Creating a Greener Future

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: 00556.HK

Annual Report 2008

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Jiang Quanlong *(Chairman)*
Mr. Fan Yajun *(Chief Executive Officer)*
Mr. Gan Yi
Mr. Jiang Lei

Independent Non-Executive Directors

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

COMPANY SECRETARY

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

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COMPLIANCE ADVISER

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STOCK CODE

556

Chairman's Statement

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 2008.

Driven by the market demand during the first half of 2008, the Group undertook and completed various contracts, and recorded steady growth in the sales of environmental protection ("EP") products and equipment. However, as the impacts of the global financial crisis intensified and started to spread during the second half of the year, the operation of many industries, especially manufacturing, were affected, slackening the growth in the sales of the Group's EP products and equipment as well as postponing the commencement of certain projects, affected the results for the full year. Facing the challenges brought about by the global financial crisis, the Group will ride on its strengthened internal operation management and its active yet prudent development strategies to maintain a solid financial foundation.

In recent years, EP-related development has become a global focus and also an industry enjoying the keen support from the PRC government. The country's "Eleventh Five-Year Plan" and the RMB4 Trillion Economic Stimulus Package, which included policies and provisions supporting the sector are proof of government determination to facilitate development of the EP industry. Local governments have been active in inviting tenders for different public projects and that has driven demand in the EP market to the benefit of the development of the EP industry. As an integrated EP services provider, Pan Asia will seek to ride on the perfecting EP regime of the country in seizing the opportunities in the future and consolidating its market position.

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group achieved a total turnover of RMB593.8 million, representing a year-on-year decrease of 15.7%. The global economy shrank and material costs fell during the year, but contract amounts also diminished correspondingly, resulting in a drop in the overall gross profit of the Group to RMB208.1 million, 31.0% less than the previous year. Gross profit margin was down to 35.0% from 42.9% last year. Profit attributable to equity holders was approximately RMB77.8 million against last year's RMB210.5 million. The decline in revenue and profit margin for the year ended 31 December 2008 was due to project delays and the downturn in the global economy and business environment. Also, the exchange rate of the Australian Dollar plunged in the second half of the year and, as a result, the Group incurred a net loss of approximately RMB23.5 million from its Australian Dollar fixed deposits. Moreover, the Group recorded a bad debt of RMB9.2 million and the share option scheme launched during the year also incurred an expense of RMB8.7 million. Earnings per share of the Group for the year were HK9.72 cents (2007: HK34.73 cents).

DIVIDEND

The Board did not recommend payment of final dividend for the year ended 31 December 2008 (2007: HK5 cents per share).

BUSINESS REVIEW

As an integrated EP services provider in the PRC, the Group mainly designs and manufactures water and flue gas treatment products and equipment, sells pipes, as well as undertakes EP construction engineering projects and provides EP related professional services. As at 31 December 2008, the Group had 51 engineers from different professional backgrounds and experienced in EP who provided tailored EP services to customers in different industries.

SALE OF EP PRODUCTS AND EQUIPMENT

This segment is responsible for selling pipes, and water and flue gas treatment products and equipment. During the year under review, it recorded a turnover of approximately RMB582.8 million, accounting for approximately 98.1% of the Group's total turnover.

Sale of Water Treatment Products and Equipment

The water treatment systems of the Group are used mainly to process industrial and urban wastewater. During the year, the Group completed 69 water treatment sales contracts, which generated turnover of approximately RMB542.8 million, accounting for 91.4% of the total turnover. In April 2008, the Group entered into a sewage reduction outline agreement with the Bengbu City Government in Anhui Province, wherein the Group is responsible for planning, designing and coordinating development of wastewater treatment systems for various zones and districts in Bengbu City. The objective is to make sure the sewage discharge level of those zones and districts reach National First-class A Standard. Construction of the projects included in the agreement will take place between 2008 and 2010 and one of the projects had begun during the year under review and is expected to be completed and booked in May 2009. Two other projects will start in the second half year of 2009, which are expected to bring profit in 2010.

Sale of Flue Gas Treatment Products and Equipment

The Group's flue gas treatment systems are used to remove waste gases generated in a wide array of industrial processes. There was no revenue recorded for the segment during the year under review, yet the Group was in discussion with customers in relation to system construction plans for a number of new projects.

Sale of Pipes

In addition to providing comprehensive EP solutions to customers, the Group also produces fibreglass reinforced plastic pipes of diameters up to 2,000 mm at its Yixing workshop, with total annual production capacity estimated at approximately 172,700 metres. During the year under review, the pipe workshop produced about 8,200 metres of pipes. The Group completed 3 contracts related to sale of pipes during the year, which generated a turnover of approximately RMB40.0 million, accounting for 6.7% of the total turnover.

EP CONSTRUCTION ENGINEERING PROJECTS

Boasting extensive industry expertise and professional research and development capabilities and technologies, the Group started to undertake EP construction engineering projects in 2004, providing clients with one-stop EP solutions. During the year under review, the Group undertook a water treatment engineering project in Hunan Province, which translated into a RMB9.4 million income for the Group. The segment accounted for around 1.6% of the total turnover of the Group.

PROVISION OF EP RELATED PROFESSIONAL SERVICES

The Group, through its subsidiary SEEDRI, provides EP related professional services to clients. Holding Grade A engineering design certificates, SEEDRI is qualified to undertake engineering design for all environmental projects. During the year under review, the segment recorded a turnover of approximately RMB1.6 million, accounting for around 0.3% of the total turnover of the Group.

PROSPECTS

Affected by the global financial crisis, the outlook of the market in 2009 is still uncertain. However, it is clear that the PRC government is committed to support the development of the EP industry in the country. In its Economic Stimulus Plan, the government addressed the enhancement of building an ecologically friendly environment and pledged support to energy conservation and emission reduction projects. And, in late 2008, half way through the "Eleventh Five-Year Plan", the National Development and Reform Commission ("NDRC") had begun and introduced preparatory research on major issues in the country's "Twelfth Five-Year Plan" with flue gas denitrification ("DeNOx") added as a major planning focus on top of flue gas desulphurization ("FGD") so as to reduce nitric oxide emissions.

Looking ahead, Pan Asia will operate its business with prudence and continue to consolidate its position in the EP market in the PRC. It will also strive to capture opportunities bred by supportive government policies and explore growth potential in the market. The Group currently has about 23 EP contracts of total worth approximately RMB451.7 million on hand to be completed.

Wastewater treatment business will remain as the Group's major income source, and is expected to account for significant proportion of the Group's total turnover in the one to two years ahead. In addition, in June 2007, the Group obtained a solid waste incineration power plant project from Maoming Nanya New Energy Power Generation Company Limited in which the Group is responsible for the engineering design, procurement, manufacturing, processing and assembly, installation and project management of the plant. However, since the customer defaulted payment within the agreed period, the Group has decided to halt the project for the time being and focus on developing other projects. As for geographical coverage, the Group will expand its business into EP zones in Liaoning Province and push for better penetration of the Northeastern China market.

For the flue gas treatment business, the Group plans to develop DeNOx business in Yixing City, Jiangsu Province with a focus on developing catalyst, the core component of the "Selective Catalytic Reduction Denitrification System" ("SCR DeNOx System"). Currently, the technologies and raw materials for producing the catalyst have to be imported while the Group will sign a technology transfer agreement with a renowned foreign technology supplier. The total investment for the project will be approximately RMB300.0 million. The project will commence in the second half of 2009, production is estimated to begin in the second half of 2010. The targeted annual production capacity is about 10,000 cubic metres.

To maintain steady growth of its businesses and provide more diverse EP solutions to customers, the Group will adhere to its active yet prudent development strategies and make best use of its sufficient cash. Apart from the DeNOx business which is about to be developed, the Group will also continue to look for opportunities of mergers and acquisitions to enhance its competitiveness in the market as well as expand the scale of its business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the total assets of the Group amounted to RMB1,355.6 million, an increase of RMB121.1 million as compared to RMB1,234.5 million as at 31 December 2007. The Group's total liabilities as at 31 December 2008 were RMB288.4 million, an increase of RMB83.1 million against RMB205.3 million as at 31 December 2007. The main reason for the increase in total liabilities was the increase of short term bank loans in the amount of RMB82.0 million. The Group's total equity as at 31 December 2008 was RMB1,067.2 million, RMB38.0 million more than RMB1,029.2 million as at 31 December 2007. The Group's bank borrowings outstanding as at 31 December 2008 amounted to RMB82.0 million (2007: RMB Nil) were all carried at variable interest rate and there was no particular seasonality of the Group's borrowings. The Group monitored capital using a gearing ratio, which is total debt divided by total equity of the Group. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity of approximately RMB1,067.2 million (31 December 2007: approximately RMB1,029.2 million) was 7.7% as at 31 December 2008 (at 31 December 2007: 0.0%). In addition, the Group has restricted short term bank deposits of approximately RMB96.7 million (31 December 2007: approximately RMB6.9 million). The Group's cash and cash equivalents amounted to RMB849.3 million.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Substantially all of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and majority of its bank deposits are in Renminbi, Hong Kong Dollars and Australian Dollars. As at 31 December 2008, the Group did not have any foreign currency bank liability, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Accordingly, the Group does not have material exposure to fluctuations in exchange rates other than the bank deposits denominated in Hong Kong Dollars and Australian Dollars as stated in note 37 to the Financial Statements. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when it is appropriate.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no capital expenditure commitment.

The Group provides product maintenance service to customers of FGD construction projects and certain EP products for a period ranging from 6 months to 2 years after a project is completed or the product delivery. At the same time, the Group enjoys warranties for the work and equipment from its sub-contractors and suppliers. The directors of the Company believe that the amount of crystallized warranty liabilities, if any, in excess of the amount covered by the warranties given by sub-contractors and suppliers, will not have any material adverse effect on the overall financial position or operating results of the Group.

HUMAN RESOURCES

As at 31 December 2008, the Group had approximately 270 employees. Salaries of employees are maintained at a competitive level and reviewed annually, with close reference to the relevant labour market and economic situation. Remuneration of the directors is determined based on a variety of factors such as market conditions and the specific responsibilities shoulder by individual director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based on the Group's results and the performance of an individual employee. The Group also has an employee share option scheme in operation.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY's LISTED SHARES

The Company or its subsidiaries did not purchase, sell or redeem any of the Company's listed shares during the year ended 31 December 2008.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 4 June 2009, notice of which will be published and dispatched to the shareholders as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 2 June 2009 to Thursday, 4 June 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the annual general meeting, 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 Monday, 1 June 2009.

AUDIT COMMITTEE

An audit committee has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors. The audit committee has reviewed the financial statements of the Company and its subsidiaries for the year ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008, save for the deviation from code provision A.1.1. There were four Board meetings held during the year under review with two of which being regular meetings held for approving the final results for the year ended 31 December 2007 and interim results for the six months ended 30 June 2008 respectively. The other Board meetings were held as and when the business and operational needs arose.

APPRECIATION

On behalf of the Board and management, I would like to express my gratitude to all staff for their hard work and dedication to the Group during the year. My thanks also go to our shareholders, investors, clients, suppliers and business partners for their tireless support.

Jiang Quanlong
Chairman

Hong Kong, 17 April 2009

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

蔣泉龍先生 (Mr. Jiang Quanlong), aged 56, 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 41, 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.

甘毅先生 (Mr. Gan Yi), aged 52, 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 26, 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 69, 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.

梁樹新先生 (Mr. Leung Shu Sun, Sunny), aged 46, 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. 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.

王國珍教授 (Professor Wang Guozhen), aged 73, 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.

SENIOR MANAGEMENT

溫新輝先生 (Mr. Wan San Fai, Vincent), aged 35, is the chief financial officer and company 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.

傅堃先生 (Mr. Fu Kun), aged 42, 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 60, 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 59, 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 42, 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 31, is the head of the finance department of Wuxi Pan-Asia. Ms. Xu has about 7 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 33, 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 46, 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 52, 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.

Corporate Governance Report

The board of directors of the Company (the "Board" or the "Directors") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Code on Corporate Governance Practices ("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.

Throughout the year ended 31 December 2008, the Company has complied with the code provisions set out in the CG Code, save for the deviation from code provision A.1.1 which is explained in the relevant paragraph in this Report.

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.

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. Gan Yi
Mr. Jiang Lei
Mr. Fang Guohong (resigned on 25 March 2009)

Independent Non-Executive Directors:
Mr. Lai Wing Lee, *chairman of the Nomination Committee and the Remuneration Committee and member of the Audit Committee*
Mr. Leung Shu Sun, Sunny, *chairman of the Audit Committee and member of the Nomination Committee and the Remuneration Committee*
Professor Wang Guozhen, *member of the Audit Committee, 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 from time to time.

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on pages 12 to 13.

During the year ended 31 December 2008, 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 a wide range of business and financial expertise, experiences and independent judgement 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. The Nomination Committee has not held any meeting during the year ended 31 December 2008.

In accordance with the Company's Articles of Association, Mr. Jiang Lei, Mr. Leung Shu Sun, Sunny and Professor Wang Guozhen shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

5. Training and Continuing Development

Each newly appointed director will receive 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 and Company Secretary 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 2008, two regular Board meetings were held for 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 87.5% and 100% respectively.

Code provision A.1.1 stipulates that the Board meetings should be held at least four times a year at approximately quarterly intervals. There were four Board meetings held during the year under review, two of which were regular meetings held for approving the final results for the year ended 31 December 2007 and interim results for the six months ended 30 June 2008. The other Board meetings were held as and when the business and operational needs arose.

The attendance records of each director at the meetings of the Board during the year ended 31 December 2008 are set out below:

Name of Directors	Attendance/ Number of Meetings
Jiang Quanlong	4/4
Fan Yajun	4/4
Gan Yi	4/4
Jiang Lei	4/4
Fang Guohong (Resigned on 25 March 2009)	3/4
Lai Wing Lee	4/4
Leung Shu Sun, Sunny	4/4
Wang Guozhen	4/4

7. Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company's Securities Dealing Code") on terms no less exacting than 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 Company's Securities Dealing Code and the Model Code throughout the year ended 31 December 2008.

The Company's Securities Dealing Code on no less exacting terms than the Model Code for securities transactions also applies to all employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Company's Securities Dealing Code 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 2008 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 of the executive directors and the senior management for the year under review.

The Remuneration Committee has not held any meeting during the year ended 31 December 2008.

D. ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

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 Group. 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 senior management 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 control 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 2008, 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 meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

The Audit Committee held two meetings during the year ended 31 December 2008 and the attendance records are set out below:

Name of Directors	**Attendance/ Number of Meetings**
Lai Wing Lee	2/2
Leung Shu Sun, Sunny	2/2
Wang Guozhen	1/2

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 pages 38 to 39.

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 2008 amounted to HK$880,000 and HK$340,000 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	
— annual audit	HK$880,000
Non-audit service	
— interim review	HK$320,000
— review results announcement	HK$20,000
Total	HK$1,220,000

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 were included in all circulars to shareholders and will be explained during the proceedings of meetings.

The Company currently adopts the policy of voting by poll for all resolutions put forward at any shareholders' meetings so as to conform with the recent amendments to the Listing Rules.

When 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 of Hong Kong Limited 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.

Report of the Directors

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 2008.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands and has its principal place of business in the PRC at No. 1 Chuanshan Road, Dingshu Town, Yixing City, Jiangsu Province, PRC 214222 and its principal place of business in Hong Kong at Suite 3712, 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	12.7%	—
Five largest customers in aggregate	32.1%	—
The largest supplier	—	23.4%
Five largest suppliers in aggregate	—	77.4%

None of the Directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) 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 2008 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 40 to 42.

DISTRIBUTABLE RESERVES

Profits attributable to equity holders of the Company, before dividends, of RMB77,766,000 (2007: RMB210,500,000) have been transferred to reserves. Other movements in reserves are set out in note 29 to the financial statements.

As at 31 December 2008, the distributable reserve of the Company amounted to approximately RMB749,660,000 (2007: RMB790,721,000).

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 28 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.

BORROWINGS

Details of the borrowings are set out in note 24 to the consolidated financial statements of the Group.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Jiang Quanlong *(Chairman)*
Mr. Fan Yajun *(Chief Executive Officer)*
Mr. Gan Yi
Mr. Jiang Lei
Mr. Fang Guohong (resigned on 25 March 2009)

Independent Non-Executive Directors

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

Mr. Jiang Lei, Mr. Leung Shu Sun, Sunny and Professor Wang Guozhen retire from the office as executive director and independence non-executive directors 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.

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.

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 2008, 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 Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in the shares of the Company

Name of Director	Nature of interest	Number of securities/ amount of registered capital held *(Note 1)*	Equity derivatives (share option) *(Note 5)*	Percentage of issued share capital
Jiang Quanlong	Corporate interest	600,000,000 (L) *(Notes 2 and 4)*		75.00%
	Beneficial interest		400,000 (L)	0.05%
Jiang Lei	Corporate interest	600,000,000 (L) *(Notes 3 and 4)*		75.00%
	Beneficial interest		400,000 (L)	0.05%
Fan Yajun	Beneficial interest		2,500,000 (L)	0.3125%
Gan Yi	Beneficial interest		1,000,000 (L)	0.125%
Lai Wing Lee	Beneficial interest		500,000 (L)	0.0625%
Leung Shu Sun, Sunny	Beneficial interest		500,000 (L)	0.0625%
Wang Guozhen	Beneficial interest		500,000 (L)	0.0625%

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 2008 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.

5. These interests represent the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the Share Option Scheme section stated below.

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. On 14 May 2008, the Company granted 17,800,000 options under the Share Option Scheme to its directors and key employees at an exercise price of HK$2.81. The closing market price per Share immediately before the date on which the share options were granted was HK$2.80. The options can be exercised one year after the grant date and expiring on the tenth anniversary of the grant date. The total number of share options represents 2.2% of the Company's outstanding share capital when fully exercised. They include the options granted to 4 executive directors, 3 independent non-executive directors and 11 employees of the Company for the number of shares set out below:

					Number of Share Options			
	Date of Grant	Exercise Price *HK$*	Vesting Period	Exercisable Period	As at 1/1/2008	Granted during the year	Exercised/ Cancelled/ Lapsed	As at 31/12/2008
Jiang Quanlong	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	400,000	—	400,000
Fan Yajun	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	2,500,000	—	2,500,000
Gan Yi	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	1,000,000	—	1,000,000
Jiang Lei	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	400,000	—	400,000
Lai Wing Lee	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	500,000	—	500,000
Leung Shu Sun, Sunny	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	500,000	—	500,000
Wang Guozhen	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	500,000	—	500,000
Continuous contract employees	14/5/2008	2.81	14/5/2008 to 13/5/2009	14/5/2009 to 13/5/2018	—	12,000,000	—	12,000,000
					—	17,800,000	—	17,800,000

As at 31 December 2008, there are options relating to 17,800,000 shares granted by the Company pursuant to the Share Option Scheme which are valid and outstanding.

The Company has used the binomial option pricing model (the "Model") to value the share options granted pursuant to the Share Option Scheme for the year ended 31 December 2008, which is a common model used in assessing the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. As such, the fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the valuation model used.

The share options were granted to the Directors, senior management and other employees of the Company pursuant to the Share Option Scheme on 14 May 2008. The fair value of the share options as at the date of grant under the Model was HK$15,681,000. For 2008, a share option expense of RMB8,720,000 has been recognised with a corresponding adjustment made in the Group's share option reserve.

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 2008, 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)*	Equity derivative (Share option)	Approximate percentage of total number of issued shares
Praise Fortune Limited *(Note 2)*	Beneficial interest	600,000,000 (L)		75.00%
Mr. Jiang Xin *(Note 3)*	Interest of a controlled corporation	600,000,000 (L)		75.00%
Ms. Qian Yuanying *(Note 4)*	Interest of spouse	600,000,000 (L)		75.00%
	Interest of spouse		400,000 (L)	0.05%
Ms. Li Jingru *(Note 5)*	Interest of spouse	600,000,000 (L)		75.00%
Ms. Chai Yongping *(Note 6)*	Interest of spouse	600,000,000 (L)		75.00%
	Interest of spouse		400,000 (L)	0.05%
GE Asset Management Incorporated	Beneficial interest	42,494,000 (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 2008 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 33 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:

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 Lease Agreement was then renewed with the same terms for five years.

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 noncompetition 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 five financial years is set out on page 116 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.

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

The consolidated financial statements for the year have been audited by CCIF CPA Limited. 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, 17 April 2009

Independent Auditor's Report

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

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 40 to 115, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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.

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 2008 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, 17 April 2009
Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
TURNOVER	4	593,765	703,946
Cost of sales		(385,710)	(402,266)
GROSS PROFIT		208,055	301,680
Other revenue	4	12,282	3,461
Other net(loss)/income	4	(29,966)	1,736
Selling and distribution expenses		(25,213)	(16,701)
General and administrative expenses		(33,693)	(11,745)
Other operating expenses		(10,251)	(1,217)
Finance costs		(3,651)	—
PROFIT BEFORE TAXATION	5	117,563	277,214
TAXATION	6	(41,428)	(67,766)
PROFIT FOR THE YEAR		76,135	209,448
ATTRIBUTABLE TO:			
Equity holders of the Company		77,766	210,500
Minority interests		(1,631)	(1,052)
		76,135	209,448
DIVIDENDS	11	—	59,436
EARNINGS PER SHARE — BASIC AND DILUTED	12	9.72 cents	34.73 cents

The notes on pages 46 to 115 form part of these financial statements.

Balance Sheets

As at 31 December 2008

	Note	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
NON-CURRENT ASSETS					
Prepaid lease payment	13	6,913	7,082	—	—
Property, plant and equipment	14	52,847	53,930	103	—
Available-for-sale financial asset	15	1,950	1,950	—	—
Goodwill	16	—	—	—	—
Investment in subsidiaries	17	—	—	381,537	381,537
		61,710	62,962	381,640	381,537
CURRENT ASSETS					
Prepaid lease payment	13	169	169	—	—
Inventories	18	40,693	16,234	—	—
Trade and other receivables	19	303,145	131,652	354,265	85,191
Tax recoverable	27	3,836	—	—	—
Pledged bank deposits	32	96,740	6,880	—	—
Cash and bank balances	22	849,298	1,016,595	71,798	408,262
		1,293,881	1,171,530	426,063	493,453
CURRENT LIABILITIES					
Short term bank loan	24	82,000	—	—	—
Trade and other payables	23	140,797	106,893	864	9,397
Trade deposits received		65,641	52,793	—	—
Tax payable	27	—	45,626	—	—
		288,438	205,312	864	9,397
NET CURRENT ASSETS		1,005,443	966,218	425,199	484,056
NET ASSETS		1,067,153	1,029,180	806,839	865,593

Balance Sheets *(Continued)*

As at 31 December 2008

		The Group		The Company	
		2008	2007	2008	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CAPITAL AND RESERVES					
Share capital	28	74,872	74,872	74,872	74,872
Reserves	29	989,603	953,058	731,967	790,721
Equity attributable to equity holders of the Company		1,064,475	1,027,930	806,839	865,593
Minority interests		2,678	1,250	—	—
TOTAL EQUITY		1,067,153	1,029,180	806,839	865,593

Approved and authorised for issue by the board of directors on 17 April 2009.

Jiang Quanlong
Director

Fan Yajun
Director

The notes on pages 46 to 115 form part of these financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital	Share premium	Special reserve	Capital reserve	Contributed surplus	Enterprise expansion reserve	Statutory surplus reserve	Translation reserve	Share option 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*	*RMB'000*	*RMR'000*	*RMB'000*	*RMB'000*
		(Note 29(i))	*(Note 29(ii))*	*(Note 29 (iii))*	*(Note 29(iv))*	*(Note 29(v))*	*Note (29(v))*	*(Note 29(vi))*	*(Note 29(vii))*				
At 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 28)*	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 28)*	18,718	505,386	–	–	–	–	–	–	–	–	524,104	–	524,104
Shares issue expenses	–	(39,362)	–	–	–	–	–	–	–	–	(39,362)	–	(39,362)
Capitalisation of share premium *(Note 28)*	46,795	(46,795)	–	–	–	–	–	–	–	–	–	–	–
Exchange differences on translation into													
presentation currency	–	–	–	–	–	–	–	(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													
and 1 January 2008	74,872	419,229	94,225	–	–	28,327	37,600	6,300	–	367,377	1,027,930	1,250	1,029,180
Capital contributed by the minority													
shareholder of a subsidiary	–	–	–	133	–	–	–	–	–	–	133	3,059	3,192
Exchange differences on translation													
into presentation currency	–	–	–	–	–	–	–	(12,638)	–	–	(12,638)	–	(12,638)
Profit for the year	–	–	–	–	–	–	–	–	–	77,766	77,766	(1,631)	76,135
Recognition of equity-settled													
share-based payments	–	–	–	–	–	–	–	–	8,720	–	8,720	–	8,720
Dividend	–	–	–	–	–	–	–	–	–	(37,436)	(37,436)	–	(37,436)
Transfer to reserve	–	–	–	–	–	6,214	6,214	–	–	(12,428)	–	–	–
At 31 December 2008	74,872	419,229	94,225	133	–	34,541	43,814	(6,338)	8,720	395,279	1,064,475	2,678	1,067,153

The notes on pages 46 to 115 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 *RMB'000*	2007 *RMB'000*
Cash flows from operating activities		
Profit before taxation	**117,563**	277,214
Adjustments for:		
Interest income	**(10,413)**	(3,441)
Interest expenses	**3,651**	—
Depreciation	**4,819**	5,286
Amortisation of prepaid lease payment	**169**	167
Bad debts written off	**9,243**	—
Impairment loss on other receivables	**—**	64
Impairment loss on trade receivables	**257**	501
Loss on disposal of property, plant and equipment	**1**	—
Share-based payment expenses	**8,720**	—
Operating cash flows before working capital changes	**134,010**	279,791
Increase in inventories	**(24,459)**	(16,087)
(Increase)/decrease in trade and other receivables	**(181,113)**	10,851
Increase/(decrease) in trade and other payables	**34,505**	(1,743)
Increase in trade deposits received	**12,848**	46,425
Cash (used in)/generated from operations	**(24,209)**	319,237
PRC enterprises income tax paid	**(90,890)**	(27,721)
Net cash (used in)/generated from operating activities	**(115,099)**	291,516
Cash flows from investing activities		
Interest received	**10,413**	3,441
Interest paid	**(3,651)**	—
Payments for acquisition of property, plant and equipment	**(1,026)**	(2,063)
(Increase)/decrease in pledged bank deposits	**(89,860)**	1,134

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Net cash (used in)/generated from investing activities	**(84,124)**	2,512
Cash flows from financing activities		
Issue of shares	—	524,104
Share issue expenses	—	(39,362)
Proceeds from short term bank loan	82,000	—
Payment of dividend	(37,436)	(70,000)
Net cash generated from financing activities	**44,564**	414,742
Net (decrease)/increase in cash and cash equivalent for the year	**(154,659)**	708,770
Cash and bank balances at beginning of year	**1,016,595**	307,865
Effect of foreign exchange rate changes, net	**(12,638)**	(40)
Cash and bank balances at end of year	**849,298**	1,016,595
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	**849,298**	1,016,595

The notes on pages 46 to 115 form part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2008

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations ("HK(IFRIC) - Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the Group's financial year beginning on 1 January 2008. For the purposes of preparing and presenting the financial statements for the year ended 31 December 2008, the Group has consistently adopted all these New HKFRSs throughout the year. The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment is required. At the date of this report, the Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued the following standards, amendments and interpretations that are not yet effective for the year. The Group has not early applied these standards, amendments or interpretations.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendments)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of investment in a Subsidiary, Jointly Controlled Entities or Associates[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) — Int 17	Distributions of Non-cash assets to Owners[3]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[6]

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 July 2009.

[4] Effective for annual periods beginning on or after 1 July 2008.

[5] Effective for annual periods beginning on or after 1 October 2008.

[6] Effective for transfers of assets from customers received on or after 1 July 2009.

The adoption of 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, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs 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 (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

b) Basis of preparation of the financial statements *(continued)*

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 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 not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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 38.

c) Subsidiaries and minority interests

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

c) Subsidiaries and minority interests *(continued)*

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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 3(l) depending on the nature of the liabilities.

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) 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 less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(h)).

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 income statement.

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

e) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

e) Other investments in equity securities *(continued)*

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement. The net gain or loss recognised in income statement does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 3(r).

Investments in equity securities that do not have a listed price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 3(h)).

Other investments in securities are classified as available-for-sale equity securities and 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 the income statement in accordance with the policy set out in note 3(r) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement in accordance with the policy set out in note 3(r). When these investments are derecognsied, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, it is measured at cost less impairment (because its fair value cannot be measured reliably).

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

f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated 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 income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method, over their estimated useful lives as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, plant and equipment (continued)

Buildings	Over the shorter of the term of the lease or 20 years
Furniture, fixtures and equipment	20%
Leasehold improvements	20%
Motor vehicles	20%
Plant and machineries	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, which is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

g) Leased assets *(continued)*

ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

h) Impairment of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment of assets (continued)

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

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.

If in a subsequent period the amount of an impairment loss decrease and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

h) Impairment of assets *(continued)*

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

— For available-for-sale financial assets which are stated at fair value, 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 the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement 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 the income statement in respect of available-for-sale financial assets are not reversed through the income statement. 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 the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

h) Impairment of 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);

— investments 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 the 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 the income statement 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 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 the income statement in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Listing Rules, 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 assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

i) 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 overheads 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 the estimated costs of completion and the estimated costs necessary to make the sale.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

j) 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)).

k) 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 the income statement over the period of the borrowing, using the effective interest method.

l) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

n) 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.

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 advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

o) Employee benefits

i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detail formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Income Tax

Income tax for the year 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.

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 differences, 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 differences 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

p) Income Tax *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

q) 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.

r) 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 returns and sales related taxes.

Sales of goods are recognised when goods are delivered and the risks and rewards of ownership 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(n).

Revenue from 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

s) Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is different from the Company's functional currency of Hong Kong dollar.

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 the income statement, 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 relates to that foreign operation is included in the calculation of the profit or loss on disposal.

t) 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 or sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

u) 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)*

v) 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, OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	2008 *RMB'000*	2007 *RMB'000*
Turnover		
Turnover represents the net amounts received and receivable for goods sold and rendering of services by the Group		
Sale of EP products and equipment	582,846	622,788
Revenue from EP construction engineering projects	9,356	79,569
Revenue from professional services	1,563	1,589
	593,765	703,946
Other revenue		
Interest income on bank deposits	10,413	3,441
Total interest income on financial assets not at fair value through profit or loss	10,413	3,441
Bad debts recovery	1,235	—
Reversal of impairment loss on trade receivables	54	—
Reversal of impairment loss on other receivables	—	20
Sundry income	580	—
	12,282	3,461
Other net (loss)/income		
Loss on disposal of property, plant and equipment	(1)	—
Net exchange (loss)/gain	(29,965)	1,736
	(29,966)	1,736

5. PROFIT BEFORE TAXATION

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

	2008 *RMB'000*	2007 *RMB'000*
a) Finance costs:		
Interest on bank advances wholly repayable within one year	3,651	—
Total interest expenses on financial liabilities not at fair value through profit or loss	3,651	—
b) Staff costs (including directors' emoluments):		
— Contributions to defined contribution retirement plans *(Note 7)*	974	705
— Equity settled share-based payment expenses	8,720	—
— Salaries, wages and other benefits	33,164	20,840
	42,858	21,545
c) Other items:		
Amortisation of prepaid lease payment	169	167
Bad debts written off	9,243	—
Impairment loss on other receivables	—	64
Impairment loss on trade receivables	257	501
Depreciation *(Note)*	4,819	5,286
Loss on disposal of property, plant and equipment	1	—
Net exchange loss/(gain)	29,965	(1,735)
Auditor's remuneration	785	755
Operating lease charges — properties rental	806	192
Cost of inventories *(Note)*	375,328	353,122

Note:

Cost of inventories includes RMB3,586,000 (2007:RMB3,651,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

6. TAXATION

	2008 RMB'000	2007 RMB'000
Current Tax		
PRC enterprise income tax — current year	41,428	67,766

i) Wuxi Pan-Asia Environmental Protection Technologies Limited ("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 2007. 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.

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 ended 31 December 2007.

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 ended 31 December 2007.

By a legislation passed by the National People's Congress in 2008, 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%.

6. TAXATION *(CONTINUED)*

i) *(continued)*

Pan Asia Environmental Protection (China) Company Limited ("Pan Asia (China)"), 五河泛亞污水處理有限公司 ("五河泛亞") and 遼寧泛亞環境設計工程有限公司 ("遼寧泛亞") were newly incorporated subsidiaries of the Group during the year 2008. Pan Asia (China), which is a wholly-foreign-owned enterprise, is subject to the PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year.

五河泛亞 and 遼寧泛亞, which are domestic-invested company, are subject to the PRC enterprise income tax at a rate of 25% applicable to the companies on the assessable profits for the year.

ii) No provision for Hong Kong profits tax has been made for the years ended 31 December 2007 and 2008 as the Group's income neither arises in, nor is derived from Hong Kong.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/09. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

	2008 *RMB'000*	2007 *RMB'000*
Profit before taxation	117,563	277,214
Tax calculated at the applicable tax rate	32,879	66,184
Tax effect of non-deductible expenses	8,549	1,582
Taxation	41,428	67,766

7. RETIREMENT BENEFITS 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' earnings 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.

A new law of the PRC on employment contracts (the "Employment Contract Law") was adopted by the Standing Committee of the National People's Congress of the PRC in 2007 and became effective on 1 January 2008. Compliance with the requirements under the new law, in particular, the requirement of severance payment and non-fixed term employment contracts, may increase the staff costs of the Group.

Pursuant to the new Employment Contract Law, the PRC subsidiaries are required to enter into non-fixed term employment contract with employees who have worked for more than 10 years or with whom a fixed term employment has been concluded for 2 consecutive terms. The employer is required to make a severance payment to the employee when the term of the employment contract expires unless the employee voluntarily terminates the contract or voluntarily rejects the offer to renew the contract in which case the terms are no worse off than the terms of other employment contracts available to him/her. The severance payment will be equal to the monthly wages times the number of full years that the employee has been working for the employer. The minimum wages requirement has also been imposed. Fines will be imposed for any breach of the Employment Contract Law.

The Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the contributions described above.

7. RETIREMENT BENEFITS COSTS *(CONTINUED)*

The contributions paid which have been dealt with in the consolidated income statement of the Group for the years ended 31 December 2007 and 2008 are as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Contributions paid	**974**	705

8. DIRECTORS' EMOLUMENTS

The directors of the Company were members of the senior management of the Group during the year ended 31 December 2007 and 2008. Assuming these existing directors had already been appointed as directors at the beginning of the year ended 31 December 2007, directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Fees	**835**	73
Salaries, allowances and benefits in kind	**927**	4,411
Share-based payments	**2,842**	—
Contributions to retirement scheme	**11**	5
	4,615	4,489

8. DIRECTORS' EMOLUMENTS *(CONTINUED)*

	Year ended 31 December 2008					
Name of director	Fees	Salaries, allowances and benefits in kind	Contri-butions to retirement scheme	Sub-total	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Fan Yajun	107	102	4	213	1,225	1,438
Mr. Fang Guohong	107	682	4	793	—	793
Mr. Gan Yi	107	25	—	132	490	622
Mr. Jiang Lei	107	—	—	107	196	303
Mr. Jiang Quanlong	107	118	3	228	196	424
Independent non-executive directors						
Mr. Lai Wing Lee	54	—	—	54	245	299
Mr. Leung Shu Sun, Sunny	192	—	—	192	245	437
Professor Wang Guozhen	54	—	—	54	245	299
	835	927	11	1,773	2,842	4,615

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

8. DIRECTORS' EMOLUMENTS *(CONTINUED)*

As at 31 December 2007 and 2008, the directors held share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "Share Option Scheme" in the report of directors and note 30 to the financial statements. During the years ended 31 December 2007 and 2008, 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 (2007: one), details of whose emoluments are set out in note 7 to the financial statements. The emoluments of the remaining four (2007: four) individuals are as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Salaries and allowances	**4,571**	6,912
Contributions to retirement scheme	**30**	7
Share-based payments	**980**	—
	5,581	6,919

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 (2007: Nil).

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

	2008 ***RMB'000***	2007 *RMB'000*
Bands:		
Nil to RMB884,100 (HK$1,000,000 equivalent)	**1**	—
RMB884,100 (HK$1,000,001 equivalent) to RMB1,326,150 (HK$1,500,000 equivalent)	**1**	3
RMB1,768,200 (HK$2,000,001 equivalent) to RMB2,210,250 (HK$2,500,000 equivalent)	**2**	—
RMB3,536,401(HK$4,000,001 equivalent) to RMB3,978,450 (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 RMB3,625,000 (2007: RMB686,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

a) Dividends payable to equity holders of the Company attributable to the year

	2008	2007
	RMB'000	*RMB'000*
Dividends declared and paid to the then shareholders	**—**	22,000
No final dividend was proposed after the balance sheet date (2007: proposed final dividend of HK5 cents per ordinary share)	**—**	37,436
	—	59,436

The directors have resolved not to recommend the payment of a final dividend for the year.

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

During the year ended 31 December 2007, dividends of RMB22,000,000 were declared and paid by the Company's subsidiaries to their then shareholders.

b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year.

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5 cents per ordinary share	**37,436**	—

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 RMB77,766,000 (2007: approximately RMB210,500,000) and the weighted average number of 800,000,000 shares (2007: 606,027,000 shares) in issue during the year.

Weighted average number of ordinary shares

	2008	2007
	'000	*'000*
Issued ordinary shares at 1 January	**800,000**	600,000
Issue of shares *(Note 28 (v))*	**—**	6,027
Weighted average number of ordinary shares at 31 December	**800,000**	606,027

In determining the weighted average number of ordinary shares in issue, a total of 600,000,000 ordinary shares were deemed to have been in issue since 1 January 2007.

b) Diluted earnings per share

Diluted earnings per share equal to basic earnings per share for the year ended 31 December 2008 as the exercise price of the Company's outstanding share options was higher than the average market price for shares for the year and therefore it is anticipated that no share option to subscribe for the Company's shares will be exercised.

Diluted earnings per share equal to basic earnings per share for the year ended 31 December 2007 as there were no dilutive potential shares outstanding.

13. PREPAID LEASE PAYMENT

The Group

	2008 *RMB'000*	2007 *RMB'000*
Net book value at beginning of year	**7,251**	7,418
Amortisation	**(169)**	(167)
Net book value at end of year	**7,082**	7,251
Analysed by:		
Non-current portion	**6,913**	7,082
Current portion	**169**	169
	7,082	7,251

The prepaid lease payment represents prepayment of lease premium for land situated in the PRC under medium lease term. The amortisation charge for the year is included in "general and administrative expenses" in the consolidated income statement.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings held for own use RMB'000	Furniture, fixtures and equipment RMB'000	Plant and machineries RMB'000	Leasehold improve-ments RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
As at 1/1/2007	52,349	1,335	15,547	—	6,338	75,569
Additions	—	183	—	1,880	—	2,063
As at 31/12/2007 and 1/1/2008	52,349	1,518	15,547	1,880	6,338	77,632
Additions	235	343	3,192	26	437	4,233
Disposal	—	(40)	—	—	—	(40)
Cost variation	—	—	—	(601)	—	(601)
As at 31/12/2008	52,584	1,821	18,739	1,305	6,775	81,224
Accumulated depreciation						
As at 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 and 1/1/2008	12,372	1,042	6,558	331	3,399	23,702
Charge for the year	2,383	214	1,319	248	655	4,819
Written back during the year	—	(37)	—	—	—	(37)
Cost variation	—	—	—	(106)	—	(106)
Exchange adjustment	—	(1)	—	—	—	(1)
As at 31/12/2008	14,755	1,218	7,877	473	4,054	28,377
Net book value						
As at 31/12/2008	37,829	603	10,862	832	2,721	52,847
As at 31/12/2007	39,977	476	8,989	1,549	2,939	53,930

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company

	Furniture, fixtures and equipment *RMB'000*	Total *RMB'000*
Cost		
As at 1/1/2007,31/12/2007 and 1/1/2008	**—**	—
Additions	**183**	183
As at 31/12/2008	**183**	183
Accumulated depreciation		
As at 1/1/2007,31/12/2007 and 1/1/2008	**—**	—
Charge for the year	**81**	81
Exchange adjustment	**(1)**	(1)
As at 31/12/2008	**80**	80
Net book value		
As at 31/12/2008	**103**	103
As at 31/12/2007	**—**	—

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

b) Addition of plant and machineries during the year amounting to RMB3,192,200 was contributed from the minority shareholder of a newly incorporated subsidiary as their capital contribution in the subsidiary.

15. AVAILABLE-FOR-SALE FINANCIAL ASSET

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Unlisted shares in the PRC, at cost	**1,950**	1,950

The carrying value of the above unlisted investment represents 5% equity interest in a private entity incorporated in the PRC. The financial instrument is not held in short-term trading. The unlisted equity securities were carried at cost less accumulated impairment losses as they do not have a quoted price in an active market and whose fair value cannot be reliably measured.

16. GOODWILL

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Cost		
At 1 January and 31 December	**1,814**	1,814
Impairment		
At 1 January and 31 December	**(1,814)**	(1,814)
Carrying amount		
At 1 January and 31 December	**—**	—

16. GOODWILL *(CONTINUED)*

In August 2006, a goodwill of approximately RMB1,814,000 arose from the acquisition of Wuxi Zhong Dian and SEEDRI. Goodwill is allocated to the Group's cash-generating units (CGU) identified awarding to business segment as follows:

	2008 *RMB'000*	2007 *RMB'000*
Provision of professional services	1,814	1,814

The Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's provision of professional services activities by SEEDRI in the PRC was fully impaired.

The main factor contributing to the full impairment of the CGU was the continuing operating result of SEEDRI from the year 2006 up to current year.

The recoverable amount of the CGU has been determined on the basis of value in use calculations. The recoverable amount is calculated on certain similar key assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a five-year period, which represents the management's best estimate of future cash flow from the CGU, and a discount rate of approximately 3.60% (2007: 5.85%). The cash flows beyond five-year period are extrapolated using a zero growth rate for an indefinite period. Another key assumption is the budgeted revenue, which is determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2008 *RMB'000*	2007 *RMB'000*
Unlisted shares, at cost	381,537	381,537
Amounts due from subsidiaries *(Note 19)*	351,279	81,583

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

17. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Details of the subsidiaries are as follows:

Name of subsidiary	Place of incorporation and type of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the company of	Held by a subsidiary	Principal activities and place of operation
Pan Asia BVI	British Virgin Islands, limited liability company	US$100	100%	100%	—	Investment holding, Hong Kong
Wuxi Pan-Asia	The PRC, wholly-foreign-owned enterprise	US$13,280,000	100%	—	100%	Manufacture and sale of EP products and equipment and undertaking of EP construction engineering projects, the PRC
Pan Asia (China)	The PRC, wholly-foreign-owned enterprise	HK$100,000,000	100%	—	100%	Manufacture and sale of EP products and equipment and undertaking of EP construction engineering projects, the PRC
Wuxi Zhong Dian	The PRC, domestic-invested limited liability company	RMB5,000,000	100%	—	100%	Investment holding, the PRC
SEEDRI	The PRC, joint stock limited company	RMB10,750,000	70.05%	—	70.05%	Provision of professional services, the PRC

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of subsidiary	Place of incorporation and type of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the company of	Held by a subsidiary	Principal activities and place of operation
五河泛亞	The PRC, domestic-invested limited liability company	RMB2,000,000	70.05%	—	100%	Manufacture and sale of EP products and equipment and undertaking of EP construction engineering projects, the PRC
遼寧泛亞	The PRC, joint stock limited company	RMB10,000,000	49.04%	—	70%	Manufacture and sale of EP products and equipment and undertaking of EP construction engineering projects and provision of professional services, the PRC

18 INVENTORIES

	The Group 2008 RMB'000	2007 RMB'000
Raw materials	75	11
Work-in-progress	7	4,776
Finished goods	40,611	11,447
	40,693	16,234

The analysis of the amount of inventories recognised as an expenses is as follows:

	The Group 2008 RMB'000	2007 RMB'000
Carrying amount of inventories sold	375,328	353,122

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**233,018**	50,514	**—**	—
Less: Allowance for doubtful debts	**(840)**	(637)	**—**	—
	232,178	49,877	**—**	—
Other receivables	**36,354**	3,406	**711**	903
Less: Allowance for doubtful debts	**(147)**	(147)	**—**	—
	36,207	3,259	**711**	903
Amounts due from a related company *(Note 20)*	**2,033**	2,153	**2,033**	2,153
Amounts due from subsidiaries *(Note 17)*	**—**	—	**351,279**	81,583
Loans and receivables	**270,418**	55,289	**354,023**	84,639
Prepayments and deposits	**21,514**	11,133	**242**	552
Amount due from customers for contract work *(Note 26)*	**11,213**	65,230	**—**	—
	303,145	131,652	**354,265**	85,191

The amount of the Group's and the Company's deposits and prepayments expected to be recovered or recognised as expense after more than one year is RMB237,000 (2007: RMB242,000) and RMB237,000 (2007: RMB242,000) respectively. All of the other trade and other receivables (including amounts due from related companies and subsidiaries), apart from those mentioned in note 26 are expected to be recovered or recognised as expense within one year.

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

a) Ageing analysis of trade receivables net of allowance for doubtful debts as of the balance sheet date is as follows:

	2008 *RMB'000*	2007 *RMB'000*
Current	132,422	15,556
Less than 1 month past due	17,137	16,226
1 to 3 months past due	26,587	7,303
More than 3 months but less than 12 months past due	56,032	10,792
Amounts past due	99,756	34,321
	232,178	49,877

Trade receivables are due within 60 days from the date of billing.

The Group normally grants credit terms from 1 to 2 months to its customers. 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 are retained by the customers until the fulfilment of the warranty period of generally 1 to 2 years and receivable pursuant to the payment terms of the respective contracts.

b) Impairment of trade receivables

Impairment losses in respect of trade receivable 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 receivable 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:

	2008 *RMB'000*	2007 *RMB'000*
At 1 January	637	136
Impairment loss recognised	257	501
Reversal of impairment loss	(54)	—
At 31 December	840	637

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

b) Impairment of trade receivables (continued)

There were no movements in the allowance account for other receivables.

As at 31 December 2008, trade receivables of approximately RMB840,000 (2007: RMB637,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 90 days as at the balance sheet date or were due from companies with financial difficulties. The Group does not hold any collateral over these balances.

The factors which the Group considered in determining whether these trade receivables were individually impaired included the following:

- significant financial difficulty of the debtor;
- receivables that have been outstanding beyond its credit period;
- the granting to the receivables, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the receivables will enter into bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:
  - — adverse changes in the payment status of receivables in the Group;
  - — economic conditions that correlate with defaults on the trade receivables in the Group.

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2008 *RMB'000*	2007 *RMB'000*
Neither past due nor impaired	132,422	15,556
Less than 1 month past due	17,137	15,863
1 to 3 months past due	26,286	7,303
More than 3 months but less than 12 months past due	55,707	10,490
	99,130	33,656
	231,552	49,212

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20. AMOUNTS DUE FROM A RELATED COMPANY

The Group and the Company

Name of company	Connected party	2008 RMB'000	2007 RMB'000	Maximum amount outstanding Year ended 31 December 2008 RMB'000	Maximum amount outstanding Year ended 31 December 2007 RMB'000
YY Holdings Limited	A company in which Mr. Jiang Quanlong, a director of the Company, has a beneficial interest	**2,033**	2,153	**2,153**	2,153

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

21. AMOUNTS DUE TO MINORITY SHAREHOLDERS

	The Group 2008 RMB'000	The Group 2007 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)	**1,263**	233
上海工程成套建設有限公司	**1,500**	—
Total *(Note 23)*	**2,763**	233

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

22. CASH AND BANK BALANCES

A majority of the cash and bank balances for the years ended 31 December 2007 and 2008 was 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.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**87,081**	65,001	**—**	—
Accruals and other payables	**49,977**	41,199	**864**	9,397
Amounts due to minority shareholders *(Note 21)*	**2,763**	233	**—**	—
Amount due to a director *(Note 25)*	**976**	460	**—**	—
Financial liabilities measured at amortised cost	**140,797**	106,893	**864**	9,397

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
0 to 30 days	**52,133**	3,081
31 to 60 days	**407**	4,020
61 to 90 days	**453**	12,995
91 to 180 days	**139**	3,582
181 to 365 days	**2,870**	36,204
Over 365 days	**31,079**	5,119
	87,081	65,001

24. SHORT TERM BANK LOAN

The bank loans are secured, carrying interest at variable rates between 5.58% - 7.47% (2007: Nil) per annum and are repayable within 1 year. At 31 December 2008, bank loan of the Group is secured by bank deposits of the Group amounting to approximately RMB89,804,000 (2007: RMBNil).

25. AMOUNT DUE TO A DIRECTOR

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Jiang Quanlong	**976**	460

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

26. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Contract costs incurred to date	**9,993**	178,232
Recognised profits less recognised losses	**1,220**	86,396
	11,213	264,628
Less: Progress billings	**—**	(199,398)
Amounts due from customers for contract work	**11,213**	65,230

In respect of construction contracts in progress at the balance sheet date, the amount of retentions receivable from customers, recorded within Trade receivables at 31 December 2008, is RMB49,281,000 (2007: RMB49,014,000). The amount of those retentions expected to be recovered after more than one year is RMB Nil (2007: RMBNil).

27. INCOME TAX IN THE BALANCE SHEET

a) Current taxation in the balance sheet represents

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax	**41,428**	67,766
Tax paid	**(90,890)**	(27,721)
	(49,462)	40,045
Balance of PRC enterprise income tax relating to prior year	**45,626**	5,581
Tax (recoverable)/payable	**(3,836)**	45,626

b) Deferred taxation

As at 31 December 2007 and 2008 respectively, the Group and the Company had no significant unprovided deferred tax assets or liabilities.

28. SHARE CAPITAL

Authorised and issued share capital

	Number of shares '000	Amount HK$'000
Authorised		
Upon incorporation of the Company *(Note 28(i))*	1,000	100
Increase in authorised share capital *(Note 28(ii))*	99,000	9,900
Further increase in authorised share capital *(Note 28(iii))*	3,900,000	390,000
As at 31 December 2007 and 2008	4,000,000	400,000
Issued and fully paid		
Issue of shares upon incorporation *(Note 28(i))*	1,000	100
Issue of shares upon Reorganisation *(Note 28(iv))*	99,000	9,900
Issue of shares upon IPO through a placing and public offer *(Note 28(v))*	200,000	20,000
Capitalisation of share premium *(Note 28(vi))*	500,000	50,000
As at 31 December 2007 and 2008	800,000	80,000
	Equivalent to	RMB74,872,000

28. SHARE CAPITAL *(CONTINUED)*

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.

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 bonus issue of 500,000,000 shares of HK$0.10 each on a pro-rata basis to the Company's shareholders on 1 December 2007.

29. RESERVES

The Group

	Share premium	Special reserve	Capital reserve	Contributed surplus	Enterprise expansion reserve	Statutory surplus reserve	Translation reserve	Share option reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	—	103,582	—	—	17,597	26,870	6,340	—	200,337	354,726
Issue of shares upon Reorganisation	—	—	—	372,178	—	—	—	—	—	372,178
Effect of the Reorganisation	—	(9,357)	—	(372,178)	—	—	—	—	—	(381,535)
Issue of shares *(Note 28)*	505,386	—	—	—	—	—	—	—	—	505,386
Shares issuance expenses	(39,362)	—	—	—	—	—	—	—	—	(39,362)
Capitalisation of share premium	(46,795)	—	—	—	—	—	—	—	—	(46,795)
Exchange differences on translation into presentation currency	—	—	—	—	—	—	(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 and 1 January 2008	419,229	94,225	—	—	28,327	37,600	6,300	—	367,377	953,058
Capital contributed by the minority shareholders of a subsidiary	—	—	133	—	—	—	—	—	—	133
Exchange differences on translation into presentation currency	—	—	—	—	—	—	(12,638)	—	—	(12,638)
Profit for the year	—	—	—	—	—	—	—	—	77,766	77,766
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	8,720	—	8,720
Dividend	—	—	—	—	—	—	—	—	(37,436)	(37,436)
Transfer to reserve	—	—	—	—	6,214	6,214	—	—	(12,428)	—
At 31 December 2008	419,229	94,225	133	—	34,541	43,814	(6,338)	8,720	395,279	989,603

29. RESERVES *(CONTINUED)*

The Company

	Share premium	Contributed surplus	Translation reserve	Share option reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2007	—	—	—	—	—	—
Issue of shares by the Company at nil paid and credited as fully paid upon reorganisation	—	372,178	—	—	—	372,178
Issue of shares	505,386	—	—	—	—	505,386
Share issue expenses	(39,362)	—	—	—	—	(39,362)
Capitalisation of share premium	(46,795)	—	—	—	—	(46,795)
Loss attributable to shareholders	—	—	—	—	(686)	(686)
At 31 December 2007	419,229	372,178	—	—	(686)	790,721
Loss attributable to shareholders	—	—	—	—	(3,625)	(3,625)
Exchange differences on transaction into presentation currency	—	—	(26,413)	—	—	(26,413)
Recognition of equity-settled share-based payments	—	—	—	8,720	—	8,720
Dividend	—	—	—	—	(37,436)	(37,436)
At 31 December 2008	419,229	372,178	(26,413)	8,720	(41,747)	731,967

29. RESERVES *(CONTINUED)*

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 difference between the nominal value and share premium of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of reorganisation.

iii) Capital reserve

The capital reserve represents the excess capital contribution from the minority shareholder of a newly incorporated subsidiary — 遼寧泛亞 of the Group.

iv) 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 group reorganization immediately prior to the listing of the Company's shares on 1 December 2007.

v) 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.

29. RESERVES *(CONTINUED)*

Nature and purpose of reserves *(continued)*

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(s).

vii) Share option reserve

The share option reserve of the Company and the Group arose upon on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in note 3(o).

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 2008, the Company's reserves available for distribution to shareholders amounted to approximately RMB749,660,000 (2007: RMB790,721,000), 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 (2007: RMB419,229,000) and contributed surplus of approximately RMB372,178,000 (2007: RMB372,178,000), less accumulated losses of RMB41,747,000 (2007: RMB686,000), which is available for distribution provided that immediately following the date on which a dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

30. 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.

30. SHARE OPTION SCHEME *(CONTINUED)*

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 issued 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 is 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 associate (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.

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 sheets 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 sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company's share.

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

30. SHARE OPTION SCHEME *(CONTINUED)*

a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— on 14 May 2008	5,800,000	one year	10 years
Options granted to employees:			
— on 14 May 2008	12,000,000	one year	10 years
Total number of shares issuable under options granted	17,800,000		

b) The number and weighted average exercise price of share options are as follows:

	2008		2007	
	Weighted average exercise price	Number of shares issuable under options granted	Weighted average exercise price	Number of shares issuable under options granted
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	HK$2.81	17,800,000	—	—
Outstanding at the end of the year	HK$2.81	17,800,000	—	—
Exercisable at the end of the year	—	—	—	—

30. SHARE OPTION SCHEME (CONTINUED)

c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial option pricing model. The contractual life of the share option is used as an input into this model.

	2008
Fair value of share options and assumptions	HK$0.881
Share price	HK$2.79
Exercise price	HK$2.81
Expected volatility (expressed as weighted average volatility used in the modeling under the binomial option pricing model)	40%
Option life (expressed as weighted average life used in the modeling under the binominal option pricing model)	10 years
Expected dividends	3%
Risk-free interest rate (based on Exchange Fund Notes)	3.21%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on public available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no service conditions or market conditions associated with the share options granted.

31. 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.

31. SEGMENT REPORTING *(CONTINUED)*

Business segments

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

	For the year ended 31 December 2008			
	Sale of EP products and equipment	EP construction engineering projects	Provision of professional services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue				
Sales to external customers	582,846	9,356	1,563	593,765
Segments results	197,632	1,043	(706)	197,969
Other revenue				12,282
Other net loss				(29,966)
Unallocated corporate expenses				(62,722)
Profit before taxation				117,563
Taxation				(41,428)
Profit for the year				76,135
Segment assets	287,531	111,208	5,318	404,057
Unallocated corporate assets	—	—	—	951,534
Total assets	287,531	111,208	5,318	1,355,591
Segment liabilities	128,112	144,133	10,322	282,567
Unallocated corporate liabilities	—	—	—	5,871
Total liabilities	128,112	144,133	10,322	288,438

31. SEGMENT REPORTING *(CONTINUED)*

Business segments *(continued)*

	For the year ended 31 December 2008			
	Sale of EP products and equipment *RMB'000*	EP construction engineering projects *RMB'000*	Provision of professional services *RMB'000*	Total *RMB'000*
Other segment information:				
Depreciation and amortisation for the year	4,626	—	362	4,988
Capital expenditure	321	3,192	37	3,550
Unallocated corporate capital expenditure	—	—	—	683
	321	3,192	37	4,233

	For the year ended 31 December 2007			
	Sale of EP products and equipment *RMB'000*	EP construction engineering projects *RMB'000*	Provision of professional services *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	622,788	79,569	1,589	703,946
Segments results	256,287	32,037	(23)	288,301
Other revenue				3,461
Other net income				1,736
Unallocated corporate expenses				(16,284)
Profit before taxation				277,214
Taxation				(67,766)
Profit for the year				209,448

31. SEGMENT REPORTING *(CONTINUED)*

Business segments *(continued)*

	For the year ended 31 December 2007			
	Sale of EP products and equipment	EP construction engineering projects	Provision of professional services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	74,435	75,420	2,603	152,458
Unallocated corporate assets	—	—	—	1,082,034
Total assets	74,435	75,420	2,603	1,234,492
Segment liabilities	85,947	53,738	6,592	146,277
Unallocated corporate liabilities	—	—	—	59,035
Total liabilities	85,947	53,738	6,592	205,312
Other segment information:				
Depreciation and amortisation for the year	5,005	—	448	5,453
Capital expenditure	35	—	2,028	2,063
Unallocated corporate capital expenditure	—	—	—	—
	35	—	2,028	2,063

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 have not been presented as they are substantially generated from or situated in the PRC.

32. PLEDGE OF ASSETS

Bank deposit of a subsidiary of approximately RMB6,936,000 as at 31 December 2008 (2007: approximately RMB6,880,000) was pledged to a bank as security in respect of the performance by the subsidiary under EP construction engineering projects.

Bank deposits of a subsidiary of approximately RMB89,804,000 as at 31 December 2008 (2007: RMBNil) was pledged to secure a bank loan of RMB82,000,000 granted to the subsidiary.

33. RELATED PARTY TRANSACTIONS

a) During the two years ended 31 December 2007 and 2008, in addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions:

			The Group	
Name of related party	Relationship with related party	Nature of transaction	2008 RMB'000	2007 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 an equity 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 an equity interest	Receipt of rental income	53	53

b) The details of emoluments of key management personnel during the years ended 31 December 2007 and 2008 are set out in note 8.

34. COMMITMENTS

Operating lease commitments

The Group as lessee

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

	The Group	
	2008 RMB'000	2007 RMB'000
Within one year	917	858
In second to fifth year inclusive	153	891
	1,070	1,749

The Group as lessor

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

	The Group	
	2008 RMB'000	2007 RMB'000
Within one year	53	18
In second to fifth year inclusive	177	—
	230	18

35. 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.

36. 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 net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables plus unaccrued proposed dividends minus the cash and cash equivalents).

36. CAPITAL MANAGEMENT *(CONTINUED)*

The net debt-to-equity ratio at 31 December 2008 and 2007 was as follows:

	The Group		The Company	
	2008 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Current liabilities:				
Short term bank loans	82,000	—	—	—
Trade and other payables	140,797	106,893	864	9,397
Trade deposits received	65,641	52,793	—	—
Total debt	288,438	159,686	864	9,397
Less: Cash and cash equivalents	(849,298)	(1,016,595)	(71,798)	(408,262)
Net debt	(560,860)	(856,909)	(70,934)	(398,865)
Total equity	1,067,153	1,029,180	806,839	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.

37. 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 2007 and 2008 because of the short maturity of these instruments.

37. FINANCIAL INSTRUMENTS *(CONTINUED)*

b) Credit risk

As at 31 December 2008, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

The Group's credit risk is primarily attributable to trade receivables and amounts due from related parties which are 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.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk. Taking into account the creditworthiness of the Group's customers, the credit risk measures and the historical levels of the bad debts, the Directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

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 counter parties are bank with good reputation.

37. FINANCIAL INSTRUMENTS *(CONTINUED)*

c) Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate of pledged bank deposits, bank balances and short term bank loan. The Group's policy is not to use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Company will consider hedging significant interest rate exposure should the need arises. The Group's interest rate profile as monitored by management is set out in (i) below.

i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

	2008		2007	
	Effective interest rate		Effective **interest rate**	
	%	***RMB'000***	%	*RMB'000*
Net variable rates borrowings				
Bank loans-secured	**5.58 - 7.47**	**82,000**	—	—
Net variable rates borrowings as a percentage of total interest-bearing borrowings		**100%**		—

37. FINANCIAL INSTRUMENTS *(CONTINUED)*

c) Interest rate risk *(continued)*

ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB8,640,000 (2007: RMB10,235,000). 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 exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

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 and 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.

37. FINANCIAL INSTRUMENTS *(CONTINUED)*

d) Liquidity risk *(continued)*

	2008			2007		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group						
Short term bank loan	82,000	82,000	82,000	—	—	—
Trade and other payables	140,797	140,797	140,797	106,893	106,893	106,893
Trade deposit received	65,641	65,641	65,641	52,793	52,793	52,793
	288,438	288,438	288,438	159,686	159,686	159,686
The Company						
Accruals and other payables	864	864	864	9,397	9,397	9,397

The Group held cash and bank balance amounting to approximately RMB849,298,000 as at 31 December 2008 (2007: approximately RMB1,016,595,000), which it considers should be able to manage its liquidity demands.

e) Currency risk

The Group's is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group currently does not have a foreign currency hedging policy, however, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

37. FINANCIAL INSTRUMENTS (CONTINUED)

e) Currency risk (continued)

i) Exposure to currency risk

The following table details the Group's and the Company's exposure 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				The Company	
	2008		2007		2008	2007
	HK$'000	AUD'000	HK$'000	AUD'000	AUD'000	AUD'000
Trade and other receivables	3,378	—	3,854	—	—	—
Pledged bank deposits	100,000	—	—	—	—	—
Cash and bank balances	13,490	13,035	501,329	—	13,035	—
Trade and other payables	(977)	—	(10,060)	—	—	—
Overall net exposure	115,891	13,035	495,123	—	13,035	—

37. FINANCIAL INSTRUMENTS *(CONTINUED)*

e) Currency risk *(continued)*

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits for the year and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the company has significant exposure at the balance sheet date.

	2008			2007		
	Increase/ (decrease) in foreign	Effect on profit after tax and retained	Effect on other components of equity	Increase/ (decrease) in foreign	Effect on profit after tax and retained	Effect on other components of equity
	RMB$'000	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*
HKD	1%	1,025	—	1%	4,634	—
AUD	1%	614	—	—	—	—

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date. The stated changes represent management's assessment of reasonably possible change in foreign exchanges rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

38. 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:

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 conditions and the historical experience of manufacturing and selling products of similar nature. Management will reassess the estimates at each 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 conditions. Management reassesses the provision at 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.

39. NON-CASH TRANSACTIONS

During the year ended 31 December 2008, the Group set up a new subsidiary - 遼寧泛亞. The minority shareholder contributed property, plant and equipment with an aggregate fair value of RMB3,192,200 as their capital contribution as disclosed in note 14. This contribution is not reflected in the consolidated cash flow statements. This capital contributions is allocated to the Group's business segment as EP construction engineering projects as disclosed in note 31.

40. ULTIMATE HOLDING COMPANY

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

41. COMPARATIVE FIGURES

With a view of financial statements presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly comparative figures have been reclassified to conform with the current year's presentation.

Financial Summary

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

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**593,765**	703,946	508,628	395,973	144,330
Profits before taxation	**117,563**	277,214	187,827	133,244	40,186
Taxation	**(41,428)**	(67,766)	(22,701)	(15,226)	(4,543)
Profit for the year	**76,135**	209,448	165,126	118,018	35,643

CONSOLIDATED ASSETS AND LIABILITY

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total non-current assets	**61,710**	62,962	66,352	66,345	69,910
Total current assets	**1,293,881**	1,171,530	448,597	308,832	167,088
Total assets	**1,355,591**	1,234,492	514,949	375,177	236,998
Total liabilities	**(288,438)**	(205,312)	(157,919)	(77,722)	(68,155)
Net assets	**1,067,153**	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 five financial years ended 31 December 2008 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.