. Jiang Quanlong), aged 55, is the Chairman of the Board and an Executive Director of the Company. He was appointed as Director of the Company in August 2006. He is also a member of the Nomination Committee and the Remuneration Committee. He has over 10 years of experience in China's Environmental Protection ("EP") industry. He is responsible for formulating strategies guiding the Group's overall development and strengthen the competitive position of the Group in the PRC's EP market. In addition, he is the chairman and executive director of China Rare Earth Holdings Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Jiang is the father of Mr. Jiang Lei and also the sole director of Praise Fortune Limited, the substantial shareholder of the Company.

范亞軍先生 (Mr. Fan Yajun), aged 40, is the Chief Executive Officer of the Group and an Executive Director of the Company. He was appointed Director of the Company in March 2007. He has nearly 20 years of experience in business management. He joined the Group in July 2002 and has been responsible for the overall administration and business management. He completed a Master of Business Administration course at Southeast University in July 2004. For the period between August 1999 and August 2005, he was an executive director of China Rare Earth Holdings Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

方國洪先生 (Mr. Fang Guohong), aged 42, is an Executive Director of the Company. He was appointed Director of the Company in March 2007. He has nearly 20 years of experience in marketing at different companies engaging in production of food, clothing and insulation materials. He joined Wuxi Pan-Asia Environmental Protection Technologies Limited (無錫泛亞環保科技有限公司) ("Wuxi Pan-Asia") in 1996 and Wuxi Pan-Asia has been a member of the Group since 1998. He is now a director and vice general manager of Wuxi Pan-Asia and the general manager of Shanghai Environmental Engineering Design & Research Institute Limited (上海環境工程設計研究院有限公司). He is responsible for the sales and market development of the Group's business. He completed post-secondary education in 2005.

甘毅先生 (Mr. Gan Yi), aged 51, is an Executive Director of the Company. He was appointed Director of the Company in March 2007. He has over 20 years of experience in environmental protection engineering design. He was appointed as an officer of Shanghai Environmental Engineering Design & Research Institute Limited (上海環境工程設計研究院有限公司) ("SEEDRI") in 1995 and has served as a director of SEEDRI since 2002. He was also the chairman and general manager of SEEDRI from 2003 until April 2006, and was appointed the vice general manager of SEEDRI in April 2006. He is responsible for the daily operation and market development of SEEDRI. He completed a security engineering course at Tongji University in December 1988.

蔣磊先生 (Mr. Jiang Lei), aged 24, is an Executive Director of the Company. He was appointed Director of the Company in March 2007. He joined the Group in March 2007 and is responsible for the business development of the Group. He holds a bachelor's degree in Finance from Cass Business School, London, the United Kingdom. Mr. Jiang is the son of Mr. Jiang Quanlong.

Independent non-executive Directors

賴永利先生 (Mr. Lai Wing Lee), aged 68, has been appointed as an Independent Non-Executive Director of the Company since December 2007. He is the Chairman of the Nomination Committee and the Remuneration Committee and also a member of the Audit Committee. He has been the managing director of Shenzhen Beishen Environmental Packaging Development Co., Limited (深圳市北深環保包裝發展有限公司), which is mainly engaged in the sales and manufacture of environmental protection packaging products, since August 2005. He graduated from the South China Institute of Technology (now known as South China University of Technology) in 1965. He has over 30 years of experience in enterprise management.

王國珍教授 (Professor Wang Guozhen), aged 72, has been appointed as an Independent Non-Executive Director of the Company since December 2007. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee. He was from 1994 to 2005, a member of the Rare Earth Expert Group of China State Planning and Development Commission, and the team leader of the Industry Division. He graduated from the Department of Chemical Engineering of Tianjin University with a major in physical chemistry of metals (金屬物理化學). He is a member of the expert group and an adviser of the Environment Protection Specialist Commission. He has been an independent director of the State-owned Gansu Rare Earth Group Co., Ltd. since 2005.

梁樹新先生 (Mr. Leung Shu Sun, Sunny), aged 45, has been appointed as an Independent Non-Executive Director of the Company since December 2007. He is the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee. He has over 15 years' working experience in, among other things, accounting, treasury management, budgeting and corporate finance. He graduated from Hong Kong Polytechnic University with a professional diploma in Accountancy and obtained a master's degree in business administration from the University of South Australia. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Certified General Accountants' Association of Canada. From 2005 to 2007, he served as the financial controller, qualified accountant and company secretary of Xiwang Sugar Holdings Company Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 2088). From 2001 to date, he was a director of a company providing accounting, tax and corporate finance services. From 1999 to 2001, he held key finance position in a listed company in Hong Kong. From 1998 to 1999, he was a finance director of a company principally engaged in the provision of network infrastructure solutions. From 1993 to 1998, he was the financial controller of a company principally engaged in property investment, trading and securities. From 1987 to 1990, he had worked in international accounting firms, handling audit, tax and accounting matters.

SENIOR MANAGEMENT

溫新輝先生 (Mr. Wan San Fai, Vincent), aged 34, is the chief financial officer and secretary of the Company. He joined the Group in March 2007 and is responsible for the corporate finance function of the Group, and oversees matter related to financial administration, and the compliance and reporting obligations of the Group. Mr. Wan has 10 years' experience in auditing, accounting and financial management. Prior to joining the Group, Mr. Wan has worked for China Sun Bio-chem Technology Group Company Limited, a company listed on the Singapore Stock Exchange, as its financial controller from 2005 to 2007. Mr. Wan is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wan holds a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University.

Directors and Senior Management

傅堃先生 (Mr. Fu Kun), aged 41, has over 18 years of experience in project management of engineering design. He served as a vice general manager of SEEDRI since April 2006. Before joining the Group, he was the vice general manager of Shanghai Gongcheng. He is responsible for project management of environmental protection engineering design. He holds a Master of Business Administration degree from Asia International Open University, Macau.

陳良平先生 (Mr. Chen Liangping), aged 59, is the vice general manager of Wuxi Pan-Asia. He has over 20 years of experience in equipment manufacturing and production management. He joined the Group in 2006 and is responsible for the management of the daily production of the Group. Before joining the Group, he was a vice general manager of 宜興新威利成耐火材料有限公司 (Yixing Xinwei Leeshing Refractory Materials Company Limited), a subsidiary under China Rare Earth Holdings Limited, the shares of which are listed on the main board of the Stock Exchange.

萬泉明先生 (Mr. Wan Quanming), aged 58, is the vice general manager of Wuxi Pan-Asia. He joined the Group in 2004 and is responsible for the daily management of the Group's human resource and administration. Before joining the Group, he was the deputy director of Yi Xing Municipal Public Security Bureau. He has over 20 years of experience in administration management.

趙建新先生 (Mr. Zhao Jianxin), aged 41, is the head of the internal audit department of the Group. He has over 15 years of experience in financial management. He joined the Group in 2002 and is responsible for the internal audit of the Group's enterprises in the PRC. He completed secondary education in 1986.

徐逸雲女士 (Ms. Xu Yiyun), aged 30, is the head of the finance department of Wuxi Pan-Asia. Ms. Xu has about 6 years of experience in financial management and corporate accounting in the PRC. She joined the Group in October 2000. Ms. Xu graduated from Suzhou University, majoring in accountancy.

張偉先生 (Mr. Zhang Wei), aged 32, is the manager of the administration and human resource department of Wuxi Pan-Asia. He joined the Group in 2002 and is responsible for the daily management of the Group's human resource, administration and logistics services. Before joining the Group, he worked as secretary in 宜興新威集團有限公司 (Yixing Xinwei Group Company Limited). He graduated from Soochow University majoring in foreign oriented secretary.

唐偉慶先生 (Mr. Tang Weiqing), aged 45, the vice general manager of SEEDRI. He has over 20 years of experience in environmental protection engineering design. He joined SEEDRI in 2003 and is responsible for the overall project engineering design of SEEDRI. He graduated from Shanghai University of Technology with a major in analytical chemistry.

李峻山先生 (Mr. Li Junshan), aged 51, is the vice general manager of SEEDRI. He has over 22 years of experience in environmental air conditioning and atmosphere treatment. He joined SEEDRI in 2001 and is responsible for engineering design of SEEDRI. He graduated from Shanghai Television University majoring in electronics.

The board of directors (the "Board" or the "Directors") submit their annual report together with the audited financial statements of Pan Asia Environmental Protection Group Limited (the "Company") and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2007.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands and has its principal place of business in the PRC at 1 Chuanshan Road, Yixing, Jiangsu Province, the PRC and its principal place of business in Hong Kong at Suite 3712, 37th Floor, The Center, 99 Queen's Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the sale of pipes, water treatment and flue gas treatment products and equipment, as well as undertaking of environmental protection ("EP") construction engineering projects and provision of EP related professional services.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the major customers and suppliers of the Group during the financial year is as follows:

	Percentage of the Group's total	
	Turnover	**Purchases**
The largest customer	11.0%	–
Five largest customers in aggregate	39.6%	–
The largest supplier	–	20.3%
Five largest suppliers in aggregate	–	75.2%

None of the Directors, their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or any shareholders of the Company (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the financial year ended 31 December 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 31 to 33.

TRANSFER TO RESERVES

Profits attributable to equity holders of the Company, before dividends, of RMB210,500,000 (2006: RMB165,273,000) have been transferred to reserves. Other movements in reserves are set out in note 32 to the financial statements.

The Board has recommended the payment of final dividend of HK5 cents per share in respect of the financial year ended 31 December 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in note 31 to the financial statements. There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the financial year.

DIRECTORS

The directors during the financial year were:

Executive directors

Mr. Jiang Quanlong *(Chairman)*	(appointed on 16 August 2006)
Mr. Fan Yajun *(Chief Executive Officer)*	(appointed on 23 March 2007)
Mr. Fang Guohong	(appointed on 23 March 2007)
Mr. Gan Yi	(appointed on 23 March 2007)
Mr. Jiang Lei	(appointed on 23 March 2007)

Independent non-executive directors

Mr. Lai Wing Lee	(appointed on 1 December 2007)
Professor Wang Guozhen	(appointed on 1 December 2007)
Mr. Leung Shu Sun, Sunny	(appointed on 1 December 2007)

Mr. Jiang Quanlong, Mr. Fan Yajun, Mr. Fang Guohong, Mr. Gan Yi and Mr. Jiang Lei retire from the offices as executive directors at the forthcoming annual general meeting in accordance with article 112 of the articles of association of the Company and Mr. Lai Wing Lee retire from the office as an independence non-executive director at the forthcoming annual general meeting in accordance with article 108(A) of the articles of association and all retiring directors, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the information disclosed in the section headed "Connected Transactions", no contracts of significance to which the Company, any of its holding companies, or any of their subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions of the Directors and their associates in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Nature of interest	Number of securities/amount of registered capital held *(Note 1)*	Approximate percentage of shareholding
Mr. Jiang Quanlong	Interest in controlled corporation	600,000,000 Shares (L) *(Notes 2 and 4)*	75%
Mr. Jiang Lei	Interest in controlled corporation	600,000,000 Shares (L) *(Notes 3 and 4)*	75%

Notes:

1. The letter "L" denotes the Director's long position in the shares.

2. These 600,000,000 shares are registered in the name of Praise Fortune Limited, Mr. Jiang Quanlong is the sole director of Praise Fortune Limited and he is deemed to be interested in all the shares in which Praise Fortune Limited is interested by virtue of the SFO.

3. These 600,000,000 shares are registered in the name of and beneficially owned by Praise Fortune Limited, the entire issued share capital of which is beneficially owned as to approximately 49.9%, 49.9% and 0.2% by Mr. Jiang Lei, Mr. Jiang Xin and Ms. Qian Yuanying respectively. Under the SFO, Mr. Jiang Lei is deemed to be interested in the Shares held by Praise Fortune Limited.

4. The total number of issued shares in Praise Fortune Limited as at 31 December 2007 is 601 shares of US$1 each. These 601 shares are owned as to 300 shares by Mr. Jiang Lei (an executive Director), as to 300 shares by Mr. Jiang Xin and as to 1 share by Ms. Qian Yuanying. The sole director of Praise Fortune Limited is Mr. Jiang Quanlong, an executive Director and Ms. Qian Yuanying is the spouse of Mr. Jiang Quanlong.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a resolution of the sole shareholder of the Company passed on 1 December 2007. The Share Option Scheme complies with the requirements of the Listing Rules. No share options has been granted to the Directors and the employees of the Company under the Share Option Scheme since its adoption and up to 31 December 2007. Details of the Share Option Scheme are set out in note 33 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the directors and chief executive of the Company, as at 31 December 2007, the following persons (other than the Directors or chief executive officer of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the shares of the Company

Name	Nature of interest	Number of shares held *(Note 1)*	Approximate percentage of total number of issued shares
Praise Fortune Limited *(Note 2)*	Beneficial owner	600,000,000 Shares (L)	75%
Mr. Jiang Xin *(Note 3)*	Interest of a controlled corporation	600,000,000 Shares (L)	75%
Ms. Qian Yuanying *(Note 4)*	Interest of spouse	600,000,000 Shares (L)	75%
Ms. Li Jingru *(Note 5)*	Interest of spouse	600,000,000 Shares (L)	75%
Ms. Chai Yongping *(Note 6)*	Interest of spouse	600,000,000 Shares (L)	75%
GE Asset Management Incorporated	Beneficial owner	42,494,000 Shares (L)	5.31%

Notes:

1. The Letter "L" denotes the person's long position in the Shares.

2. The total number of issued shares in Praise Fortune Limited as at 31 December 2007 is 601 shares of US$1 each. These 601 shares are owned as to 300 shares by Mr. Jiang Lei (an executive Director), as to 300 shares by Mr. Jiang Xin and as to 1 share by Ms. Qian Yuanying. The sole director of Praise Fortune Limited is Mr. Jiang Quanlong, an executive Director.

3. These Shares are registered in the name of and beneficially owned by Praise Fortune Limited , the entire issued share capital of which is beneficially owned as to approximately 49.9%, 49.9% and 0.2% by Mr. Jiang Lei, Mr. Jiang Xin and Ms. Qian Yuanying respectively. Under the SFO, Mr. Jiang Lei is deemed to be interested in the Shares held by Praise Fortune Limited .

4. Ms. Qian Yuanying is the spouse of Mr. Jiang Quanlong and is therefore deemed to be interested in all the Shares in which Mr. Jiang Quanlong is deemed to be interested.

5. Ms. Li Jingru is the spouse of Mr. Jiang Xin and is therefore deemed to be interested in all the Shares in which Mr. Jiang Xin is deemed to be interested.

6. Ms. Chai Yongping is the spouse of Mr. Jiang Lei and is therefore deemed to be interested in all the Shares in which Mr. Jiang Lei is deemed to be interested.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the financial year or at any time during the financial year.

CONNECTED TRANSACTIONS

The following transaction has been carried out by the Group and its connected person (as defined in the Listing Rules) during the year:

江蘇天元科技有限公司(Jiangsu Tianyuan Technologies Limited) ("Jiang Tianyuan")

Jiangsu Tianyuan is wholly owned by the associates of Mr. Fang Guohong, an executive Director. Jiangsu Tianyuan is principally engaged in the business of producing thermal insulation materials.

In January 2007, Jiangsu Tianyuan and the Group concluded a contract for the sum of approximately RMB3.7 million for the purchase of thermal insulation materials for the processing of, among other things, chimney, absorbers and pipes in the FGD project in Xinxiang, Henan Province, the PRC. Such transaction with Jiangsu Tianyuan was completed in August 2007. The Directors believe that completion of the transactions with Jiangsu Tianyuan does not have any material impact on the results and operations of the Group. The Company will comply with the applicable requirements of the Listing Rules should there be any further transactions between the Group and Jiangsu Tianyuan. The Directors are of the view that the above transactions with Jiangsu Tianyuan were entered into on normal commercial terms, fair and reasonable and on an arm's length basis.

無錫新威高溫陶瓷有限公司(Wuxi Xin Wei High Temperature Ceramics Co., Ltd.) ("High Temperature") – rental of office space

High Temperature was at the relevant time indirectly wholly owned by China Rare Earth Holdings Limited, the shares of which are listed on the Main Board and the latter's issued share capital, as at the balance sheet date is attributable as to about 41.88% to Mr. Jiang Lei, an executive Director, and his family members. High Temperature is therefore a connected person of the Company for the purpose of the Listing Rules. High Temperature is principally engaged in the manufacture and sales of high temperature ceramics products.

By a lease agreement ("Lease Agreement") dated 25 April 2005 made between High Temperature as the lessee and Wuxi Pan-Asia Environmental Protection Technologies Limited ("Wuxi Pan-Asia") as the lessor, Wuxi Pan-Asia leased the fifth block at number one of Chuanzhang Road, Yixing City, the PRC with gross floor area of 553.05 square metres, to High Temperature at an annual rent of approximately RMB53,092.8 (equivalent to approximately HK$54,685.6). The premise is used as administrative office of High Temperature. The Lease Agreement has a term of three years, commencing from 1 May 2005 and expiring on 30 April 2008.

The transaction under the Lease Agreement falls within the de minimis threshold as stipulated under Rules 14A.33(3) of the Listing Rules. Accordingly, the transaction is not subject to any of the reporting, announcement and independent Shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

COMPETING BUSINESS INTERESTS OF DIRECTORS

Non-Competition Undertaking

Under the restrictive covenants of a share purchase agreement dated 1 December 2007 executed among (i) YY Holdings as vendor, (ii) Praise Fortune Limited, Mr. Jiang Quanlong, Ms. Qian Yuanying, Mr. Jiang Lei and Mr. Jiang Xin as covenantors, and (iii) the Company as the purchaser, each of Praise Fortune Limited, Ms. Qian Yuanying, Mr. Jiang Quanlong, Mr. Jiang Lei and Mr. Jiang Xin (collectively the "Covenantors") has undertaken that he/she/it will not and shall procure his/her/its Associates will not:

(a) at any time disclose to any person, or himself/herself/itself use for any purpose, and shall use his/her/its best endeavours to prevent the publication or disclosure of, any information concerning the business, accounts or finances of any Group company, or any of its clients', suppliers' or customers' transactions or affairs, which may, or may have, come to his/her/its knowledge;

(b) at any time during which the Company is listed on the Stock Exchange and for so long as each of the Covenantors and their respective associates collectively hold, whether individually or taken together, 30% or more of the issued Shares or is regarded as the controlling shareholder(s) of the Company under the Listing Rules or for a period of two years from the date of the Listing, whichever is the longest period of time:

    (i) directly or indirectly solicit, interfere with, employ or endeavour to entice away from any Group company with a view to competing with the Group any person who, to his/her/its knowledge, is now, or has during the 12 months preceding the date of the share purchase agreement been, a client, customer, supplier or employee of, or has been in the habit of dealing with, any Group company;

    (ii) at any time use the name or trading style of any Group company, or any trademarks or logos or device similar in appearance to any trademarks, in the PRC, Hong Kong or any other part of the world, or represent himself as carrying on or continuing or being connected with any Group company or its business for any purposes whatsoever; and/or

    (iii) directly or indirectly carry on or be engaged or concerned or interested in the businesses of (i) the production of water treatment and flue gas treatment and solid waste treatment equipment and components and pipes; (ii) the sale and installation of water treatment and flue gas treatment and solid waste treatment equipment and pipes; and (iii) the contracting of water treatment and flue gas treatment and solid waste treatment projects, being the current principal businesses of the Group.

Each of the Covenantors has confirmed that he/she/it is not currently engaged in any business, which directly or indirectly competes or may compete with the Group's business.

Each of the Covenantors has undertaken in favour of the Company under the share purchase agreement to procure the provision to the Company of all information necessary for the enforcement of the above undertaking. Each of the Covenantors further undertakes in favour of the Company to make a statement in the annual report of the Company confirming compliance by it and its affiliates with the terms of the non-competition undertaking in the share purchase agreement. The Company will disclose in its annual reports on how the undertakings in the share purchase agreement are complied with and enforced in accordance with the principles of making voluntary disclosures in the Corporate Governance Report as defined in appendix 23 of the Listing Rules.

Benxi Fanya Environmental Heat & Power Co., Ltd. ("Benxi Fanya") is owned as to 80% by Asia Global Tech Group Limited ("AGT (HK)"), and as to 20% by an Independent Third Party. AGT (HK) is beneficially owned as to 60%, 20% and 20% by Ms. Qian Yuanying (the spouse of Mr. Jiang Quanlong), Mr. Jiang Lei and Mr. Jiang Xin (both of whom are sons of Mr. Jiang Quanlong) respectively. The permitted business scope on the business licence of Benxi Fanya includes, among others, research and consultation of environmental protection technology, and design of EP engineering. As at the Latest Practicable Date, Benxi Fanya was principally engaged in generating electricity and heat, and did not engage or interest in any businesses which compete with the current principal businesses of the Group.

Jiangsu Tianyuan Technologies Limited ("Jiangsu Tianyuan") is owned by the associates of Mr. Fang Guohong, an executive Director. The permitted business scope on the business licence of Jiangsu Tianyuan includes, among others, research and development of denitrification EP equipment and technology, manufacture of FGD EP equipment, desulphurisation absorption tower and flue glass flake anticorrosive material and denitrification EP equipment. As at the Latest Practicable Date, Jiangsu Tianyuan was principally engaged in the business of producing thermal insulation components, and did not engage or interest in any businesses which compete with the current principal businesses of the Group.

The permitted scope of business of each of Benxi Fanya and Jiangsu Tianyuan is relatively wide, but it is not unusual for a corporate entity to provide for a broader scope of business in its corporate documents to allow for flexibility. At present, neither Benxi Fanya nor Jiangsu Tianyuan has any plan to vary their respective business licences to exclude or alter the permitted activities as set out therein.

Mr. Jiang Quanlong is also the chairman and one of the executive directors of China Rare Earth Holdings Limited ("CRE"), a company whose securities are listed on the Main Board. CRE and its subsidiaries are principally engaged in manufacturing and sales of rare earth products and refractory products. As the Group's principal business is to provide integrated EP solutions in areas such as water and flue gas treatments, the current principal businesses of the Group and those of CRE and its subsidiaries do not compete with each other.

Under the restrictive covenants of several service agreements dated 1 December 2007 between the Company and each of the executive Directors, the executive Directors gave undertakings similar to the wordings stated in paragraph (b) above of the said share purchase agreement.

The independent non-executive Directors shall review, at least on an annual basis, the compliance with the non-competition undertaking by each of such persons on their existing or future competing business and the Company shall disclose the result of such review either through the annual report of the Company, or by way of announcement to the public.

As the controlling shareholders (namely, Praise Fortune Limited, Mr. Jiang Lei and Mr. Jiang Xin) and Mr. Jiang Quanlong as sole director of Praise Fortune Limited have given non-competition undertakings in favour of the Company and none of them has interests in other business that compete or are likely to compete with the business of the Group, the management and operation of the operating entities are independent from each other, the Directors are of the view that the Group is capable of carrying on its business independently of the controlling Shareholders.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 85 to 86 of the annual report.

RETIREMENT BENEFIT COSTS

The retirement schemes of the Company and its subsidiaries are primarily in form of contributions to the Hong Kong mandatory provident fund and China statutory public welfare fund. Particulars of these retirement schemes are set out in note 7 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders ("Shareholders") of the Company are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to the shares, they are advised to consult an expert.

AUDITOR

CCIF CPA Limited was appointed as auditor of the Company on 16 August 2006. CCIF CPA Limited will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
Jiang Quanlong
Chairman

Hong Kong, 21 April 2008

The board of directors of the Company (the "Board" or the "Directors") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2007.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability.

The Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") sets out the principles of good corporate governance and two levels of corporate governance practices:

(a) code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

In the opinion of the directors, the Company has complied with all the code provisions and certain recommended best practices set out in the CG Code throughout the period from the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 December 2007 (the "Listing Date") to 31 December 2007.

The Company will review periodically and improve its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

A. THE BOARD

1. Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

Every director carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

2. Board Composition

The Board of the Company comprises the following directors:

Executive directors:

Mr. Jiang Quanlong, *Chairman and member of the Nomination Committee and the Remuneration Committee*
Mr. Fan Yajun, *Chief Executive Officer*
Mr. Fang Guohong
Mr. Gan Yi
Mr. Jiang Lei

Independent non-executive directors:

Mr. Lai Wing Lee, *chairman of the Nomination Committee and the Remuneration Committee and member of the Audit Committee*
Professor Wang Guozhen, *member of the Nomination Committee, the Audit Committee and the Remuneration Committee*
Mr. Leung Shu Sun, Sunny, *chairman of the Audit Committee and member of the Nomination Committee and the Remuneration Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on pages 8 to 10.

The Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring independent judgement, business and financial expertise and experiences to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

3. Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Jiang Quanlong, and the Chief Executive Officer is Mr. Fan Yajun. With the support of the Company Secretary and the senior management, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board and he is in charge of the Company's day-to-day management and operations.

4. Appointment and Re-election of Directors

Each of the executive directors of the Company is engaged on a service contract for a term of 3 years commencing from 1 December 2007. Each of the independent non-executive directors of the Company is appointed for a specific term up to 30 November 2009. The appointment may be terminated by 3 months' written notice.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Nomination Committee

The Nomination Committee comprises four members, the majority of them are independent non-executive directors.

The principal duties of the Nomination Committee include:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as directors;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors; and
- To assess the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Since the shares of the Company were listed on the Stock Exchange on 21 December 2007, the Nomination Committee has not held any meeting during the period from the Listing Date to 31 December 2007.

In accordance with the Company's Articles of Association, Mr. Jiang Quanlong, Mr. Fan Yajun, Mr. Fang Guohong, Mr. Gan Yi and Mr. Jiang Lei, having been appointed as executive directors of the Company by the Board, shall retire and being eligible, offer themselves for re-election at the next forthcoming annual general meeting. In addition, Mr. Lai Wing Lee shall retire by rotation and being eligible, offer himself for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular, sent together with this annual report, contains detailed information of the above directors standing for re-election.

5. Induction and Continuing Development

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

6. Board Meetings

(i) *Board Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, Chief Financial Officer, the Company Secretary and Qualified Accountant attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

(ii) *Directors' Attendance Records*

During the year ended 31 December 2007, six Board meetings were held on 26 March 2007, 30 October 2007, 1 December 2007 (two Board meetings), 7 December 2007 and 18 December 2007 prior to the listing of the shares of the Company on the Stock Exchange for, among other matters, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance rate at each meeting was 100%, 40%, 100%, 100%, 37.5% and 25% respectively. No Board meeting was held for the period from the Listing Date to 31 December 2007.

The attendance records of each director at the meetings of the Board during the year are set out below:

Name of Directors	**Attendance/Number of Board Meetings**
Mr. Jiang Quanlong	5/6
Mr. Fan Yajun	4/6
Mr. Fang Guohong	4/6
Mr. Gan Yi	4/6
Mr. Jiang Lei	5/6
Mr. Lai Wing Lee	2/4 *Note*
Professor Wang Guozhen	2/4 *Note*
Mr. Leung Shu Sun, Sunny	2/4 *Note*

Note:

Mr. Lai Wing Lee, Professor Wang Guozhen and Mr. Leung Shu Sun, Sunny were appointed as independent non-executive directors of the Company on 1 December 2007.

7. Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period since the Listing Date to 31 December 2007.

The Company has established written guidelines on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the above written guidelines by the employees was noted by the Company.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2007 are set out in note 8 to the financial statements.

Remuneration Committee

The Remuneration Committee comprises four members, the majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages as well as the annual bonuses of the executive directors and the senior management for the year under review.

Since the shares of the Company were listed on the Stock Exchange on 21 December 2007, the Remuneration Committee has not held any meeting during the period from the Listing Date to 31 December 2007.

D. ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the Independent Auditor's Report.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

E. INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company. Such review covered the financial, operational, compliance and risk management aspects of the Group.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

F. AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include:

- Review of the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, internal auditor or external auditor before submission to the Board.

- Review of the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

- Review of the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal controls system of the Group and reports to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2007, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management review and processes and the re-appointment of the external auditor.

The external auditor was invited to attend the meeting to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

Since the shares of the Company were listed on the Stock Exchange on 21 December 2007, the Audit Committee has not held any meeting during the period from the Listing Date to 31 December 2007.

G. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 29.

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to HK$5,250,000 and HK$20,000 respectively. An analysis of the remuneration paid to the external auditor of the Company is set out below:

Category of services	Fee paid/payable
Audit service	
– initial public offer	HK$4,550,000
– annual audit	HK$700,000
Non-audit service	
– review results announcement	HK$20,000
Total	HK$5,270,000

H. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

General meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.paep.com.cn, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its principal place of business in Hong Kong or via email to info@paep.com.cn for any inquiries.

I. SHAREHOLDERS' RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Articles of Association. Details of such rights to demand a poll will be included in all circulars to shareholders and will be explained during the proceedings of meetings.

Where poll voting is conducted at a shareholders' meeting, the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholders' meeting.

J. GOING CONCERN

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
PAN ASIA ENVIRONMENTAL PROTECTION GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Pan Asia Environmental Protection Group Limited (the " Company") set out on pages 31 to 84, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 21 April 2008

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
TURNOVER	4	**703,946**	508,628
COST OF SALES		**(402,266)**	(299,298)
GROSS PROFIT		**301,680**	209,330
OTHER REVENUE	4	**5,197**	1,960
Selling and distribution expenses		**(16,701)**	(11,853)
General and administrative expenses		**(11,745)**	(8,888)
Other operating expenses		**(1,217)**	(2,722)
PROFIT BEFORE TAXATION	5	**277,214**	187,827
TAXATION	6	**(67,766)**	(22,701)
PROFIT FOR THE YEAR		**209,448**	165,126
ATTRIBUTABLE TO:			
Equity holders of the Company		**210,500**	165,273
Minority interests		**(1,052)**	(147)
		209,448	165,126
DIVIDENDS	11	**59,436**	108,000
EARNINGS PER SHARE – BASIC	12	**34.73 cents**	27.55 cents

The notes on pages 37 to 84 form part of these financial statements.

Balance Sheets

As at 31 December 2007

	Note	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
NON-CURRENT ASSETS					
Prepaid lease payment	13	**7,082**	7,249	**–**	–
Property, plant and equipment	14	**53,930**	57,153	**–**	–
Available-for-sale financial asset	15	**1,950**	1,950	**–**	–
Goodwill	16	**–**	–	**–**	–
Investment in subsidiaries	17	**–**	–	**381,537**	–
		62,962	66,352	**381,537**	–
CURRENT ASSETS					
Inventories	18	**16,234**	147	**–**	–
Trade receivables	19	**49,877**	43,714	**–**	–
Prepayments, deposits and other receivables		**9,059**	13,133	**1,455**	–
Prepaid lease payment	13	**169**	169	**–**	–
Amounts due from related companies	21	**2,153**	771	**2,153**	–
Amounts due from subsidiaries	17	**–**	–	**81,583**	–
Amounts due from minority shareholders	23	**–**	1,838	**–**	–
Amounts due from customers for contract work	29	**65,230**	72,946	**–**	–
Pledged bank deposits	36	**6,880**	8,014	**–**	–
Cash and bank balances	24	**1,016,595**	307,865	**408,262**	–
		1,166,197	448,597	**493,453**	–
CURRENT LIABILITIES					
Trade payables	25	**65,001**	60,908	**–**	–
Accruals and other payables		**35,866**	29,327	**9,397**	–
Dividend payable		**–**	48,000	**–**	–
Amount due to a minority shareholder	23	**233**	–	**–**	–
Amount due to a director	26	**460**	2,979	**–**	–
Amount due to a related company	27	**–**	227	**–**	–
Amount due to a fellow subsidiary	28	**–**	4,529	**–**	–
Trade deposits received		**52,793**	6,368	**–**	–
Tax payables	30	**45,626**	5,581	**–**	–
		199,979	157,919	**9,397**	–
NET CURRENT ASSETS		**966,218**	290,678	**484,056**	–
NET ASSETS		**1,029,180**	357,030	**865,593**	–

Balance Sheets

As at 31 December 2007

	Note	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
CAPITAL AND RESERVES					
Share capital	*31*	**74,872**	2	**74,872**	–
Reserves	*32*	**953,058**	354,726	**790,721**	–
Equity attributable to equity holders of the Company		**1,027,930**	354,728	**865,593**	–
Minority interests		**1,250**	2,302	**–**	–
TOTAL EQUITY		**1,029,180**	357,030	**865,593**	–

Approved and authorised for issue by the board of directors on 21 April 2008

Jiang Quanlong
Director

Fan Yajun
Director

The notes on pages 37 to 84 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital	Share premium	Special reserve	Contributed surplus	Enterprise expansion reserve	Statutory surplus reserve	Statutory staff welfare reserve	Translation reserve	Retained profits	Subtotal	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMR'000	RMB'000	RMB'000
At 31 December 2005 and 1 January 2006	109,924	–	–	–	9,273	9,273	9,273	–	159,712	297,455	–	297,455
Issue of shares	2	–	–	–	–	–	–	–	–	2	–	2
Acquisition of subsidiaries	(109,924)	–	103,582	–	–	–	–	6,340	–	(2)	2,449	2,447
Profit for the year	–	–	–	–	–	–	–	–	165,273	165,273	(147)	165,126
Dividend	–	–	–	–	–	–	–	–	(108,000)	(108,000)	–	(108,000)
Transfer to reserve	–	–	–	–	8,324	17,597	(9,273)	–	(16,648)	–	–	–
At 31 December 2006 and 1 January 2007	2	–	103,582	–	17,597	26,870	–	6,340	200,337	354,728	2,302	357,030
Issue of shares upon Reorganisation *(note 31(iv))*	9,359	–	–	372,178	–	–	–	–	–	381,537	–	381,537
Effect of the Reorganisation	(2)	–	(9,357)	(372,178)	–	–	–	–	–	(381,537)	–	(381,537)
Issue of shares *(note 31(v))*	18,718	505,386	–	–	–	–	–	–	–	524,104	–	524,104
Shares issuance expenses	–	(39,362)	–	–	–	–	–	–	–	(39,362)	–	(39,362)
Capitalisation of share premium *(note 31(vi))*	46,795	(46,795)	–	–	–	–	–	–	–	–	–	–
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	–	–	(40)	–	(40)	–	(40)
Profit for the year	–	–	–	–	–	–	–	–	210,500	210,500	(1,052)	209,448
Dividend	–	–	–	–	–	–	–	–	(22,000)	(22,000)	–	(22,000)
Transfer to reserve	–	–	–	–	10,730	10,730	–	–	(21,460)	–	–	–
At 31 December 2007	**74,872**	**419,229**	**94,225**	**–**	**28,327**	**37,600**	**–**	**6,300**	**367,377**	**1,027,930**	**1,250**	**1,029,180**

The notes on pages 37 to 84 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Profit before taxation		**277,214**	187,827
Adjustments for:			
Interest income		**(3,441)**	(1,810)
Depreciation		**5,286**	4,747
Amortisation of prepaid lease payment		**167**	169
Impairment on other receivables		**64**	25
Impairment on trade receivables		**501**	–
Impairment of goodwill		**–**	1,814
Operating cash flows before working capital changes		**279,791**	192,772
(Increase)/decrease in inventories		**(16,087)**	24,733
(Increase)/decrease in trade receivables		**(6,664)**	67,436
Decrease/(increase) in prepayments, deposits and other receivables		**4,010**	(2,830)
Decrease in amount due from a director		**–**	20,234
(Increase)/decrease in amounts due from related companies		**(1,382)**	1,034
Decrease in amount due from a fellow subsidiary		**–**	17,504
Decrease/(increase) in amounts due from minority shareholders		**1,838**	(1,838)
Decrease/(increase) in amounts due from customers for contract work		**7,716**	(53,413)
Increase in trade payables		**4,093**	37,723
Increase in accruals and other payables		**6,539**	14,856
(Decrease)/increase in amount due to a director		**(2,519)**	2,979
Decrease in amount due to a related company		**(227)**	–
Decrease in amount due to a fellow subsidiary		**(4,529)**	–
Increase in amount due to a minority shareholder		**233**	–
Decrease in prepayments from customers for contract work		**–**	(3,245)
Increase/(decrease) in trade deposits received		**46,425**	(28,621)
Cash generated from operations		**319,237**	289,324
PRC enterprises income tax paid		**(27,721)**	(20,943)
Net cash generated from operating activities		**291,516**	268,381

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from investing activities			
Interest received		**3,441**	1,810
Payments for acquisition of subsidiaries	*34*	**–**	(2,934)
Payments for acquisition of property, plant and equipment		**(2,063)**	(3,677)
Decrease in pledged bank deposits		**1,134**	358
Net cash generated from/(used in) investing activities		**2,512**	(4,443)
Cash flows from financing activities			
Issuance of share capital		**524,104**	–
Share issuance expenses		**(39,362)**	–
Payment of dividend		**(70,000)**	(60,000)
Net cash generated from/(used in) financing activities		**414,742**	(60,000)
Net increase in cash and cash equivalents for the year		**708,770**	203,938
Cash and bank balances at beginning of year		**307,865**	103,927
Effect of foreign exchange rate changes, net		**(40)**	–
Cash and bank balances at end of year		**1,016,595**	307,865
Analysis of the balance of cash and cash equivalents			
Cash and bank balances		**1,016,595**	307,865

The notes on pages 37 to 84 form part of these financial statements.

1. GENERAL INFORMATION

(a) Principal activities and reorganisation

The Company was incorporated in the Cayman Islands on 16 August 2006 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands in preparation for the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (collectively referred to as the "Group") has undertaken a group reorganisation (the "Reorganisation"). The Company became the holding company of the Group as result of the Reorganisation completed on 1 December 2007, which involved the transfer to the Company by YY Holdings Limited ("YY Holdings") of an aggregate of 200 shares of US$1 each, being the entire issued share capital of Pan Asia Environmental Protection Technologies Limited ("Pan Asia BVI"), the intermediate holding company of the Group which acquired 100% interest in Wuxi Pan-Asia Environmental Protection Technologies Limited ("Wuxi Pan-Asia") on 9 September 2006, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 99 million new shares of the Company to YY Holdings, and (ii) credited as fully paid at par the 1 million nil-paid shares of the Company then held by YY Holdings.

The shares of the Company were listed on the Stock Exchange on 21 December 2007.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Group.

The Group is principally engaged in the manufacture and sale of environmental protection ("EP") products and equipment, undertaking of EP construction engineering projects, provision of EP related professional services and investment holding.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

(b) Basis of presentation

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), under which the consolidated financial statements have been prepared as if the Company had been the holding company of the subsidiaries comprising the Group throughout the year ended 31 December 2007, rather than from the date on which the Reorganisation was completed. The comparative figures as at 31 December 2006 and for the year ended 31 December 2006 have been presented on the same basis.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2006 and 1 January 2007. These new and revised HKFRSs have been early adopted for both years presented.

The Group has not early applied the following new and revised standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC) – INT 12	Service concession arranagements[4]
HK(IFRIC) – INT 13	Customer loyalty programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

1. Effective for annual periods beginning on or after 1 January 2009.
2. Effective for annual periods beginning on or after 1 July 2009.
3. Effective for annual periods beginning on or after 1 March 2007.
4. Effective for annual periods beginning on or after 1 January 2008.
5. Effective for annual periods beginning on or after 1 July 2008.

The adoption HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of polices and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 42.

(b) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is stated at cost and less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries *(continued)*

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet with equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(h)), unless the investment is classified as held for sale.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss (see note 3(h)).

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual lives, if any, using the straight-line method, at the following rates per annum:

Buildings	5%
Furniture, fixtures and equipment	20%
Leasehold improvements	20%
Motor vehicles	20%
Plant and machineries	10%

(e) Prepaid lease payment

Payments for the usage of the leasehold land are amortised over the period of the lease on a straight-line basis to the income statement.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method and comprises direct materials and, where appropriate, direct labour costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal.

(g) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instruments. Financial assets and financial liabilities are measured initially at fair value.

Trade and other receivables

Trade and other receivables, are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 3(h)).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial instruments *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 3(q) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in note 3(q). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

For available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent period.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowing, using the effective interest method.

Trade and other payables

Trade and other payables are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of tangible and intangible assets

(i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities other than investments in subsidiaries (see note 3(c) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of tangible and intangible assets *(continued)*

(i) Impairment of investments in equity securities and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale financial assets, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of tangible and intangible assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- intangible assets;
- investment in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of tangible and intangible assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale financial asset carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Construction contracts *(continued)*

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as prepayments from customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as prepayments from contract customers for contract work. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

(j) Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the respective leases.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(l) Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary difference, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the average exchange rates for the period, unless the exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charges as an expense when employees have rendered service entitling them to the contributions.

(o) Provision and contingencies liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Revenue recognition

Revenue represents the net amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title and risk have been transferred.

Revenue from EP construction engineering projects is recognised in accordance with the Group's accounting policy on construction contracts set out in note 3(i).

Revenue from EP related professional services is recognised when the services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(r) Share-based payment transactions

Equity-settled share-based payment transactions

(i) *Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in income statement over the remaining vesting period, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

(ii) *Share options granted to suppliers/consultants*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are expensed on a straight-line basis over the vesting period unless the goods or services qualify for recognition as assets. A corresponding adjustment is made to equity (share option reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4. TURNOVER AND OTHER REVENUE

Turnover represents the net amounts received and receivable for goods sold and rendering of services by the Group.

Turnover and other revenue consist of:

	2007 **RMB'000**	2006 RMB'000
Turnover		
Sale of EP products and equipment	**622,788**	343,838
Revenue from EP construction engineering projects	**79,569**	164,616
Revenue from EP related professional services	**1,589**	174
	703,946	508,628
Other revenue		
Exchange gain	**1,736**	–
Interest income	**3,441**	1,810
Sundry income	**20**	150
	5,197	1,960
Total revenue	**709,143**	510,588

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging the following:

	2007 RMB'000	2006 RMB'000
Amortisation of prepaid lease payment	**167**	169
Auditor's remuneration	**755**	–
Cost of inventories	**353,122**	186,354
Depreciation	**5,286**	4,747
Exchange loss	**–**	629
Impairment of goodwill	**–**	1,814
Impairment on other receivables	**64**	25
Impairment on trade receivables	**501**	–
Operating lease payment – properties rental	**192**	595
Staff costs (including directors' remuneration)		
Salaries and wages	**20,840**	14,551
Retirement benefit costs	**705**	456
	21,545	15,007

Note:

Auditor's remuneration for the years ended 31 December 2005 and 2006 of approximately RMB50,000 and RMB50,000 respectively were paid and accounted for in March 2007. The remaining balance of approximately RMB655,000 represents the auditor's remuneration of the Group for the year 2007.

6. TAXATION

	2007 RMB'000	2006 RMB'000
Current Tax		
PRC enterprise income tax – current year	**67,766**	22,701

(i) Wuxi Pan-Asia, which was formerly a sino-foreign joint venture enterprise, was subject to PRC enterprise income tax at a rate of 24% applicable to the company on the assessable profits for the year and is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses being the year ended 31 December 2002, followed by a 50% reduction for the next three years. Commencing from 2004, the profit generated from Wuxi Pan-Asia was subject to an income tax rate of 12%, being half of the corporate income tax rate applicable, such tax exemption expired on 31 December 2006. With effect from 2 August 2000, Wuxi Pan-Asia was changed from a sino-foreign joint venture enterprise to a wholly-foreign-owned enterprise, and the tax concession remained unchanged.

6. TAXATION *(continued)*

Wuxi Zhong Dian Kong Leng Technology Limited ("Wuxi Zhong Dian"), which is a PRC domestic-invested company, is subject to the PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the year.

Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI"), which is a joint stock limited company, is subject to the PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the year.

By a legislation passed by the National People's Congress in 2007, a uniform enterprise income tax of 25% will become generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008. It is currently expected that with effect from 1 January 2008, the enterprise income tax rate applicable to the Group's PRC subsidiaries will be 25%.

(ii) No provision for Hong Kong profits tax has been made for the years ended 31 December 2006 and 2007 as the Group's income neither arises in, nor is derived from Hong Kong.

Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2007	2006
	RMB'000	RMB'000
Profit before taxation	**277,214**	187,827
Tax calculated at the applicable tax rate	**66,184**	44,871
Effect of tax exemption	**–**	(22,701)
Tax effect of non-deductible expenses	**1,582**	531
	67,766	22,701

7. RETIREMENT BENEFIT COSTS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan managed by independent trustees. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earning as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan operated by the local government in the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the consolidated income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

The contributions paid which have been dealt with in the consolidated income statement of the Group for the years ended 31 December 2006 and 2007 are as follows:

	2007	2006
	RMB'000	RMB'000
Contributions paid	**705**	456

8. DIRECTORS' REMUNERATION

The directors of the Company were members of the senior management of the Group during the years ended 31 December 2006 and 2007. Assuming these existing directors had already been appointed directors at the beginning of the year ended 31 December 2006, directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2007	2006
	RMB'000	RMB'000
Fees	**73**	–
Salaries, allowances and benefits in kind	**4,411**	2,443
Contributions to retirement scheme	**5**	3
	4,489	2,446

8. DIRECTORS' REMUNERATION *(continued)*

	Year ended 31 December 2007			
Name of director	**Fees RMB'000**	**Salaries, allowances and benefits in kind RMB'000**	**Contributions to retirement scheme RMB'000**	**Total RMB'000**
Executive directors				
Mr. Fan Yajun	**9**	**98**	**2**	**109**
Mr. Fang Guohong	**9**	**4,170**	**–**	**4,179**
Mr. Gan Yi	**9**	**46**	**–**	**55**
Mr. Jiang Lei	**9**	**–**	**–**	**9**
Mr. Jiang Quanlong	**10**	**97**	**3**	**110**
Independent non-executive directors				
Mr. Lai Wing Lee	**5**	**–**	**–**	**5**
Mr. Leung Shu Sun, Sunny	**17**	**–**	**–**	**17**
Professor. Wang Guozhen	**5**	**–**	**–**	**5**
	73	**4,411**	**5**	**4,489**

	Year ended 31 December 2006			
Name of director	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement scheme RMB'000	Total RMB'000
Executive directors				
Mr. Fan Yajun	–	18	–	18
Mr. Fang Guohong	–	2,407	3	2,410
Mr. Gan Yi	–	–	–	–
Mr. Jiang Lei	–	–	–	–
Mr. Jiang Quanlong	–	18	–	18
Independent non-executive directors				
Mr. Lai Wing Lee	–	–	–	–
Mr. Leung Shu Sun, Sunny	–	–	–	–
Professor. Wang Guozhen	–	–	–	–
	–	2,443	3	2,446

During the years ended 31 December 2006 and 2007, no director of the Company waived any emoluments and no emolument was paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals for the year included one director (2006: one), details of whose emoluments are set out in note 8. The emoluments of the remaining four (2006: four) individuals are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and allowances	**6,912**	7,064
Contributions to retirement scheme	**7**	–
	6,919	7,064

During the year, no emolument was paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation of loss of office (2006: Nil).

The emoluments of those remaining four individuals other than the director fall within the following bands:

	2007 RMB'000	2006 RMB'000
Bands		
Nil to RMB935,900 (HK$1,000,000 equivalent)	**–**	1
RMB935,001 (HK$1,000,001 equivalent) to RMB1,403,850 (HK$1,500,000 equivalent)	**3**	1
RMB1,403,851 (HK$1,500,001 equivalent) to RMB1,871,800 (HK$2,000,000 equivalent)	**–**	1
RMB2,807,701 (HK$3,000,001 equivalent) to RMB3,275,650 (HK$3,500,000 equivalent)	**–**	1
RMB3,743,601 (HK$4,000,001 equivalent) to RMB4,211,550 (HK$4,500,000 equivalent)	**1**	–
	4	4

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of approximately of RMB686,000 (2006: Nil) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Dividends paid to the then shareholders	**22,000**	108,000
Final dividend proposed after the balance sheet date of HK5 cents per share	**37,436**	–
	59,436	108,000

Note:

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Dividends of RMB22,000,000 (2006: RMB108,000,000) were declared and paid by the Company's subsidiaries to their then shareholders during the year ended 31 December 2007.

Final dividends of RMB60,000,000 for 2005 was declared and paid in 2006.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB210,500,000 (2006: approximately RMB165,273,000) and the weighted average number of 606,027,000 shares (2006: 600,000,000 shares) in issue during the year.

Weighted average number of ordinary shares

	2007 '000	2006 '000
Issued ordinary shares at 1 January	**600,000**	600,000
Issue of shares *(note 31(v))*	**6,027**	–
Weighted average number of ordinary shares at 31 December	**606,027**	600,000

In determining the weighted average number of ordinary shares in issue, a total of 600,000,000 ordinary shares were deemed to be in issue since 1 January 2006.

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2006 and 2007 are not presented as there were no dilutive potential ordinary shares.

13. PREPAID LEASE PAYMENT

	The Group	
	2007	2006
	RMB'000	RMB'000
Net book value at beginning of year	**7,418**	7,587
Amortisation	**(167)**	(169)
Net book value at end of year	**7,251**	7,418
Analysed by:		
Non-current portion	**7,082**	7,249
Current portion	**169**	169
	7,251	7,418

The prepaid lease payment represents prepayment of lease premium for land situated in the PRC under medium lease term.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings held for own use	Furniture, fixtures and equipment	Plant and machineries	Leasehold improvements	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at 1/1/2006	51,301	1,098	15,541	–	2,706	70,646
Acquisition of subsidiaries	1,048	198	–	–	–	1,246
Additions	–	39	6	–	3,632	3,677
As at 31/12/2006 and 1/1/2007	52,349	1,335	15,547	–	6,338	75,569
Additions	–	183	–	1,880	–	2,063
As at 31/12/2007	52,349	1,518	15,547	1,880	6,338	77,632
Accumulated depreciation						
As at 1/1/2006	7,636	652	3,708	–	1,673	13,669
Charge for the year	2,355	200	1,425	–	767	4,747
As at 31/12/2006 and 1/1/2007	9,991	852	5,133	–	2,440	18,416
Charge for the year	2,381	190	1,425	331	959	5,286
As at 31/12/2007	12,372	1,042	6,558	331	3,399	23,702
Net book value						
As at 31/12/2007	39,977	476	8,989	1,549	2,939	53,930
As at 31/12/2006	42,358	483	10,414	–	3,898	57,153

All the buildings which are situated in the PRC are held under medium-term lease.

15. AVAILABLE-FOR-SALE FINANCIAL ASSET

	The Group	
	2007	2006
	RMB'000	RMB'000
Unlisted shares in the PRC, at cost	**1,950**	1,950

The above unlisted investment represents investment in unlisted equity securities issued by a private entity incorporated in the PRC. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair values cannot be measured reliably.

16. GOODWILL

	The Group	
	2007	2006
	RMB'000	RMB'000
Cost		
Arising on acquisition of subsidiaries	**1,814**	1,814
Impairment		
Impairment loss recognised	**(1,814)**	(1,814)
Carrying amount		
At 31 December	**–**	–

The impairment loss recognised solely relates to the Group's provision of EP related professional services activities in PRC. In 2006, an adjustment was made to the carrying amount of the goodwill which was derived from the acquisition of Wuxi Zhong Dian and SEEDRI in August 2006.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**381,537**	–
Amounts due from subsidiaries	**81,583**	–

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Details of the subsidiaries are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Pan Asia BVI	British Virgin Islands, limited liability company	US$100	100%	–	Investment holding
Wuxi Pan-Asia	The People's Republic of China (the "PRC"), wholly-foreign-owned enterprise	US$13,280,000	–	100%	Manufacture and sale of EP products and equipment and undertaking of EP construction engineering projects
Wuxi Zhong Dian	PRC, domestic-invested limited company	RMB5,000,000	–	100%	Investment holding
SEEDRI	PRC, joint stock limited company	RMB10,750,000	–	70.05%	Provision of EP related professional services

18. INVENTORIES

	The Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**11**	18
Work-in-progress	**4,776**	–
Finished goods	**11,447**	129
	16,234	147

19. TRADE RECEIVABLES

	The Group	
	2007	2006
	RMB'000	RMB'000
Trade receivables	**50,514**	43,850
Impairment loss for bad and doubtful debts	**(637)**	(136)
	49,877	43,714

The aging analysis of trade receivables is as follows:

	2007	2006
	RMB'000	RMB'000
0 to 30 days	**6,080**	728
31 to 60 days	**9,476**	7,155
61 to 90 days	**16,226**	1,612
91 to 180 days	**7,303**	10,929
181 to 365 days	**10,792**	6,246
Over 365 days	**–**	17,044
	49,877	43,714

Trade receivables generally include the balances yet to be due such as the quality retention monies (typically 5% to 20% of the total contracted value) that retained by the customers until the fulfilment of the warranty period of generally 1 to 2 years, receivable pursuant to the payment terms of the respective contracts. The Group normally grants credit terms from 1 to 2 months to its customers. Apart from those mentioned retention monies, trade receivables are expected to be recovered or recognised as expense within one year.

19. TRADE RECEIVABLES *(continued)*

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 3(h)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2007 **RMB'000**	2006 RMB'000
At 1 January	**136**	–
Impairment loss recognised	**501**	–
Acquisition of a subsidiary, SEEDRI	**–**	136
At 31 December	**637**	136

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

20. AMOUNT DUE FROM A DIRECTOR

	The Group	
Name of director	**2007** **RMB'000**	2006 RMB'000
Mr. Jiang Quanlong	**–**	–

	Maximum amount outstanding Year ended 31 December	
Name of director	**2007** **RMB'000**	2006 RMB'000
Mr. Jiang Quanlong	**–**	24,835

The amount is unsecured, interest-free and was fully settled in 2006.

21. AMOUNTS DUE FROM RELATED COMPANIES

The Group

Name of company	Connected party	2007	2006	Maximum amount outstanding Year ended 31 December 2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
YY Holdings Limited	A company in which Mr. Jiang Quanlong, a director of the Company, has beneficial interest	2,153	–	2,153	–
Wuxi Xin Wei High Temperature Ceramics Co., Ltd.	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	–	–	–	2,708
上海工程成套有限公司 (Shanghai Gongcheng Cheng Tao Company Limited)	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	–	771	–	771
		2,153	771		

The Company

Name of company	Connected party	2007	2006	Maximum amount outstanding Year ended 31 December 2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
YY Holdings Limited	A company in which Mr. Jiang Quanlong, a director of the Company, has beneficial interest	2,153	–	2,153	–

The amounts due from related companies are of a non-trade nature and are unsecured, interest-free and repayable on demand.

22. AMOUNT DUE FROM A FELLOW SUBSIDIARY

			Maximum amount outstanding Year ended 31 December	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
本溪泛亞環保熱電有限公司 (Benxi Fanya Environmental Heat & Power Co., Ltd.)	**–**	–	**–**	17,504

The amount due from a fellow subsidiary is of a trade nature. The Group normally grants credit terms from 1 month to 2 months to the fellow subsidiary. The amount was fully settled in 2006.

23. AMOUNTS DUE (TO)/FROM MINORITY SHAREHOLDERS

The Group

			Maximum amount outstanding Year ended 31 December	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
上海泛亞環保產業發展有限公司 (Shanghai Pan-Asia Environmental Protection Industrial Development Limited) (formerly known as 上海華源環保產業發展有限公司) (Shanghai Wah Yuen Environmental Protection Property Development Company Limited)	**(233)**	1,776	**1,776**	6,336
上海工程成套建設有限公司	**–**	62	**–**	788
	(233)	1,838		

The amounts due (to)/from minority shareholders are of a non-trade nature and are unsecured, interest-free and repayable on demand.

24. CASH AND BANK BALANCES

A majority of the cash and bank balances for the years ended 31 December 2006 and 2007 were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

25. TRADE PAYABLES

The Group normally receives credit terms of 30 days from its suppliers. The aging analysis of trade payables is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
0 to 30 days	**3,081**	55,040
31 to 60 days	**4,020**	626
61 to 90 days	**12,995**	1,557
91 to 180 days	**3,582**	3,167
181 to 365 days	**36,204**	393
Over 365 days	**5,119**	125
	65,001	60,908

26. AMOUNT DUE TO A DIRECTOR

	The Group	
	2007	2006
	RMB'000	RMB'000
Mr. Jiang Quanlong	**460**	2,979

The amount is unsecured, interest-free and repayable on demand.

27. AMOUNTS DUE TO A RELATED COMPANY

		The Group	
	Connected party	**2007**	2006
		RMB'000	RMB'000
Yixing Leeshing Rare Earth Company Limited	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	**–**	227

The amount due to a related company is of a non-trade nature and is unsecured, interest-free and was fully settled in 2007.

28. AMOUNT DUE TO A FELLOW SUBSIDIARY

	The Group	
	2007	2006
	RMB'000	RMB'000
Asia Global Tech Group Limited (formerly known as Asia Environmental Protection Technologies Group Limited)	**–**	4,529

The amount due to a fellow subsidiary is of a non-trade nature and is unsecured, interest-free and was fully settled in 2007.

29. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

Contracts work-in-progress at the balance sheet date:

	The Group	
	2007	2006
	RMB'000	RMB'000
Contract costs incurred to date	**178,232**	158,064
Recognised profits less recognised losses	**86,396**	53,525
	264,628	211,589
Less: Progress billings	**(199,398)**	(138,643)
Amounts due from customers for contract work	**65,230**	72,946

30. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents

	2007	2006
	RMB'000	RMB'000
Provision for PRC enterprise income tax	**67,766**	22,701
Tax paid	**(27,721)**	(20,943)
	40,045	1,758
Balance of PRC enterprise income tax relating to prior year	**5,581**	3,823
	45,626	5,581

(b) Deferred taxation

As at 31 December 2006 and 2007 respectively, the Group had no significant unprovided deferred tax assets or liabilities.

31. SHARE CAPITAL

Authorised and issued share capital

	Number of shares '000	Amount HK$'000
Authorised		
Upon incorporation of the Company *(note 31(i))*	1,000	100
Increase in authorised share capital *(note 31(ii))*	99,000	9,900
Further increase in authorised share capital *(note 31(iii))*	3,900,000	390,000
As at 31 December 2007	4,000,000	400,000
Issued and fully paid		
Issue of shares upon incorporation *(note 31(i))*	1,000	100
Issue of shares upon Reorganisation *(note 31(iv))*	99,000	9,900
Issue of shares upon IPO through a placing and public offer *(note 31(v))*	200,000	20,000
Capitalisation of share premium *(note 31(vi))*	500,000	50,000
As at 31 December 2007	800,000	80,000
	Equivalent to	RMB74,872,000

As at 31 December 2006, the issued share capital shown on the consolidated balance sheet represented the issued share capital of Pan Asia (BVI), the then holding company of the Group prior to the Reorganisation (see note 1 to the financial statements).

Notes:

(i) Upon incorporation on 16 August 2006, the Company had authorised share capital of HK$100,000, dividend into 1,000,000 shares of HK$0.10 each. On the same date, all shares were allotted and issued as nil paid shares, which were subsequently credited as fully paid at par as noted in (iv) below.

(ii) Pursuant to a written resolution passed on 1 December 2007, the Company's authorised share capital was increased from HK$100,000 to HK$10,000,000 by the creation of 99,000,000 additional shares with a par value of HK$0.10 each ranking pari passu with the then existing shares in all respects.

(iii) The authorised share capital of the Company was further increased to HK$400,000,000 by the creation of a further 3,900,000,000 shares with a par value of HK$0.10 each pursuant to a resolution passed on 1 December 2007.

(iv) In preparation for the Company's listing of its shares on the Main Board of the Stock Exchange, the Company allotted and issued 99,000,000 shares, together with the 1,000,000 shares allotted and issued on 16 August 2006 as noted in (i) above, of HK$0.10 each, credited as fully paid at par, in exchange for the acquisition by the Company of the entire share capital of Pan Asia BVI, the then holding company of the Group, on 1 December 2007.

31. SHARE CAPITAL *(continued)*

Notes: (continued)

(v) In connection with the Company's initial public offering, on 20 December 2007, a total of 200,000,000 shares of HK$0.10 each were issued at a price of HK$2.8 per share for a total cash consideration, before expenses, of approximately HK$560,000,000. Dealings in these shares on the Stock Exchange commenced on 21 December 2007.

(vi) Pursuant to the written resolutions passed on 1 December 2007, share premium of approximately HK$50,000,000 (equivalent to approximately RMB46,795,000) was capitalised for the issuance of 500,000,000 shares of HK$0.10 each on a pro-rata basis to the Company's shareholders on 1 December 2007.

32. RESERVES

The Group

	Share premium	Special reserve	Contributed surplus	Enterprise expansion reserve	Statutory surplus reserve	Statutory staff welfare reserve	Translation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMR'000
At 31 December 2005 and 1 January 2006	–	–	–	9,273	9,273	9,273	–	159,712	187,531
Acquisition of subsidiaries	–	103,582	–	–	–	–	6,340	–	109,922
Profit for the year	–	–	–	–	–	–	–	165,273	165,273
Dividend	–	–	–	–	–	–	–	(108,000)	(108,000)
Transfer to reserve	–	–	–	8,324	17,597	(9,273)	–	(16,648)	–
At 31 December 2006 and 1 January 2007	–	103,582	–	17,597	26,870	–	6,340	200,337	354,726
Issue of shares upon Reorganisation *(note 31(iv))*	–	–	372,178	–	–	–	–	–	372,178
Effect of the Reorganisation	–	(9,357)	(372,178)	–	–	–	–	–	(381,535)
Issue of shares *(note 31(v))*	505,386	–	–	–	–	–	–	–	505,386
Shares issuance expenses	(39,362)	–	–	–	–	–	–	–	(39,362)
Capitalisation of share premium *(note 31(vi))*	(46,795)	–	–	–	–	–	–	–	(46,795)
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	–	(40)	–	(40)
Profit for the year	–	–	–	–	–	–	–	210,500	210,500
Dividend	–	–	–	–	–	–	–	(22,000)	(22,000)
Transfer to reserve	–	–	–	10,730	10,730	–	–	(21,460)	–
At 31 December 2007	**419,229**	**94,225**	**–**	**28,327**	**37,600**	**–**	**6,300**	**367,377**	**953,058**

32. RESERVES *(continued)*

The Company

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2006, 31 December 2006 and 1 January 2007	–	–	–	–
Issue of shares upon Reorganisation *(note 31(iv))*	–	372,178	–	372,178
Issue of shares *(note 31(v))*	505,386	–	–	505,386
Share issuance expenses	(39,362)	–	–	(39,362)
Capitalisation of share premium *(note 31(vi))*	(46,795)	–	–	(46,795)
Loss attributable to shareholders	–	–	(686)	(686)
At 31 December 2007	419,229	372,178	(686)	790,721

Nature and purpose of reserves

(i) *Share premium*

Under the Companies Law (revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) *Special reserve*

The special reserve of the Group represents the differences between the nominal value and share premium of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of Reorganisation.

(iii) *Contributed surplus*

The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation prior to listing of the Company's shares on 1 December 2007.

32. RESERVES *(continued)*

Nature and purpose of reserves *(continued)*

(iv) Enterprise expansion reserve and statutory surplus reserve

Statutory surplus reserve and enterprise expansion reserve are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by their board of directors annually. The statutory surplus reserve can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issues. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

(v) Statutory staff welfare reserve

The statutory staff welfare reserve is to be utilised to provide staff welfare facilities and other collective benefits to the PRC employees. In accordance with the latest PRC relevant laws and regulations it is no longer required to make appropriations to statutory staff welfare reserve and the unutilised statutory staff welfare reserve as at 31 December 2005 was transferred to statutory surplus reserve in 2006.

(vi) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(m).

Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2007, the Company's reserves available for distribution to shareholders amounted to approximately RMB790,721,000 (2006: Nil), computed in accordance with the Companies Law (Revised) of the Cayman islands and the Company's articles of association. This includes the Company's share premium of approximately RMB419,229,000 (2006: Nil), and contributed surplus of approximately RMB372,178,000 (2006: Nil), less accumulated losses of RMB686,000 (2006: Nil), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

33. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 1 December 2007. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentive or rewards for their contributions to the Group. Under the Share Option Scheme, the directors of the Company may grant options to the following eligible participants:

(i) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commenced on the Main Board ("General Scheme Limit"). The total number of Shares available for issue under the Share Option Scheme is 80,000,000 representing 10% of the issued shares of the Company as at the date of this Annual Report.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any participant is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined under the Listing Rules) must be approved by the independent non-executive Directors of the Company. In addition, any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million within any 12-month period must be approved by shareholders of the Company in general meeting.

Unless otherwise determined by the directors of the Company and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

33. SHARE OPTION SCHEME *(continued)*

HK$1 per option is payable on the acceptance of the grant of an option. Options may be exercised in accordance with the terms of the Share Option Scheme and expiring in accordance with the terms of the Share Option Scheme or upon the expiry of the tenth anniversary of the Share Option Scheme, whichever is the earlier.

The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of grant; (ii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Company's share.

The Share Option Scheme will remain in force for a period of 10 years commencing on 1 December 2007.

No option has been granted or agreed to be granted under the Share Option Scheme since its adoption.

34. ACQUISITION OF SUBSIDIARY

On 25 August 2006, the Group acquired 100% of the issued share capital of Wuxi Zhong Dian which in turn owns 70.05% equity interest in SEEDRI. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Carrying amount of acquiree's net assets at acquisition date RMB'000
Consolidated net assets acquired:	
Property, plant and equipment	1,246
Goodwill on acquisition of SEEDRI	1,801
Trade and bills receivables	5,262
Prepayment, deposits and other receivables	3,808
Cash and bank balances	2,066
Trade payables	(125)
Trade deposit received	(2,899)
Accruals and other payables	(3,723)
Minority interest	(2,449)
	4,987
Goodwill	13
Total consideration, satisfied by cash	5,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(5,000)
Cash and cash equivalents acquired	2,066
Total consideration, satisfied by cash	(2,934)

35. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises sale of EP products and equipment, EP construction engineering projects and provision of EP related professional services business segments.

	For the year ended 31 December 2007			
	Sale of EP products and equipment RMB'000	EP construction engineering projects RMB'000	Provision of EP related professional services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	622,788	79,569	1,589	703,946
Segments results	269,666	32,037	(23)	301,680
Other revenue				5,197
Unallocated corporate expenses				(29,663)
Profit before taxation				277,214
Taxation				(67,766)
Profit for the year				209,448
Segment assets	74,435	75,420	2,603	152,458
Unallocated corporate assets	–	–	–	1,076,701
Total assets	74,435	75,420	2,603	1,229,159
Segment liabilities	59,423	51,779	6,592	117,794
Unallocated corporate liabilities	–	–	–	82,185
Total liabilities	59,423	51,779	6,592	199,979
Other segment information:				
Depreciation	4,838	–	448	5,286
Capital expenditure	35	–	2,028	2,063

35. SEGMENT REPORTING *(continued)*

Business segments *(continued)*

	For the year ended 31 December 2006			
	Sale of EP products and equipment RMB'000	EP construction engineering projects RMB'000	Provision of EP related professional services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	343,838	164,616	174	508,628
Segments results	157,484	52,143	(297)	209,330
Other revenue				1,960
Unallocated corporate expenses				(21,649)
Impairment of goodwill				(1,814)
Profit before taxation				187,827
Taxation				(22,701)
Profit for the year				165,126
Segment assets	53,519	87,763	2,389	143,671
Unallocated corporate assets	–	–	–	371,278
Total assets	53,519	87,763	2,389	514,949
Segment liabilities	3,665	59,988	3,623	67,276
Unallocated corporate liabilities	–	–	–	90,643
Total liabilities	3,665	59,988	3,623	157,919
Other segment information:				
Depreciation	4,708	–	39	4,747
Capital expenditure	3,677	–	–	3,677

Geographical segments

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as they are substantially generated from or situated in the PRC.

36. PLEDGE OF ASSETS

The Group has pledged a building with a net book value of approximately RMB1,048,000 as at 31 December 2006 to secure general banking facilities granted to a minority shareholder of a subsidiary. During the year ended 31 December 2007, the pledge was released.

Cash deposit of a subsidiary of approximately RMB6,880,000 as at 31 December 2007 (2006: approximately RMB8,014,000) was pledged to a bank as security in respect of the performance by the subsidiary under EP construction engineering projects.

37. RELATED PARTY TRANSACTIONS

(a) During the two years ended 31 December 2006 and 2007, in addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions:

Name of related party	Relationship with related party	Nature of transaction	The Group 2007 RMB'000	The Group 2006 RMB'000
江蘇天元科技有限公司 (formerly known as 宜興市大浦窟爐密封材料廠)	A company in which Mr. Fang Guaohong, a director of a subsidiary, has interest	Purchases of goods	3,720	–
Wuxi xin Wei High Temperature Ceramics Co., Ltd.	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	Receipt of rental income	53	53

(b) During the year ended 31 December 2006 prior to the acquisition of Wuxi Zhong Dian, SEEDRI, a subsidiary of Wuxi Zhong Dian, rendered design service to Wuxi Pan-Asia for RMB4,904,000.

(c) The details of emolument of key management personnel during the years ended 31 December 2006 and 2007 are set out in note 8.

38. COMMITMENTS

Operating lease commitments

The Group as lessee

The Group had commitments for future minimum lease payment under non-cancellable operating lease in respect of the renting of premises which fall due as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within one year	**858**	1,400
In second to fifth years inclusive	**891**	805
	1,749	2,205

The Group as lessor

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Within one year	**18**	53
In Second to fifth years inclusive	**–**	18
	18	71

39. CONTINGENT LIABILITIES

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

40. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide a satisfactory return to its shareholders.

The management actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure through the amount of dividend payment to shareholders or raise new debt financing. No changes were made in the objectives or policies during the year.

The management monitors the Group's capital structure on the basis of a net debt-to-equity ratio. For this purpose the Group defines debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables plus unaccrued proposed dividends).

During 2007, the Group's net debt-to-equity ratio decreased as a result of the issue of shares of the Company.

The net debt-to-equity ratio at 31 December 2007 and 2006 was as follows:

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current liabilities:					
Trade payables	*25*	**65,001**	60,908	**–**	–
Accruals and other payables		**35,866**	29,327	**9,397**	–
Dividend payable		**–**	48,000	**–**	–
Amounts due to minority shareholders	*23*	**233**	–	**–**	–
Amount due to a director	*26*	**460**	2,979	**–**	–
Amount due to a related company	*27*	**–**	227	**–**	–
Amount due to a fellow subsidiary	*28*	**–**	4,529	**–**	–
Trade deposits received		**52,793**	6,368	**–**	–
Tax payable	*30*	**45,626**	5,581	**–**	–
Total debt		**199,979**	157,919	**9,397**	–
Add: Proposed dividend		**37,436**	–	**–**	–
Less: Cash and cash equivalents		**(1,016,595)**	(307,865)	**(408,262)**	–
Net debt		**(779,180)**	(149,946)	**(398,865)**	–
Total equity		**1,029,180**	357,030	**865,593**	–
Net debt-to-equity ratio		**N/A**	N/A	**N/A**	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

41. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2007 because of the short maturity of these instruments.

(b) Credit risk

The Group's credit risk is primarily attributable to trade receivables and amounts due from related parties which disclosed elsewhere in these financial statements. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 19.

Amounts due from related parties are regularly reviewed and settled unless the amounts are specifically intended to be long-term in nature.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

(c) Interest rate risk

(i) Exposure to interest rate risk

The Group is exposed to interest rate risk to the extent that it earns bank interest on pledged bank deposits and bank balances only.

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 20 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB2,047,000 (2006: RMB32,000). Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the Group's exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 20 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

41. FINANCIAL INSTRUMENTS *(continued)*

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group and the Company can be required to pay.

	2007			2006		
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
The Group						
Trade payables	**65,001**	**65,001**	**65,001**	60,908	60,908	60,908
Accruals and other payables	**35,866**	**35,866**	**35,866**	29,327	29,327	29,327
Amount due to a minority shareholder	**233**	**233**	**233**	–	–	–
Amount due to a director	**460**	**460**	**460**	2,979	2,979	2,979
Amount due to a related company	**–**	**–**	**–**	227	227	227
Amount due to a fellow subsidiary	**–**	**–**	**–**	4,529	4,529	4,529
Trade deposit received	**52,793**	**52,793**	**52,793**	6,368	6,368	6,368
	154,353	**154,353**	**154,353**	104,338	104,338	104,338
The Company						
Accruals and other payables	**9,397**	**9,397**	**9,397**	–	–	–

41. FINANCIAL INSTRUMENTS *(continued)*

(d) Liquidity risk *(continued)*

The Group held cash and bank balances amounted to approximately RMB1,016,595,000 as at 31 December 2007 (2006: approximately RMB307,865,000), which is able to manage the above liquidity demands.

(e) Foreign exchange risk

The Group's presentation currency and the functional currency for the operations to which they relate are primarily Renminbi (RMB). The Group currently does not have a foreign currency hedging policy, however, the management monitors the Group's foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arises.

(i) *Exposure to currency risk*

The following table details the Group's and the Company's exposures at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group	
	2007	2006
	HK$'000	HK$'000
Prepayments, deposits and other receivables	**1,554**	–
Amount due from a related company	**2,300**	–
Cash and bank balances	**501,329**	10,052
Accruals and other payables	**(10,060)**	–
Overall net exposure	**495,123**	10,052

	The Company	
	2007	2006
	HK$'000	HK$'000
Prepayments, deposits and other receivables	**1,554**	–
Amount due from a related company	**2,300**	–
Cash and bank balances	**436,224**	–
Accruals and other payables	**(10,040)**	–
Overall net exposure	**430,038**	–

(ii) *Sensitivity analysis*

During the year ended 31 December 2007, if RMB has strengthened/weakened by 5% against the HK$, with all other variable held constant, equity would have been approximately RMB23,173,000 (2006: RMB470,000), lower and higher.

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that can significantly affect the amounts recognised in the financial statements are disclosed below:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management will reassess the estimates at the balance sheet date.

(ii) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

(iii) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

43. ULTIMATE HOLDING COMPANY

The director considers the ultimate holding company of the company to be Praise Fortune Limited, a company incorporated in British Virgin Islands.

Financial Summary

Following is a summary of the consolidated results and the consolidated assets and liabilities of the Group for the last four financial years prepared on a basis as stated in the notes below:

CONSOLIDATED RESULTS

	For the year ended 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**703,946**	508,628	395,973	144,330
Profits before taxation	**277,214**	187,827	133,244	40,186
Taxation	**(67,766)**	(22,701)	(15,226)	(4,543)
Profit for the year	**209,448**	165,126	118,018	35,643

CONSOLIDATED ASSETS AND LIABILITY

	As at 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**62,962**	66,352	66,345	69,910
Total current assets	**1,166,197**	448,597	308,832	167,088
Total assets	**1,229,159**	514,949	375,177	236,998
Total liabilities	**(199,979)**	(157,919)	(77,722)	(68,155)
Net assets	**1,029,180**	357,030	297,455	168,843

Notes:

1. The summary of the consolidated assets and liabilities of the Group as at end for the four financial years ended 31 December 2007 was prepared as if the current group structure had been in existence throughout these financial years according to the basis of presentation as set out in note 1 to the financial statements.

2. The results for the three years ended 31 December 2006 were extracted from the prospectus of the Company dated 10 December 2007.

3. Assets and liabilities of the Group as at 31 December 2004, 2005 and 2006 were extracted from the prospectus of the Company dated 10 December 2007.