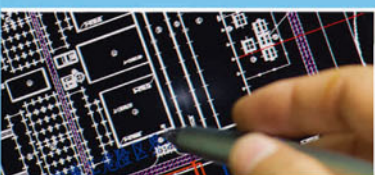


Pan Asia Environmental Protection Group Limited 泛亞環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Placing and Public Offer

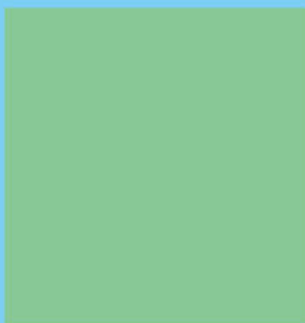


Sponsor



Sole Bookrunner and Sole Lead Manager





IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

PAN ASIA ENVIRONMENTAL PROTECTION GROUP LIMITED

泛亞環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

PLACING AND PUBLIC OFFER

Number of Offer Shares	: 200,000,000 Shares (subject to the Over-allotment Option)
Number of Placing Shares	: 180,000,000 Shares (subject to the Over-allotment Option and re-allocation)
Number of Public Offer Shares	: 20,000,000 Shares (subject to re-allocation)
Offer Price	: Not more than HK\$3.00 per Offer Share (payable in full on application and subject to refund, plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%) and expected to be not less than HK\$2.40 per Offer Share
Nominal value	: HK\$0.10 per Share
Stock code	: 556

Sponsor



Sole Bookrunner and Sole Lead Manager



The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and documents available for inspection" in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The SFC and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement between the Sole Lead Manager (for itself and on behalf of the Underwriters) and the Company on or before 13 December 2007 or such later time as may be agreed between the parties, but in any event, no later than 6:00 p.m. (Hong Kong time) on 16 December 2007. If, for any reason, the Sole Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on 16 December 2007, the Share Offer will not become unconditional and will lapse immediately. The Offer Price will fall within the Offer Price range in this prospectus unless otherwise announced, as explained below. Investors applying for Offer Shares must pay the maximum Offer Price of HK\$3.00 per Offer Share together with brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%. The Sole Lead Manager (for itself and on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that as stated in this prospectus (which is HK\$2.40 per Offer Share to HK\$3.00 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced such applications cannot be subsequently withdrawn.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Share Offer, the Sole Lead Manager (for itself and on behalf of the Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Underwriters under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be 21 December 2007). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

10 December 2007

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EXPECTED TIMETABLE

2007
(Note 1)

Application lists of the Public Offer open
(Note 2) 11:45 a.m. on 13 December

Latest time for lodging **WHITE** and **YELLOW**
Application Forms 12:00 noon on 13 December

Latest time to give **electronic application instructions**
to HKSCC (Note 3) 12:00 noon on 13 December

Application lists of the Public Offer close
(Note 2) 12:00 noon on 13 December

Expected Price Determination Date on or before 13 December

Announcement of the final Offer Price, the indication of the
level of interests in the Placing and the basis of allotment of the
Public Offer Shares to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times
(in Chinese) on or before 20 December

Results of allocations in the Public Offer,
including the Hong Kong Identity Card/passport/
Hong Kong Business Registration numbers (where applicable)
of successful applicants will be made available through
a variety of channels as described in the section headed
“How to apply for the Public Offer Shares
– Publication of results” in this prospectus from 20 December

Despatch of refund cheques in respect of wholly or
partially unsuccessful applications under
the Public Offer on or before (Note 4) 20 December

Despatch/collection of Share certificates
on or before (Notes 4 and 5) 20 December

Dealings in the Shares on the Main Board expected
to commence on 21 December

Notes:

1. All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
2. If a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 13 December 2007, the application lists will not open and close on that day. See the paragraph headed “Effect of bad weather on the opening of the application lists” in the section headed “How to apply for the Public Offer Shares” of this prospectus.

EXPECTED TIMETABLE

3. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “How to apply by giving **electronic application instructions** to HKSCC” in the section headed “How to apply for the Public Offer Shares” of this prospectus.
4. Applicants who apply with **WHITE** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their Application Forms that they wish to collect their refund cheques and/or Share certificates in person from the Company’s Hong Kong share registrar may collect their refund cheques (where applicable) and/or Share certificates in person from the Company’s Hong Kong share registrar, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 20 December 2007. Identification and authorisation documents (where applicable) acceptable to Tricor Investor Services Limited must be produced at the time of collection.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their Application Forms that they wish to collect their refund cheques in person may collect their refund cheques (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for the **YELLOW** Application Form applicants is the same as that for the **WHITE** Application Form applicants.

Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post and at the own risk of the applicants shortly after the day as described in the paragraph headed “Collection/posting of Share certificates/refund cheques and deposit of Share certificates into CCASS” under the section headed “How to apply for the Public Offer Shares” of this prospectus.

5. Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on 20 December 2007 for credit to the respective CCASS Participant’s stock accounts designated by the Placing Underwriter, the placees or their agents, as the case may be.
6. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on 21 December 2007 provided that (i) the Share Offer becomes unconditional in all respects and (ii) the right of termination as described in the paragraph “Grounds for termination” in the section headed “Underwriting” of this prospectus has not been exercised thereto and has lapsed.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Share Offer, Taifook Securities (for itself and on behalf of the Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Underwriters under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be 21 December 2007). Further details of the terms of the force majeure provisions are set out in the section headed “Underwriting” in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus and the related Application Forms.

Any information or representation not made in this prospectus and the related Application Forms must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other person or parties involved in the Share Offer.

The contents on the website www.paep.com.cn, which is the website of the Group, do not form part of this prospectus.

	<i>Page</i>
Expected timetable	i
Summary	1
Definitions	11
Glossary	20
Risk factors	22
Waivers from strict compliance with the Listing Rules	34
Information about this prospectus and the Share Offer	35
Directors and parties involved in the Share Offer	40
Corporate information	45
Industry overview	47
History and development	62
Business	
Business overview	68
Strengths	69
Overview of integrated services	71
EP construction engineering projects	86
Sales and marketing	92
Customers	93
Pricing	94
Payment terms and credit policy	94
Purchases and suppliers	95
Qualification certificates	96
Research and development	98
Quality control	98

CONTENTS

	<i>Page</i>
Internal control	99
Insurance	100
Safety and environmental protection	100
Competition	101
Exempted continuing connected transaction	102
Non-competition undertaking	102
Directors, senior management and staff	105
Persons having notifiable interests under the SFO	113
Share capital	116
Financial information	
Trading record	119
Critical accounting policies	120
Management discussion and analysis of results of operation	122
Analysis of major balance sheet items	131
Indebtedness	136
Liquidity, financial resources and capital structure	137
Related party transactions	140
Disclosure under Rules 13.13-19 of the Listing Rules	142
Distributable reserves	143
Dividend policy	143
Property interests	144
No material adverse change	145
Future plans and use of proceeds	146
Cornerstone Investors	150
Underwriting	153
Structure and conditions of the Share Offer	157
How to apply for the Public Offer Shares	165
Appendix I – Accountants’ report	I-1
Appendix II – Unaudited pro forma financial information	II-1
Appendix III – Property valuation	III-1
Appendix IV – Summary of the constitution of the Company and Cayman Islands Companies Law	IV-1
Appendix V – Statutory and general information	V-1
Appendix VI – Documents delivered to the Registrar of Companies in Hong Kong and documents available for inspection	VI-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

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. During the Track Record Period, the Group has completed about 68 contracts for the sale of products and equipment, among which, about 53 contracts were related to water treatment, about nine contracts were related to pipes and about six contracts were related to flue gas treatment. The Group has also undertaken four EP construction engineering projects, including three FGD projects for power plants with a total installed capacity of 1,755 MW and one solid waste incineration power plant project. The Group plans to devote more resources to enhance the Group’s capabilities to increase the varieties of EP solutions it can offer to its customers.

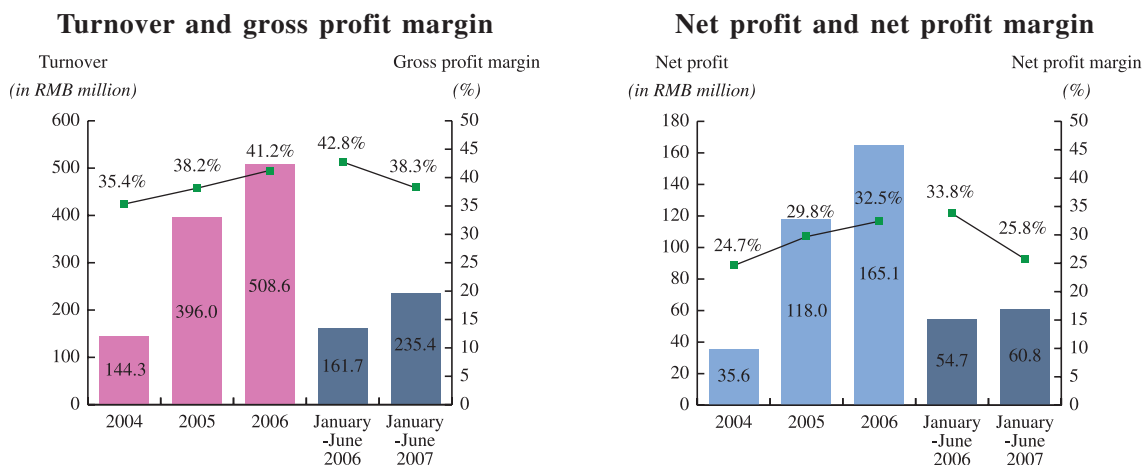
The Group offers its customers a variety of services covering engineering design, ancillary product design, procurement, manufacturing and processing, assembly, installation and construction, project management and after-sales services. Subject to factors such as licensing requirements, internal resources availability, cost effectiveness and the complexity of works involved, the Group may engage sub-contractors to carry out certain services as offered by the Group to its customers. The Group has production facilities located in Yixing, the PRC for the manufacture and processing of certain EP products and equipment. For details of the services offered by the Group, please refer to the paragraph headed “Overview of integrated services” under the section headed “Business” in this prospectus.

In general, services such as product design and installation involved in the sale of EP products and equipment are ancillary in nature without separate charges; while services such as engineering design, installation and construction involved in the EP construction engineering projects are non-ancillary in nature and separate fees are charged. In general, the completion time for the sale of EP products and equipment is less than six months, whereas the completion time of EP construction engineering projects is generally more than a year.

The Group’s customers are located in different provinces, direct-controlled municipalities and autonomous regions in the PRC, including Fujian, Guangdong, Hebei, Heilongjiang, Henan, Jiangsu, Liaoning, Shanxi, Shandong, Sichuan, Zhejiang provinces, Beijing, Shanghai, Inner Mongolia and Xinjiang. The Group has entered into business transactions for FGD projects with large-scale power companies, such as 華電新鄉發電有限公司 (Huadian Xinxiang Power Generation Company Limited) and 山東臨沂發電有限責任公司 (Shandong Linyi Electric Power Company Limited).

SUMMARY

As illustrated in the diagrams below, the Group has achieved significant growth in its turnover and profit during the Track Record Period.



Immediately after the Track Record Period ended 30 June 2007 and up to the Latest Practicable Date, the Group had completed about 12 contracts for the sale of EP products and equipment with an aggregate contract sum of approximately RMB127 million and there were about 27 uncompleted contracts for the sale of EP products and equipment with an aggregate contract sum of approximately 509 million which are expected to be completed in December 2007 or 2008. In addition, as at the Latest Practicable Date, there were three uncompleted EP construction engineering projects with an aggregate contract sum of approximately RMB470 million, of which two contracts relating to water treatment are expected to be completed in 2008 and the other one contract relating to flue gas treatment (i.e. solid waste incineration plant project) is expected to be completed in 2009. Immediately after the Track Record Period ended 30 June 2007 and up to the Latest Practicable Date, the Group has not secured any new FGD projects. As advised by the Directors, the Group is in the process of pitching several FGD projects.

INDUSTRY HIGHLIGHTS

In 2005, the investment on environmental pollution treatment in China was approximately RMB238.8 billion, which is 25.0% higher than that of the previous year. The CAGR of such investment was 21.2% between 2001 and 2005. The ratio of the investment for environmental pollution treatment to the country's GDP has increased from approximately 1.01% in 2001 to approximately 1.30% in 2005.

The investment on industrial pollution treatment in 2005 was approximately RMB45.8 billion, which has increased by approximately 48.7% from the previous year. Comparing to the investment of approximately RMB17.5 billion in 2001, the CAGR of the investment was approximately 27.3% between 2001 and 2005, which was higher than that of the total investment for pollution treatment. The contribution of the investment for industrial pollution treatment in the investment for pollution treatment has increased from approximately 15.8% in 2001 to approximately 19.2% in 2005, implying that the industrial pollution treatment has been more emphasized in the recent years.

With the continuous economic development in China, the continuous emphasis on EP by the PRC Government and the increasingly stringent EP compliance requirements in China, the Directors believe that EP is an irreversible trend and has promising market potential and the

SUMMARY

Group's position in the EP market will benefit from increasing awareness of environmental issues in China. The PRC Government's Eleventh Five-Year Plan shows its determination to intensifying EP efforts including, among others, reinforcing water pollution control and reducing the discharge of sulphur dioxide through accelerated construction of desulphurisation facilities in existing coal-fired power plants and compulsory installation of desulphurisation facilities in new coal-fired power plants. It targets to reduce the level of COD and discharge of sulphur dioxide by 10% in 2010 from the 2005 level. Given the fact that the PRC still substantially relies on coal-fired power generation and that sulphur dioxide emission from coal-fired power plants accounts for a major portion of total sulphur dioxide emission in the PRC, desulphurisation in coal-fired power plants is regarded as an important measure to reduce the sulphur dioxide emission level in the PRC.

In light of the foregoing, the Directors are confident that the desulphurisation market will pose a strong growth and intend to expand the Group's flue gas treatment business because they believe an accelerated demand for flue gas treatment products or systems will result from the necessity to comply with the requirements to have flue gas treatment facilities installed by 2010. Accordingly, certain part of the proposed use of proceeds from the Share Offer will be used for the expansion of flue gas treatment business. Other factors contributing to the growth of the EP industry are the implementation of different EP standards in the PRC, for example, the promulgation of 《火電廠大氣污染物排放標準》 (Air Pollutants Discharge Standards for Thermal Power Plants) and 《污水綜合排放標準》 (Integrated Wastewater Discharge Standards).

STRENGTHS

The Directors believe that the Group's success is principally attributable to its strengths, which include the following:

Integrated services provider with strong customisation capabilities

The Directors believe that the Group is able to differentiate itself from its competitors by providing not only a single service but an integrated range of related services, including engineering design, ancillary product design, procurement, manufacturing and processing, assembly, installation, project management and after-sales services. In addition, the Group customises its products and services to address specific customer requirements. Please refer to the paragraph headed "Overview of integrated services" under the section headed "Business" of this prospectus for details. As an integrated services provider, the Directors consider that the Group is well positioned in the industry to capture new opportunities ahead such as other gas purification treatment projects.

Possession of skilled and experienced work force

The Group has capitalized on the knowledge and expertise of the Group's technical personnel. As at the Latest Practicable Date, 49 of the Group's employees were engineers from various professional backgrounds with work experiences in EP, among which, one of them possessed a doctorate in sewage system engineering, 6 of them possessed master degrees in environmental engineering, construction design and management and 37 of them were holders of either bachelor degrees or diplomas in various areas such as, among other things, EP engineering, construction engineering, structural engineering, sewage system engineering, electronic engineering and instrument engineering. Backed by the extensive experience in various industries possessed by the Group's engineers, the Group has been able to provide customised EP services for customers in different industries.

SUMMARY

Market-oriented business strategies

The Group's market-oriented business strategies enable it to respond quickly to market needs such as the need for desulphurisation work. In view of the economic growth of the PRC economy and the PRC Government's emphasis on EP as evidenced in its Eleventh Five-Year Plan, the Directors expect that there will be a high growth potential of the EP market in the PRC which in turn will further enhance the revenue base of the Group.

Extensive business network

Through offering integrated EP services with strong customisation capabilities, the Group is able to capture customers in a wide range of industries, including but not limited to, textile and dyeing, iron and steel, and power industries. Other than the Jiangsu province in the PRC where the Group is based, the Group has also covered a wide geographical spread in the PRC. As at the Latest Practicable Date, the Group had provided services to customers in different provinces, directly-controlled municipalities and autonomous region in the PRC, including Fujian, Guangdong, Hebei, Heilongjiang, Henan, Jiangsu, Liaoning, Shanxi, Shandong, Sichuan, Zhejiang provinces, Beijing, Shanghai, Inner Mongolia and Xinjiang.

Established track record

The Group has achieved significant growth in its turnover and profit for the Track Record Period. During the Track Record Period, the Group has completed about 68 contracts for the sale of products and equipment and undertaken four EP construction engineering projects, including three FGD projects for power plants with a total installed capacity of 1,755MW and one solid waste incineration power plant project. The total contract sum in relation to the four projects was approximately RMB609.6 million. With the Group's track record, the Directors believe that the Group is well positioned for future expansion.

Established good relationship with customers

The Group has established good relationships with its customers by providing services including product quality assurance, after-sales technical support and warranty. The Directors consider that maintaining a good relationship with the Group's customers will enhance its chances of securing contracts from previous or existing customers and help secure new businesses through referrals from previous or existing customers.

Technical qualification in engineering design

The Group possesses Grade A and Grade B certificates for engineering design. Please refer to the paragraph headed "Qualification certificates" under the section headed "Business" of this prospectus for details. A subsidiary of the Company, SEEDRI, has approximately 16 years of experience in engineering design.

SUMMARY

Experienced management and effective incentive mechanism

The Group's management team has considerable experience and expertise in the EP industry and/or their respective responsible areas. The Directors believe that the Group can leverage on the expertise and business relationship of its senior management personnel to contribute to its development of products and business in the future.

In addition, the Group has been operating its business on the basis that employee contribution is a key factor of success. The Group has provided training for its staff with an aim to continually raise its employees' productivity and morale. In addition, it has adopted incentive scheme to motivate its salespersons towards better performance by awarding them for completing a particular sales contract.

FUTURE PLANS AND PROSPECTS

The Directors believe that the EP industry has good development prospects given the rapid economic growth of the PRC economy and the PRC Government's emphasis on EP. The Group's main goal is to strengthen its position in the EP market in the PRC and to tap the growing market potential. To achieve these goals, the Group has formulated a series of development plans:

- Expansion of production capabilities
- Acquisition and/or establishment of EP related businesses or investments
- Enhancement of research and development capability
- Establishment of simulated control facilities for flue gas treatment
- Enhancement of sales service and extension of sales network

PROPOSED USE OF PROCEEDS

Based on an Offer Price of HK\$2.70 per Share (being the mid-point of the Offer Price range between HK\$2.40 and HK\$3.00 per Offer Share, the net proceeds from the Share Offer (assuming Over-allotment Option is not exercised), after deducting the related expenses, are estimated to be approximately HK\$491 million. The Directors presently intend to apply the net proceeds as follows:

- approximately HK\$228 million for the implementation of the Group's expansion strategy through setting up new production facilities:
 - (i) approximately HK\$118 million for the acquisition of new production equipment;
 - (ii) approximately HK\$60 million for the construction of new production facilities; and
 - (iii) approximately HK\$50 million for the acquisition of land;

SUMMARY

- approximately HK\$119 million for the implementation of the Group's expansion strategy by acquisition and/or establishment of EP related businesses or investment targets;
- approximately HK\$45 million for the enhancement of research and development capability:
 - (i) approximately HK\$25 million for the acquisition of EP related technologies and development of new technologies; and
 - (ii) approximately HK\$20 million for establishment of a research and development center;
- approximately HK\$25 million for establishing simulated control facilities for flue gas treatment;
- approximately HK\$25 million for establishing sales and support centres in different locations in the PRC; and
- the balance of approximately HK\$49 million for general working capital of the Group.

In the event that the Offer Price is fixed at HK\$3.00 per Offer Share, being the highest point of the indicative Offer Price range, the net proceeds will be increased by approximately HK\$58 million. The Directors presently intend to apply such additional net proceeds as to HK\$38 million for general working capital of the Group and as to HK\$20 million for establishing sales and support centres. In the event that the Offer Price is fixed at HK\$2.40 per Offer Share, being the lowest point of the indicative Offer Price range, the net proceeds will be reduced by approximately HK\$58 million. In such circumstances, the Directors presently intend to reduce correspondingly the application of the proceeds for the acquisition and/or establishment of EP related businesses or investments.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$2.70 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$2.40 per Offer Share and HK\$3.00 per Offer Share) the net proceeds will be increased by approximately HK\$79 million (the "Additional Proceeds"). The Directors intend to apply approximately 60% of the Additional Proceeds for the acquisition and/or establishment of EP related businesses or investments and approximately 40% as for general working capital purpose.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if the Group is unable to effect any part of the future plans as intended, the Group may hold such funds in short-term interest-bearing deposits with banks and/or financial institutions in Hong Kong for so long as it is in the best interests of the Group and the Shareholders as a whole. The Directors may also re-allocate the use of the net proceeds should any of the above future plans not be implemented. In such event, the Company will comply with the appropriate requirements under the Listing Rules and issue an announcement if there is any material change or modification to the use of proceeds.

SUMMARY

TRADING RECORD

The following table is a summary of the combined results of the Group during the Track Record Period, prepared on the basis that the current structure of the Group was in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Turnover	<i>I</i>	144,330	395,973	508,628	161,718	235,429
Cost of sales		(93,282)	(244,696)	(299,298)	(92,557)	(145,307)
Gross profit		51,048	151,277	209,330	69,161	90,122
Other revenue		539	511	1,960	1,024	1,775
Selling and distribution expenses		(2,427)	(8,361)	(11,853)	(2,451)	(4,986)
General and administrative expenses		(6,085)	(7,406)	(8,888)	(5,476)	(5,908)
Other operating expenses		(174)	(274)	(2,722)	(91)	(276)
Operating profit		42,901	135,747	187,827	62,167	80,727
Finance costs		(2,715)	(2,503)	–	–	–
Profit before taxation		40,186	133,244	187,827	62,167	80,727
Taxation		(4,543)	(15,226)	(22,701)	(7,462)	(19,962)
Profit for the year/period		<u>35,643</u>	<u>118,018</u>	<u>165,126</u>	<u>54,705</u>	<u>60,765</u>
Attributable to:						
Equity holders of the Company		35,643	118,018	165,273	54,705	61,141
Minority interests		–	–	(147)	–	(376)
		<u>35,643</u>	<u>118,018</u>	<u>165,126</u>	<u>54,705</u>	<u>60,765</u>
Dividends		–	–	108,000	–	22,000
Earnings per share	<i>2</i>					
– basic (RMB cents)		<u>4.46</u>	<u>14.75</u>	<u>20.66</u>	<u>6.84</u>	<u>7.64</u>

SUMMARY

Notes:

1. Turnover

The breakdown of the Group's turnover during the Track Record Period is set out below.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Turnover					
Sale of EP products and equipment	144,330	375,530	343,838	144,065	161,877
Revenue from EP construction engineering projects	–	20,443	164,616	17,653	72,499
Revenue from professional service	–	–	174	–	1,053
	<u>144,330</u>	<u>395,973</u>	<u>508,628</u>	<u>161,718</u>	<u>235,429</u>

2. Earnings per share

The calculation of basic earnings per share for the Track Record Period is based on the consolidated profit attributable to equity holders of the Company for the respective years and on the assumption that 800,000,000 Shares are in issue and issuable, comprising 100,000,000 Shares in issue as at the date of this prospectus and 500,000,000 Shares to be issued pursuant to the Capitalisation Issue and 200,000,000 Shares to be issued pursuant to the Share Offer, as if the Shares were outstanding throughout the entire Track Record Period.

STATISTICS OF THE SHARE OFFER

Range of Offer Price (per Share) HK\$2.40 to HK\$3.00

Market capitalisation HK\$1,920 million to HK\$2,400 million

Price-to-earnings multiple (*Note 2*) 11.3 times to 14.1 times

Unaudited pro forma adjusted net tangible asset value
per Share (*Note 3*) HK\$1.048 to HK\$1.195

Notes:

1. Except where otherwise indicated, the statistics have been prepared on the assumption that the Over-allotment Option is not exercised and takes no account of (i) any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme; or (ii) any Shares which may be allotted or issued or purchased by the Company under the general mandates for the issue or repurchase of Shares granted to the Directors referred to in appendix V to this prospectus or otherwise.
2. The price-to-earnings multiple is based on the consolidated profit attributable to equity holders of the Company of approximately RMB165,273,000 for the year ended 31 December 2006, the Offer Price of HK\$2.40 or HK\$3.00 (as the case may be) and on the basis of 800,000,000 Shares expected to be in issue throughout the year but has not taken into account any Shares which may be issued upon the exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted net tangible asset value per Share has been arrived after making the adjustments set out under the section headed "Unaudited pro forma financial information" in appendix II to this prospectus and on the basis as if 800,000,000 Shares are in issue as at 30 June 2007 at the Offer Price of HK\$2.40 or HK\$3.00 (as the case may be).

SUMMARY

RISK FACTORS

Risks relating to the business and the Group

- The Group might not be successful in implementing its strategy of diversifying into the provision of different EP products and services, which would have a material potential adverse effect on its competitive position and ability to generate revenues
- The Group's financial performance is dependent on its successful obtaining of contracts with similar or higher profit margins when compared to existing contracts and profitability of such contracts may be adversely affected by various factors including cost overruns
- Uncertainties associated with the expansion plan of the Group may adversely affect the financial performance of the Group
- The Group offers customised products and equipment and its sales are generally non-recurring in nature
- The Group has long realization cycle for receiving payments under certain contracts and may be exposed to payment delays and/or default by its customers
- Failure to meet quality standards will result in sales return, delay or refusal of release of quality retention monies by the Group's customers
- The Group may not be able to extend, renew or maintain its relevant operating certificates, permits or licences upon their expirations
- If the Group fails to maintain the quality of the products and/or services provided by its suppliers or sub-contractors efficiently, the Group would be obligated to assume the relevant responsibility and any complaint or product/service liability claim may adversely affect the Group's reputation
- The Group may outsource certain works to and rely on sub-contractors
- The Group may not maintain sufficient insurance coverage for the risks associated with its operations
- Fluctuations in the supply and price of raw materials and/or components could result in increased operating expenses that the Group may not be able to pass on to its customers
- The Group may not be able to sustain its growth rate
- The Group has a limited operating history in EP industry
- The Group must keep up with technological changes to remain competitive
- The Group is dependent on certain key management and technical personnel and may face challenges in attracting and retaining skilled personnel
- The Group is dependent on a few largest customers
- Any change in preferential tax treatment in the PRC may have a negative impact on the Group's results of operations

SUMMARY

- The historical dividend payout ratio of the Group should not be used as a reference for determining the amount of dividends which may be payable in the future
- The Company is an investment holding company which relies on dividend payments from its subsidiaries for funding
- Certain of the Group's properties in the PRC are subject to title defects

Risks relating to the industry

- The growth and expansion of the FGD industry is highly dependent on growth in the coal-fired power industry
- The Group may be affected by introduction of new rules, regulations and EP standards and their interpretations and modifications
- The imposition of different EP standards by the local authorities may hinder the expansion of the Group in certain regions
- Certain changes in tax and other benefits, as well as regulatory changes arising as a result of the PRC's accession to the WTO, may adversely affect the results of operations and financial condition of participants in the EP industry, including the Group

Risks relating to the PRC

- Adverse changes in the PRC's economic and political conditions as well as government policies could have a material adverse effect on the overall economic growth of the PRC, which could adversely affect the results of operations and financial condition of the Group
- The PRC legal system has been evolving and, in some aspects, the investors may not necessarily enjoy the same level of legal protection as in other jurisdictions
- Enforcement of judgments in the PRC may be difficult
- Future movements in exchange rates may adversely affect the Group's financial condition and results of operations

Risks relating to the Share Offer

- There are risks associated with forward-looking statements
- There has been no prior public market for the Shares and the price of the Shares may be volatile
- The interests of the Shareholders may be diluted as a result of additional equity fund raising
- The industry statistics contained in this prospectus are derived from various official government sources and may not be reliable

Please refer to the section headed "Risk factors" in this prospectus for details.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Application Form(s)”	WHITE application form(s) and YELLOW application form(s), or where the context so requires, any of them, which is used in relation to the Public Offer
“AGT (BVI)”	Asia Global Tech Group Limited (formerly known as Asia Environmental Protection Technologies Group Limited), a company incorporated in the BVI with limited liability on 10 October 1997, which is directly owned as to 100% by YY Holdings
“AGT (HK)”	Asia Global Tech Group Limited (formerly known as Asia Environmental Protection Technologies Group Limited), a company incorporated in Hong Kong with limited liability on 16 August 2000, and is beneficially owned as to 60%, 20% and 20% by Ms. Qian Yuanying (the spouse of Mr. Jiang), Mr. Jiang Lei and Mr. Jiang Xin (both of whom are sons of Mr. Jiang) respectively
“Articles”	the articles of association adopted by the Company pursuant to the written resolutions passed by the sole shareholder of the Company on 1 December 2007
“associate”	has the meaning ascribed thereto under the Listing Rules
“Benxi Fanya”	本溪泛亞環保熱電有限公司 (Benxi Fanya Environmental Heat & Power Co., Ltd.), a company incorporated in the PRC with limited liability on 23 July 2002 and is directly owned as to approximately 80% by AGT (HK) and approximately 20% by an Independent Third Party
“Board”	the board of Directors
“Business Day(s)”	any day(s) (excluding Saturday(s) and Sunday(s)) in Hong Kong on which licensed banks in Hong Kong are open for banking business throughout their normal business hours
“BVI”	the British Virgin Islands

DEFINITIONS

“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed “3. Resolutions in writing of the sole shareholder of the Company passed on 1 December 2007” in appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CNAB”	中國認證機構國家認可委員會 (China National Accreditation Board for Certifiers), a national accreditation body in the PRC which accredits the competence of bodies operating assessment and certification of management systems and products
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Pan Asia Environmental Protection Group Limited (泛亞環保集團有限公司), an exempted company incorporated in the Cayman Islands on 16 August 2006 under the Companies Law with limited liability
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules and, in the context of the Company, means Praise Fortune, Mr. Jiang (being the sole director of Praise Fortune), Mr. Jiang Lei and Mr. Jiang Xin

DEFINITIONS

“Cornerstone Investors”	GE Asset Management Incorporated, General Motors Investment Management Corporation and The China Development Capital Partnership Master Fund LP, brief details of which are set out in the section headed “Cornerstone Investors” in this prospectus
“Cornerstone Shares”	the Shares (forming part of the Placing Shares) to be acquired by the Cornerstone Investors
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission)
“Director(s)”	the director(s) of the Company
“Eleventh Five-Year Plan”	《中華人民共和國國民經濟和社會發展第十一個五年規劃綱要》 (The Eleventh Five-Year Plan for National Economic and Social Development in China), five-year plan for 2006-2010
“EP”	environmental protection
“EPAs”	SEPA or the local EP bureaus (as the context may require)
“GAAP”	Generally Accepted Accounting Principles
“GDP”	gross domestic product
“Group”	the Company and its subsidiaries or, where the context otherwise requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company, some or any of them and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any member of the Group, the Directors, the chief executives and the substantial shareholders (as defined in the Listing Rules) of the Company and its subsidiaries and their respective associates

DEFINITIONS

“Jiangsu Tianyuan”	江蘇天元科技有限公司 (Jiangsu Tianyuan Technologies Limited) (formerly known as 宜興大浦窯爐密封材料廠 (Yixing Dapu Yaolu Sealed Material Factory)), a company incorporated in the PRC on 18 January 1991 and is owned as to 70%, 10% and 10% by Mr. Fang Guoqiang, Mr. Fang Jianchun and Mr. Fang Jianhong (brothers of Mr. Fang Guohong) respectively and 10% by Ms. Fan Hongwei (spouse of Mr. Fang Guohong)
“Latest Practicable Date”	30 November 2007, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date of commencement of trading of the Shares on Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market and the options market
“MOC”	中華人民共和國建設部 (Ministry of Construction of the PRC)
“Mr. Jiang”	Mr. Jiang Quanlong, the chairman of the Board and an executive Director
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC)
“Offer Price”	the offer price per Offer Share (excluding the Stock Exchange trading fee and transaction levy imposed by the SFC and brokerage fee payable thereon) of not more than HK\$3.00 and expected to be not less than HK\$2.40 at which the Offer Shares are to be subscribed, such price to be agreed and determined between the Company and the Sole Lead Manager (on behalf of the Underwriters) at or before the Price Determination Date
“Offer Shares”	the Public Offer Shares and the Placing Shares

DEFINITIONS

“Over-allotment Option”	the option granted by the Company to the Sole Lead Manager (for itself and on behalf of the Placing Underwriter) exercisable at any time prior to 4:00 p.m. on the date falling 30 days after the date of this prospectus, subject to the terms of the Underwriting Agreement, to require the Company to allot and issue the Over-allotment Shares at the Offer Price to cover any over-allocations in the Placing and/or the obligation of the Sole Lead Manager to return securities borrowed under the Stock Borrowing Agreement
“Over-allotment Shares”	up to an aggregate of 30,000,000 new Shares to be issued pursuant to the exercise of the Over-allotment Option, representing approximately 15% of the number of Shares initially available under the Share Offer
“Pan Asia (BVI)”	Pan Asia Environmental Protection Technologies Limited, a limited company established in the British Virgin Islands on 5 January 2006 and a wholly-owned subsidiary of the Company
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of the Company at the Offer Price with professional, institutional and individual investors as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 180,000,000 new Shares initially being offered at the Offer Price for subscription under the Placing subject to re-allocation and the Over-allotment Option as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriter”	the underwriter listed in the paragraph headed “Placing Underwriter” under the section headed “Underwriters” in this prospectus, being the underwriter of the Placing
“Praise Fortune”	Praise Fortune Limited, a company incorporated in the BVI with limited liability on 1 December 2004 and held as to approximately 0.2% by Ms. Qian Yuanying, approximately 49.9% by Mr. Jiang Lei and approximately 49.9% by Mr. Jiang Xin respectively, and whose sole director is Mr. Jiang

DEFINITIONS

“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Government”, “PRC government”, “state” or “State”	the government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
“PRC Legal Advisers”	Shanghai United Law Firm, the legal advisers of the Company in connection with the Share Offer as to the PRC laws
“Price Determination Agreement”	the agreement to be entered into between the Company and the Sole Lead Manager (for itself and on behalf of the Underwriters) at or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or before 13 December 2007, on which the Offer Price will be fixed for the purposes of the Share Offer and in any event no later than 6:00 p.m. (Hong Kong time) on 16 December 2007
“Public Offer”	the conditional offer of the Public Offer Shares by the Company for subscription by members of the public in Hong Kong for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated herein and in the related Application Forms
“Public Offer Shares”	the 20,000,000 new Shares initially offered at the Offer Price for subscription under the Public Offer subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters listed in the paragraph headed “Public Offer Underwriters” under the section headed “Underwriters” in this prospectus, being the underwriters of the Public Offer
“Reorganisation”	the corporate reorganisation of the Group in preparation for the Listing as described under the paragraph headed “Group Reorganisation” in appendix V to this prospectus

DEFINITIONS

“SEEDRI”	上海環境工程設計研究院有限公司 (Shanghai Environmental Engineering Design & Research Institute Limited), a limited liability company established in the PRC on 10 April 1991 and held as to approximately 70.05% by Wuxi Zhong Dian, approximately 26.98% by Shanghai Industrial and approximately 2.97% by Shanghai Gongcheng. It is a non-wholly owned subsidiary of the Company
“SEPA”	中國國家環境保護總局 (State Environmental Protection Administration of China)
“SFC”	Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Gongcheng”	上海工程成套建設有限公司 (Shanghai Gongcheng Cheng Tao Development Company Limited), a company established in the PRC and a shareholder of SEEDRI, and is owned as to approximately 81.9% by 上海黃河資產管理有限責任公司 (Shanghai Huanghe Assets Management Limited), an Independent Third Party and owned as to approximately 18.1% by another Independent Third Party
“Shanghai Industrial”	上海泛亞環保產業發展有限公司 (Shanghai Pan-Asia Environmental Protection Industrial Development Company Limited) (formerly 上海華源環保產業發展有限公司 (Shanghai Wah Yuen Environmental Protection Property Development Company Limited)), a company established in the PRC and a shareholder of SEEDRI, and is owned as to approximately 78.57% by 上海黃河資產管理有限責任公司 (Shanghai Huanghe Assets Management Limited), an Independent Third Party and owned as to approximately 21.43% by Shanghai Gongcheng
“Shanghai Kaida”	上海凱達投資有限公司 (Shanghai Kaida Investment Company Limited), a company established in the PRC, and is owned as to 60% by Mr. Jiang and 40% by Mr. Jiang Lei
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Offer”	the Public Offer and the Placing

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 1 December 2007, its principal terms are set out under the paragraph headed “Share Option Scheme” in appendix V to this prospectus
“Stock Borrowing Agreement”	the stock borrowing agreement dated 7 December 2007 entered into between Praise Fortune and the Sole Lead Manager, pursuant to which the Sole Lead Manager may borrow up to 30,000,000 Shares to cover any over-allocation in the Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Taifook Capital” or “Sponsor”	Taifook Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity, being the sponsor to the Share Offer
“Taifook Securities” or “Sole Lead Manager”	Taifook Securities Company Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities), type 3 (leveraged foreign exchange trading) and type 4 (advising on securities) regulated activities, being the sole lead manager and sole bookrunner to the Share Offer
“Track Record Period”	the period comprising the three years ended 31 December 2006 and the six months ended 30 June 2007
“Underwriters”	the Placing Underwriter and the Public Offer Underwriters
“Underwriting Agreement”	the conditional underwriting and placing agreement relating to the Share Offer dated 7 December 2007 and entered into between the Company, Praise Fortune, Mr. Jiang Xin, the executive Directors, Taifook Capital, Taifook Securities and the Underwriters, particulars of which are set forth in the section headed “Underwriting” in this prospectus
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“WTO”	World Trade Organisation

DEFINITIONS

“Wuxi Pan-Asia”	無錫泛亞環保科技有限公司 (Wuxi Pan-Asia Environmental Protection Technologies Limited), a wholly-foreign owned enterprise established in the PRC on 20 July 1996 and an indirect wholly-owned subsidiary of the Company
“Wuxi Zhong Dian”	無錫市中電空冷技術有限公司 (Wuxi Zhong Dian Kong Leng Technology Limited), a company established in the PRC on 30 May 2001 and an indirect wholly-owned subsidiary of the Company
“YY Holdings”	YY Holdings Limited, a company incorporated in the BVI with limited liability on 13 July 1999, and is entirely owned by YYT Limited, the trustee of YY Trust (for details, please refer to the paragraph headed “Shareholding and corporate structure” under the section headed “History and development” in this prospectus)
“HK\$” or “HK dollars” or “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“mm”	millimetre
“RMB” or “Renminbi” or “RMB cent(s)”	Renminbi yuan or cent(s), the lawful currency of the PRC
“sq.m.”	square metre
“US\$” or “US dollars”	United States dollars, the lawful currency of the US
“%”	per cent.

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:

US\$1 : HK\$7.80

RMB1 : HK\$1.03

The above exchange rate has been used for purposes of illustration only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rates or at all.

For ease of reference, the names of the PRC established companies or entities have been included in this prospectus in both the Chinese and English languages and the English names of these companies and entities are only English translation of their respective official Chinese names. In the event of any inconsistency, the Chinese version shall prevail.

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“anaerobic”	the occurrence in the absence of oxygen
“BOD”	biochemical (or biological) oxygen demand is a measure of the oxygen consumed by microorganisms in water to decompose the organic substance. If there is a large quantity of organic substance in water, the demand for oxygen will be high, so the BOD level will be high. After organic substance is oxidized, BOD levels will begin to decline. When BOD levels are high, dissolved oxygen decreases because the oxygen that is available in the water is being consumed by the organic substance. Since less dissolved oxygen is available in the water, fish and other aquatic organisms may not survive. Since the BOD test takes 5 days to complete, it is also called BOD ₅
“°C”	degrees celsius, a measure of temperature
“CAGR”	the compound annual growth rate
“COD”	chemical oxygen demand, is commonly used to indirectly measure the amount of organic compounds in water. Most applications of COD determine the amount of organic pollutants found in surface water (e.g. lakes and rivers), making COD a useful measure of water quality
“Dissolved oxygen”	the amount of oxygen that is dissolved in water and is essential to healthy streams and lakes. The dissolved oxygen level can be an indication of how polluted the water is and how well the water can support aquatic plant and animal life. Generally, a higher dissolved oxygen level indicates better water quality. If dissolved oxygen levels are too low, some fish and other organisms may not be able to survive
“FGD”	flue gas desulphurisation, a technology that employs a sorbent, usually lime or limestone, to remove sulphur dioxide (SO ₂) from the gases produced by burning mineral or fuels

GLOSSARY

“flocculation”	the process by which fine particulates are caused to clump together into floc. The floc may then float to the top of the liquid, settle to the bottom of the liquid, or can be readily filtered from the liquid
“kW”	kilowatt, equal to one thousand watts of electricity
“L”	litre, a measure of volume
“mg”	milligram, a measure of weight
“MW”	megawatt, equal to one million watts of electric power. The installed capacity of power plants is generally expressed in MW
“NH ₃ -N”	ammonia nitrogen, refers to nitrogen combined with hydrogen in the amino group, an indicator of water quality
“PH”	a measure of the acidity or alkalinity of a solution, numerically equal to 7 for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from 0 to 14
“SS”	suspended solids, refers to small solid particles which remain in suspension in water as a colloid or due to the motion of the water. It is used as one indicator of water quality
“watt”	watt, a measure of electrical power

RISK FACTORS

Potential investors should carefully consider all information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company. The Group's business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investments.

RISKS RELATING TO THE BUSINESS AND THE GROUP

The Group might not be successful in implementing its strategy of diversifying into the provision of different EP products and services, which would have a material potential adverse effect on its competitive position and ability to generate revenues.

The Group has diversified its major business from the provision of water treatment products and pipes into the undertaking of FGD projects in 2004 and a solid waste incineration power plant project in 2007. As an integrated EP services provider, the Group intends to devote more resources to increase the varieties of EP services it can offer to its customers. As such, it is expected the Group will offer different types of EP products and services in the future. Should it fail to adapt itself to such business operation, it may not be able to maintain its current profit margins. In addition, there can be no assurance that its efforts to increase its revenues from such business will be successful.

The Group's financial performance is dependent on its successful obtaining of contracts with similar or higher profit margins when compared to existing contracts and profitability of such contracts may be adversely affected by various factors including cost overruns.

The Group's financial performance is dependent on its successful obtaining of contracts with similar or higher profit margins when compared to existing contracts. In view of the competition in the industry, the Group may or may not be able to secure highly profitable orders or contracts in the future. In the event that the Group encounters significant obstacle in securing highly profitable contracts, its profitability and prospects may be adversely affected.

In addition, some of the Group's contracts are awarded through a competitive bidding process, pursuant to which the Group may be required to agree to supply equipment or services at pre-agreed prices without any cost escalation clauses or has limited ability to make adjustments. Some of the Group's contracts may have relatively long completion periods and fall into different financial years. The Group may incur extensive capital costs in performing the contracts, and the Group's performance of the contracts may also be adversely affected by many factors, including, but not limited to, shortages of and increases in the costs of materials, equipment, technical skills and labour, as well as occurrence of accidents and other unforeseeable problems and circumstances beyond the Group's control. The occurrence of any of these factors could delay the completion of a contract and result in cost overruns or compensation payments to customers due to late delivery. The profit margins that the Group realize on such fixed-price contracts may be significantly lower than the original estimates. There can be no assurance that all of the fixed-price contracts can be completed profitably and on time.

RISK FACTORS

Uncertainties associated with the expansion plan of the Group may adversely affect the financial performance of the Group.

As part of the Group's expansion plan, the Group intends to apply the net proceeds from the Share Offer as to approximately HK\$228 million on setting up new production facilities. Further details are set out in the section headed "Future plans and use of proceeds" of this prospectus. There is no assurance that such expansion plan will be successfully implemented. The implementation of such expansion plan is subject to a number of uncertainties such as delays, cost overruns, regulatory approvals, changes in market circumstances and product demands. As such, there is no guarantee that such expansion plan will bring to the Group the amount of revenue and investment returns as planned, which in turn would adversely affect the business and financial performance of the Group.

The Group offers customised products and equipment and its sales are generally non-recurring in nature.

The Group's sales are generally non-recurring in nature. The useful life of the Group's water treatment products, where stated in the contract, is generally about 10 years. The Group's current customers may not repeat their orders from the Group or may vary their order levels significantly in the future. As the Group's customers are typically one-off customers, it therefore has to continuously and consistently secure new customers and contracts. There is no assurance that the Group will be able to secure new customers and contracts.

The Group has long realization cycle for receiving payments under certain contracts and may be exposed to payment delays and/or default by its customers.

As set out in the paragraph headed "Payment terms and credit policy" under the section headed "Business" of this prospectus, the Group normally requires its customers to make advance deposits while the remaining payments are settled on a progress basis with reference to certain pre-agreed benchmarks of the contracts. In general, progress payments of approximately 5% to 20% of the total contract sum will usually be retained by the customers until the expiration of the warranty period, which is usually one to two years. The Group's average trade receivables turnover days for the three years ended 31 December 2006 and the six months ended 30 June 2007 were 227.5 days, 113.8 days, 31.4 days and 47.5 days, respectively. Such progress or deferred payment may, to certain extent, affect the Group's cash flow position and level of working capital. Should there be any material delay in settlement by any of its customers, the Group's financial and liquidity position may be adversely affected.

Failure to meet quality standards will result in sales return, delay or refusal of release of quality retention monies by the Group's customers.

In general, approximately 5% to 20% of the total contract sum will be retained by the Group's customers for one to two years after completion as quality retention monies before it is released to the Group. The retention monies will be released to the Group upon expiry of the warranty period. In addition, the Group may also encounter sales return due to failure in quality standards of the Group's products and/or systems. During the Track Record Period, the Group has not experienced any significant sales return for its products and equipment or systems or any incidents where the Group's products and equipment or systems have failed to meet the

RISK FACTORS

quality standards. However, there is no assurance that the Group will not encounter failure in meeting quality standards that will result in sales return, delay and/or refusal of release of the quality retention monies by the Group's customers. The Group's financial position may be adversely affected if there is a significant amount of sales return, delay and/or refusal to release quality retention monies by its customers.

The Group may not be able to extend, renew or maintain its relevant operating certificates, permits or licences upon their expirations.

The Group requires certain certificates, permits and business licences from the relevant PRC authorities for its business operation. As at the Latest Practicable Date, the Group had obtained all necessary certificates, permits and/or business licences necessary for its business operation.

However, when extending, renewing and maintaining such business licences or operational documents, there is no assurance that the relevant legislation and its interpretation by the supervising authorities will be in favour of the Group and that the Group will pass the examination conducted by the relevant PRC authorities. If any such business licence or operational document is not extended or renewed or is terminated for any reasons, the Group may not be able to continue its related operations. In such an event, the Group may have to develop its business in other areas and its financial condition may be adversely affected.

If the Group fails to maintain the quality of the products and/or services provided by its suppliers or sub-contractors efficiently, the Group would be obligated to assume the relevant responsibility and any complaint or product/service liability claim may adversely affect the Group's reputation.

The overall quality of the products or systems supplied and projects undertaken by the Group depend not only on the Group's own quality control system and its own craftsmanship but also external factors such as the quality of the components and equipment provided by its suppliers and the works carried out by its sub-contractors. Should there be any defect in such components and equipment, as well as sub-contracting works, the Group will be directly held liable notwithstanding that it has generally a back-to-back compensation claim against its suppliers or sub-contractors.

For EP construction engineering project, the Group generally adopts a sub-contracting strategy. Although it has immediate contractual relationship with its customers, sub-contractors and equipment suppliers, the Group may have difficulties in exercising direct control over the quality, safety and progress of the sub-contracting works. As a result, in case there is any defect or deficiency in the sub-contracting works and/or the relevant equipment supplied, customers may claim against the Group before the Group could seek remedies from its equipment suppliers and/or sub-contractors.

Any product/service liability claim, legal proceedings, arbitration or administrative sanctions or penalties could have a material adverse effect on the Group's business operations, financial conditions and reputation. Even if not proven, such complaints or claims may adversely affect the Group's reputation and delay its customers' payment of contract price due to the warranty provision in the contracts. Moreover, the Group's resources can be strained should any claims be brought to court proceedings.

RISK FACTORS

The Group may outsource certain works to and rely on sub-contractors.

The Group may engage sub-contractors (including the technical consultants) to provide design, installation and construction for its EP construction engineering projects. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the aggregate sub-contracting fees incurred by the Group for its three FGD projects were nil, approximately RMB2.4 million, RMB27 million and RMB13.6 million respectively. In the event that the Group is not able to find suitable sub-contractors or if sub-contracting fees increase substantially, the Group's operations and profitability may be adversely affected. In addition, in the event of exceptionally large amount of demand, the Group may not be able to manage its sub-contractors effectively. Given the current capacity of the Group, it may not be able to ensure timely delivery of its products or services.

The Group may not maintain sufficient insurance coverage for the risks associated with its operations.

The customers of the Group require its products and equipment to comply with applicable EP standards as imposed by SEPA and its local authorities as well as other requirements as may be specified by the customers. In order to fulfil the needs of customers and to maintain good customer relationships, the Group provides warranties to its customers covering generally a period of one to two years following delivery of the products and equipment or completion of the projects. The Group does not maintain any product liabilities insurance, business interruption insurance or any third party liability insurance to cover claims, suits and complaints incidental to its business.

Should the Group's operations cause property damage or physical injury to any person, the Group would not be covered or compensated by insurance and may have to devote significant amount of resources to defend any potential claims or to provide compensation. In case of any such claims or proceedings against the Group, even if it is not proven, the Group's reputation may suffer and its business may be adversely affected. In addition, the Group's resources could be strained by any claims which proceed to litigation irrespective of the merits of its case. There can be no assurance that the Group be always able to comply with the relevant contract provisions and EP standards, as amended, in the future. In the event that the Group fails to meet its customer's requirements, its financial position and reputation may be adversely affected.

Fluctuations in the supply and price of raw materials and/or components could result in increased operating expenses that the Group may not be able to pass on to its customers.

As the Group does not have long-term contracts or guaranteed supply of raw materials and components, the Directors cannot assure that the Group will be able to obtain sufficient amounts of raw materials and/or components from its existing suppliers or from alternative sources at acceptable prices, in a timely manner, or at all. Furthermore, major raw materials such as steel related materials and resins may subject to substantial cost fluctuations and periodic shortages of supply in the PRC. The Group cannot assure that shortages of raw materials will not occur in the future or that it will be able to pass on unfavourable cost fluctuations entirely to its customers. Any failure to obtain adequate raw materials or components, or to do so on commercially acceptable terms and in a timely manner, could interfere with the Group's manufacturing operations, and hence the results of the Group's operations adversely.

RISK FACTORS

The Group may not be able to sustain its growth rate.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, the Group's turnover amounted to approximately RMB144.3 million, RMB396.0 million, RMB508.6 million and RMB235.4 million respectively. During the same period, the Group recorded net profits which amounted to approximately RMB35.6 million, RMB118.0 million, RMB165.1 million and RMB60.8 million, respectively.

The Directors consider that the sustainability of such growth will depend on a number of factors, including continuous securing of highly profitable contracts, level of market competition and changes in market demand and sentiments. Hence, there could be no assurance that the growth rate could be maintained at any particular level. Should the Group fail to secure highly profitable contracts, experience any change in demand for the Group's products or face increasing competition, the profitability of the Group would be affected.

The Group has a limited operating history in EP industry.

Wuxi Pan-Asia, the Group's key operating arm in China, only commenced its EP related business in 2000. Given that the Group has a limited history of operation in EP industry and that it operates in an emerging EP industry in the PRC, it is difficult to anticipate whether the Group will be able to maintain its competitive advantages and sustain its performance in the future based on its track record. Like all start-up businesses, the Group faces more uncertainties in its future operation than others with longer operation history. Should the Group fail to adapt to such uncertainties, its performance may be adversely affected.

The Group must keep up with technological changes to remain competitive.

The Group will put emphasis on the importance of research and development. However, there is no assurance that the Group be able to develop products or technical know-how to meet the technological skills required by its customers, or that such products or technical know-how can be developed successfully in a timely manner or be able to put into practical commercial use. Should there be any major obstacles on the Group's research and development in the future, the Group may not be able to develop new products or improve skills and technical know-how to meet the needs of its customers or to compete with its competitors. Hence the Group's performance and financial position may be adversely affected.

The Group is dependent on certain key management and technical personnel and may face challenges in attracting and retaining skilled personnel.

The Group's success is largely built on the strategy and vision of Mr. Jiang, the expertise and experience of its executive Directors and senior management, relevant experiences of whom are set out in the section headed "Directors, senior management and staff" in this prospectus. The departure of any of such personnel could have a material adverse impact on the Group's business.

RISK FACTORS

The Directors acknowledge that to keep up with the rapid pace of technological advancement relating to the Group's business in the EP industry, the continued success of the Group is also dependent on its ability to continuously recruit and retain qualified, experienced and talented professionals. The Group anticipates that there may be increasing competition for such employees from its competitors. Should the Group encounter any serious difficulty in retaining or recruiting suitable skilled personnel on commercially reasonable terms, the Group's operations and profitability may be adversely affected.

The Group is dependent on a few largest customers.

The Group is dependent on its top five customers, which in aggregate accounted for approximately 87.0%, 60.3%, 48.0% and 63.2% of the Group's turnover for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively. For the same period, the Group's single largest customer accounted for approximately 35.9%, 34.8%, 22.9% and 30.7% of the Group's turnover respectively. Please refer to the paragraph headed "Customers" under the section headed "Business" of this prospectus for further details. Its key customers have in the past been varied and due to the products or services offered by the Group being generally unique and their sales are non-recurring in nature, they may not make further purchases from the Group or may vary their order levels significantly in the future. There can be no assurance that these customers will maintain their current level of business with the Group in the future. If there is a reduction or cessation of orders from these customers and the Group is unable to obtain, in substitution, suitable orders of a comparable size, its financial results may be adversely affected.

Any change in preferential tax treatment in the PRC may have a negative impact on the Group's results of operations.

In accordance with 《中華人民共和國外商投資企業和外國投資企業所得稅法》 (Laws of Enterprise Income Tax for Foreign-invested Enterprises and Foreign Enterprises in the PRC), enterprises with foreign investment are entitled to a two-year full exemption from enterprise income tax commencing from its first profitable year and a three-year 50% tax reduction thereafter. The key operating arm of the Group in the PRC, namely Wuxi Pan-Asia, is a foreign-invested enterprise established in Yixing and is qualified for such preferential tax treatments. Having regard to its first profitable year in 2002, Wuxi Pan-Asia was entitled to a full tax exemption for the years 2002 and 2003, and was subject to preferential enterprise income tax rate of 12% for the financial years from 2004 to 2006. Wuxi Pan-Asia is subject to enterprise income tax rate of 24% for the financial year 2007. On 16 March 2007 the National People Congress approved the Enterprise Income Tax Law of the PRC (the "New EIT Law"), which will become effective from 1 January 2008. According to the New EIT Law, the enterprise income tax for both domestic and foreign invested enterprises will be unified at 25%. However, there will be a transition period for the enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises subject to on-going enterprise income tax rates lower than 25% may continue to enjoy such lower enterprise income tax rate within five years after the effective date of the New EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard rate for a fixed term may continue to enjoy such treatment until the fixed term expires. The expiry of the preferential tax treatment in the PRC previously enjoyed by Wuxi Pan-Asia may have a negative impact on the future profitability of the Group. In addition, the enterprise income tax rate of 33% applicable to SEEDRI and Wuxi Zhong Dian are expected to expire on 31 December 2007, and the new enterprise income tax rate of 25% will be applied to SEEDRI from 1 January 2008 onwards.

RISK FACTORS

The historical dividend payout ratio of the Group should not be used as a reference for determining the amount of dividends which may be payable in the future.

The Group declared dividends of nil, RMB60 million, RMB48 million and RMB22 million for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, to its then shareholders, representing nil, approximately 50.8%, 29.0% and 36.0% of the profit attributable to equity holders of the Company for the corresponding year/period.

Investors should be aware that there is no assurance that dividend distributions will continue to be made by the Company in the future, or with a particular pattern. The amount of dividends to be declared by the Company will be subject to the recommendation of the Directors after taking into account of, among other matters, the Group's earnings, financial conditions, cash requirements and availability. The past dividend distribution record referred to above should not be used as a reference or basis to determine or predict the amount of dividend payable in the future.

The Company is an investment holding company which relies on dividend payments from its subsidiaries for funding.

The Company is an investment holding company which conducts operations through its subsidiaries. It therefore does not have operating cash flow to finance itself to make payments such as dividends and service of indebtedness. Dividend payments from its subsidiaries would be the major source of funding for the Company. If its subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to the Company. As a result, the Company may not be able to pay dividends and to service its indebtedness.

Under PRC laws, rules and regulations, dividends are required to be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from Hong Kong Financial Reporting Standards ("HKFRS"). Under PRC laws, rules and regulations, each of the entities incorporated in China is required to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, members of the Group may in the future take out or enter into bank credit facilities, joint venture agreements or other agreements that may contain restrictive covenants which restrict the ability of such members to make contributions to the Company and the Company's ability to receive distributions. As such, these restrictions on availability and usage of the Company's major source of funding may impact the Company's ability to pay dividends to the Shareholders and to service its indebtedness.

Certain of the Group's properties in the PRC are subject to title defects.

The Group does not possess the land use right in respect of a dormitory building located in Yixing City, Jiangsu, the PRC. The property is currently used by the Group as staff quarters. As advised by the PRC Legal Advisers, in the event that the aforesaid property is considered illegal or unauthorized, the relevant government authorities may order forfeiture of the property and payment of fines. In addition, the Group's office in Shanghai is situated on allocated land. In the event that the Group transfers, leases, mortgages or otherwise disposes of the allocated land and the building on it, the Group has to comply with certain regulations, approval will be necessary for the transfer of the property and gains derived from land value shall be handed over to the State.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY

The growth and expansion of the FGD industry is highly dependent on growth in the coal-fired power industry.

FGD projects which are closely related to the coal-fired power industry are expected to continue to be one of the sources of income for the Group. Therefore, expansion of the Group's business will depend on the development of the coal-fired power industry.

As set out in the section headed "Industry overview" of the prospectus, coal is a primary energy source in China. However, to reduce the over-reliance on traditional fossil energy resource in light of the ever-increasing energy needs and to minimize environmental pollutants including exhaust, greenhouse gases such as sulphur dioxide, China is expected to improve its energy consumption structure by exploring alternative energy resources, in particular, those of renewable, clean and affordable nature (such as solar energy, hydropower, wind power and geothermal power) in the long-run. As such, demand of FGD system for power plants may decrease gradually over time. The Group may be hindered in the long run if it fails to adapt itself to such changes of energy resources and explore new source of revenue growth.

During the Track Record Period, the Group had completed three FGD projects, which contributed approximately nil, 5.2%, 32.4% and 30.8% of the total turnover for each of the three years ended 31 December 2006 and the six months ended 30 June 2007. Immediately after the Track Record Period ended 30 June 2007 and up to the Latest Practicable Date, the Group had not secured other FGD project. There is no assurance that the Group will be able to secure new FGD contracts in the future. In the event that the Group fails to secure new profitable FGD contracts, the financial performance of the Group may be adversely affected.

The Group may be affected by introduction of new rules, regulations and EP standards and their interpretations and modifications.

The EP industry is developing continuously. New or amendment laws, regulations and policies as well as EP standards in the PRC may be introduced to govern various aspects of the industry. In particular, the interpretation and enforcement of the existing legislation may change. The Group's future success will depend on its ability to adapt to such evolving EP legislation and meet more stringent EP standards. There can be no assurance that such changes in legislation or standards will not have any adverse impact on the Group's business and operating environment. Should the Group fail to adapt to such new changes, its operating results may be adversely affected.

The imposition of different EP standards by the local authorities may hinder the expansion of the Group in certain regions.

EP is an emerging industry in the PRC. The EP laws and regulations, in particular, the EP standards for discharged sewage, wastes and polluted gas, vary from one region to another in the PRC. As a result, demand for EP equipment varies from one place to another. In the event that the mandatory EP requirements in regions with lower EP standards do not grow in a pace matchable to the Group's business expansion, the Group's further development in such regions may be hindered. In that case, the Group's performance may be affected.

RISK FACTORS

Certain changes in tax and other benefits, as well as regulatory changes arising as a result of the PRC's accession to the WTO, may adversely affect the results of operations and financial condition of participants in the EP industry, including the Group.

The PRC became a member of the WTO on 11 December 2001. Therefore, certain tax preferential treatments currently enjoyed by the Group may be subject to challenge and could be discontinued. Should any or all of these benefits be reduced or withdrawn, the profitability of the Group may be adversely affected.

In addition, the PRC Government adopted new policies in 2003 to encourage foreign investment in the EP industry. Such policy was reaffirmed in the 2007 version of the Catalogue of Foreign Investment Industry. Such policies eliminate market entry barriers for foreign competitors to participate in the PRC EP market, resulting in intensifying market competitions in the sector. These competitors may be actively engaged in the business in aspects similar to the Group's principal operations but with competitive cost advantage or more advanced technology. This may affect the Group's ability to maintain the existing competitiveness and profitability.

RISKS RELATING TO THE PRC

Adverse changes in the PRC's economic and political conditions as well as government policies could have a material adverse effect on the overall economic growth of the PRC, which could adversely affect the results of operations and financial condition of the Group.

The Group's production facilities are based in the PRC and the Group derives substantially all of its revenue from its operations in the PRC. The Group's business and profitability have therefore been materially dependent on the demand for EP products and services in the PRC market. Investors should note that the Group's operations, financial condition and future prospects may be adversely affected if there are any adverse changes in the political, economic and legal environment in the PRC or in the policies or regulations in the PRC relating to the industry in which the Group operates.

The PRC legal system has been evolving and, in some aspects, the investors may not necessarily enjoy the same level of legal protection as in other jurisdictions.

The PRC's legal system is based on statutory law instead of common law. Under this system, prior court decisions may be cited for reference but do not have any binding effect on subsequent court judgments. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations relating to economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, despite such and other significant progress in the legal system of the PRC, the relevant laws, regulations and rules are subject to further advancement, and because of the limited volume of published cases and the non-binding nature of prior court decisions, there are significant uncertainties concerning their interpretation and enforcement.

RISK FACTORS

As an investor holding the Shares, he/she holds an indirect interest in the Group's operations in China, which are subject to PRC laws and regulations. These PRC laws and regulations, in particular, those in relation to protection of shareholders' rights and access to information, are, in general, relatively less developed than those applicable to companies incorporated in Hong Kong and other developed jurisdictions. Therefore, the Company's PRC subsidiaries (and indirectly, the investors), in some aspects, do not necessarily enjoy all the shareholder protections that are available in the more developed jurisdictions.

Enforcement of judgments in the PRC may be difficult.

A substantive portion of the Group's assets are located in the PRC and all the executive Directors currently reside in the PRC. As a result, it may be difficult for investors to effect service of process upon the executive Directors. The PRC is not a party to any agreements or arrangements for the endorsement and enforcement of any judgment of the courts of Hong Kong or in most of the other jurisdictions except that on 14 July 2006, the Hong Kong Government and PRC Government signed an agreement entitled "Arrangement on Reciprocal Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong SAR pursuant to Choice of Court Agreements between Parties Concerned" under which money judgments on disputes arising from commercial contracts can be recognised and enforced reciprocally subject to certain criteria. However, the above money judgments do not cover all judgments made by any of the courts of the PRC or Hong Kong. As a result, recognition and enforcement in the PRC of judgments of courts in those jurisdictions may be difficult or impossible.

Future movements in exchange rates may adversely affect the Group's financial condition and results of operations.

At present, RMB is not freely convertible to other currencies. Pursuant to the 《外匯管理條例》 (Foreign Exchange Control Regulations) and the 《結匯、售匯及付匯管理規定》 (Regulations on the Settlement, Sale and Payment of Foreign Exchange) of the PRC, foreign investment enterprises are permitted to remit their profit or dividends in foreign currencies overseas or repatriate such profit or dividends after converting the same from RMB into foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB into foreign currencies for items in their current account (including dividends payments to foreign investors). The control over conversion of RMB to foreign currencies for items in their capital account (including direct investment, loan and investment in securities) is more stringent.

Wuxi Pan-Asia, the wholly foreign owned subsidiary established in the PRC which undertakes the key operations of the Group, is subject to the above regulations. There is no assurance that the Group will be able to obtain sufficient foreign exchange for payment of dividends or other settlement in foreign exchange.

RISK FACTORS

Since 21 July 2005, the PRC has reformed the exchange rate regime by adopting a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. As a result, Renminbi was revalued and appreciated against the USD and HKD by approximately 2% and the value of Renminbi may be adjusted from time to time. At present, the Directors consider that such appreciation in Renminbi does not have any material impact to the Group's operations. However, there is no assurance that the Group's future operations and profitability will not be adversely affected as a result of the fluctuation of Renminbi or the continual influence of the new exchange rate regime.

RISKS RELATING TO THE SHARE OFFER

There are risks associated with forward-looking statements.

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “expect”, “estimate”, “may”, “ought to”, “should” or “will”. Those statements include, among other things, the discussion of the Group's plans, objectives, strategies, expectations and intentions concerning matters such as the Group's future operations, profitability, liquidity, capital resources and profit forecast. Purchasers and subscribers of Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties. Further, any or all of the assumptions on the forward-looking statements may prove to be inaccurate, thus rendering them inaccurate. In light of this and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Company, its Directors, the Sponsor, or any of the parties involved in the Share Offer of the achievement of the Group's plans and objectives.

There has been no prior public market for the Shares and the price of the Shares may be volatile.

Prior to the Share Offer, there has been no public trading market for the Shares. There is no assurance that an active trading market for the Shares will develop or be sustained upon completion of the Share Offer. The market price upon completion of the Share Offer may be subject to substantial volatility because of a number of factors, some of which are beyond the control of the Group, including but not limited to:

- changes in the estimates relating to the Group's financial positions by securities analysis, newspapers and other media;
- changes in the general evaluation of the provision of EP products and undertaking of EP projects in the market, particularly changes in the market's impression of the Group's products and services;
- fluctuation in trading price and volume of the stock market and market sentiments;
- announcement by the Group or its competitors of any technological innovation and new services;

RISK FACTORS

- announcement by the Group or its competitors of any substantial acquisition, strategic alliance, joint venture or capital commitment or loss of principal strategic partner by the Group or its competitors;
- appointment or resignation of senior management or key personnel;
- price changes made by the Group or its main competitors or providers of comparable or substitutable services;
- general litigation; and
- general economic and other factors.

The interests of the Shareholders may be diluted as a result of additional equity fund raising.

The Company may need to raise additional funds in the future to finance expansion of, or new developments relating to, its operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, the shareholding of the Shareholders may be reduced and Shareholders may experience subsequent dilution. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

The industry statistics contained in this prospectus are derived from various official government sources and may not be reliable.

Certain facts, forecasts and statistics in this prospectus relating to the industry are derived from various government sources. The Directors have taken reasonable care in the production of such information and generally believe that such information is reliable. However, there is no guarantee as to the quality or reliability of such source materials. The statistics have not been independently verified by the Group, the Directors and all other parties involved in the Share Offer, therefore, there is no representation as to the correctness and completeness of such statistical information. There is also no assurance that such statistical information is consistent with other information compiled by other organisations. Nor is there assurance that such statistical information stated in this prospectus is stated or compiled on the same basis and with the same degree of accuracy as may be adopted elsewhere in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE UNDER RULE 8.12 OF THE LISTING RULES

Under Rule 8.12 of the Listing Rules, the Company must have a sufficient management presence in Hong Kong. This will normally mean that at least two of the executive Directors must be ordinarily resident in Hong Kong.

Substantially, there is no business need to appoint executive directors to be based in Hong Kong, all of the Group's business operations, sales and management are located in the PRC. All of the executive Directors currently reside in the PRC, the Company does not, and does not contemplate in the foreseeable future that it will, have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

An application has been made to the Stock Exchange for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rule 8.12 of the Listing Rules and such waiver has been granted by the Stock Exchange.

The arrangements proposed by the Company for maintaining regular and effective communication with the Stock Exchange for the purpose of Rule 8.12 of the Listing Rules are as follows:

- (i) One of the authorized representatives of the Company (also being its company secretary) will ordinarily reside in Hong Kong. The authorized representatives will have the means of contacting all members of the Board (including the independent non-executive Directors). They will act as the principal channel of communication between the Company and the Stock Exchange. The authorized representatives will provide their usual contact details to the Stock Exchange and will be readily contactable by the Stock Exchange if necessary to deal with enquiries from the Stock Exchange from time to time.
- (ii) The Directors who do not ordinarily reside in Hong Kong will be readily contactable through the authorized representatives by telephone, facsimile or email.
- (iii) The Company will retain legal advisers to advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.
- (iv) The Company will retain the Sponsor as its compliance adviser and acts as the alternative channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date which it complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and to advise on corporate finance matters after the Listing.
- (v) All the executive Directors, who are not ordinarily resident in Hong Kong, possess valid travel documents to Hong Kong, and will be able to meet with the relevant members of the Stock Exchange at short notice when required.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;
2. there are no other matters the omission of which would make any statement in this prospectus misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Share Offer is made solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other person or party involved in the Share Offer.

UNDERWRITING

This prospectus is published in connection with the Share Offer, which is sponsored by Taifook Capital and managed by the Sole Lead Manager and fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Sole Lead Manager (on behalf of the Underwriters) and the Company on 13 December 2007, or such later time or date as may be agreed between the Sole Lead Manager (on behalf of the Underwriters) and the Company but in any event no later than 6:00 p.m. (Hong Kong time) on 16 December 2007.

If the Sole Lead Manager (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on 13 December 2007, or such later time as may be agreed between the Sole Lead Manager (on behalf of the Underwriters) and the Company but in any event no later than 6:00 p.m. (Hong Kong time) on 16 December 2007, the Share Offer will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

United States

The Offer Shares have not been, and will not be registered under the U.S. Securities Act, and subject to certain exceptions may not be offered, sold, pledged or otherwise transferred within the United States, except to qualified institutional buyers in accordance with Rule 144A or in accordance with other applicable exemptions from the registration requirements of the U.S. Securities Act, or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S, as applicable. In addition, until 40 days after the later of the commencement of the Share Offer and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Share Offer) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements.

THE OFFER SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER UNITED STATES REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SHARES OFFER OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

If at any time the Group is not subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, or exempt from such reporting requirements pursuant to Rule 12g3-2(b) thereunder, the Group will furnish, upon request, to any owner of the Offer Shares purchased pursuant to Rule 144A or any prospective purchaser designated by any such owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act to permit compliance with Rule 144A in connection with the resale of the Offer Shares so long as any of the Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act. The Group will also furnish to each such owner all notices of shareholders’ meetings and other reports and communications that the Group generally makes available to shareholders.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares have not been offered or sold, and prior to the expiry of a period of six months from the latest date of the issue of the Offer Shares, the Offer Shares may not be offered or sold, to any persons in the United Kingdom except to qualified investors within the meaning of section 86 of the Financial Services and Markets Act 2000, as amended (“FSMA”). In the United Kingdom, this prospectus is directed at, and its distribution is restricted to, persons who are investment professional within the meaning of article 19 of the FSMA (Financial Promotion) Order 2005 as amended.

This prospectus is directed only at persons having professional experience in investments. Any investment or investment activity to which it relates is available only to such persons and will be engaged in only with such persons. Persons who do not have professional experience in investments should not rely on this prospectus.

Singapore

This prospectus has not been and will not be lodged as a prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1 of Part XIII, particularly Section 274 and Section 275, of the Securities and Futures Act (Cap 289) of Singapore (the “SFA”). Accordingly, this prospectus and any other offering document or material in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchase or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the conditions of, exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly Section 274 and Section 275, of the SFA and to persons to whom the Offer Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with the conditions of any other provision of the SFA.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold, directly or indirectly, or offered or sold to any person for re-offering or re-sale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Cayman Islands

No offer of the Offer Shares may be made to members of the public in the Cayman Islands.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offering of the Offer Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, Shares to be issued to the Company's existing shareholders pursuant to the Capitalisation Issue, Shares to be issued pursuant to the Share Offer, and any Shares to be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme, on the Main Board.

No part of the Share or loan capital of the Company is listed or dealt in on the Main Board or on any other stock exchange and at present, no such listing or permission to deal is being or is proposed to be sought on the Main Board or any other stock exchange.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares to be issued upon exercise of the Over-allotment Option and the Share Option Scheme will be registered on the Company's branch register of members to be maintained by Tricor Investor Services Limited in Hong Kong. The Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

The Company, the Directors, the Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence at 9:30 a.m. on 21 December 2007. Shares will be traded in board lots of 2,000 Shares each.

ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
蔣泉龍先生 (Mr. Jiang Quanlong)	Room 401 No.32 Duifangxincun Yicheng Street Yixing City Jiangsu Province the PRC	Chinese
范亞軍先生 (Mr. Fan Yajun)	No.81 Shugu Xiwang Village Dingshu Town Yixing City Jiangsu Province the PRC	Chinese
方國洪先生 (Mr. Fang Guohong)	No.16 Yindingxu Fangjia Village Dingshu Town Yixing City Jiangsu Province the PRC	Chinese
甘毅先生 (Mr. Gan Yi)	Room 12 No.43 Lane 136 Pudong Avenue Pudong New District Shanghai the PRC	Chinese
蔣磊先生 (Mr. Jiang Lei)	Room 301 No.13 Lane 3329 Hongmei Road Minhang District Shanghai the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Independent non-executive Directors

賴永利先生 (Mr. Lai Wing Lee)	Room 3004 Hong Ting House Hong Yat Court Lamtin Kowloon Hong Kong	Chinese
王國珍教授 (Professor Wang Guozhen)	No.11 Floor 6 Block 9 No.12 Fuxing Road Haidian District Beijing the PRC	Chinese
梁樹新先生 (Mr. Leung Shu Sun, Sunny)	Room H, Floor 19 Block 23A South Horizons Ap Lei Chau Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sponsor

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

**Sole Bookrunner and
Sole Lead Manager**

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

Placing Underwriter

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

Public Offer Underwriters

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

China Merchants Securities (HK) Co., Ltd.
48/F., One Exchange Square, Central
Hong Kong

CIMB-GK Securities (HK) Limited
25/F., Central Tower
28 Queen's Road Central
Hong Kong

ICEA Capital Limited
26/F., ICBC Tower
3 Garden Road, Central
Hong Kong

Kingsway Financial Services Group Limited
5/F., Hutchison House
10 Harcourt Road, Central
Hong Kong

Mega Capital (Asia) Company Limited
Units 2213-2214, 22/F., Cosco Tower
183 Queen's Road Central
Hong Kong

Phillip Securities (Hong Kong) Limited
11-12/F, United Centre
95 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

	Polaris Capital (Asia) Limited Unit 6503-06, 65th Floor, The Center 99 Queen's Road Central Hong Kong
	South China Securities Limited 28/F., Bank of China Tower 1 Garden Road, Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:</i> Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Hong Kong <i>As to PRC law:</i> Shanghai United Law Firm 14/F., China Insurance Building No. 166, East Lujiazui Road Pudong District Shanghai PRC <i>As to Cayman Islands law:</i> Conyers Dill & Pearman Cricket Square Hutchins Drive George Town Grand Cayman British West Indies
Legal adviser to the Sponsor and Underwriters	Deacons 5th Floor Alexandra House 18 Chater Road Central Hong Kong
Auditors and reporting accountants	CCIF CPA Limited 20th Floor, Sunning Plaza 10 Hysan Avenue Causeway Bay Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Property valuer

American Appraisal China Limited
Room 1506-10, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Receiving banker

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	The offices of Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in the PRC	1 Chuanshan Road Yixing Jiangsu Province the PRC 214222
Place of business in Hong Kong	41st Floor, Jardine House 1 Connaught Place Hong Kong
Compliance adviser	Taifook Capital Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
Company secretary	Mr. Wan San Fai, Vincent, <i>CPA</i>
Qualified accountant	Mr. Wan San Fai, Vincent, <i>CPA</i>
Audit committee	Mr. Leung Shu Sun, Sunny (<i>Chairman</i>) Professor Wang Guozhen Mr. Lai Wing Lee
Remuneration committee	Mr. Lai Wing Lee (<i>Chairman</i>) Professor Wang Guozhen Mr. Leung Shu Sun, Sunny Mr. Jiang Quanlong
Nomination committee	Mr. Lai Wing Lee (<i>Chairman</i>) Professor Wang Guozhen Mr. Leung Shu Sun, Sunny Mr. Jiang Quanlong

CORPORATE INFORMATION

Authorised representatives

Mr. Jiang Quanlong
Room 401
No. 32 Duifangxincun
Yicheng Street
Yixing City
Jiangsu Province
the PRC

Mr. Wan San Fai, Vincent, *CPA*
Room 1421
Heng Hoi House
Heng On Estate
Ma On Shan
Hong Kong

Principal bankers

China Construction Bank
Yixing Sub-branch
No. 150 Renmin Mid-Road
Yi Cheng Street
Yixing City
Jiangsu Province
the PRC

Bank of Communications
Wuxi Beimen Sub-branch
No. 28 North Street
Wuxi City
Jiangsu Province
the PRC

**Principal share registrar and
transfer office in Cayman Islands**

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

**Branch share registrar and
transfer office in Hong Kong**

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

INDUSTRY OVERVIEW

The information provided in this section is derived from various published sources and/or official government sources. Neither the Company, nor the Sponsor, nor the Underwriters, or their affiliates or advisers have independently verified any information derived from official government sources. The information in this section may not be consistent with or may not have been complied with the same degree of accuracy or completeness as statistical or other information compiled elsewhere. You should not place reliance on statement in this section.

OVERVIEW

The PRC Government is determined to build a ‘greener’ environment and to achieve the pollution control target over the next five years, as evidenced in its goal set forth in the Eleventh Five-Year Plan. The plan clearly points out that it is imperative to build a resource-efficient and environmentally friendly society, promote economic development in harmony with population, resources and the environment. In this connection, the PRC Government is bound to, among others, impose stricter environmental protection and energy consumption standards and implement a system for the mandatory elimination of high-consumption, high-pollution and technologically backward techniques and products. For example, in connection with water pollution, relevant guidelines include (i) strengthening the control of discharge of pollutants in major rivers and lakes; (ii) enhancing the construction of urban wastewater treatment facilities; (iii) charging levy from users for wastewater treatment; and (iv) increasing urban wastewater treatment rate to over 70% by 2010.

In connection with air pollution, relevant guidelines include, among others, (i) promoting integrated treatment of sulphur dioxide in iron and steel, non-ferrous metals, chemical and building materials industries; (ii) shutting down high energy-consuming and high air-polluted thermal power generating units which cannot meet the emission standards; (iii) strengthening the monitoring and inspection of emission of pollutants by the thermal power plants; (iv) mandatory construction of high-efficiency desulphurisation and dust removal facilities for newly established coal-fired units; (v) requirement of completion of reformation of desulphurisation facilities of coal-fired units with capacity over 135 MW; (vi) increasing the charge of levy for emission of pollutants by thermal power plants; (vii) restricting the charging of prescribed electricity price for thermal power plants which cannot meet the required desulphurisation standards; and (viii) reducing the emission of sulphur dioxide by 10% in 2010 from the 2005 level. Other factors that contributing to the growth of the EP industry include the implementation of different EP standards promulgated in the PRC, for example, 《火電廠大氣污染物排放標準》 (Air Pollutants Emission Standards for Thermal Power Plants) and 《污水綜合排放標準》 (Integrated Wastewater Discharge Standards).

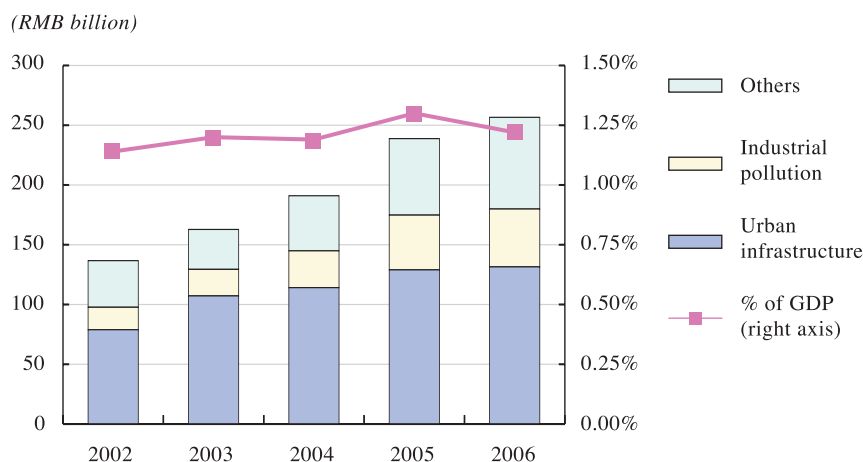
INDUSTRY OVERVIEW

INVESTMENT FOR ENVIRONMENTAL POLLUTION TREATMENT IN CHINA

In 2006, the investment for environmental pollution treatment in China was approximately RMB256.6 billion, which is approximately 7.5% higher than that of the previous year. The CAGR of the investment was approximately 17% between 2002 and 2006. The ratio of the investment for environmental pollution treatment to the country's GDP has increased from approximately 1.14% in 2002 to approximately 1.22% in 2006.

The investment for industrial pollution treatment in 2006 was approximately RMB48.4 billion, which has increased by approximately 5.6% from the previous year. Comparing to the investment of approximately RMB18.8 billion in 2002, the CAGR of the investment was approximately 26.6% between 2002 and 2006, which was higher than that of the total investment for pollution treatment. The contribution of the investment for industrial pollution treatment in the investment for pollution treatment has increased from approximately 13.8% in 2002 to approximately 18.9% in 2006, implying that the industrial pollution treatment has been more emphasized in the recent years.

Investment for environmental pollution treatment in China



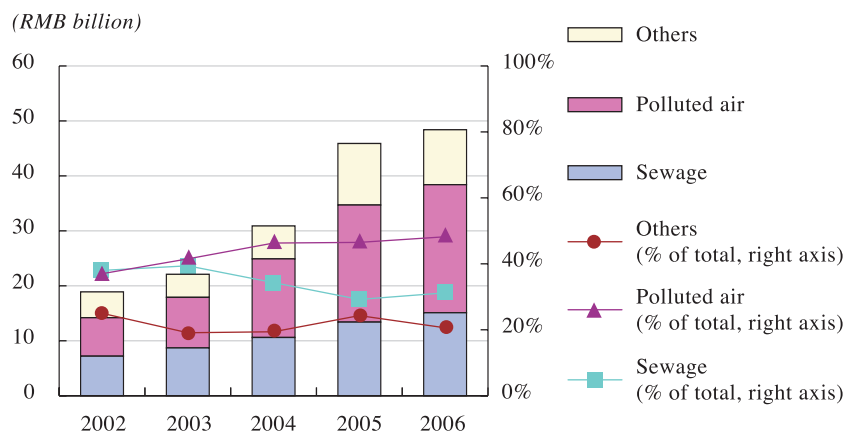
Source: China Statistical Yearbook 2007

Within the investment for industrial pollution treatment, the investment for polluted air treatment makes a major contribution. The investment for polluted air treatment in 2006 was approximately RMB23.3 billion, which has increased by approximately 9.6% from the previous year. The CAGR of the investment was approximately 35.2% between 2002 and 2006. The contribution of the investment for polluted air treatment in the investment for industrial pollution treatment increased from approximately 37% in 2002 to approximately 48.2% in 2006.

INDUSTRY OVERVIEW

Within the investment for industrial pollution treatment, the investment for wastewater treatment in 2006 was approximately RMB15.1 billion, which is approximately 13.0% higher than that of the previous year. The contribution of the investment for wastewater treatment in the investment for industrial pollution treatment decreased from approximately 38% in 2002 to approximately 31.2% in 2006. The CAGR of the investment for wastewater treatment was approximately 20.6% between 2002 and 2006.

Investment for environment pollution treatment completed in China



Source: China Statistical Yearbook 2007

THE MARKET OF FGD

In 2005, there were approximately 25.5 million tonnes of sulphur dioxide emitted in China, which was the highest in the world. In 2006, sulphur dioxide emissions increased to approximately 25.9 million tonnes, up approximately 1.6% from 2005. At present, coal consumption accounts for approximately 70% of the energy consumption in China, and coal-fired power plants account for over 50% of the coal consumption. In the period of the Tenth Five-Year Plan (2001-2005), the coal consumption increased by 800 million tonnes, out of which, 500 million tonnes were contributed by the coal-fired power generation. During the period, the ratio of coal-fired power generating capacity with desulphurisation facilities to the total coal-fired power generating capacity increased from approximately 2% to around 12%.

The Eleventh Five-Year Plan requires the total sulphur dioxide emission to reduce by 10% in 2010 from the 2005 level. Given the electricity shortage prevailing in the recent years, more power plants are being built. The tightened control on sulphur dioxide emission provides ample room of development for the desulphurisation industry. According to 電力脫硫設備市場分析 (The Analysis of the Desulphurisation Facilities Market for Power Generation) (the “FGD Report”) issued by 北京世經未來投資諮詢有限公司 (Beijing Wefore Investment Consulting Co., Ltd)^{Note}, the market of desulphurisation for the power generation between 2006 and 2010 will be approximately 345,000 MW, out of which 157,000 MW will be for the existing power plants and 188,000 MW will be for the power plants newly built. Excluding the contracts which have already been signed in 2006, the remaining market for the years between 2007 and 2010 will be 69,000 MW with an estimated contract amount of RMB34.5 billion.

INDUSTRY OVERVIEW

Note:

北京世經未來投資諮詢有限公司 (Beijing Wefore Investment Consulting Co., Ltd) (“Wefore”), according to the information available from its own website, is a PRC based company mainly engaged in analysis of economies, research in industries and defined topics and provision of advices in investment. It has provided research reports in various industry such as automobiles, chemical, energy, manufacturing, raw materials, and transportation and logistics. Wefore was engaged by the Sponsor to issue two reports, namely 電力脫硫設備市場分析 (The Analysis of the Desulphurisation Facilities Market for Power Generation) (the “FGD Report”) and 供水／污水處理設備市場分析 (The Analysis of the Water Supply/Wastewater Treatment Facilities Market) (“Wastewater Report”). The major assumptions used in the Wastewater Report include, among other things, the discharge of pollutants in the wastewater in 2010 is estimated to be increased by 15% of that of the year 2004 according to the Eleventh Five-Year Plan, and the overall coverage for wastewater treatment in the PRC will be approximately 70%. The major assumptions used in the FGD Report include, among other things, approximately 60% of the power plants in the PRC shall have installed the FGD system in accordance with the Eleventh Five-Year Plan, all of the small size power plants in the PRC shall be closed in accordance with the Eleventh Five-Year Plan, and all of the newly set out power plants in the PRC shall install the FGD systems.

Led by the PRC Government, the power generating industry has been increasing its emphasis on desulphurisation. According to 2006 中國電力環保設備行業分析及投資諮詢報告 (Industrial Analysis and Investment Consulting Report for Environmental Protection Facilities of Electric Power Generating Industry 2006), emission fees have increased from RMB0.2 per kilogram of sulphur dioxide to RMB0.63 per kilogram of sulphur dioxide, driving the power plant to install desulphurisation facilities. The new government measure which requires coal-fired power plants with over 0.7% of sulphur in their coal to install desulphurisation facilities. This requires 80% of the new power plants to install the facilities. As at the end of 2005, 53,000MW power generating capacity in the PRC has installed desulphurisation facilities. It is estimated that the electric power generating capacity with desulphurisation facilities was approximately 6,000MW in 2002. That increased rapidly to approximately 53,000MW in 2005.

From the geographical perspective, though the installation ratio of desulphurisation facilities in power plants in the eastern China regions have been high, the market potential in this region is still enormous, according to the FGD Report.

Region in China	Eastern	Northern	Central	Southern	North-eastern	North-western	South-western
Power generation capacity (MW)	147,395	73,812	43,012	41,664	33,935	25,936	25,662
Capacity which have installed desulphurisation facilities (MW)	18,635	12,017	1,570	5,390	960	420	5,060
Ratio	12.6%	16.3%	3.7%	12.9%	2.8%	1.6%	19.7%

Source: The FGD Report, June 2007

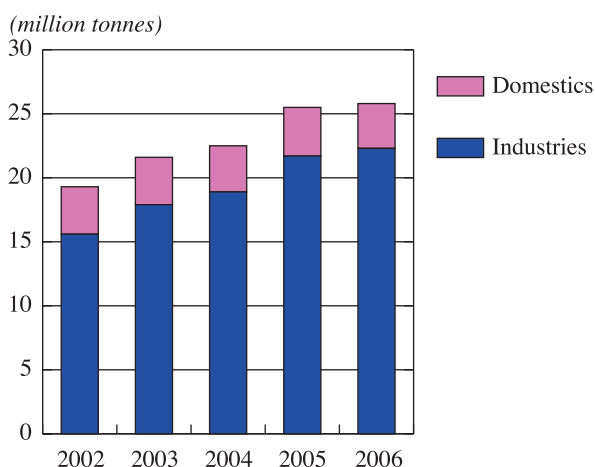
By the end of 2005, the coal-fired power generating capacity in the eastern China was 147,395 MW, and only 12.6% of these capacity were installed with desulphurisation facilities. In the summer of 2006, the electricity shortage in China was approximately 8,000 MW, mainly concentrated in the eastern, northern and southern China regions. It is expected that in these regions, a large number of power plants will be built to satisfy power demand, which will contribute further growth in the desulphurisation facilities market.

INDUSTRY OVERVIEW

SULPHUR DIOXIDE EMISSION AND REMOVAL IN CHINA

In 2006, there were 25.9 million tonnes of sulphur dioxide emitted in China, up 1.6% on a yearly basis, out of which, 22.3 million tonnes (about 86.1%) were emitted by the industries, while 3.5 million tonnes (about 13.5%) were emitted by domestics. The CAGR of the sulphur dioxide emitted in China between 2002 and 2006 were 7.7%, while those of the industrial and domestics were 9.4% and minus 0.8% respectively.

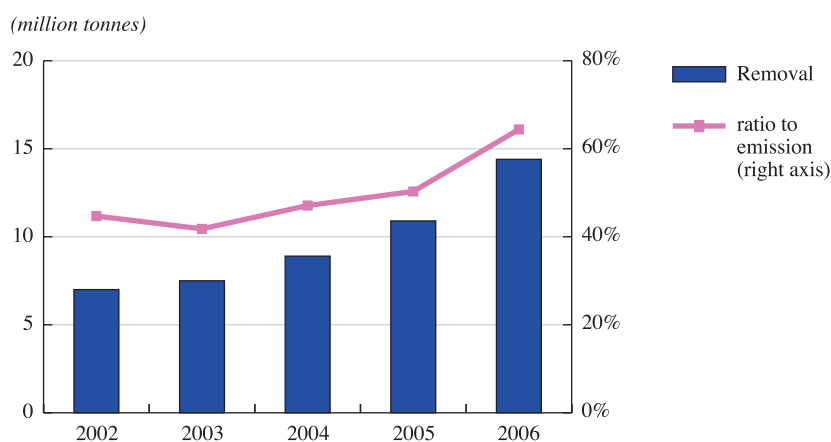
Sulphur dioxide emission in China



Source: China Statistical Yearbook 2007

In 2006, 14.4 million tonnes industrial sulphur dioxide were removed, up 32% year on year. This represents 64% of the total industrial sulphur dioxide emission. The ratio increased from 44.7% in 2002 to 64.4% in 2006. The sulphur dioxide removed increased from 7.0 million tonnes in 2002 to 14.4 million tonnes in 2006, representing a CAGR of 19.8%.

Industrial sulphur dioxide removed in China



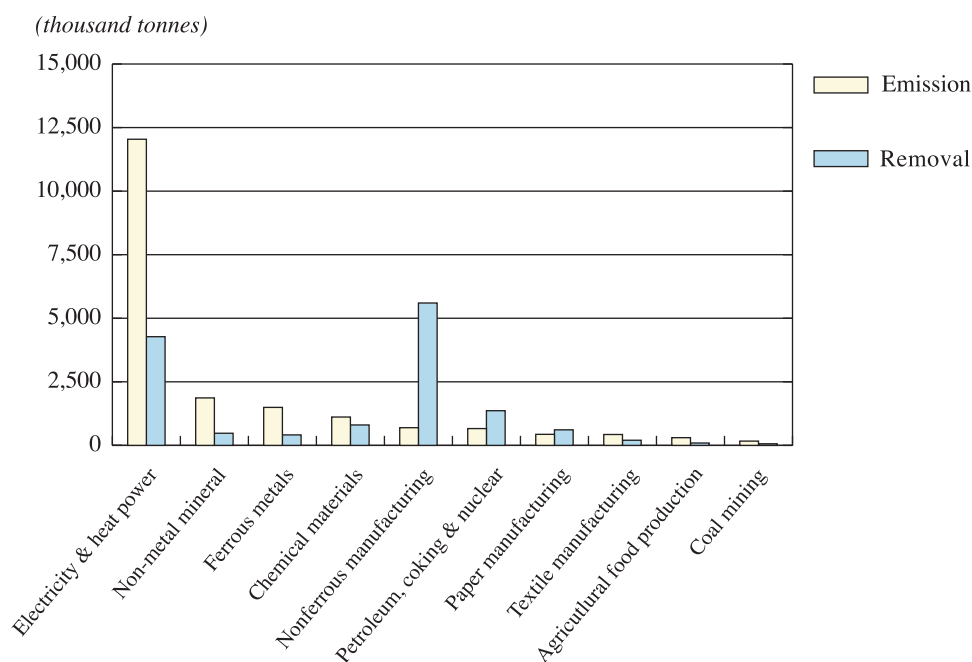
Source: China Statistical Yearbook 2007

INDUSTRY OVERVIEW

For the ease of reference of the investors under the section headed “Sulphur dioxide emission and removal in China”, discharge and emission of sulphuric dioxide refer to the sulphur dioxide emitted to the atmosphere, while removal of sulphur dioxide refers to the sulphur dioxide removed without emitting to the atmosphere.

Among different industrial sectors, production and supply of electric power and heat power, manufacturing of non-metallic mineral products, and smelting and pressing of ferrous metals are the top three sulphur dioxide emitting industries in 2006, which emitted 12,041 thousand tonnes, 1,867 thousand tonnes and 1,494 thousand tonnes of sulphur dioxide to the atmosphere respectively, which were equivalent to 59.0%, 9.1% and 7.3% respectively of the country’s total industrial emission. However, the sulphur dioxide removed by these three industries before they are emitted to the atmosphere are 4,275 thousand tonnes, 477 thousand tonnes and 412 thousand tonnes, representing 35.5%, 25.5% and 27.6% respectively of the country’s total industrial sulphur dioxide removed.

Sulphur dioxide emission and removal by industrial sectors in 2006



Source: China Statistical Yearbook 2007

THE MARKET OF WASTEWATER TREATMENT FACILITIES

According to 2006 年中國環境狀況公報 (“China Environmental Status Notice 2006”), water pollution in China as a whole was in medium degree in 2006; drinkable water accounted for only 40% of the water surface; and polluted water which would not be used even for agriculture accounted for as much as 28% of the water surface. Given the existing degree of water pollution, there is ample room for the development of the wastewater treatment industry in China. Based on 供水／污水處理設備市場分析 (The Analysis of the Water Supply/Wastewater Treatment Facilities Market) (“Wastewater Report”), the market size of the wastewater facilities is estimated to be approximately RMB178 billion during the period of the Eleventh Five-Year Plan (2006-2010), while the total investment in the urban wastewater treatment will reach approximately RMB297 billion.

Water tariff in China includes, among others components, wastewater treatment cost. The rise of water tariff implies the increase in the budget for wastewater treatment. This would help the construction of wastewater treatment plants and the renewal of these facilities. Moreover, the prevalent increase in water tariff will also increase the cost of the enterprises in using water, increase their incentive to reduce water consumption and increase investment in the facilities to re-use water and wastewater treatment.

In 2006, 56% of the urban wastewater in China was treated. According to the regulation of the State Council of China, the urban wastewater treatment rate should be at least 70%. At the same time, with the re-development of the older urban areas, the replacement of the obsolete pipeline networks, and the re-development of the wastewater pipeline network to include the diversion of wastewater and rains, the estimated investment was approximately RMB50 billion.

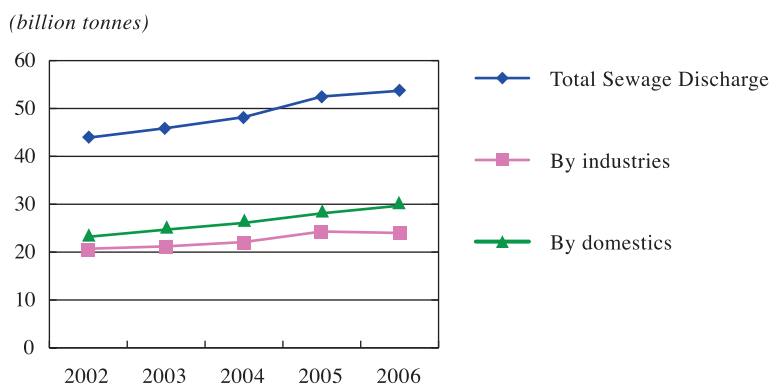
According to the Wastewater Report, the promulgation of 《排污費徵收使用管理條例》 (Wastewater Discharge Tariff Levy, Application and Management Regulation) brought about a major change in the wastewater discharge tariff system that has been in place for over 20 years. The new regulations require all business enterprises to pay wastewater tariff. Before this, only the government entities were required to do so. The collected tariff will be paid into a specific fund for environmental protection to be applied for pollution treatment. For so long as it remains a government policy to increase its emphasis on wastewater treatment, the industry of the wastewater treatment facilities can be expected to benefit from this policy.

INDUSTRY OVERVIEW

WASTEWATER DISCHARGE AND REMOVAL IN CHINA

In 2006, there were 53.7 billion tonnes of wastewater discharged in China, representing a year on year increase of 2.3%, out of which, 24.0 billion tonnes were discharged by the industries while 29.7 billion tonnes were discharged by the domestic sources. The CAGR of the wastewater discharged in China between 2002 and 2006 was 5.2%, while those of the industrial and domestic discharges were 3.8% and 6.4% respectively.

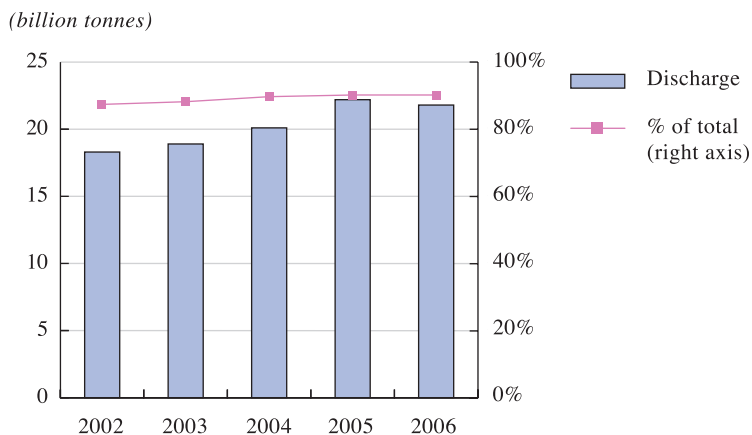
Wastewater discharged in China



Source: China Statistical Yearbook 2007

Among the 24.0 billion tonnes of industrial wastewater discharged in China, 21.8 billion tonnes have met the national or local standards. This ratio of industrial wastewater discharge that meets standards improved from 88.4% in 2002 to 90.7% in 2006. The actual wastewater discharge that meets standards increased from 18.3 billion tonnes in 2002 to 21.8 billion tonnes in 2006, representing a CAGR of 4.4%.

Industrial wastewater discharge that meets standards in China



Source: China Statistical Yearbook 2007

INDUSTRY OVERVIEW

Much of the wastewater discharge in China is concentrated in the economically prosperous regions in the Pearl River Delta area and the Yangtze River Delta area. In 2006, Jiangsu province (where the principal place of business of the Group in the PRC is located) was the highest region of industrial wastewater discharge with 2,872 million tonnes, representing approximately 12.0% of the country's total. The province was also the second highest region of domestic wastewater discharge with approximately 2,284 million tonnes, representing approximately 7.7% of the country's total.

Wastewater in China by geographical regions in 2005
(million tonnes)

Industrial		Urban Consumption	
Jiangsu	2,872	Guangdong	4,197
Guangdong	2,347	Jiangsu	2,284
Zhejiang	1,996	Shanghai	1,754
Shandong	1,444	Shandong	1,583
Hebei	1,303	Hubei	1,485
Henan	1,302	Henan	1,479
Guangxi	1,289	Hunan	1,441
Fujian	1,276	Sichuan	1,370
Sichuan	1,153	Zhejiang	1,311
Hunan	1,000	Guangxi	1,308
Others	8,037	Others	11,452
Total	24,019	Total	29,663

Source: China Statistical Yearbook 2007

KEY SUPERVISORY ORGANIZATIONS AND THEIR POLICIES

A large number of organizations at the national, provincial and municipal level are involved in the promotion and implementation of cleaner production/pollution prevention in the PRC. Among them, the key organizations are SEPA and NDRC.

SEPA is responsible for, among others, formulating the national policy, laws and administrative regulations for the environmental impact assessment of major economic and technological policies, development planning and key economic development plans, formulating the national standards for environmental quality and for pollutants emission, managing the national environmental management system and the certification of environmental labels, establishing and organizing the implementation of the rule of accreditation for the qualification for environmental market access and to guide and promote the development of environmental industry.

INDUSTRY OVERVIEW

SEPA has devised policies to tackle sulphur dioxide emission. Emission quotas are set for coal-fired power generation, based on emission-performance efficiency, which measures the sulphur dioxide emission for every unit of power generated. SEPA allocates specific emission quotas for power plants depending on the locations, types and ages of these power plants. Small and less efficient power plants will be required to cease operation. New power plants have to acquire emission quotas from the old ones. The less emission-performance efficient power plants will be replaced by the more efficient ones. In addition, SEPA has strengthened the supervision of the desulphurisation facilities of the power plants by ensuring that they are constructed and operated in proper ways. In order to facilitate the construction of the desulphurisation facilities, SEPA will strengthen the regulatory work of the desulphurisation facilities construction enterprises.

NDRC is a macroeconomic supervisory agency under the State Council of the PRC, which, among other things, examines and formulates policies for economic and social development and guides the overall economic system restructuring. The principal functions of the NDRC include, among others, examining and approving major construction projects, submitting plans for national economic and social development to the National People's Congress on behalf of the State Council and managing the assessment works of FGD facilities of power plants. In addition, the NDRC called for open and fair distribution of the emission licences to power firms and tax incentives for companies equipped with desulphurisation facilities.

According to the 《現有燃煤電廠二氧化硫治理“十一五”規劃》 (Eleventh Five-Year Plan Regarding Existing Coal-fueled Power Generators' Sulphur Dioxide Treatment) released by the NDRC and SEPA, the sulphur dioxide discharged by coal-fueled power generators is expected to drop to 5.02 million tonnes in 2010. The realisation of this target is vital to clean up the air and reach the goal set by the PRC Government in its Eleventh Five-Year Plan to cut nationwide discharges of sulphur dioxide by 10% by 2010. In addition, they would publish an annual list of desulphurisation-equipped power plants and the key projects would come under public scrutiny. Power plants that deliberately halt the operation of the desulphurisation equipment will be penalised.

CERTAIN REGULATORY REQUIREMENTS IN RELATION TO THE GROUP'S BUSINESS

Bidding and tendering requirements

According to the 《中華人民共和國建築法》 (Construction Law of the PRC) approved on 1 November 1997 and effective on 1 March 1998; and the 《中華人民共和國招標投標法》 (Law on Tendering and Biddings of the PRC) approved on 30 August 1999 and effective on 1 January 2000, certain large-scale infrastructure and public utilities projects relating to social and public benefits and safety, such as EP related projects within the territory of the PRC, including surveying and prospecting, design, engineering and supervision of such projects, as well as the procurement of major equipment and materials regarding engineering and construction, must be subject to tenders. To specify the standard provisions on the scope and size of these engineering and construction works, 《工程建設項目招標範圍和規模標準規定》 (Regulations for Tendering Scope and Standard of Engineering and Construction Projects) was promulgated on 1 May 2000.

As advised by the PRC Legal Advisers, the Group has bid for the FGD projects in the capacity as a main or sub-contractor of the consortium formed by two or more alliance members. Accordingly, the Group has to comply with the 《關於工程總承包市場准入問題說明的函》 (Notice relating to the Entering into the Main Engineering Contractor Market) issued by the MOC on 13 July 2003, and the 《工程建設項目勘探設計招標投標辦法》 (Regulation on Tendering and Bidding of Exploration and Design Work for Engineering Projects) issued on 12 June 2003 and effective on 1 August 2003. Under the Notice relating to the Main Engineering Contractor Market, it is confirmed that entities possessing certificate of engineering surveying or design or construction may undertake main contractor work within the particular type(s) of engineering work as stated on their certificates, and the entities may sub-contract certain works to certain sub-contractor which possesses the relevant qualifications on such work. Under the Regulation on Tendering and Bidding of Exploration and Design Work for Engineering Projects, in the event of a successful tender, a main contractor who is appointed by the consortium members, is given authority to represent all the consortium members to sign the project agreement with the principal and to be in charge of coordination of the works implementation in accordance with the terms of the project agreement. As advised by the PRC Legal Advisers, a company which possesses engineering surveying, design or construction qualification certificate can undertake main contractor works in accordance with the scope as set out on the relevant certificate. As further advised by the PRC Legal Advisers, Wuxi Pan-Asia and/or SEEDRI, both subsidiaries of the Company, can undertake main contractor works in accordance with the scope as set out on each of their relevant certificate(s).

INDUSTRY OVERVIEW

Qualification requirements regarding engineering design

On 29 March 2007, MOC promulgated 《工程設計資質標準》 (Engineering Design Qualification Standards) (“New Standard”) to supersede the relevant sections (“Old Standard”) of 《關於頒發工程勘察資質分級標準和工程設計資質分級標準的通知》 (Notice on Rating Standard of Engineering Survey and Engineering Design) which was promulgated in 2001. Pursuant to the New Standard, the engineering design qualifications are classified into four categories, which included 工程設計綜合資質 (Integrated Qualification in Engineering Design) (“Integrated Qualification”), 工程設計行業資質 (Industrial Qualification in Engineering Design) (“Industrial Qualification”), 工程設計專業資質 (Professional Qualification in Engineering Design) (“Professional Qualification”) and 工程設計專項資質 (Special Qualification in Engineering Design) (“Special Qualification”).

A summary of the scope and grade(s) for each of the qualifications are set out below:

	Integrated Qualification	Industrial Qualification	Professional Qualification	Special Qualification
Scope	Covering design qualifications of 21 industries	Covering design qualifications of all design types in the qualification standards of a certain industry	Covering design qualifications of certain professional design qualification in the qualification standards of a certain industry	Design, and integrated design and construction for special technique of an industry independently
Grade(s)	Grade A only	Grades A and B, and additional Grade C for some industries	Grades A and B, and additional Grade D for professional qualification in architectural engineering design	Grades classified in accordance with the requirements of industries, among which, Grades A and B are classified for environmental engineering

Since different requirements are imposed on different types of qualifications, for illustrative purpose, only requirements relevant to environmental engineering works in the Special Qualification and construction industry in the Industrial Qualification are shown below because they are more relevant to the business of the Group.

INDUSTRY OVERVIEW

Grade	Industrial Qualification			Special Qualification	
	A	B	C	A	B
Qualification and reputation					
Minimum registered capital (RMB' million)	6	3	1	3	1
Number of undertaken industrial engineering design independently and in operation	≥1 large-scale or ≥2 medium-scale			≥1 large-scale or ≥3 medium-scale	
Main technical requirements					
With staff who is in charge of technology or chief engineer who should have undergraduate or higher degrees and registered qualification or senior technical titles and,	✓	✓		✓	✓
(i) design experience (years)	>10	>10		>5	>5
(ii) in charge of engineering design project	≥2 large-scale	≥1 large-scale or ≥3 medium-scale of the applied industry		≥2 large-scale in environmental engineering	≥2 medium-scale in environmental engineering
With college or higher education			✓		
(i) design experience (years)			>10		
(ii) in charge of engineering design project of the applied industry			≥2		
(iii) with medium or above professional technical titles			✓		
Others					
Technical equipment and management level					
With fixed working place	✓	✓	✓	✓	✓
With ISO 9000 certificate				✓	
Business scope					
Able to undertake main contractor works for construction and engineering, project management and related technology, consultation and management services corresponding to the scope permitted by relevant qualification certificates	✓	✓	✓	✓	✓
No restriction on regions	✓	✓	✓	✓	✓
Scale					
(i) no restriction	✓			✓	
(ii) medium and small-scale		✓			
(iii) below medium-scale					✓
(iv) small-scale			✓		

In order to implement the New Standard, the MOC promulgated 《建設工程勘察設計資質管理規定實施意見》 (Implementation Opinion of Regulation on Construction and Engineering Survey and Design Qualification Management) on 21 August 2007. The regulation requires the governing authority of each of the provincial governments to be responsible for the approval of qualification certificates regarding construction engineering survey and engineering design, and the determination of such approval procedures. In order to ensure smooth transition of the replacement of old qualification certificates with new ones, for those

INDUSTRY OVERVIEW

enterprises that have already obtained, among other things, the Industrial Qualification, their qualification certificates shall remain valid until 31 March 2010, provided that they meet the criteria of the Old Standard. Prior to 31 March 2010, enterprises are qualified to obtain a new qualification certificate with a valid period for five years provided that they are able to meet the basis criteria of the New Standard regarding the requirements on main professional technicians. Details of the arrangements will be promulgated separately. The original qualification certificates will become null and void from 1 April 2010. For enterprises that have obtained the Special Qualification (excluding the temporary ones), they are required to meet the criteria on corresponding qualification before 31 March 2008. The MOC will carry out the renewal of certificates in accordance with the New Standard from 1 April 2008. Details of the renewal arrangements will be promulgated separately.

According to the PRC Legal Advisers, the two qualifications obtained by SEEDRI are Special Qualification and Industrial Qualification. Therefore, SEEDRI shall renew its certificates upon receipt of the respective renewal notice of the two qualifications.

As compared with the Old Standard, the New Standard has additional provisions in relation to the professional and technical talents for the licensing registration system recently implemented by the PRC Government. According to the PRC Legal Advisers, licensing examinations for certain technical professions have just commenced and certain technical professions where licensing examinations are in place have yet to be registered. Accordingly, the MOC has stipulated respective transitional periods for each of the design qualifications for the implementation of the New Standard. The Group has been encouraging its staff to sit in the licensing examinations. Up to the Latest Practicable Date, the examination results were not yet known. If the passing rate of the Group's staff in the licensing examinations is lower than that stipulated under the New Standard, the Group will recruit additional qualified professional and/or technical talents to ensure compliance with the New Standard. On such basis, the Directors do not consider that there are any material obstacles in meeting with the renewal arrangements.

On 9 August 2005, the MOC issued the 《關於工程勘察、設計、施工、監理企業及招標代理機構資質申請及年檢有關問題的通知》 (Notice on the Matters concerning Qualification Application and Annual Review of Engineering Survey, Design, Construction, Supervision Enterprises and Tendering Agents) (the "Notice") which abolished the annual review of the qualifications of engineering survey, design, construction, supervision enterprises and tendering agents, but demanded local authorities to strengthen their daily supervision on those certificate holders. According to the Notice, the MOC no longer requires an annual review of the relevant qualifications of such enterprises and agents, and accordingly the MOC will no longer annually review qualifications of engineering survey, design, construction, supervision enterprises and tendering agents, starting from 2005.

INDUSTRY OVERVIEW

Pricing requirements for engineering design projects

To avoid vicious competition, the PRC Government enforced government-directed pricing in respect of charges for the survey and design of engineering projects. Pursuant to 《價格法》 (Price Law) and 《國務院辦公廳轉發建設部等部門關於工程勘察設計單位元體制改革若干意見的通知》 (Notice by the State Council General Office as to Certain Opinions about Surveying and Designing of the Engineering Projects System Reform), the former SDPC and the MOC issued, on 7 January 2002, 《工程勘察設計收費管理規定》 (Administration Regulation for Charging Engineering Survey and Design), 《工程勘察收費標準》 (Engineering Survey Charging Standard) and 《工程設計收費標準》 (Engineering Design Charging Standard), which required the charges of engineering survey and engineering design projects to base on the government-directed price and government-adjusted price according to the investment amounts. For construction projects with total estimated investments amounting to RMB5 million or above, government-directed price is applied on the charges of engineering survey and engineering design; while for those below RMB5 million, government-adjusted price is used. The base price for the charges of engineering survey and design projects which apply government-directed price should be calculated with reference to 《工程勘察收費標準》 (Engineering Survey Charging Standard) or 《工程設計收費標準》 (Engineering Design Charging Standard), with a 20% floating range unless otherwise stipulated. Construction units, surveyor and designer should determine the charging amount by way of negotiations within the stipulated floating range based on the actual situation of the construction projects. The Directors and the PRC Legal Advisers confirm that the Group has complied with the applicable laws, standards and regulations in relation to the pricing requirements for engineering design during the Track Record Period.

HISTORY AND DEVELOPMENT

CORPORATE AND BUSINESS DEVELOPMENT

Following the rapid economic development in recent years, pollution has become a serious problem in the PRC. As the PRC Government has placed great importance on EP, a business opportunity in the EP industry has opened up. In view of the potential of EP business in the PRC, AGT (BVI) acquired 51% equity interest in Wuxi Pan-Asia from Evergress Trading Pte. Ltd., an Independent Third Party, in August 1998. Pursuant to the terms of the agreement dated 25 August 1998 and made between Evergress Trading Pte. Ltd. and 宜興市燃燒技術工程公司 (Yixing Pyrotechnics Technology Engineering Company) as vendors on the one part and AGT (BVI) and 宜興市鎂質耐火材料廠 (Yixing Meizhi Refractory Material Factory) as purchasers on the other part, it was agreed that AGT (BVI) and Yixing Meizhi Refractory Material Factory would acquire 51% and 49% equity interest in Wuxi Pan-Asia from Evergress Trading Pte. Ltd. and Yixing Pyrotechnics Technology Engineering Company respectively at nil consideration (as the registered capital of Wuxi Pan-Asia at the relevant time had not been paid up) and assume the responsibility of the respective vendors for paying up their respective portions of the registered capital of Wuxi Pan-Asia (i.e. in the amount of US\$306,000 and US\$294,000 respectively). AGT (BVI) was owned as to 55%, 40% and 5% by Ms. Qian Yuanying, Mr. Jiang and Mr. Li Jun (being an Independent Third Party) respectively at the relevant time. Yixing Meizhi Refractory Material Factory was wholly owned by 蔣玉清 (Mr. Jiang Yuqing), a brother of Mr. Jiang. During the period between May 1994 and September 1996, the legal representative of Yixing Pyrotechnics Technology Engineering Company was Mr. Fang Guohong, an executive Director. After the acquisition, the Group mainly focused on market research, feasibility study, reallocation and consolidation of human resources to prepare for its entry into the EP industry. In August 2000, AGT (BVI) further acquired the remaining 49% equity interest in Wuxi Pan-Asia from Yixing Meizhi Refractory Material Factory, at a consideration of US\$294,000. As a result, Wuxi Pan-Asia became a wholly owned enterprise of AGT (BVI). Save as disclosed above, none of the former owners of Wuxi Pan-Asia have any past or present relationship with the Group, its controlling shareholders, directors and senior management or any of their respective associates.

In 2000, the Group commenced its water treatment equipment provider business. In August 2001, the registered capital of Wuxi Pan-Asia was increased from US\$600,000 to US\$12,000,000. In 2001, the Group constructed a workshop in Yixing, the PRC for fine processing and surface processing of certain water treatment equipment.

To strengthen its position in the EP industry thereby broadening the range of products supplied and to increase its revenue stream, the Group expanded its business into the production and sale of fibre glass reinforced plastic pipes, which could also be used in water treatment systems. In 2001, the Group constructed another workshop in Yixing, the PRC for the production of fibre glass reinforced plastic pipes. Two production units were in place for the production of fibre reinforced plastic pipes in 2003. Production and sale of fibre glass reinforced plastic pipes commenced in 2003.

In December 2002, Ms. Qian Yuanying, Mr. Jiang and Mr. Li Jun transferred all their shareholdings (in the proportion of 55%, 40% and 5% respectively) in AGT (BVI) to YY Holdings. In respect of such transfer, no consideration was paid to Ms. Qian Yuanying and Mr. Jiang, and a consideration of HK\$6,000,000 was paid to Mr. Li Jun (which was determined by reference to 5% of the estimated net asset value of Wuxi Pan-Asia in December 2002).

HISTORY AND DEVELOPMENT

With the increasing sales efforts, the Group achieved a rapid growth in sales. The Group's customers were located in different regions of the PRC such as Hubei, Shanghai, Jiangsu, Shandong and Liaoning. In addition to water treatment equipment and pipe businesses, the Group identified opportunities to tap new market segment. Given the continuous growth of the PRC economy and the reliance on coal-fired power plants for energy generation, the management believed that air purification would become another major focus of the PRC Government and accordingly FGD would have substantial business potentials. In 2004, Wuxi Pan-Asia, being the representative of the alliance comprising Wuxi Pan-Asia, SEEDRI which holds the engineering design qualification certificate and another partner which holds the engineering construction qualification certificate, commenced its FGD business and tendered for FGD projects. In August 2004, the Group, together with the other partners, was awarded the first contract to provide the FGD system for 邢台國泰發電有限責任公司 (Xingtai Guotai Power Generation Company Limited). The contract sum of the FGD project was RMB45,230,000.

In July 2005, Wuxi Pan-Asia further increased its registered capital from US\$12,000,000 to US\$13,280,000.

To cope with the expansion of the Group's business in the long run, in 2004, the Group commenced to establish another workshop in Yixing, the PRC for assembling components for EP products and/or equipment for EP systems. This workshop, with a gross floor area of approximately 2,347 sq.m., commenced operation in 2005. As at 30 June 2007, the Group had invested a total of approximately RMB34.7 million in the land and buildings for its three workshops (total gross floor area of approximately 9,429 sq.m.), equipment and machinery for its production.

In 2005, the Group was awarded two FGD projects from (i) 山東臨沂發電有限責任公司 (Shandong Linyi Electric Power Company Limited) and 山東魯能物資集團有限公司 (Shandong Luneng Supplies Group Co., Ltd.), and (ii) 華電新鄉發電有限公司 (Huadian Xinxiang Power Generation Company Limited). The contract sums for the two FGD projects were RMB35,555,000 and RMB228,830,000 respectively.

In November 2006, Wuxi Pan-Asia further obtained the ISO9001 certificate from Shanghai International Certification Assessment Co., Ltd. on general contract of FGD project of thermal power plant and design, manufacture and service of water treatment equipment.

With an aim of increasing the Group's competitiveness and enhance its qualifications in FGD project contracting industry, Wuxi Pan-Asia acquired the entire interest of Wuxi Zhong Dian in August 2006, which held an equity interest of approximately 70.05% in the registered capital of SEEDRI. SEEDRI is mainly engaged in the provision of engineering design services on EP projects such as wastewater treatment systems, reclaimed water systems and flue gas treatment systems. SEEDRI holds Grade A and Grade B of engineering design certificates, details of which please refer to the paragraph headed "Qualification certificates" under the section headed "Business" of this prospectus.

HISTORY AND DEVELOPMENT

Pursuant to three share transfer agreements each dated 25 August 2006, Wuxi Pan-Asia acquired from Yixing Xinwei Group Limited (a company then owned as to 90% and 10% by Mr. Jiang and Mr. Jiang Lei), Mr. Fan Yajun (an executive Director) and Mr. Zhu Panjun (a director of Wuxi Pan-Asia) the entire equity interest in Wuxi Zhong Dian at an aggregate consideration of RMB5,000,000, which was equivalent to the then registered capital of Wuxi Zhong Dian. After such an acquisition, Wuxi Pan-Asia indirectly held an equity interest of approximately 70.05% in SEEDRI.

Immediately prior to the acquisition of an equity interest of approximately 70.05% of SEEDRI by Wuxi Zhong Dian by way of capital injection on 11 August 2006 and the acquisition of the entire equity interest of Wuxi Zhong Dian by Wuxi Pan-Asia on 25 August 2006, Shanghai Kaida indirectly (through Shanghai Industrial and Shanghai Gongcheng) held an equity interest of approximately 94.7% in SEEDRI. Shanghai Kaida was directly owned as to 60% by Mr. Jiang and 40% by Mr. Jiang Lei, the son of Mr. Jiang. At the relevant time, the registered capital of SEEDRI was RMB3,220,000, and there was a need to strengthen its financial resources. Proposals were examined as to whether additional capital could be injected by (i) the then existing shareholders of SEEDRI on a pro rata basis, (ii) Wuxi Pan-Asia, as a result of which SEEDRI would become part of the Group, or (iii) other companies established in the PRC. With respect to option (i), at the relevant time, the approximately 18.1% equity interest in Shanghai Gongcheng then held by Shanghai Industrial Development Fund, an Independent Third Party, was frozen due to its default in payment of outstanding debts including the legal fees and related expenses of totaling approximately RMB11.2 million within the prescribed time as requested by Shanghai No.2 Intermediate People's Court. With respect to option (ii), since the acquisition of SEEDRI by a foreign interested entity may be subject to more onerous procedure and examination by local commerce authorities of the PRC, such option was not adopted. It was then decided that the then best approach was to complete the capital injection by a company established in the PRC, namely Wuxi Zhong Dian, so that SEEDRI could have the benefit of additional registered capital, yet allowing the flexibility of SEEDRI to be included in the Group at a later stage. On 11 August 2006, the registered capital of SEEDRI was increased by RMB7,530,000 to RMB10,750,000. The additional portion of capital injected was recorded at its face value in the registered capital of SEEDRI and fully paid up by Wuxi Zhong Dian in cash. On 25 August 2006, Wuxi Pan-Asia acquired the entire equity interest in Wuxi Zhong Dian. Immediately following such acquisition, SEEDRI was indirectly owned as to approximately 70.05% by Wuxi Pan-Asia (through Wuxi Zhong Dian), approximately 28.37% by Shanghai Kaida (through Shanghai Industrial and Shanghai Gongcheng) and approximately 1.58% by Shanghai Industrial Development Fund (through Shanghai Gongcheng and indirectly through Shanghai Industrial).

Pursuant to an equity transfer agreement dated 21 March 2007 made between Shanghai Kaida and Shanghai Huanghe Assets Management Limited ("Shanghai Huanghe"), an Independent Third Party, Shanghai Kaida transferred all its equity interest in both Shanghai Industrial and Shanghai Gongcheng to Shanghai Huanghe at the consideration of RMB5 million. Shanghai Huanghe is established in the PRC and is mainly engaged in equity investment, asset management, merger and restructuring, investment and financial consulting services. Following such a transfer, Shanghai Huanghe held an indirect equity interest of approximately 28.37% in SEEDRI. As at the Latest Practicable Date, the 18.1% equity interest in Shanghai Gongcheng held by Shanghai Industrial Development Fund mentioned above had been sold to another Independent Third Party.

HISTORY AND DEVELOPMENT

According to 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (Circular on Issues Relating to Foreign Exchange Administration in Offshore Financing and Return Investment by Offshore Special Purpose Vehicles Set Up by Domestic Residents) (the “Circular”) issued by SAFE on 21 October 2005 which became effective on 1 November 2005, special purpose vehicles refer to offshore enterprises directly set up or indirectly controlled by domestic legal or natural persons for the purpose of carrying out offshore equity financing (including exchangeable debt financing) with assets of or interests in domestic enterprises held by them. The Circular specifically allows domestic residents (including legal and natural persons) to establish offshore financing platforms in the form of special purpose vehicles for equity financing in the international capital market through reverse mergers and acquisitions, equity swaps, transferable bonds and other means of capital operation and details the procedures for the registration and administration of offshore special purpose vehicles and return investment entities. In this regard, the ultimate shareholders of Wuxi Pan-Asia, namely Ms. Qian Yuanying and her two sons, Mr. Jiang Lei and Mr. Jiang Xin, completed the foreign exchange registration with respect to domestic residents making offshore investments in respect of Praise Fortune, Pan Asia (BVI) and the Company, in September 2006.

Pursuant to the 《外國投資者併購境內企業規定》 (Regulation for the Acquisition of Domestic Enterprises by Foreign Investors) (the “Regulation”) jointly promulgated by MOC, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, the CSRC and SAFE on 8 August 2006 which became effective on 8 September 2006 (the “Effective Date”), an offshore special purpose vehicle is required to obtain approval from the CSRC for its overseas listing if, for the purpose of achieving an overseas listing, it acquires from the shareholders of PRC domestic enterprise(s) the shares held by them or acquires new shares issued by the PRC domestic enterprise(s) and the consideration therefore is in the form of the shares in the offshore special purpose vehicle held by its shareholders or new shares issued by the offshore special purpose vehicle. However, the Regulation is unclear as to whether or not a special purpose vehicle using cash to acquire a PRC domestic enterprise(s) is required to obtain approval from the CSRC for its overseas listing, and it is silent on if and how the Regulation is applicable to overseas listings of the special purpose vehicles (such as the listing of the Company on the Stock Exchange) which have completed the acquisitions of relevant PRC domestic enterprises prior to the Effective Date. As at the Latest Practicable Date, the relevant authorities, including but not limited to the CSRC, had not given or issued any interpretations or implementing rules regarding the application of the Regulation.

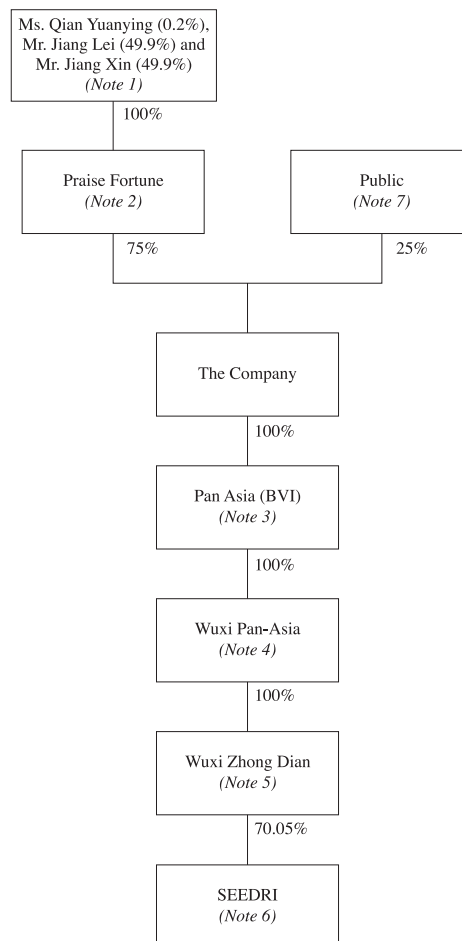
Based on their understanding of the Regulation and having considered that (i) after the entire equity interest in Wuxi Pan-Asia acquired by AGT (BVI) in 2000, Wuxi Pan-Asia became a wholly-foreign owned enterprise; (ii) the relevant acquisition of Wuxi Pan-Asia was based on cash consideration and did not involve the exchange of shares of offshore companies; and (iii) the relevant acquisition of Wuxi Pan-Asia was completed before the Effective Date, the PRC Legal Advisers are of the view that the Listing does not require the approval by the CSRC.

For the purpose of the Listing, the Company, which was incorporated in the Cayman Islands in August 2006, became the ultimate holding company of the Group as a result of the Reorganisation. Details of the Reorganisation are set out in the paragraph headed “Group Reorganisation” in appendix V to this prospectus.

HISTORY AND DEVELOPMENT

SHAREHOLDING AND CORPORATE STRUCTURE

The Company was incorporated in the Cayman Islands on 16 August 2006. Set out below is a chart illustrating the corporate structure of the Group immediately after completion of the Reorganisation, the Share Offer and the Capitalisation Issue (but without taking into account the Shares to be allotted upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme or any allotment and issue and/or repurchase of Shares by the Company under the general mandates as referred to in the paragraph headed “3. Resolutions in writing of the sole shareholder of the Company passed on 1 December 2007” in appendix V to this prospectus).



Notes:

1. Ms. Qian Yuanying is the spouse of Mr. Jiang. Mr. Jiang Lei, an executive Director, and Mr. Jiang Xin are the sons of Mr. Jiang.
2. Praise Fortune was incorporated in the BVI on 1 December 2004 and its principal business activity is investment holding.
3. Pan Asia (BVI) was incorporated in the BVI on 5 January 2006 and its principal business activity is investment holding.
4. Wuxi Pan-Asia was established in the PRC on 20 July 1996 and is a wholly foreign-owned enterprise. Wuxi Pan-Asia is principally engaged in EP business.

HISTORY AND DEVELOPMENT

5. Wuxi Zhong Dian is a PRC domestic-invested limited liability company established on 30 May 2001 and it holds an approximately 70.05% equity interest in SEEDRI.
6. SEEDRI is a limited liability company established in the PRC on 10 April 1991 and its principal business activities are engineering research, design on energy-saving and EP facilities and infrastructures. SEEDRI is held as to approximately 70.05% by Wuxi Zhong Dian. Information relating to the holders of the remaining equity interests in SEEDRI is set out in this section and appendix V to this prospectus. As at the Latest Practicable Date, the remaining 29.95% interest equity interest in SEEDRI was held as to 26.98% by Shanghai Industrial and as to the remaining 2.97% by Shanghai Gongcheng. Shanghai Industrial was a limited liability company, the registered capital of which was held as to 78.57% by Shanghai Huanghe, an Independent Third Party, and as to the remaining 21.43% by Shanghai Gongcheng. Shanghai Gongcheng was a limited liability company, the registered capital of which was held as to 81.9% by Shanghai Huanghe and as to the remaining 18.1% by another Independent Third Party.
7. These include the Cornerstone Investors who in aggregate will hold an estimate of about 72,418,000 Shares (representing about 9.05% of the Company's issued share capital as at the Listing Date, assuming an Offer Price of HK\$2.40 per Offer Share (being the lowest point of the Offer Price range) and assuming the Over-allotment Option is not exercised at all).

The immediate controlling shareholder of the Company is Praise Fortune, and is owned as to approximately 0.2% by Ms. Qian Yuanying, approximately 49.9% by Mr. Jiang Lei and approximately 49.9% by Mr. Jiang Xin. As at the Latest Practicable Date, the sole director of Praise Fortune was Mr. Jiang. Praise Fortune is an investment holding company. Its shareholders, through Praise Fortune (or YY Holdings, the controlling shareholder of the Group immediately before completion of the Reorganisation), would from time to time review the annual financial information in connection with members of the Group, and to consider the change in directors and senior management of members of the Group. Ms. Qian Yuanying was a director of Wuxi Pan-Asia until June 2004. Other than such role, Ms. Qian only played a passive role as a shareholder of Praise Fortune. Mr. Jiang Xin joined the Group in July 2007 as a director and chairman of SEEDRI. Mr. Jiang Lei joined the Group in March 2007. Mr. Jiang Lei is an executive Director.

YY Holdings, an investment holding company, was the ultimate holding company of the Group prior to the Reorganisation for the preparation of the Listing, and throughout the Track Record Period. At the relevant time, the entire issued share capital of YY Holdings was owned solely by YYT Limited. The issued share capital of YYT Limited consists of one bearer share of US\$1. Such bearer share has since its issue been held by Mr. Jiang. YY Trust was formed by a trust deed dated 21 July 1999 made between Ms. Liu Kit Shan, Kitty as settlor and YYT Limited as trustee. At the relevant time, the beneficiaries of YY Trust were Mr. Jiang Lei and Mr. Jiang Xin (both of whom are sons of Mr. Jiang). Under a deed made by YYT Limited dated 26 August 1999, Mr. Jiang Lei and Mr. Jiang Xin were removed as beneficiaries of YY Trust and YY Sun Limited ("YY Sun") has become the sole beneficiary of YY Trust. The shareholders of YY Sun were Ms. Qian Yuanying, being the spouse of Mr. Jiang, who holds 1 share (approximately 0.2%) of YY Sun and Mr. Jiang Lei and Mr. Jiang Xin, being the sons of Mr. Jiang, who together held an aggregate of 600 shares (approximately 99.8%) of YY Sun. Praise Fortune has become the immediate holding company of the Company after completion of the Reorganisation and it has the same shareholding structure as that of YY Sun. In view of the above, there has been no change in the controlling shareholder throughout the Track Record Period.

BUSINESS OVERVIEW

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. During the Track Record Period, the Group has completed about 68 contracts for the sale of products and equipment, among which, about 53 contracts were related to water treatment, about nine contracts were related to pipes and about six contracts were related to flue gas treatment. The Group has also undertaken four EP construction engineering projects, including three FGD projects for power plants with a total installed capacity of 1,755 MW and one solid waste incineration power plant project. The Group plans to devote more resources to enhance the Group’s capabilities to increase the varieties of EP solutions it can offer to its customers.

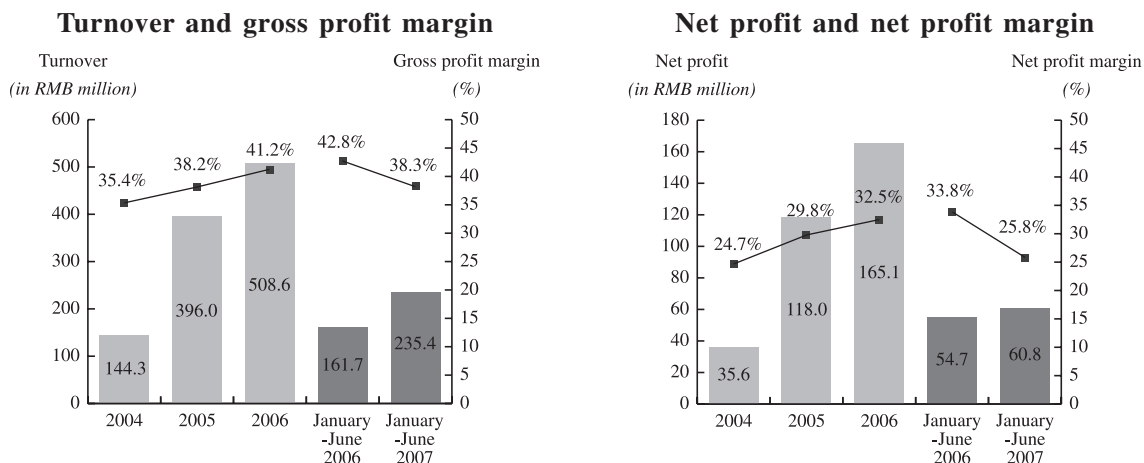
The Group offers its customers a variety of services covering engineering design, ancillary product design, procurement, manufacturing and processing, assembly, installation and construction, project management and after-sales services. Subject to factors such as licensing requirements, internal resources availability, cost effectiveness and the complexity of works involved, the Group may engage sub-contractors to carry out certain services as offered by the Group to its customers. The Group has production facilities located in Yixing, the PRC for the manufacture and processing of certain EP products and equipment. For details of the services offered by the Group, please refer to the paragraph headed “Overview of integrated services” under the section headed “Business” in this prospectus.

In general, services such as product design and installation involved in the sale of EP products and equipment are ancillary in nature without separate charges; while services such as engineering design, installation and construction involved in the EP construction engineering projects are non-ancillary in nature and separate fees are charged. In general, the completion time for the sale of EP products and equipment is less than six months, whereas the completion time of EP construction engineering projects is generally more than a year.

The Group’s customers are located in different provinces, direct-controlled municipalities and autonomous regions in the PRC, including Fujian, Guangdong, Hebei, Heilongjiang, Henan, Jiangsu, Liaoning, Shanxi, Shandong, Sichuan, Zhejiang provinces, Beijing, Shanghai, Inner Mongolia and Xinjiang. The Group has entered into business transactions for FGD projects with large-scale power companies, such as 華電新鄉發電有限公司 (Huadian Xinxiang Power Generation Company Limited) and 山東臨沂發電有限責任公司 (Shandong Linyi Electric Power Company Limited).

BUSINESS

As illustrated in the diagrams below, the Group has to achieved significant growth in its turnover and profit during the Track Record Period.



Immediately after the Track Record Period ended 30 June 2007 and up to the Latest Practicable Date, the Group had completed about 12 contracts for the sale of EP products and equipment with an aggregate contract sum of approximately RMB127 million and there were about 27 uncompleted contracts for the sale of EP products and equipment with an aggregate contract sum of approximately 509 million which are expected to be completed in December 2007 or 2008. In addition, as at the Latest Practicable Date, there were three uncompleted EP construction engineering projects with an aggregate contract sum of approximately RMB470 million, of which two contracts relating to water treatment are expected to be completed in 2008 and the other one contract relating to flue gas treatment (i.e. solid waste incineration plant project) is expected to be completed in 2009. Immediately after the Track Record Period ended 30 June 2007 and up to the Latest Practicable Date, the Group has not secured any new FGD projects. As advised by the Directors, the Group is in the process of pitching several FGD projects.

STRENGTHS

The Directors believe that the Group's success is principally attributable to its strengths, which include the following:

Integrated services provider with strong customisation capabilities

The Directors believe that the Group is able to differentiate itself from its competitors by providing not only a single service but an integrated range of related services, including engineering design, ancillary product design, procurement, manufacturing and processing, assembly, installation, project management and after-sales services. In addition, the Group customises its products and services to address specific customer requirements. Please refer to the paragraph headed "Overview of integrated services" under this section. As an integrated services provider, the Directors consider that the Group is well positioned in the industry to capture new opportunities ahead such as other gas purification treatment projects.

Possession of skilled and experienced work force

The Group has capitalized on the knowledge and expertise of the Group's technical personnel. As at the Latest Practicable Date, 49 of the Group's employees were engineers from various professional backgrounds with work experiences in EP, among which, one of them possessed a doctorate in sewage system engineering, 6 of them possessed master degrees in environmental engineering, construction design and management and 37 of them were holders of either bachelor degrees or diplomas in various areas such as, among other things, EP engineering, construction engineering, structural engineering, sewage system engineering, electronic engineering and instrument engineering. Backed by the extensive experience in various industries possessed by the Group's engineers, the Group has been able to provide customised EP services for customers in different industries.

Market-oriented business strategies

The Group's market-oriented business strategies enable it to respond quickly to market needs such as the need for desulphurisation work. In view of the economic growth of the PRC economy and the PRC Government's emphasis on EP as evidenced in its Eleventh Five-Year Plan, the Directors expect that there will be a high growth potential of the EP market in the PRC which in turn will further enhance the revenue base of the Group.

Extensive business network

Through offering integrated services with strong customisation capabilities, the Group is able to capture customers in a wide range of industries, including but not limited to, textile and dyeing, iron and steel, and power industries. Other than the Jiangsu province in the PRC where the Group is based, the Group has also covered a wide geographical spread in the PRC. As at the Latest Practicable Date, the Group had provided services to customers in different provinces, directly-controlled municipalities and autonomous region in the PRC, including Fujian, Guangdong, Hebei, Heilongjiang, Henan, Jiangsu, Liaoning, Shanxi, Shandong, Sichuan, Zhejiang provinces, Beijing, Shanghai, Inner Mongolia and Xinjiang.

Established track record

The Group has achieved significant growth in its turnover and profit for the Track Record Period. During the Track Record Period, the Group has completed about 68 contracts for the sale of products and equipment and undertaken four EP construction engineering projects, including three FGD projects for power plants with a total installed capacity of 1,755MW and one solid waste incineration power plant project. The total contract sum in relation to the four projects was approximately RMB609.6 million. With the Group's track record, the Directors believe that the Group is well positioned for future expansion.

Established good relationship with customers

The Group has established good relationships with its customers by providing services including product quality assurance, after-sales technical support and warranty. The Directors consider that maintaining a good relationship with the Group's customers will enhance its chances of securing contracts from previous or existing customers and help secure new businesses through referrals from previous or existing customers.

BUSINESS

Technical qualification in engineering design

The Group possesses Grade A and Grade B certificates for engineering design. Please refer to the paragraph headed “Qualification certificates” in this section for details. A subsidiary of the Company, SEEDRI, has approximately 16 years of experience in engineering design.

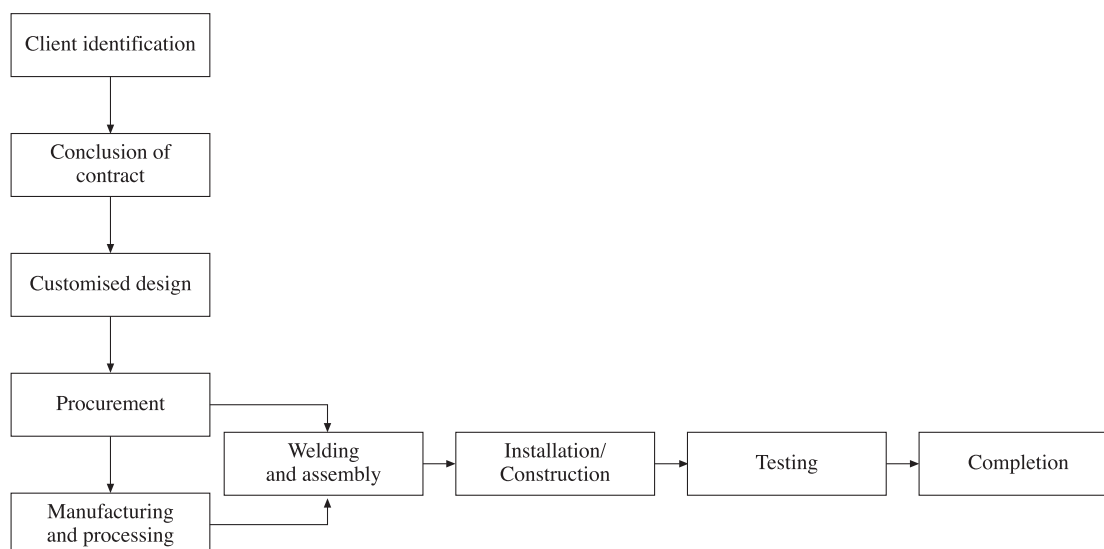
Experienced management and effective incentive mechanism

The Group’s management team has considerable experience and expertise in the EP industry and/or their respective responsible areas. The Directors believe that the Group can leverage on the expertise and business relationship of its senior management personnel to contribute to its development of products and business in the future.

In addition, the Group has been operating its business on the basis that employee contribution is a key factor of success. The Group has provided training for its staff with an aim to continually raise its employees’ productivity and morale. In addition, it has adopted incentive scheme to motivate its salespersons towards better performance by awarding them for completing a particular sales contract.

OVERVIEW OF INTEGRATED SERVICES

The Group has positioned itself as an integrated services provider offering its customers variety of services covering engineering design, ancillary product design, procurement, manufacturing and processing, assembly, installation, project management and after-sales services. During the Track Record Period, the Group has principally engaged in the sale of pipes, water treatment and flue gas treatment products and equipment, as well as undertaking of EP construction engineering projects. Details of the Group’s integrated services, and the typical workflow of operations in relation to the sale of EP products and equipment and the implementation of EP construction engineering projects are set out below with examples from the pipes, water and flue gas treatment segments for illustrative purposes.



Client identification

The Group normally identifies potential clients through the Group's sales and marketing networks or referrals or bidding and tendering.

For a typical workflow of sale of EP products and equipment, the sales forces of the Group will discuss with the potential customers to identify their specific needs, requirements and specifications. After preliminary discussions with the potential customers, the sales forces will discuss and consult with the design, research and development department. After obtaining approval from the sales management for, among other things, price, estimated profit margin and resources requirements, the design, research and development department will make proposal outlining the respective solutions, preliminary configurations and quotation for customers selections.

For a typical EP construction engineering project, it is normally awarded through tendering procedures. The potential customer will usually invite tenders from qualified potential participants. Upon the satisfaction with the creditworthiness of the potential customer, the Group will define the specification and requirements of the project with the potential customer. A working team comprising staff from sales department, design, research and development department, project management department and finance department will be established to conduct a precise analysis in both the technical and financial aspects of the project, including, without limitation, amount and complexity of works to be undertaken, types of materials, technical skills required, expected time schedule, market conditions, safety measures and all other aspects that may affect the Group's obligations. In determining the tender price, the Group usually makes reference to the recent market information such as costs of labour, materials and components and sub-contractors' quotations, and resources availability. Approval has to be obtained from the Group's management before a tender may be submitted in order to ensure that the tender is competitive and the profit margin is reasonable. In respect of the EP projects awarded to the Group during the Track Record Period, the PRC Legal Advisers have confirmed that the Group has complied with the relevant bidding and tendering requirements in the PRC.

Conclusion of contract

After finalizing the terms and conditions, a contract and a technical agreement will be prepared by the sales department and the design, research and development department and will be delivered to customers for approval and execution. In general, a contract will set out, inter alia, the underlying product and/or system quantities, contract sum, payment terms and warranty terms. The technical agreement will set out, among others things, discharge standards such as the treatment capability and the quality objective, treatment process, technical parameters, requirements and specifications, and a list of required components/equipment with information such as prices, quantities and major specifications involved.

Customised design

For EP product/equipment sale, the Group provides ancillary design services. The technical agreement as mentioned above is tailor-made for each customer because different design is required for different product/equipment depending on the type of industry of the customer and usage of the product/equipment. For water treatment system as an example, different treatment processes, different technical parameters and specifications are required for the treatment of different types of water or wastewater depending on the nature and quantities of pollutants, such as solid pollutants, biological pollutants and toxic pollutants. These pollutants affect the quality of water, which is commonly measured by several indicators such as BOD, COD, PH, SS and $\text{NH}_3\text{-N}$. Customers' requirements on the treated water quality of water treatment systems are different depending on the type of their industries and usage of the systems. For example, a customer of the Group, who is in real estate business, required the Group to offer a wastewater treatment system for its daily wastewater with major indicators for the treated water quality including, among other things, $\text{BOD} \leq 20 \text{ mg/L}$, $\text{COD} \leq 100 \text{ mg/L}$, PH range from 6-9, $\text{SS} \leq 70 \text{ mg/L}$ and $\text{NH}_3\text{-N} \leq 15 \text{ mg/L}$; while another customer of the Group in tyre manufacturing industry required the Group to offer wastewater treatment system for its daily wastewater and a recycled water treatment system with major indicators for the treated water quality including, among other things, $\text{BOD}_5 \leq 10 \text{ mg/L}$, $\text{COD} \leq 50 \text{ mg/L}$, PH range from 6.5-9, $\text{SS} \leq 10 \text{ mg/L}$ and $\text{NH}_3\text{-N} \leq 10 \text{ mg/L}$.

The goal of water treatment is to reduce or remove all contaminants that are present in the water. Combination of physical, biological and/or chemical processes may be used depending on, among other things, nature of the wastewater in question and considerations of cost and efficiency. There are two major methods provided and used by the Group to treat wastewater:

- *Physical-chemical method:* the use of, among other things, (i) grid screening to get rid of bigger floating debris in wastewater; (ii) gravity or chemical flocculation to get rid of smaller solid particles due to the density difference between solid and water; (iii) floatation by air bubbles; (iv) filtration by filtration media such as sand and active carbon; (v) membrane filtration to get rid of dissolved pollutants; and (vi) ion exchange (a reversible chemical reaction between an insoluble solid such as resin and a solution during which ions may be interchanged).
- *Biological-chemical method:* the use of cultivated bacteria to decompose organic pollutants in wastewater to non-hazardous chemical during the metabolism.

In addition to the ancillary product design provided by the Group in the sale of EP products and equipment, the Group also offers engineering design services independently. The Company's subsidiary, SEEDRI, holding Grade A and Grade B engineering design certificates, is permitted to carry out engineering design for certain construction and environmental projects. SEEDRI can independently undertake engineering design on projects such as wastewater treatment systems, reclaimed water systems and flue gas treatment systems, or undertake EP construction engineering projects including engineering design.

The typical workflow for the design of a EP construction engineering project is quite different from that of the sale of EP products and equipment. In addition to the involvement of SEEDRI in general, the Group may, upon requests by the customers and depending on the complexity of technical specifications, nominate an overseas technical consultant to undertake the basic design with technical parameters and specifications for the system(s), and under such circumstances, SEEDRI is generally responsible for undertaking the detailed design for each part of the system(s) following the technical parameters and specifications designated by the technical consultant. Since the Group currently does not possess the core technologies of FGD, the Group has cooperated with two technical consultants for its three FGD projects during the Track Record Period. The technical consultants are long-established companies with extensive experience in the EP industry from Austria and Korea. The Austrian company is a supplier of thermal energy generation and EP technology systems in Austria, whereas the Korean company is a listed company on the Korea Stock Exchange principally engaged in environment consulting and relevant engineering service business. The key provisions of the technological cooperation contracts generally include the scope of work, provision of warranty, confidentiality clause, contract sum, payment terms as well as parties' responsibilities and liabilities. The total contract sums for the services rendered by each of the technical consultants under the respective FGD projects of the Group located in Linyi, Xingtai and Xinxiang of the PRC were RMB2.8 million, RMB2.2 million and RMB6.8 million respectively. Such amounts were determined after arm's length negotiations between the Group and each of the technical consultants.

In order to strengthen the technological competence and research and development capability of the Group, the Group intends to apply part of the net proceeds from the Share Offer on establishing a research and development center and acquiring EP related technologies. Further details are set out in the section headed "Future plans and use of proceeds" of this prospectus.

BUSINESS

The engineering design is tailor-made for each customer. For FGD as an example, each project differs depending on, among other things, the plant capacity, types of fuel used and the sulphur content of fuel. Various design parameters such as limestone quality, utility water, requirements of byproduct gypsum, and allowable wastewater quality and quantity, as well as plant capacity and fuel, have to be considered. In principle, to remove the sulphur dioxide in the flue gas, limestone, water and oxygen are used to chemically react with sulphur dioxide. As different size of coal-fired generators use coal with different content of sulphur, different technologies are employed to remove sulphur dioxide in accordance with customer's needs. The following table sets out a summary of the principal characteristics of the three most commonly used technologies:

	Dry method	Half-dry-half-wet method	Wet method
Complexity of the process	Simple	Medium	Complex
Residuals after reaction	Dry powder gypsum	Dry powder gypsum	Slurry gypsum
Major equipment involved in the process	Electrostatic precipitator for separation of the dry powder gypsum and other particulars suspending in the desulphurised gas	Electrostatic precipitator for separation of the dry powder gypsum and other particulars suspending in the desulphurised gas	Slurry gypsum separator for separation of water and gypsum together with the particulars in the slurry
Application in the size of the power generators	Small	Small to medium	Large
Space required for installing the whole system	Small	Medium	Large
Complexity for installing the whole system	Simple	Medium	Complex
Investment amount	Small	Medium	Large
Degree of desulphurization	Low	Medium	High

Procurement

The Group procures, sources and supplies necessary materials, components and equipment for use in the proposed products and/or systems. The components and equipment used may include those developed by the Group and/or third-party components and equipment traded and distributed by the Group.

Once the design is finalised, the production department will make the requisition for materials and components required for the proposed products or systems. After receiving such requisitions from the production department, purchasing department may place purchasing orders to domestic or overseas suppliers as and when required. The Group procures a wide variety of materials, components and equipment for its proposed products and/or systems and the terms of the procurement contracts will vary depending on the requirements for the purchases. The procurement contracts generally include provisions relating to the goods ordered, time of delivery, contract value, payment terms as well as the parties' responsibilities and liabilities. For further details of the Group's purchasing policy, please refer to the paragraph headed "Purchases and suppliers" of this section.

Manufacturing, processing and assembly

The production department is principally responsible for the production of the components and equipment, as well as performing assembly and installation for the proposed products and/or systems, and in some cases, with the assistance from sub-contractors. Production, processing and assembly works may be performed either at the Group's workshops or at the customer's construction site. To ensure the quality of the Group's products and services, the Group has adopted quality control policy in compliance with the internationally recognised standard, namely ISO9001, throughout the production process. Components and equipment manufactured or purchased will be subject to inspection before their release for assembly.

As at the Latest Practicable Date, the Group had three production workshops, namely pipe workshop, fine processing workshop and assembly workshop, all of which are located in an industrial complex at number one of Chuanshan Road, Yixing City, Jiangsu Province, the PRC. The Group has obtained the ownerships and titles of the three workshops.

In general, a system is mainly made up of non-standardised and standardised components and equipment. Non-Standardised components and equipment generally require high degree of customisation in, among other things, layout, length, width, height, thickness and structure depending on, among other things, customers' requirements, technical parameters and specifications. Standardised components and equipment generally does not require customisation. In a typical water treatment system, major non-standardised components and equipment include, among other things, grid screen, control system, chemical dosing devices, reaction ponds, pipeline systems, dregs removal devices, sludge removal devices, aerators and condensation and dehydration devices. In a typical flue gas treatment system, major non-standardised components and equipment include, among other things, steel frames, pipes, storage bunker and stirring reactor in a limestone system, recycle tower and sprayer tower in a absorber system and precipitator and cyclone separator in a precipitate removal system.

As disclosed in the paragraph headed “Fine processing workshop and assembly workshop” under this section, the Group is able to manufacture and process most non-standardised parts of the water treatment system such as chemical dosing device, reaction pond, pipes, scum removal device, sludge removal device and aerator. However, most non-standardised parts of the flue gas treatment system such as precipitate removal system, absorber system and limestone system are sourced from and processed by external suppliers.

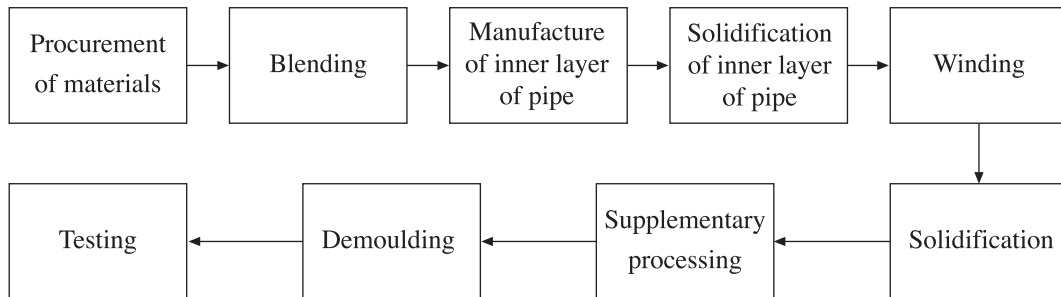
The Directors believe that the ability of manufacturing and processing non-standardised components and equipment enhances its bargaining power with customers on fee because of the customization works involved. In addition, such ability can help reducing its costs as compared to procuring such services from third parties and has allowed the Group to have better cost control. The Directors are of the view that the Group’s ability to manufacture and process most of the non-standardised components and equipment of a water treatment system was one of the factors contributed to high profit margin during the Track Record Period as sale of water treatment products and systems accounted for approximately 42.5%, 48.3%, 83.0% and 83.7% of the total sale of products and systems for each of the Track Record Period. Having regard to the above, the Group has been focusing on manufacturing and processing non-standardised components and equipment. Historically, the Group has not made substantial investment in expanding its production facilities because the Directors consider that the cash on hands (cash and bank balances of approximately RMB328 million as at 30 June 2007) were necessary for the Group to maintain a healthy working capital position, particularly in view of the funding requirement when undertaking a new project. With a view to maintain or further enhance its profit margin and in view of the anticipated growth in demand for EP products and services in the coming years, the Group intends to allocate certain net proceeds from the Share Offer to expand its production capabilities. Further details please refer to the paragraph headed “Expansion of production capabilities” under the section headed “Future plans and use of proceeds” in this prospectus.

Pipe workshop

It has a gross floor area of 4,705.80 sq.m. and is principally used for manufacturing pipes. In addition to the sale of pipes, the Group will also use the pipes in its water and flue gas treatment systems. During the Track Record Period, the products produced from this workshop were mainly fibre glass reinforced plastic pipes. As at the Latest Practicable Date, it had two production units, which could produce fibre glass reinforced plastic pipes with diameter of up to 2,000 mm. It is estimated that the total annual production capacity is approximately 172,680 metres (assuming continuous production of pipes at 24 hours for 300 days a year). During 2006, the utilisation rate was approximately 30%.

BUSINESS

The diagrams below set out the principal production process for the manufacture of fibre glass reinforced plastic pipes:



The principal production steps are illustrated as follows:

- The Group is responsible for procuring materials for its production of fibre glass reinforced plastic pipes. Materials generally include, among other things, resins, additives, catalyst, quartz sands and fibre glass.
- Blending refers to the process at which the resins and additives are put into a blending cylinder where the resins and additives are mixed and blended to become a mixture to be used for the fibre glass reinforced plastic pipe formation.
- To manufacture the inner layer of fibre glass reinforced plastic pipe, resin mixture together with the fibre glass and additives are uniformly added onto the surface of the mould.
- The inner layer of fibre glass reinforced plastic pipe is solidified.
- Winding refers to the process which fibre glass, resins and quartz sands are wound on top of the inner layer of fibre glass reinforced plastic pipe by using the winding machine to form the outer coat of a fibre glass pipe.
- Following the winding process, the outer coat of a fibre glass reinforced plastic pipe is solidified.
- Supplementary processing refers to the process at which trimming machine is used for cutting the solidified fibre glass reinforced plastic pipe and the surface of the fibre glass reinforced plastic pipe is then polished.
- Demoulding refers to the process at which the solidified fibre glass reinforced plastic pipe is separated from the mould.
- Testing refers to the activity of testing and verifying the functionality and specifications of the fibre glass reinforced plastic pipe.

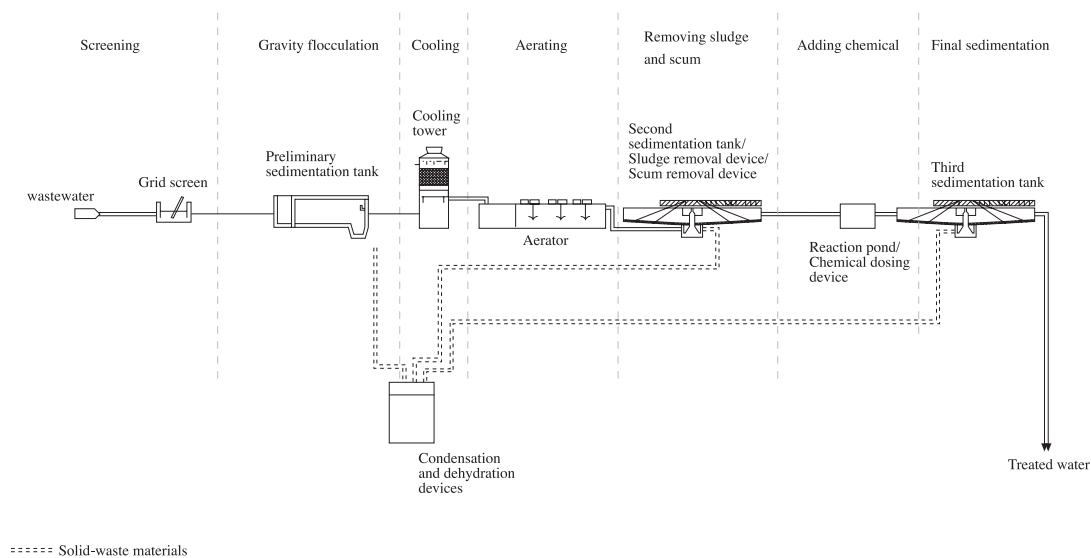
Fine processing workshop and assembly workshop

The fine processing workshop has a gross floor area of 2,376 sq.m. and is principally used for fine processing and surface processing products. The assembly workshop has a gross floor area of 2,347.38 sq.m. and is principally used for assembling components and equipment for a system, primarily comprising water and flue gas treatment systems during the Track Record Period.

Water treatment systems

Water treatment systems that the Group principally offers are systems for the treatment of wastewater which is generally discharged by domestic residences, commercial properties or industry, and systems for the treatment of water which is generally obtained from its immediate source (such as rivers) before the water in mode is available for industrial or domestic use.

The Group is currently able to manufacture and process components and equipment, such as chemical dosing device, reaction pond, pipes, scum removal device, sludge removal device and aerator. These components and equipment may have different layout and different components depending on the customers' requirements. Technical parameters and specifications in relation to, among others, service area, thickness, volume, oxygen utilisation ratio and press strength have to be considered during the production process in accordance with customer's needs. Other necessary components and equipment such as filters, blowers, valves, electric control system, pumps, decelerators and mixing apparatus are generally purchased from external suppliers. The following diagram shows the primary treatment process of a simplified wastewater treatment system.



Note: The above diagram is a typical wastewater treatment system situate at the Group's customer's premises. The combination of components and equipment for different wastewater treatment systems may be different depending on the customers' requirements.

The primary treatment process:

1. Screening

Wastewater entering the treatment system contains materials like solids. Grid screening is used to get rid of bigger floating debris in wastewater.

2. Gravity flocculation

Flocculation consists of forming flocculent particles in a liquid by adding chemical(s), these particles then settle to the bottom. It is used to get rid of smaller solid particles due to the density difference between solid and water.

3. Cooling

Cooling tower is mainly used for cooling the high-temperature water for treatment purpose.

4. Aerating

Aeration is used to add oxygen to water and to remove organic pollutants in water. Aerators are widely applied in the biological treatment of municipal and industrial sewage.

5. Removing sludge and scum

Wastewater then enters the second sedimentation tank. Here, the sludge removal device scrapes the sludge that subsides at the bottom of the tank to the sludge pit for condensation and dehydration. As sludge is settling to the bottom of the sedimentation tanks, lighter materials are floating to the surface. This 'scum' includes grease, oils, plastics, and soap. The scum removal device skims the scum off the surface of the wastewater. Scum is pumped to the pit along with the sludge.

If necessary, filtration will also be used in the treatment process. After the solids are removed, the liquid sewage is filtered through a substance, usually sand, by the action of gravity. This method gets rid of almost all pollutants, reduces turbidity and color, removes odors, reduces the amount of iron, and removes most other solid particles that remained in the water. Water is sometimes filtered through carbon particles, which removes organic particles.

6. Adding chemical

The wastewater flows into a reaction pond with chemical dosing device, where the chemical chlorine is added to kill bacteria. The chlorine is mostly eliminated as the bacteria are destroyed, but sometimes it must be neutralized by adding other chemicals. The chemical dosing device is widely applied in, among others, raw water of power plant, water supply of boiler, various chemical dosing systems and sewage disposal systems of petrochemical industry.

7. Final sedimentation

Final process to remove pollutants. The treated water is then discharged.

8. Wastewater residuals

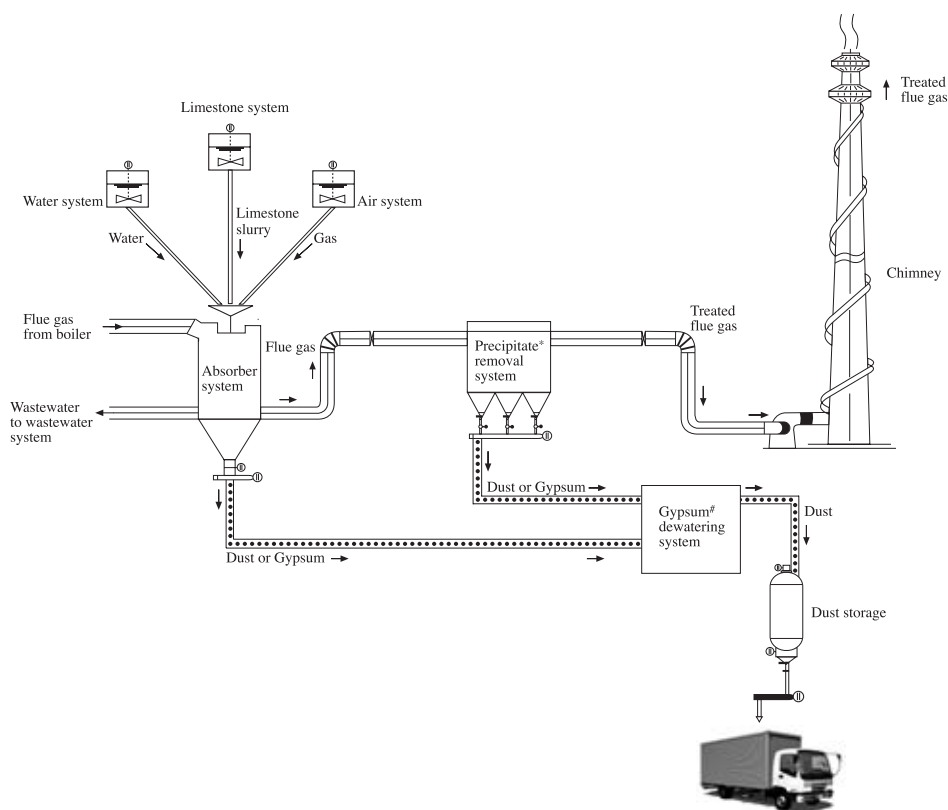
Another part of treating wastewater is dealing with the solid-waste materials. These solids are usually kept in large, heated and enclosed tanks. Here, condensation and dehydration processes take place to reduce the residuals' volume, odors, and getting rid of organisms that can cause disease. The finished product may be incinerated or used as fertilizer.

The components and equipment of the water treatment system produced by the Group are not in mass production. There is no standardised assembly line for the water treatment equipment and system. The type and number of the components and equipment used in different water treatment systems generally vary significantly depending on factors including, among others, the nature of the customers' businesses, type of pollutants being treated, treatment method, scale of projects, size of power generators (if applicable) and budget of customers. The principal workflow for the manufacturing and processing of the components and equipment are similar, which includes, among other things, cutting, assembling and craning, welding, surface processing and painting. The assembly works are either carried out in the assembly workshop or at the customers' construction sites. Following the welding and assembly stages, the water treatment equipment will undergo surface processing, including, among other things, rust cleaning, welding slag trimming, burnishing and surface polishing. Following surface processing stage, the surface of the equipment will undergo painting.

The duration from the design of the water treatment system to the hand-over of the water treatment system to the customers generally takes less than six months.

Flue gas treatment systems

The flue gas treatment systems offered by the Group can be used in the coal-fired power plants, furnace in certain industrial plants and the refuse incineration power plants. During the combustion process, the plants using fossil fuel such as coal or oil or solid waste with high contents of carbon emit flue gas. By employing either dry method, wet method or half-dry-half-wet method, certain percentage of pollutants can be removed from the flue gas. During the Track Record Period, the Group has undertaken four EP construction engineering projects which involve flue gas treatment systems. Set out below is a simplified diagram of a typical flue gas treatment system.



* Precipitate removal system is used only in dry and half-dry-half-wet method.

Gypsum dewatering system is used only in wet method.

Note: The above diagram is not part of the Group's workshop, but a typical FGD system situate at the Group's customer's premises. The combination of components and equipment for different FGD systems may be different depending on the customers' requirements.

Generally, six major systems, namely flue gas system, air system, water system, limestone system, absorber system and gypsum dewatering system (used in wet method) or precipitate removal system (used in dry method and half-dry-half-wet method) are involved in the flue gas treatment system.

BUSINESS

Brief descriptions of the functions of each of the systems are set out below:

Flue gas system	– for transferring the flue gas from the boiler system into the absorber;
Air system	– for supplying oxygen to the absorber system;
Water system	– for pumping water into the absorber and limestone system;
Limestone system	– for producing limestone slurry from limestone and transferring limestone slurry into the absorber system;
Absorber system	– for flue gas, water, air and limestone slurry to undergo chemical reaction where sulphur dioxide is removed and gypsum, the side residual is formed;
Gypsum dewatering system (used only in wet method)	– for dehydrating the gypsum which could then be used as raw materials for construction;
Precipitate removal system (used only in dry and half-dry-half-wet methods)	– for removing the dust particles by employing the cloth bag or electrostatic technology.

In addition, wastewater system is generally constructed and installed together with a flue gas treatment system in order to treat waste water ejected from the absorber system or limestone system which then, depending on the design of the project, is recycled back into the water system.

The Group is currently able to manufacture and process steel frames and pipes. The Group intends to apply certain proceeds from the Share Offer to build production plant and purchase more machineries for manufacturing and processing more non-standardised components and equipment such as recycle tower and sprayer tower in an absorber system, storage bunker and stirring reactor in a limestone system and precipitator and cyclone separator in a precipitate removal system.

The components and equipment of the flue gas treatment system that are produced by the Group are basically not in mass production. There is no standardized assembly line for the flue gas treatment equipment and system. The type and number of the components and equipment used in different flue gas treatment systems generally vary significantly depending on factors including, among others, the nature of the customers' businesses and type of pollutants being treated, treatment method, scale of projects, size of power generators and budget of customers. Different parts of the flue gas treatment equipment are welded together by the welding machines. The assembly works are either carried out in the assembly workshop or at the customers' construction sites. Following the welding and assembly stages, the flue gas treatment equipment will undergo surface processing, including, among other things, rust cleaning, welding slag trimming, burnishing and surface polishing. Following surface processing stage, the surface of the system will undergo painting.

Installation/Construction

For the sale of EP products and equipment, the Group provides ancillary installation services before their release to the customers.

For EP construction engineering projects, depending on the Group's internal resources availability, cost effectiveness, licensing requirements, and the complexity of work involved, the Group may engage sub-contractors to carry out installation and/or construction to achieve economical benefits to the Group.

When selecting a sub-contractor, the Group will take into consideration a number of criteria such as reputation, experience, expertise and price quotation. The sub-contractor being selected should then be confirmed by the customer. The Group's project manager will regularly meet with the sub-contractors and closely monitor their work progress and performance standard. The key provisions of the sub-contracts generally include the scope and duration of work, warranty period, contract value, payment terms as well as parties' responsibilities and liabilities. The sub-contractors will generally be responsible for the construction safety in respect of their respective activities at the sites and be liable for all claims and expenses arising from any delay or defaults on works undertaken by them. Further sub-contracting by the sub-contractors to other parties will not be allowed unless prior written approval is obtained from the Group. Sub-contracting charges are usually paid by the Group in stages based on the progress of work done by the sub-contractors.

Testing

After the installation and/or construction works are completed, the product or the system(s) will be examined by the customer for approval and acceptance.

For the sale of EP products and equipment, the customer typically requires the installed product or system to undergo operational testings to ensure that it complies with the specifications the customer has prescribed before granting final approval and acceptance. If the installed product or system is in working order and in compliance with its specifications, the customer will sign on the acceptance report to certify that the product and/or system has been received with no quality problem and the transaction is considered complete. The Directors believe that the Group followed the specifications as required by its customers when producing the necessary products and systems during the Track Record Period as evidenced by the receipt of acceptance reports or certificates after the hand-over of the final products or systems to its customers. In general, a warranty period of one to two years will be provided to the customers since the Group has received the acceptance report.

For the EP construction engineering projects, the customer typically requires the whole system to undergo 168 hours continuous trial operation and grants the preliminary acceptance certificate to the Group upon satisfactory conclusion of the trial operation. After that, the warranty period begins. If there is no defect in the whole system after the expiry of the warranty period of generally one to two years since the receipt of preliminary acceptance certificate, the customer would grant the final acceptance certificate to certify that the whole system has been received with no quality problem.

As advised by the Directors, the effectiveness in reducing the level of discharge of pollutants of the EP equipment provided by the Group conforms to the standards set by its customers. For example, in relation to the sale of wastewater treatment equipment to a customer in tyre manufacturing industry, numerous discharge standards were specified in the contract such as, among other things, the quantity of water being treated per hour and the water quality after treatment. According to the acceptance report signed by the customer, the relevant equipment passes the examination. Another example in relation to the FGD project in Linyi, Shandong, the PRC, the customer specified certain qualification standards regarding, among others, (i) desulphurisation rate of at least 92.5%; and (ii) continuous trial operation time of 168 hours. According to the preliminary acceptance certificate granted by the customer, the results of the Group's FGD system conforms with all the customer's requirements, among which, (i) desulphurisation rate reached 95% (above standard); and (ii) 168 hours continuous trial operation was complied with.

As advised by the PRC Legal Advisers, the PRC laws have stipulated different standards of allowable discharge of pollutants on different industries. In the event that the pollutants discharged by the Group's customers exceed the standard imposed under the relevant laws, the relevant customers will be subject to penalty. On the other hand, the Group may be liable to claims from its customers if it fails to provide products in accordance with its customers' specific requirements. Nevertheless, the Group should not be liable for any claims in which the system was not specially designed for. As confirmed by the Directors, up to the Latest Practicable Date, the Group had not received any legal claims from its customers regarding the non-compliance with the standards imposed by the relevant laws of the PRC.

Project management

As the project manager, the Group is responsible for coordinating with suppliers, sub-contractors and the technical consultants (if necessary). A project management team from the Group is formed and is principally responsible for all aspects of the project such as preparation of a detailed schedule for the execution of works, manpower and resources allocation, budget monitoring, project administration, site supervision and monitoring the overall work progress. The project management team follows up the progress on design, construction, installation and testing with respective parties and reports the progress regularly to the customers as well as monitors the quality control of the project. The supervisory company recruited by the customer would be assigned to the construction site for monitoring the overall quality and reporting the progress of the projects to the customer.

Regular meetings are held between the customer, the supervisory company and the project management team to review the work progress, to discuss important matters relating to the project implementation and to identify solutions to problems encountered. To ensure profitability of a project and maintain the reputation of the Group as a reliable contractor, it is the policy of the Group to ensure each stage of the project is completed on a timely basis.

As advised by the PRC Legal Advisers, a company which possesses engineering surveying, design or construction qualification certificate can undertake main contractor works in accordance with the scope as set out on the relevant certificate. As further advised by the PRC Legal Advisers, Wuxi Pan-Asia and/or SEEDRI, both subsidiaries of the Company, can undertake main contractor works in accordance with the scope as set out on each of their relevant certificate(s).

BUSINESS

After-sales services

A one or two years' warranty period will generally be granted to the customers from the date of completion. The length of the warranty period is generally based on normal industry practice and negotiations with customers. During the warranty period, the Group is obliged to fix any defects caused by the Group subject to the terms and condition of the contract. The Group also provides free technical consulting advices to its customers on the operations, maintenance and management of the equipment or system during the warranty period.

After the end of the warranty period, the Group may provide repair and maintenance services to its customers at their request and for service charges to be agreed separately. In order to enhance its relationship with its customers and improve its after-sales services, the Group maintains contacts with its customers through visits and discussions.

EP CONSTRUCTION ENGINEERING PROJECTS

During the Track Record Period, the Group had secured four EP construction engineering projects, including three FGD projects for power plants with an aggregate contract sum of approximately RMB309.6 million, and one solid waste incineration power plant project of RMB300 million, summaries of which are set out below:

FGD projects

A typical FGD system is similar to the diagram as shown under the paragraph headed "Flue gas treatment systems" under this section except that the output from the system should be desulphurised flue gas. Set out below is the background information of the three FGD projects.

	1st project	2nd project	3rd project
Name of customer(s)	邢台國泰發電 有限責任公司 (Xingtai Guotai Power Generation Company Limited) (Principal) and 河北三融電力 環保工程 有限公司 (Hebei Sanrong Electricity Environmental Engineering Limited) (Contractor)	山東臨沂發電 有限責任公司 (Shandong Linyi Electric Power Company Limited) (Principal) and 山東魯能物資 集團有限公司 (Shandong Luneng Supplies Group Co., Ltd.) (Equipment purchaser)	華電新鄉發電 有限公司 (Huadian Xinxiang Power Generation Company Limited) (Principal)
Location of the project	Xingtai, Hebei, the PRC	Linyi, Shandong, the PRC	Xinxiang, Henan, the PRC
Role of Wuxi Pan-Asia	Sub-contractor	Contractor	Contractor

BUSINESS

	1st project	2nd project	3rd project
Nature of services provided/ products sold by Wuxi Pan-Asia	(i) Provision of FGD project contracting service for 1 set of power generators with an installed capacity of 300MW	(i) Provision of FGD project contracting service for 1 set of power generator with an installed capacity of 135MW	(i) Provision of FGD project contracting service for 2 sets of power generators with an installed capacity of 660MW each
	(ii) Sale of FGD equipment	(ii) Sale of FGD equipment	(ii) Sale of FGD equipment
Total contract sum	RMB45,230,000	RMB35,555,000	RMB228,830,000
Commencement date	March 2005	August 2005	June 2006
Completion date (Note 1)	February 2007	April 2007	September 2007
Minimum required desulphurisation rate	95%	92.5%	95%
Desulphurisation rate resulted from the 168 hours trial operation	97%	95%	Not applicable (Note 2)
Approximate percentage of completion (Note 3)			
<i>As at 31 December 2004:</i>			
Design and related services	—	—	—
Construction and installation	—	—	—
Testing	—	—	—
<i>As at 31 December 2005:</i>			
Design and related services	76.9%	29.8%	—
Construction and installation	9.2%	5.4%	—
Testing	—	—	—
<i>As at 31 December 2006:</i>			
Design and related services	100%	100%	81.6%
Construction and installation	100%	100%	Construction: 61.8%; Installation: 14.2%
Testing	8.68%	95%	—
<i>As at 30 June 2007:</i>			
Design and related services	100%	100%	99.8%
Construction and installation	100%	100%	Construction: 95.5%; Installation: 96.3%
Testing	100%	100%	44.3%

BUSINESS

	1st project	2nd project	3rd project
Revenue recognized			
<i>For the year ended:</i>			
31 December 2004	–	–	–
31 December 2005	RMB20,443,000	–	–
31 December 2006	RMB17,931,000	RMB30,389,000	RMB116,296,000
<i>For the six months ended</i>			
30 June 2007:	RMB284,000	–	RMB72,215,000

Notes:

1. Completion refers to the time when the percentage of completion of project work (including design and related services, construction and installation, and testing) as shown in the progress report confirmed by the supervisory company (which was appointed by the customer) reaches 100%.
2. As at the Latest Practicable Date, the Group had not received from its customer the preliminary acceptance certificate which indicates the desulphurisation rate resulted from 168 hours trial operation.
3. Based on the progress report confirmed by the supervisory company.

During the Track Record Period, each of the three FGD projects were tendered for and entered into by Wuxi Pan-Asia in consortium with SEEDRI (which became a subsidiary of the Group in August 2006) and another company holding contractor licence in construction and/or installation and/or engineering works. Wuxi Pan-Asia was authorized by SEEDRI and the other consortium member to enter into agreements with the customers for the FGD projects. Set out below is the background information, the total contract sum and the individual sub-contracting fees payable to the respective consortium members (other than Wuxi Pan-Asia) for each of the three projects.

	1st project	2nd project	3rd project
The consortium members (other than Wuxi Pan-Asia)	(i) SEEDRI (ii) Hebei Tianwei Electricity Engineering Limited (“Hebei Tianwei”), an Independent Third Party	(i) SEEDRI (ii) Yangzhou Renwei Industrial Installation Engineering Limited (“Yangzhou Renwei”), an Independent Third Party	(i) SEEDRI (ii) Henan Diyi Huodian Construction Company (“Henan Diyi”), an Independent Third Party
Licences held by relevant consortium member	SEEDRI: Engineering Design Certificate in construction industry (construction engineering) (Grade B); Engineering Design Certificate in environmental engineering (Grade A)	SEEDRI: Engineering Design Certificate in construction industry (construction engineering) (Grade B); Engineering Design Certificate in environmental engineering (Grade A)	SEEDRI: Engineering Design Certificate in construction industry (construction engineering) (Grade B); Engineering Design Certificate in environmental engineering (Grade A)

BUSINESS

	1st project	2nd project	3rd project
	Hebei Tianwei: Grade II Qualification for Electromechanical Equipment Installation Works (Provisional); Grade II Qualification for Professional Contracting of EP Works (Provisional); Grade II Qualification for Professional Contracting of Electronic Engineering Works (Provisional); Grade II Qualification for Professional Contracting of Anti-corrosion Insulation Works (Provisional)	Yangzhou Runwei: Grade III Qualification for Professional Contracting of Electromechanical Equipment Installation Works; Grade III Qualification for Contracting of Construction & Refurbishment; Grade III Qualification for Professional Contracting of Fire-fighting Facilities Works; Grade III Qualification for Professional Contracting of Pipe Works	Henan Diyi: Grade I Qualification for General Contracting of Electrical Engineering Works; Grade I Qualification for General Contracting of Real Estate Construction Works; Grade I Qualification for Professional Contracting of Hoisting Equipment Installation; Grade II Qualification for Professional Contracting of City & Street Illumination Works
Role of consortium member in the FGD project	SEEDRI: design of FGD system Hebei Tianwei: construction of absorption tower and related installation	SEEDRI: design of FGD system Yangzhou Renwei: installation of FGD system	SEEDRI: design of FGD system Henan Diyi: installation and testing of FGD system
Sub-contracting fees	SEEDRI: RMB1,600,000 Hebei Tianwei: RMB3,250,000	SEEDRI: RMB1,300,000 Yangzhou Renwei: RMB2,000,000	SEEDRI: RMB4,100,000 Henan Diyi: RMB20,700,000

There were no express provisions made between consortium members on how profit or loss in respect of the total contract sum would be shared for a project. In general, a consortium was formed with a view to securing the relevant project. Most consortium members (other than Wuxi Pan-Asia) would enjoy, out of the total contract sum, its share of sub-contracting fees (generally a fixed-sum fee, plus occasionally costs for raw materials) for rendering the relevant services rendered under the project, rather than taking the share of profit (or, alternatively, bearing the loss) arising from the entire project. Accordingly, the balance of the total contract sum would, after deducting all the sub-contracting fees together with other expenses incurred by Wuxi Pan-Asia (for instance, arising from purchase of machineries, ancillary equipment and the engagement of technical services, engineering services, construction services and logistics services), belong to Wuxi Pan-Asia.

BUSINESS

Generally, each of the consortium members is responsible and liable for the work (and also the related costs and expenses) which it has agreed to render under the project. The role and functions of Wuxi Pan-Asia, as the project manager, include the following:

- (a) to ensure the FGD projects are completed in accordance with the agreed schedule;
- (b) to ensure the standard and quality of work delivered by each of the consortium members and other suppliers and sub-contractors are up to the standard as provided under the relevant project agreements;
- (c) to monitor the safety standard;
- (d) to coordinate with other sub-contractors on the implementation of the project in order to make sure the work progresses as scheduled; and
- (e) to take steps to ensure the sub-contractors understand the principal's requirements as stipulated in the project agreements.

The roles and functions of SEEDRI, as a consortium member responsible for design of FGD systems, include the following:

- (a) to prepare design plans in accordance with the technical requirements provided under the project agreements; and
- (b) to complete the design plans and documents in accordance with the prescribed schedule.

SEEDRI is generally liable for any losses incurred as a result of any mistake in design prepared by SEEDRI, and is also under the obligation to mitigate the losses.

For other consortium members, they are generally responsible for works of construction, installation and/or testing of FGD system, as provided under the sub-contracting agreements in respect of the relevant project. Generally, they are required:

- (a) to complete the designated work in accordance with the prescribed schedule and the technical requirements as stipulated under the agreements;
- (b) to observe the relevant regulations for the work safety and industrial safety; and
- (c) to be liable for any damages caused by its fault.

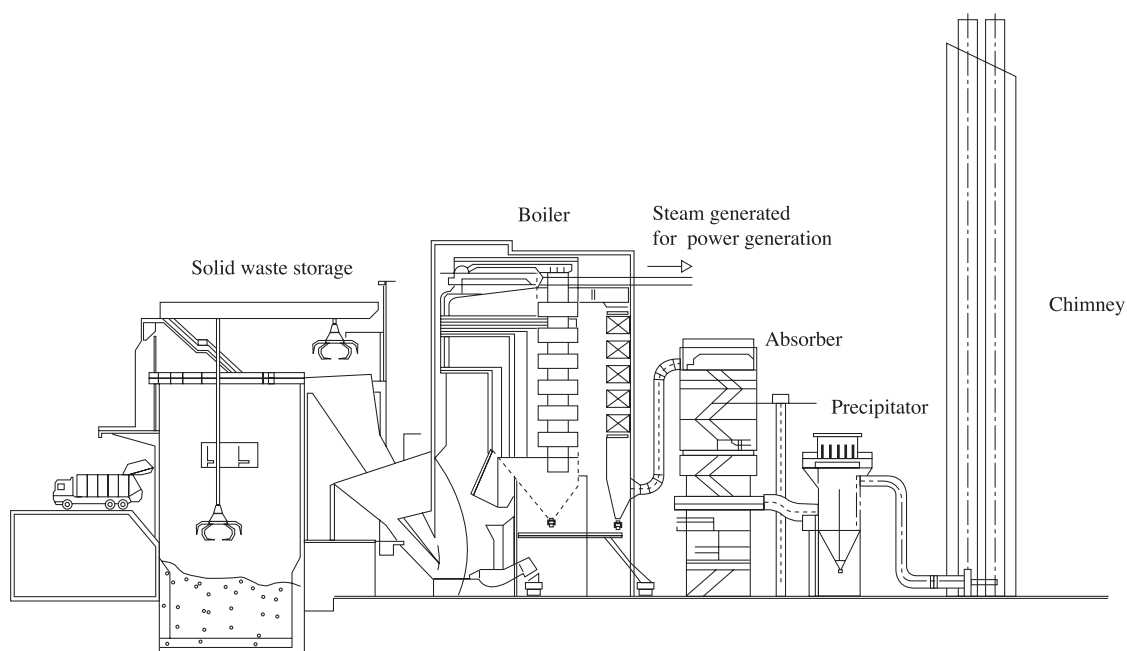
Solid waste incineration power plant project

Capitalising on professional qualifications owned by SEEDRI and leveraging on the experience in the provision of water and flue gas treatment equipment and the undertaking of three FGD projects, the Group was able to secure a solid waste incineration power plant project

BUSINESS

with a total contract sum of RMB300 million in June 2007 from 茂名南亞新能源發電有限公司 (Maoming Nanya New Energy Power Generation Company Limited) which is located in Guangdong Province of the PRC.

The solid waste incineration power plant to be built is expected to have a capacity for handling domestic solid waste of approximately 600 tonnes per day. The Group is responsible for, among other things, engineering design, procurement, manufacturing, processing and assembly, installation and project management for the establishment of a solid waste incineration power plant. The plant is expected to include generally four parts, namely solid waste storage, boiler, power generating device, as well as a flue gas treatment system. Set out below is a simplified diagram of a typical solid waste incineration power plant.



Note: The above diagram is not part of the Group's workshop, but a typical solid waste incineration power plant. The combination of components and equipment for different solid waste incineration power plants may be different depending on the customers' requirements.

Urban domestic waste is transported from various trash collection stations to the waste incineration plants. The waste is mixed with high-temperature materials and burned at high temperature. During burning, steam and flue gas with high temperature is generated. Steam enters into the power generators for electricity generation while flue gas is transported to flue gas treatment system. The waste is dehydrated and oxidized to become dust which can be used for construction. In addition, wastewater involved in the solid waste and produced in the flue gas system is purified in the water treatment system and can be recycled for usage.

Currently, the Group is preparing a blueprint for the whole project. Upon completion of the design, works involved in the project can be determined and respective sub-contractors will be selected. The project is expected to commence in early 2008 and complete in 2009.

BUSINESS

SALES AND MARKETING

Sales

The Group's sales were entirely generated from the PRC. The following table sets out the turnover breakdown and relevant percentage by service type for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Sale of EP products and equipment	144,330	100.0	375,530	94.8	343,838	67.6	144,065	89.1	161,877	68.8
Revenue from EP construction engineering projects	–	–	20,443	5.2	164,616	32.4	17,653	10.9	72,499	30.8
Revenue from professional services	–	–	–	–	174	–	–	–	1,053	0.4
Turnover	<u>144,330</u>	<u>100.0</u>	<u>395,973</u>	<u>100.0</u>	<u>508,628</u>	<u>100.0</u>	<u>161,718</u>	<u>100.0</u>	<u>235,429</u>	<u>100.0</u>

The Group's revenue structure is principally derived from three service types, namely (i) the sale of EP products and equipment, (ii) the undertaking of EP construction engineering projects and (iii) the provision of professional services. For activity (i), revenue is generally recognised upon the goods having been delivered to and examined by the customers so that the risks and rewards of ownership of the goods have been passed to the customers. For activity (ii), two revenue recognition methods are used because the EP construction engineering projects generally includes the combination of sale of EP products and equipment, as well as the offering of different services covering, among others, engineering design, installation, construction and testing services. Accordingly, for the sale of EP products and equipment, the revenue recognition method is the same as for activity (i); in relation to the offering of different services, revenue is generally recognised when the outcome of a contract can be estimated reliably by the supervisory company employed by the customers and by reference to the stage of completion of the contract at the balance sheet date. For activity (iii), it refers to the provision of professional services by SEEDRI (other than those services included in the EP construction engineering projects which have been reflected in the "revenue from EP construction engineering projects"), and revenue for this activity is generally recognized when the relevant services are rendered. During the Track Record Period, the professional services provided by SEEDRI were mainly engineering design.

As advised by the Directors, the Group has been able to enjoy and maintain the gross profit margin of more than 30% for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 because of its ability to secure contracts and minimize costs. The Directors believe that the Group's ability to differentiate itself from its competitors by providing not only a single service but an integrated range of services has enabled it to secure sales contracts in areas of water and flue gas treatments and successfully bid for the three FGD

BUSINESS

projects. For details of the integrated services offered by the Group, please refer to the paragraph headed “Overview of integrated services” under the section headed “Business” of this prospectus. In addition, before entering into a contract, the Group will assess the profit margin expected to be obtained by the Group and it is the Group’s policy to enter into sales with a relatively high profit margin. Furthermore, the Group’s design and customisation capabilities has enabled it to reduce its costs as compared to procuring such services from third parties and has allowed the Group to have better cost control. The Directors are of the view that the Group’s ability to manufacture and process most of the non-standardised components and equipment of a water treatment system was one of the factors contributed to high profit margin during the Track Record Period as sale of water treatment products and equipment accounted for approximately 42.5%, 48.3%, 83.0% and 82.2% of the total sale of EP products and equipment for each of the Track Record Period.

In order to enable the Group to maintain or further enhance its gross profit margin, the Group plans to, among other things, (i) expand production capabilities to increase the manufacturing and processing of non-standardised components and equipment in particular for the flue gas treatment system so as to increase its ability to negotiate higher fee and allow it to have better cost control; and (ii) maintain the Group’s policy to enter into sale with a relatively high profit margin.

Since the Group’s sale of EP products and provision of services are not recurring in nature, the Group has implemented the strategies of rapid expansion and diversification in order to minimise fluctuating sales. These strategies were demonstrated by the increase in the number of contracts engaged by the Group and the undertaking of EP construction engineering projects by the Group during the Track Record Period. In general, the Group’s sales are not subject to seasonal factor.

Marketing

As at the Latest Practicable Date, the Group had 24 sales and marketing personnel. The Group’s marketing resources for the sale of EP products and equipment, as well as the undertaking of EP construction engineering projects are shared as customers may require both services. The Group conducts market expansion and promotion activities through participation in industrial seminars and exhibitions, such as the participation in the Fourth (Autumn) International Exhibition of Desulphurisation, Denitrification Precipitator Technologies and Equipment in China for the Year 2007, as well as through visits to major power companies and other customers.

CUSTOMERS

The Group’s customers profile is diverse. For the water treatment segment, customers are from different industrial backgrounds such as steel, dyeing and power industries. In addition, the Group’s water treatment equipment can also be used in flue gas treatment system. For pipes, major customers are usually in the manufacturing industries of chemical anti-corrosive equipment and heat supply. The Group’s pipes can be used in water treatment and flue gas treatment systems. In connection with the flue gas treatment segment, customers are mainly power plants. Steel and cement producers are also potential customers.

BUSINESS

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, the Group's five largest customers accounted for approximately 87.0%, 60.3%, 48.0% and 63.2% of the Group's turnover respectively. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, the Group's single largest customer accounted for approximately 35.9%, 34.8%, 22.9% and 30.7% of the Group's turnover respectively.

Benxi Fanya, a related company of the Group, was one of its top five customers in 2004 and 2005, which contributed turnover of approximately RMB51.9 million and RMB37.4 million respectively to the Group and accounted for approximately 35.9% and 9.4% of the total turnover of the Group in the corresponding period respectively. Details of the relevant transactions are set out under the paragraph headed "Related party transactions" under the section headed "Financial information" in this prospectus. Save as aforementioned, none of the Directors, their associates nor to the knowledge of the Directors, any shareholder holding 5% or more of the Company's issued share capital, was interested in any of the five largest customers of the Group during the Track Record Period.

PRICING

In general, the fee quotes for each contract is arrived at after taking into account the profit margins, estimated man-hours, nature of the transactions, purchase amounts, complexity of technical specifications, market prices, estimated costs of materials, subcontractor costs, transportation costs and relationship with customers.

PAYMENT TERMS AND CREDIT POLICY

For the sale of EP products and equipment, subject to the terms of the specific contracts agreed by the Group with the respective customers, the Group normally requires its customers to make advance deposits that account for about 10% to 30% of the total contract sum after the signing of contract. Terms of progress payments vary and are determined between the Group and the relevant customers by negotiation. Payments ranging from 20% to 70% of the total contract sum will generally be made to the Group within 1 month following the products delivery and preliminary checks by the customers, payments ranging from 20% to 50% of the total contract sum will generally be made to the Group within 1 month following the installation and final testing of the product or system and the remaining 5% to 20% of the contract sum will generally be retained by the customers as quality retention monies until the fulfillment of the product warranty upon the expiration of the pre-agreed warranty period of generally one to two years. The Group normally considers factors such as contract value, profit margin, creditworthiness of customers, relationship with the customers and transaction volume to offer payment and/or credit terms to customers.

For the EP construction engineering project, a statement of design, installation, construction and testing showing the work done to date will be prepared by the Group and delivered to the customer. The customer will inspect and verify the work done by the Group through employing a supervising company before making payments to the Group. Payment is

BUSINESS

usually made according to the stage of completion of the project as confirmed by the supervisory company. The quality retention monies accounting for 5% to 20% of the contract value are usually kept by the customer for a warranty period of one to two years from delivery of work and settled and released upon resolving any outstanding claims for defective work or expiry of the warranty period.

It is the Group's policy to perform regular ageing analysis and specific recoverability review of individual debtor with outstanding balance. The identification of doubtful debts requires management judgment and estimates. Appropriate allowances for estimated irrecoverable amounts are recognized in profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest that computed at initial recognition. The balances of trade receivables of the Group were approximately RMB27 million, RMB105.9 million, RMB43.7 million and RMB61.3 million as at the end of each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, representing trade receivable turnovers of approximately 227.5 days, 113.8 days, 31.4 days and 47.5 days respectively. Among the balance of trade receivables approximately RMB75.6 million as at 30 October 2007, approximately 30.1% were within the warranty period of one to two years, during which the debtors are not obliged to settle the outstanding balances. As at the Latest Practicable Date, 77.7% of the balance of accounts receivables of the Group as at 30 June 2007 had subsequently been settled. The Directors are not aware of any material collectability problem of trade receivables and consider no provision for bad debts has to be made.

PURCHASES AND SUPPLIERS

The purchases of the Group are mainly from suppliers in the PRC. The Group's purchases were generally denominated in RMB. The Group is granted an average credit term of 30 days by the suppliers. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, the creditor turnover days were 0.3 day, 34.4 days, 74.3 days and 97.9 days respectively.

Since the materials and components required for each end product or system are different, the Group normally commences production after securing a contract. As such, a minimum level of materials and finished goods is maintained to meet the production need and therefore the Group has not recorded any provision for inventory obsolescence during the Track Record Period.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively, the Group's five largest suppliers accounted for approximately 81.5%, 70.7%, 51.7% and 67.0% of the Group's total purchases respectively and the Group's largest supplier accounted for approximately 22.1%, 22.0%, 12.9% and 32.8% of the Group's total purchases respectively.

BUSINESS

Jiangsu Tianyuan, a related company of the Group, was among one of the top five suppliers of the Group for the year ended 31 December 2004, which accounted for approximately 20.7% of the total purchases of the Group for the year ended 31 December 2004. Details of the relevant transactions are set out under the paragraph headed “Related party transactions” under the section headed “Financial information” in this prospectus. Save as aforementioned, none of the Directors, their respective associates nor to the knowledge of the Directors, any Shareholder holding 5% or more of the Company’s issued share capital, was interested in any of the five largest suppliers of the Group during the Track Record Period.

The Group normally selects suppliers based on factors including, among other things, price, reputation, delivery time, credit terms, products quality, background and job references. The Group has a rather stable supplier sources (in particular, for steel and frequently used key components) to ensure that the Group is able to maintain a base of reliable suppliers for the required materials at competitive prices. Notwithstanding the Group do not generally enter into long term contracts with its suppliers, there are plenty of sources for supply on materials and components necessary for the Group’s operation. Up to the Latest Practicable Date, the Group has not faced any difficulties in purchasing materials and components.

QUALIFICATION CERTIFICATES

As at the Latest Practicable Date, the Group possessed the following qualification certificates:

Year	Name of certificate	Granting organization	Business scope	Valid until	Grantee
2003	工程設計證書 (乙級) (Engineering Design Certificate (Grade B))	上海市建設和 管理委員會 (The Construction and Management Commission of Shanghai Municipal Government)	Construction industry (Construction engineering)	No expiry date	SEEDRI <i>Note 1</i>
2004	工程設計 證書(甲級) (Engineering Design Certificate (Grade A))	MOC	Special engineering design in environmental engineering (wastewater, waste gas, solid waste (Grade A) and noise (Grade B))	No expiry date	SEEDRI <i>Note 1</i>
2007	環保工程專業 承包三級 資質證書 (Grade C Environmental Protection Engineering Specialist Contractor Qualification Certificate) (<i>Note 3</i>)	江蘇省建築 工程管理局 (Jiangsu Provincial Administration Bureau of Construction Works)	Capable of undertaking the constructions of certain projects (<i>Note 2</i>) with the contract sum of a single contract not exceeding five times of the registered capital	30 June 2008	Wuxi Pan-Asia

Notes:

- The Group acquired approximately 70.05% of the equity interest in SEEDRI through Wuxi Zhong Dian in August 2006 and SEEDRI has become a subsidiary of the Group since then.

BUSINESS

2. Projects include (i) marsh gas (produced by dung of birds and domestic animals) project with the cubage of each pond being 300 cubic meters or below; project of anaerobic biochemical treatment pond with the cubage of each pond being 400 cubic meters or below; (ii) FGD projects for coal-fired power generators with the size of a single generator set being 200MW or below; FGD projects for industrial and centralized heating coal-fueled boilers with the size of 20 tonnes and below; (iii) integrated treatment project on noise, harmful gas, dust, sewage and industrial waste for small-scale industrial project; and (iv) medical wastewater treatment project for hospitals with first-class first grade and below.
3. Wuxi Pan-Asia obtained Grade C Environmental Protection Engineering Specialist Contractor Qualification Certificate (Provisional) in 2006 and Grade C Environmental Protection Engineering Specialist Contractor Qualification Certificate in 2007.

SEEDRI possesses Grade B construction industry (construction engineering) engineering design certificate and Grade A special engineering design certificate in environmental engineering in the areas of wastewater, waste gas and solid waste. With these qualifications, SEEDRI is permitted to undertake the design, project management and/or contractor works for small to medium scales of EP construction engineering projects and any scale of environmental engineering projects in the areas of wastewater, waste gas and solid waste. Details of the relevant qualification requirements are set out in the section headed “Industry overview” of this prospectus.

As for the relevant contractor qualification, the project manager and technical head must have sufficient experience in project and construction management with relevant professional qualifications. Wuxi Pan-Asia should also fulfill the minimum registered capital requirements of RMB1 million and net asset value of RMB1.2 million with proven track record in project management. As Wuxi Pan-Asia is a wholly-foreign owned enterprise, pursuant to 《外商投資建築企業管理規定》(Regulations on Administration of Foreign-Invested Construction Enterprises), it can undertake the following types of construction projects within the scope of its contractor qualification certificate: (1) Construction projects funded totally by foreign investments, foreign grants or foreign investments and grants; (2) Construction projects financed by international financial organisations and awarded through international tendering process in accordance with the provisions of the loan; (3) Sino-foreign jointly constructed projects where the foreign investment is equal to or greater than 50%; Sino-foreign jointly constructed projects where the foreign investment is less than 50% but which Chinese construction enterprises cannot undertake independently due to technical difficulties subject to the approval of the construction administration departments of the people’s government of provinces, or autonomous regions or directly administered municipalities; and (4) China-invested construction projects which Chinese construction enterprises cannot undertake independently due to technical difficulties. Such projects may be jointly undertaken by Chinese and foreign construction enterprises subject to the approval of the construction administration departments of the people’s government of provinces, or autonomous regions or directly administered municipalities. The Directors confirm that prior to the Group being granted the contractor qualification certificate, the Group had not on its own carried out the construction works of EP construction engineering projects which required the possession of contractor qualification certificate or other relevant contractor licences.

The Directors and the PRC Legal Advisers have confirmed that the Group has obtained all necessary licences and certificates for its operations. The Directors believe that the Group does not have major difficulties in extending, renewing and maintaining its business licences, certificates or other operational documents.

RESEARCH AND DEVELOPMENT

The Directors consider that research and development helps facilitate the continuous development and growth of the Group's business. As at the Latest Practicable Date, the Group had 54 staff in the design, research and development department with work experience in environmental protection. Of these staff, one of them possesses a doctorate in sewage system engineering, 5 of them possess master's degrees in environmental engineering and construction design, 42 of them possess either bachelor's degrees or post secondary diplomas in various areas such as, among other things, environmental protection engineering, construction engineering, structural engineering, sewage system engineering, electronic engineering and instrument engineering. Its principal responsibilities are research and development of engineering technologies, and design.

The Group, through its research and development on different job assignments, can offer different water treatment technologies and designs for its customers in different industries. In addition, for the flue gas treatment technologies, unless requested by the customers to nominate overseas technical consultants and depending on the complexity of technical specifications involved, the Group may provide the relevant technologies and designs by itself. For example, since the technical specifications for the flue gas treatment technology involved in the domestic solid waste incineration power plant project are not expected to be very complicated, the Group intends to provide the relevant technology by itself without engaging overseas technical consultants.

The major objectives of the Group's research and development function include studying ways to improve the effectiveness and efficiency of technologies and products. The Group's research and development team also makes use of its network to keep abreast of the development in the industry.

In order to develop new technologies and enhance the existing technologies for its products and systems offered to its customers, the Group plans to establish a research and development center by using certain net proceeds from the Share Offer and acquires EP related technologies and certain net proceeds from the Share Offer to establish simulated FGD control facilities. Details of which is set out in the paragraph under the section headed "Future plans and use of proceeds".

QUALITY CONTROL

The Group commits to strict quality control procedures for procurement and production. The achievement of ISO9001 certification in 2006 and 2007 by Wuxi Pan-Asia and SEEDRI respectively have proved that its quality control system has reached the international standard.

For procurement of materials and components, the Group normally requires its suppliers to provide quality assurance and, as far as practicable, the quality assurance period, so as to ensure the production of quality products.

BUSINESS

For EP construction engineering projects, the project managers are directly responsible for coordinating relevant departments for the implementation of quality control. Their responsibilities include, among other things, assisting the Group on selection of suppliers, examining equipment and components, and performing quality and safety inspection along the progress of the projects.

The Directors believe that, through implementing a good quality control system, quality of the Group's products and operating efficiency can be improved, which in turn lower operating cost and enhance profit margin. In so far as the Directors are aware, the Group has not received any major complaints in relation to the quality of its products and services during the Track Record Period.

INTERNAL CONTROL

The Company has adopted the following internal control measures:

- (1) the Company has an internal audit department. As at the Latest Practicable Date, the internal audit department had six staff members, one of whom was an accountant in the PRC. The principal responsibilities of the internal audit department include, among others, carrying out internal audit of the management accounts of the Company's subsidiaries in the PRC and monitoring the implementation of the Group's internal control procedure manuals;
- (2) the Company has adopted a set of internal control procedure manual to govern the procedures relating to sales, procurement, inventory, tendering and project management, financial management, administration, human resources, staff organization and duties; and
- (3) the internal audit department of the Company has attended a seminar to facilitate the carrying out of their duties to strengthen the internal control of the Group.

The Company has established an audit committee, comprising the three independent non-executive Directors, to review and supervise the financial reporting process and internal control system of the Group. In addition, a remuneration committee and a nomination committee, each comprising the three independent non-executive Directors and Mr. Jiang, have been established to make recommendations to the Board on the Company's policy and structure for the appointment and remuneration of all Directors and senior management.

Based on the above and the independent review of the Group's internal control system by an independent Certified Public Accountants firm, the Directors and the Sponsor are of the view the Company has taken reasonable steps to establish a proper internal control system.

INSURANCE

The Group maintains insurance for damage or loss to certain fixed assets with policy specifications and insured limits in line with normal commercial practice in the PRC and social insurance for its employees in the PRC.

The Group does not maintain any insurance against product liabilities. The Directors believe that such product liability insurances at present are either not commonly insurable or cannot be insured at a justifiable cost by insurance companies in the PRC. Nevertheless, the Group will protect its interest by (i) requiring the suppliers and sub-contractors to maintain product liability insurances and third-party insurance coverage for any potential claims; and (ii) provision of back-to-back compensation clause against the suppliers and sub-contractors should there be any loss suffered by the Group caused by the suppliers or sub-contractors, or their products or services. Up to the Latest Practicable Date, the Group had not received any claims from its customers for damages or third party liability arising from defects or substandard works performed by the Group.

The Directors believe that the Group maintains the insurance coverage appropriate to its business. All insurance coverage is obtained at market rates from independent insurance companies.

SAFETY AND ENVIRONMENTAL PROTECTION

The Group has internally adopted safety procedures designed to ensure a safe working environment at work sites and that the works undertaken by the Group do not pose any danger to the general public. A plan is established and implemented and a health and safety officer is assigned to assess the effectiveness of the plan. The Group has been awarded the “Occupational Health & Safety Management System Certificate” granted by 北京華電萬方管理體系認證中心 (Management System Certification Center of Beijing Hua Dian Wang Fang), an authorised body recognised by CNAB.

As advised by the PRC Legal Advisers, the Group’s operation in China is subject to the general requirements under the applicable EP laws and regulations such as 《中華人民共和國環境保護法》 (Environmental Protection Law of the PRC). The Group has implemented various EP measures to control the discharge of waste gas, waster water and solid wastes including, but not limited to, installing ventilation facilities and selling metal scraps to recycling companies. The Directors confirm that the Group’s operation comply with the applicable EP laws and regulations, and has not committed any breach of the relevant PRC EP laws and regulations during the Track Record Period.

The Directors consider that the operation of the Group does not cause material pollution to the environment and the potential future risks of serious environmental pollution therefrom should not be significant. As a result, relevant costs of compliance with applicable EP rules and regulations during the Track Record Period and going forward were and are expected by the Company to be minimal and the Group currently does not have any plans to address potential future risks on environmental protection.

COMPETITION

The Directors believe that the Group faces various levels of competition in the EP industry in the PRC.

International competitors with large-scale of operations, resources and advanced technology

The Directors believe that following China's entrance to the WTO and the encouragement of foreign investment in the EP industry under the new policies adopted by the PRC Government, there will be more international EP organizations entering the PRC market. The Directors consider that foreign EP enterprises have more advanced technology and management experience as compared with the local enterprises. However, the local enterprises have comparative advantages in terms of, among others, their knowledge in local market demand, relevant rules and regulations and lower operating costs.

Barriers to new entrants

The Directors consider that the barriers for entering into the market of selling EP products are affected by a number of factors including, among other things, regulatory requirements, nature of products and financial condition. As advised by the PRC Legal Advisers, in general, relevant regulatory requirement are low as enterprises with necessary business license can engage in the sale of EP products in the PRC. However, as advised by the Directors, other factors such as product differentiation and working capital have to be taken into consideration in assessing entry barriers. The Directors consider that the Group's ability to offer differentiated products and its strong cash flow position allow it to compete favorably with new entrants.

In relation to the market for undertaking EP projects, however, the Directors consider that the barriers for entry to be quite high due to, among other factors, high working capital needs and regulatory requirements. First, strong financial position of the contractor is usually required for bidding a EP project. Second, strong cash flow position is required throughout the engagement because payments are received in progress. As at 31 December 2004, 2005 and 2006 and 30 June 2007, the cash and bank balances of the Group was approximately RMB25.7 million, RMB103.9 million, RMB307.9 million and RMB328 million respectively. Also, depending on the type of works involved in the EP project, undertaking an EP project is subject to different regulatory requirements. For example, as advised by the PRC Legal Advisers, relevant qualification certificate in relation to engineering surveying, design, or construction is necessary for undertaking an EP project. With the possession of engineering design and engineering construction certificates, as well as strong cash flow position, the Directors consider that the Group enjoys a better position in the EP market.

EXEMPTED CONTINUING CONNECTED TRANSACTION

The following transaction has been carried out by the Group and its connected person (as defined in the Listing Rules) during the Track Record Period and is expected to continue following the Listing:

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 Latest Practicable 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 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.

American Appraisal China Limited, the independent professional property surveyors and valuers, are of the opinion that the terms and conditions (including the rental) of the Lease Agreement are of normal commercial terms and the rental receivable under the Lease Agreement is not less favorable than independent third party.

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.

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, Mr. Jiang, Ms. Qian Yuanying, Mr. Jiang Lei and Mr. Jiang Xin as covenantors, and (iii) the Company as the purchaser, each of Praise Fortune, Ms. Qian Yuanying, Mr. Jiang, 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

BUSINESS

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.

BUSINESS

Benxi Fanya is owned as to 80% by 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), Mr. Jiang Lei and Mr. Jiang Xin (both of whom are sons of Mr. Jiang) 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 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 is also the chairman and one of the executive directors of China Rare Earth Holdings Limited (“CRE”), a company whose securities are listed on the Main Board. CRE and its subsidiaries are principally engaged in manufacturing and sales of rare earth products and refractory products. As the Group’s principal business is to provide integrated EP solutions in areas such as water and flue gas treatments, the current principal businesses of the Group and those of CRE and its subsidiaries do not compete with each other.

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

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

As the controlling shareholders (namely, Praise Fortune, Mr. Jiang Lei and Mr. Jiang Xin) and Mr. Jiang as sole director of Praise Fortune 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 after the Listing.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

Executive Directors

蔣泉龍先生 (**Mr. Jiang Quanlong**), aged 55, is the chairman of the Board and an executive Director. He has over 10 years of experience in China's EP industry. He is responsible for formulating strategies guiding the Group's overall development. In addition, he is the chairman and executive director of China Rare Earth Holdings Limited ("CRE Holdings"), the shares of which are listed on the Main Board. It is planned that after the Listing, Mr. Jiang will allocate a substantial portion of his time with the Company to continue to formulate strategies to direct the Group's overall development and strengthen the competitive position of the Group in the PRC's EP market. Save as aforesaid, Mr. Jiang does not hold any current directorships, and did not hold any past directorships in other public listed companies in the last three years immediately prior to the Latest Practicable Date. CRE Holdings had committed breaches (the "Breaches") of certain requirements of the Listing Rules in relation to the delay (due to changes in auditors) in publication of the audited final results of the Group for the year ended 31 December 2002 and despatch of the 2002 annual report and failure to disclose certain connected transaction of the Company (at the consideration of about HK\$1.9 million) by way of press notice, details of which are set out in the announcements of CRE Holdings dated 26 April 2003 and 13 August 2003. In addition, CRE Holdings was under the enquiry (the "Enquiry") carried out by the SFC in May 2003. Details of the Enquiry are set out in the announcements of CRE Holdings dated 23 May 2003 and 4 February 2004. As mentioned in CRE Holdings' announcement dated 4 February 2004, following conclusion of the Enquiry, the SFC indicated to CRE Holdings on the basis of the evidence then before the SFC, it intended to take the matter no further. At the time of the Breaches and the Enquiry, Mr. Jiang was the chairman and an executive director of CRE Holdings.

范亞軍先生 (**Mr. Fan Yajun**), aged 40, is the chief executive officer of the Group and an executive Director. 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 CRE Holdings, the shares of which are listed on the Main Board. Save as aforesaid, Mr. Fan does not hold any current directorships, and did not hold any past directorships in other public listed companies in the last three years immediately prior to the Latest Practicable Date. CRE Holdings had committed Breaches and had been under the Enquiry as mentioned in the above paragraph concerning Mr. Jiang Quanlong. At the time of the Breaches and the Enquiry, Mr. Fan was an executive director of China Rare Earth Holdings Limited.

方國洪先生 (**Mr. Fang Guohong**), aged 42, is an executive Director. He has nearly 20 years of experience in marketing at different companies engaging in production of food, clothing and insulation materials. He joined Wuxi Pan-Asia in 1996 and Wuxi Pan-Asia has been a Group member since 1998. He is now a director and vice general manager of Wuxi Pan-Asia and the general manager of SEEDRI. He is responsible for the sales and market development of the

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Group's business. He completed post-secondary education in 2005. Mr. Fang does not hold any current directorships, and did not hold any past directorships in other listed public companies in the last three years immediately prior to the Latest Practicable Date.

甘毅先生 (**Mr. Gan Yi**), aged 51, is an executive Director. He has over 20 years of experience in environmental protection engineering design. He was appointed as an officer of 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. Mr. Gan does not hold any current directorships, and did not hold any past directorships in other listed public companies in the last three years immediately prior to the Latest Practicable Date.

蔣磊先生 (**Mr. Jiang Lei**), aged 24, is an executive Director. He is the son of Mr. Jiang. He holds a bachelor's degree in Finance from Cass Business School, London, the United Kingdom. He joined the Group in March 2007 and is responsible for the business development of the Group. Mr. Jiang does not hold any current directorships, and did not hold any past directorships in other listed public companies in the last three years immediately prior to the Latest Practicable Date.

Independent non-executive Directors

賴永利先生 (**Mr. Lai Wing Lee**), aged 68, 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. Mr. Lai 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. Mr. Lai does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other public listed companies.

王國珍教授 (**Professor Wang Guozhen**), aged 72, 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. Professor Wang graduated from the Department of Chemical Engineering of Tianjin University with a major in physical chemistry of metals (金屬物理化學專業). 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. Professor Wang does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other public listed companies.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

梁樹新先生 (**Mr. Leung Shu Sun, Sunny**), aged 44, has over 15 years' working experience in, among other things, accounting, treasury management, budgeting and corporate finance. Mr. Leung 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. Mr. Leung 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, Mr. Leung 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 (stock code: 2088). From 2001 to the Latest Practicable Date, Mr. Leung was a director of a company providing accounting, tax and corporate finance services. From 1999 to 2001, Mr. Leung held key finance position in a listed company in Hong Kong. From 1998 to 1999, Mr. Leung 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, Mr. Leung had worked in international accounting firms, handling audit, tax and accounting matters. Mr. Leung does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other public listed companies.

SENIOR MANAGEMENT

溫新輝先生 (**Mr. Wan San Fai, Vincent**), aged 34, is the financial controller and secretary of the Company. He joined the Group in March 2007 and is responsible for the corporate finance function of the Group, and oversees matter related to financial administration, and the compliance and reporting obligations of the Group. Mr. Wan has 10 years' experience in auditing, accounting and financial management. Prior to joining the Group, Mr. Wan has worked for China Sun Bio-chem Technology Group Company Limited, a company listed on the Singapore Stock Exchange, as its financial controller from 2005 to 2007. Mr. Wan is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wan holds a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University. Mr. Wan does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

傅堃先生 (**Mr. Fu Kun**), aged 41, has over 18 years of experience in project management of engineering design. He served as a vice general manager of SEEDRI since April 2006. Before joining the Group, he was the vice general manager of Shanghai Gongcheng. He is responsible for project management of environmental protection engineering design. He holds a Master of Business Administration degree from Asia International Open University, Macau. Mr. Fu does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

陳良平先生 (**Mr. Chen Liangping**), aged 59, is the vice general manager of Wuxi Pan-Asia. He has over 20 years of experience in equipment manufacturing and production management. He joined the Group in 2006 and is responsible for the management of the daily production of the Group. Before joining the Group, he was a vice general manager of 宜興新威利成耐火材料有限公司 (Yixing Xinwei Leeshing Refractory Materials Company Limited), a subsidiary under China Rare Earth Holdings Limited, the shares of which are listed on the main board of the Stock Exchange. Mr. Chen does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other public listed companies.

萬泉明先生 (**Mr. Wan Quanming**), aged 58, is the vice general manager of Wuxi Pan-Asia. He joined the Group in 2004 and is responsible for the daily management of the Group's human resource and administration. Before joining the Group, he was the deputy director of Yi Xing Municipal Public Security Bureau. He has over 20 years of experience in administration management. Mr. Wan does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

趙建新先生 (**Mr. Zhao Jianxin**), aged 41, is the head of the internal audit department of the Group. He has over 15 years of experience in financial management. He joined the Group in 2002 and is responsible for the internal audit of the Group's enterprises in the PRC. He completed secondary education in 1986. Mr. Zhao does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

徐逸雲女士 (**Ms. Xu Yiyun**), aged 30, is the head of the finance department of Wuxi Pan-Asia. Ms. Xu has about 6 years of experience in financial management and corporate accounting in the PRC. She joined the Group in October 2000. Ms. Xu graduated from Suzhou University, majoring in accountancy. Ms. Xu does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

張偉先生 (**Mr. Zhang Wei**), aged 32, is the manager of the administration and human resource department of Wuxi Pan-Asia. He joined the Group in 2002 and is responsible for the daily management of the Group's human resource, administration and logistics services. Before joining the Group, he worked as secretary in 宜興新威集團有限公司 (Yixing Xinwei Group Company Limited). He graduated from Soochow University majoring in foreign oriented secretary. Mr. Zhang does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other public listed companies.

唐偉慶先生 (**Mr. Tang Weiqing**), aged 45, the vice general manager of SEEDRI. He has over 20 years of experience in environmental protection engineering design. He joined SEEDRI in 2003 and is responsible for the overall project engineering design of SEEDRI. He graduated from Shanghai University of Technology with a major in analytical chemistry. Mr. Tang does not hold any current directorships, or did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

李峻山先生 (**Mr. Li Junshan**), aged 51, is the vice general manager of SEEDRI. He has over 22 years of experience in environmental air conditioning and atmosphere treatment. He joined SEEDRI in 2001 and is responsible for engineering design of SEEDRI. He graduated from Shanghai Television University majoring in electronics. Mr. Li does not hold any current directorships, or did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

溫新輝先生 (**Mr. Wan San Fai, Vincent**) is the company secretary and qualified accountant of the Group. Please refer to the paragraph headed “Senior management” for the details of Mr. Wan.

STAFF

Overview of number of staff

The Group has 249 staff as at the Latest Practicable Date. A breakdown of its workforce by function is as follows:

Management	10
Sales and marketing	23
Design, research and development	54
Procurement	4
Production and project management	34
Production workshop	78
Finance and internal control	15
Administration, human resource management and logistic support	31
	<hr/>
Total	249
	<hr/>

Relationship with staff

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Directors believe that the Group has a good working relationship with its employees.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF BENEFITS

The Group makes contributions to the following staff related plans and funds in accordance with the local regulations of the PRC, namely, elderly insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. Having regard to the confirmations issued by the government offices where the Group's operations are located, the Directors confirm that the Group is in compliance with the applicable laws and regulations.

AUDIT COMMITTEE

The Company established an audit committee on 1 December 2007 with written terms of reference in line with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Leung Shu Sun, Sunny, Professor Wang Guozhen and Mr. Lai Wing Lee, all being independent non-executive Directors. Mr. Leung Shu Sun, Sunny is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 1 December 2007 with written terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to the Listing Rules. The remuneration committee shall make recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and senior management and shall be delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all executive Directors and senior management. It has four members comprising Professor Wang Guozhen, Mr. Lai Wing Lee and Mr. Leung Shu Sun, Sunny, the three independent non-executive Directors and Mr. Jiang. The chairman of the remuneration committee is Mr. Lai Wing Lee.

NOMINATION COMMITTEE

The Company established a nomination committee on 1 December 2007 with written terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to the Listing Rules. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the management of Board succession. It has four members comprising Professor Wang Guozhen, Mr. Lai Wing Lee and Mr. Leung Shu Sun, Sunny (i.e., the three independent non-executive Directors) and Mr. Jiang. The chairman of the nomination committee is Mr. Lai Wing Lee.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS' REMUNERATION

The Directors received remunerations from the Group during the Track Record Period, details of which are set out below:

	For the year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
				(unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Directors</i>					
Mr. Jiang	936	–	18	–	50
Mr. Fan Yajun	–	–	18	–	50
Mr. Fang Guohong	36	3,656	2,410	861	154
Mr. Gan Yi	–	–	–	–	–
Mr. Jiang Lei	–	–	–	–	–
<i>Independent non-executive Directors</i>					
Mr. Lai Wing Lee	–	–	–	–	–
Professor Wang Guozhen	–	–	–	–	–
Mr. Leung Shu Sun, Sunny	–	–	–	–	–
Total	<u>972</u>	<u>3,656</u>	<u>2,446</u>	<u>861</u>	<u>254</u>

During the Track Record Period, in addition to salaries, the Directors were entitled to sales commissions. The sales commissions was determined having taken into account of the sales performance and profit level of each contract procured by the relevant Directors during the year. The Directors intend that such policy on remuneration will continue to apply after the Listing.

The fluctuation of the directors' remuneration is mainly attributable to the sales commission of Mr. Fang and Mr. Jiang under the remuneration scheme of Wuxi Pan-Asia for awarding the performance of the person-in-charge for completing particular sales contract. Mr. Fang is the key senior management mainly responsible for the sales and market development of the businesses of the Group, and therefore he was granted sales commissions of approximately RMB3.6 million and RMB2.4 million for each of the two years ended 31 December 2005 and 2006 respectively; while Mr. Jiang was granted sales commissions of approximately RMB900,000 for the year ended 31 December 2004.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Each of the executive Directors has entered into a service contract with the Company, further details of which are set out in the sub-paragraph headed “Particulars of service contracts” in the paragraph headed “Further information about directors, management, staff and experts” in appendix V to this prospectus.

COMPLIANCE ADVISER

The Company intends to appoint Taifook Capital, which is also the Sponsor, as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The material terms of the compliance adviser’s agreement to be entered into by the Company with Taifook Capital include the following:

- (a) Taifook Capital is to be appointed by the Company as its compliance adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date; and
- (b) pursuant to Rule 3A.23 of the Listing Rules, Taifook Capital will advise the Company on the following circumstances:
 - (1) before the publication of any regulatory announcement, circular or financial report;
 - (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
 - (3) where the Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the prospectus; and
 - (4) where the Stock Exchange makes an inquiry of the Company regarding unusual moments in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and ends on the date on which the Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme which, in the opinion of the Directors, will enable the Group to recruit and retain high-calibre employees and to improve employee loyalty. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in appendix V to this prospectus.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

INTEREST DISCLOSURE UNDER THE SFO

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Share Offer and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), the following persons/entities will have an interest or short position 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 and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	Nature of interest	Number of Shares (<i>Note 1</i>)	Approximate percentage of shareholding (assuming the Over- allotment Option is not exercised)
Praise Fortune	Beneficial owner	600,000,000 Shares (L)	75%
Mr. Jiang Lei (<i>Note 2</i>)	Interest of a controlled corporation	600,000,000 Shares (L)	75%
Mr. Jiang Xin (<i>Note 2</i>)	Interest of a controlled corporation	600,000,000 Shares (L)	75%
Mr. Jiang (<i>Note 3</i>)	Interest in a controlled corporation	600,000,000 Shares (L)	75%
Ms. Qian Yuanying (<i>Note 4</i>)	Interest of spouse	600,000,000 Shares (L)	75%
Ms. Li Jingru (<i>Note 5</i>)	Interest of spouse	600,000,000 Shares (L)	75%
Ms. Chai Yongping (<i>Note 6</i>)	Interest of spouse	600,000,000 Shares (L)	75%

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

Notes:

1. The Letter “L” denotes the person’s long position in the Shares.
2. These 600,000,000 Shares will, subject to any stock borrowing arrangement effected under the Stock Borrowing Agreement, be registered in the name of and beneficially owned by Praise Fortune, 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, each of Mr. Jiang Lei and Mr. Jiang Xin is deemed to be interested in the Shares held by Praise Fortune.
3. These 600,000,000 Shares will, subject to any stock borrowing arrangement effected under the Stock Borrowing Agreement, be registered in the name of Praise Fortune. Mr. Jiang is the sole director of Praise Fortune and is therefore deemed to be interested in all the Shares in which Praise Fortune is interested by virtue of the SFO.
4. Ms. Qian Yuanying is the spouse of Mr. Jiang and is therefore deemed to be interested in all the Shares in which Mr. Jiang 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.

If the Over-allotment Option is exercised in full, the shareholding of Praise Fortune in the Company will be approximately 72.3%.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

RESTRICTIONS ON DISPOSAL OF SHARES

Each of Praise Fortune, Mr. Jiang Lei and Mr. Jiang Xin has undertaken to the Stock Exchange, the Sponsor, the Underwriters and the Company that:

- (a) except pursuant to the Stock Borrowing Agreement, within the six months from the Listing Date (the “First Six Month Period”), he/it shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of (or procure that Praise Fortune not to dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in the case of Mr. Jiang Lei and Mr. Jiang Xin) any of the Shares beneficially owned by Praise Fortune; and
- (b) except pursuant to the Stock Borrowing Agreement, within the six months from the date after the expiry of the First Six Month Period, he/it shall not dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of (or permit Praise Fortune to dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in the case of Mr. Jiang Lei and Mr. Jiang Xin) any of the Shares beneficially owned by Praise Fortune if, immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrance, Praise Fortune, Mr. Jiang Lei and Mr. Jiang Xin would cease to be controlling shareholders (as defined in the Listing Rules) of the Company.

Each of Praise Fortune, Mr. Jiang Lei and Mr. Jiang Xin has also undertaken to the Stock Exchange, the Sponsor, the Underwriters and the Company that within the 12 months from the Listing Date, he/it shall:

- (1) when he/it pledges/charges any Shares beneficially owned by him/it in favour of an authorised institution pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and
- (2) when he/it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

SHARE CAPITAL

The authorised and issued share capital of the Company is as follows:

HK\$

Authorised:

<u>4,000,000,000</u>	Shares	<u>400,000,000</u>
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Issued and to be issued, fully paid or credited as fully paid:

100,000,000	Shares in issue	10,000,000
500,000,000	Shares to be issued under the Capitalisation Issue	50,000,000
	(Note)	
<u>200,000,000</u>	Shares to be issued under the Share Offer	<u>20,000,000</u>
<u>800,000,000</u>	Shares	<u>80,000,000</u>

Note: Pursuant to the written resolutions of the sole shareholder of the Company passed on 1 December 2007, conditional upon the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise the amount of HK\$50 million from the amount standing to the credit of the share premium account of the Company and to appropriate such amount as to pay up in full at par 500 million Shares for allotment and issue to the persons whose names appeared on the register of members of the Company at the close of business on 1 December 2007, in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in the Company.

ASSUMPTIONS

The above table assumes the Share Offer and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein.

It takes no account of any Shares which may be allotted and issued under the Over-allotment Option or upon the exercise of options granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or purchase of Shares granted to Directors or any Shares which may be bought back by the Company pursuant to the general mandate given to the Directors for the repurchase of Shares as referred to below or otherwise.

RANKING

The Offer Shares will rank equally with all of the Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus, except for the entitlements under the Capitalisation Issue.

SHARE CAPITAL

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the paragraph headed “Share Option Scheme” in appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- (1) 20% of the aggregate amount of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or exercise of any options that may be granted under the Share Option Scheme); and
- (2) the aggregate nominal amount of the Shares repurchased by the Company (if any) pursuant to the repurchase mandate (as referred to below).

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by the Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or on the exercise of the Over-allotment Option or options granted under the Share Option Scheme do not generally require the approval of Shareholders in general meeting and the aggregate nominal amount of Shares which the Directors are authorised to allot and issue pursuant to this mandate will not be reduced by the allotment and issue of such Shares.

This mandate will expire:

- at the end of the Company’s next annual general meeting;
- at the end of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earlier.

For further details of this general mandate, see the paragraph headed “3. Resolutions in writing of the sole shareholder of the Company passed on 1 December 2007” in appendix V to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Repurchase by the Company of its own securities” in appendix V to this prospectus.

This mandate will expire:

- at the end of the Company’s next annual general meeting;
- at the end of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earlier.

For further details of this general mandate, see the section headed “3. Resolutions in writing of the sole shareholder of the Company passed on 1 December 2007” in appendix V to this prospectus.

FINANCIAL INFORMATION

TRADING RECORD

The following table is a summary of the combined results of the companies now comprising the Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007 respectively which has been extracted from, and should be read in conjunction with, the accountants' report set out in appendix I to this prospectus.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Turnover	144,330	395,973	508,628	161,718	235,429
Cost of sales	<u>(93,282)</u>	<u>(244,696)</u>	<u>(299,298)</u>	<u>(92,557)</u>	<u>(145,307)</u>
Gross profit	51,048	151,277	209,330	69,161	90,122
Other revenue	539	511	1,960	1,024	1,775
Selling and distribution expenses	(2,427)	(8,361)	(11,853)	(2,451)	(4,986)
General and administrative expenses	(6,085)	(7,406)	(8,888)	(5,476)	(5,908)
Other operating expenses	<u>(174)</u>	<u>(274)</u>	<u>(2,722)</u>	<u>(91)</u>	<u>(276)</u>
Operating profit	42,901	135,747	187,827	62,167	80,727
Finance costs	<u>(2,715)</u>	<u>(2,503)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit before taxation	40,186	133,244	187,827	62,167	80,727
Taxation	<u>(4,543)</u>	<u>(15,226)</u>	<u>(22,701)</u>	<u>(7,462)</u>	<u>(19,962)</u>
Profit for the year/period	<u>35,643</u>	<u>118,018</u>	<u>165,126</u>	<u>54,705</u>	<u>60,765</u>
Attributable to:					
Equity holders of the Company	35,643	118,018	165,273	54,705	61,141
Minority interests	<u>–</u>	<u>–</u>	<u>(147)</u>	<u>–</u>	<u>(376)</u>
	<u>35,643</u>	<u>118,018</u>	<u>165,126</u>	<u>54,705</u>	<u>60,765</u>
Dividends	<u>–</u>	<u>–</u>	<u>108,000</u>	<u>–</u>	<u>22,000</u>
Earnings per share					
– basic (RMB cents)	<u>4.46</u>	<u>14.75</u>	<u>20.66</u>	<u>6.84</u>	<u>7.64</u>

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Group's financial statements are in accordance with accounting principles generally accepted in Hong Kong and conform with Hong Kong Financial Reporting Standards. A summary of the principal accounting policies used in the preparation of the Group's financial statements is set forth in the accountants' report set out in appendix I to this prospectus. The Group's reported financial performance and financial conditions are sensitive to accounting policies, assumptions and estimates that underlie the preparation of the combined financial statements. In reporting the Group's financial performance and conditions, the Directors are required to exercise their judgments based on their experience, their knowledge of other companies in the industry and on other assumptions that they consider reasonable. The Directors believe that the following critical accounting policies involved the most significant judgments and estimates used in the preparation of the Group's financial statements.

Revenue recognition

The Group's revenue structure is principally derived from three service types, namely (i) the sale of EP products and equipment, (ii) the undertaking of EP construction engineering projects and (iii) the provision of professional services. For activity (i), revenue is generally recognised upon the goods having been delivered to and examined by the customers so that the risks and rewards of ownership of the goods have been passed to the customers. For activity (ii), two revenue recognized methods are used because the EP construction engineering projects generally includes the combination of sale of EP products and equipment, as well as the offering of different services covering, among others, engineering design, installation, construction and testing. Accordingly, for the sale of EP products and equipment, the revenue recognized method is the same as for activity (i); in relation to the offering of different services, revenue is generally recognised when the outcome of a contract can be estimated reliably by the supervisory company employed by the customers and by reference to the stage of completion of the contract as at the balance sheet date. For activity (iii), it refers to the provision of professional services by SEEDRI (other than those services included in the EP construction engineering projects which have been reflected in the "revenue from EP construction engineering projects"), and revenue for this activity is generally recognised when the relevant services are rendered. During the Track Record Period, the professional services provided by SEEDRI were mainly engineering design.

Cost

Cost of sale of EP products and equipment is generally recognised upon the goods are delivered to and examined by the customers so that the risks and rewards of ownership of the goods have been passed to the customers.

Cost of EP construction engineering projects comprises cost of sale of EP products and equipment and subcontractor costs. Subcontractor costs comprise mainly fees for design, installation, construction and testing for the project. Subcontractor costs are generally recognised when the outcome of a contract can be estimated reliably and by reference to the stage of completion of the contract as the balance sheet date.

FINANCIAL INFORMATION

Cost of provision of professional services is generally recognised when the relevant services are rendered.

Depreciation of property, plant and equipment

It is the Group's accounting policy on the depreciation of the cost of the property, plant and equipment to use straight-line method over the respective estimated useful lives, after considering the residual values, of the different classes of property, plant and equipment.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Circumstances that would lead to impairment review by the Directors include a low utilisation rate, significant changes or planned changes in the use of assets, significant negative industry or economic trend. If there is any indication that assets may be impaired, the Directors will exercise their judgment and estimate the recoverable amount.

Trade debtors and allowances for doubtful accounts

The Group maintains a provision for bad and doubtful debts for estimated losses resulting from aged receivables and the subsequent inability of its customers to settle required payments. The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, specific allowances may be required.

Inventories

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

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Description of certain income statement items

The following table sets out the turnover breakdown and relevant percentage by sales and service type for the periods indicated:

The Directors believe that the increases in turnover were mainly attributable to the combination of factors, including, but not limited to, (i) increasing demand for the EP products and equipment principally resulting from the continuous emphasis on EP by the PRC Government and the increasingly stringent EP compliance requirements in the PRC; (ii) its ability to provide integrated services; (iii) the Group's market-oriented business strategies. In 2004, in view of the market needs of desulphurisation, the Group began to engage in the FGD projects in 2004, which contributed revenue of approximately RMB20.4 million in 2005, approximately RMB164.6 million in 2006 and approximately RMB72.5 million for the six months ended 30 June 2007; and (iv) accumulated experiences in the areas of water and flue gas treatments, as well as the undertaking of EP construction engineering projects.

FINANCIAL INFORMATION

Cost of sales

The table below outlines the breakdown of cost of sales and relevant percentage by service type for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Cost of sale of EP products and equipment	93,282	100.0	228,552	93.4	186,354	62.2	77,821	84.1	99,398	68.4
Cost of EP construction engineering projects	-	-	16,144	6.6	112,473	37.6	14,736	15.9	44,712	30.8
Cost of professional services	-	-	-	-	471	0.2	-	-	1,197	0.8
Cost of sales	<u>93,282</u>	<u>100.0</u>	<u>244,696</u>	<u>100.0</u>	<u>299,298</u>	<u>100.0</u>	<u>92,557</u>	<u>100.0</u>	<u>145,307</u>	<u>100.0</u>

Cost of sale of EP products and equipment mainly comprises cost of raw materials, components and equipment purchased from external suppliers, which can mainly be classified into four areas, being steel-related materials, resins, chemical products, and others including, but not limited to, hardware accessories, instruments and apparatus, filter press, blowers, electric motors, pumps, decelerators and stirring apparatus. The key factors generally affecting the cost of raw materials, components and equipment are their availability and prevailing prices in the market.

Cost of EP construction engineering projects mainly comprise two parts, being cost of sale of EP products and equipment and subcontractor costs. Subcontractor costs comprised mainly fees for design, installation, construction and testing for the projects. To the best knowledge and belief of the Directors, factors that generally affect the subcontractor costs are supply and demand conditions in the subcontracting market and the Group's ability to carry out the subcontracting works.

Cost of professional service mainly comprises cost of relevant services provided by SEEDRI.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the purchase of steel related materials amounted to approximately RMB17.7 million, RMB50.6 million, RMB35.1 million and RMB22.8 million respectively, representing approximately 19.0%, 20.7%, 11.7% and 15.7% respectively, of the total cost of sales for the respective periods. Currently, the Group has not implemented any hedging policies on steel

FINANCIAL INFORMATION

prices. The purchase of resins amounted to approximately RMB14.3 million, RMB4.8 million, RMB28.8 million and RMB7.6 million respectively, representing approximately 15.4%, 2.0%, 9.6% and 5.2% respectively, of the total cost of sales for the respective periods, and the purchase of chemical products amounted to approximately RMB29.3 million, RMB18.7 million, RMB18.1 million and RMB47.2 million respectively, representing approximately 31.4%, 7.6%, 6.1% and 32.5%, respectively of the total cost of sales for the respective periods. As advised by the Directors, as the Group's EP products and equipment are tailor-made in accordance with customers' requirement, the raw materials to be purchased by the Group will depend on factors including, among other things, sales volume, price of raw materials, type of products and systems sold, the budget of customers and type of pollutants being treated. Accordingly, the purchase of raw materials of the Group fluctuated during the Track Record Period.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the aggregate subcontracting fees incurred by the Group for its three FGD projects of nil, approximately RMB2.4 million, RMB27.0 million and RMB13.6 million respectively, accounting for nil, approximately 1.0%, 9.0% and 9.4% respectively, of the total cost of sales for the respective periods.

Gross profit

The table below outlines the breakdown of gross profit and the respective margin by sales and service type for the periods indicated:

	Year ended 31 December			Six months ended 30 June		
	2004	2005	2006	2006	2007	
	RMB'000	% RMB'000	% RMB'000	% RMB'000	% RMB'000	%
	(unaudited)					
Sale of EP products and equipment	51,048	35.4	146,978	39.1	157,484	45.8
EP construction engineering projects	–	–	4,299	21.0	52,143	31.7
Professional services	–	–	–	(297)	–	–
	<u>51,048</u>	35.4	<u>151,277</u>	38.2	<u>209,330</u>	41.2
					<u>69,161</u>	42.8
					<u>90,122</u>	38.3

As advised by the Directors, the Group has been able to enjoy and maintain the gross profit margin of more than 30% for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 because of its ability to secure contracts and minimize costs. The Directors believe that the Group's ability to differentiate itself from its competitors by providing not only a single service but an integrated range of services has enabled it to secure sales contracts in areas of water and flue gas treatments and successfully bid for the three FGD projects. In addition, before entering into a contract, the Group will assess the profit margin expected to be obtained by the Group and it is the Group's policy to enter into sales with a

FINANCIAL INFORMATION

relatively high profit margin. Furthermore, the Group's design and customisation capabilities has enabled it to reduce its costs as compared to procuring such services from third parties and has allowed the Group to have better cost control. The Directors are of the view that the Group's ability to manufacture and process most of the non-standardised components and equipment of a water treatment system was one of the factors contributed to high profit margin during the Track Record Period as sale of water treatment products and equipment accounted for approximately 42.5%, 48.3%, 83.0% and 83.7% of the total sale of EP products and equipment for each of the Track Record Period.

As further advised by the Directors, the overall improvement in the Group's gross profit margin from approximately 35.4% in 2004 to approximately 41.2% in 2006 was mainly due to, among other things, (i) the Group's accumulated experiences in the areas of water and flue gas treatments and its integrated services capability have placed it in a better position to secure contracts with relatively higher profit margin; (ii) higher proportion of revenue contribution from the sale of water and flue gas treatment products and equipment which yield higher gross profit margin than the sale of pipes largely because of the customisation works involved; and (iii) the reduction in average price of major steel related materials.

Selling and distribution expenses

It mainly comprises advertising and promotional expenses, salaries, sales commission and traveling expenses.

General and administrative expenses

It mainly comprises payroll and staff's benefits, entertainment and traveling expenses, office expenses, rental fee and depreciation.

Taxation

The Company is essentially an investment holding company and the entire revenue of the Group during the Track Record Period were generated by the operating subsidiaries of the Company in the PRC.

Hong Kong profits tax has been provided at the applicable tax rate of the relevant year of assessment on the estimated assessable profits arising in Hong Kong during the Track Record Period. During the Track Record Period, the Group did not have any estimated assessable profits arising in Hong Kong.

In China, the rate of income tax chargeable on companies may vary depending on the availability of preferential tax treatment or subsidies based on their industry or location. The current maximum corporate income tax rate is 33%.

In accordance with 《中華人民共和國外商投資企業 和外國投資企業所得稅法》 (Laws of Enterprise Income Tax for Foreign-invested Enterprises and Foreign Enterprises in the PRC), enterprises with foreign investment are entitled to a two-year full exemption from enterprise

FINANCIAL INFORMATION

income tax commencing from its first profitable year and a three-year 50% tax reduction thereafter. The key operating arm of the Group in the PRC, namely Wuxi Pan-Asia, is a foreign-invested enterprise established in Yixing and is qualified for such preferential tax treatments. Having regard to its first profitable year in 2002, Wuxi Pan-Asia was entitled to a full tax exemption for the years 2002 and 2003, and was subject to preferential enterprise income tax rate of 12% for the financial years from 2004 to 2006. Wuxi Pan-Asia is subject to enterprise income tax rate of 24% for the financial year 2007. On 16 March 2007, the National People Congress approved the Enterprise Income Tax Law of the PRC (the “New EIT Law”), which will become effective from 1 January 2008. According to the New EIT Law, the enterprise income tax for both domestic and foreign invested enterprises will be unified at 25%. However, there will be a transition period for the enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises subject to on-going enterprise income tax rates lower than 25% may continue to enjoy such lower enterprise income tax rate within five years after the effective date of the New EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

In addition, the enterprise income tax rate of 33% applicable to SEEDRI and Wuxi Zhong Dian are expected to be expired on 31 December 2007, and the new enterprise income tax rate of 25% will be applied to SEEDRI and Wuxi Zhong Dian from 1 January 2008 onwards.

The effective tax rate of the Group during the Track Record Period were approximately 11.3%, 11.4%, 12.1% and 24.7% respectively, representing the taxation charge on the Group’s assessable profits arising in the PRC during the Track Record Period. The Group has no accumulated tax losses during the Track Record Period.

Review of historical operating results

Comparison of the results for the year ended 31 December 2004 to those for the year ended 31 December 2005

Turnover

For the year ended 31 December 2004, the Group recorded turnover of approximately RMB144.3 million, of which was solely contributed by the sale of EP products and equipment. EP products and equipment sold during 2004 primarily comprised water treatment, pipes and flue gas treatment, which accounted for approximately 42.5%, 57.1% and 0.4% respectively of the turnover generated from the sale of EP products and equipment. In addition, the Group extended its business spectrum and commenced to engage in the undertaking of EP construction engineering projects for power plants in 2004. Since no works for the FGD project commenced in 2004, no revenue from EP construction engineering projects was recognised in 2004.

For the year ended 31 December 2005, the Group recorded turnover of approximately RMB396.0 million, representing a growth of approximately 174.4% over the turnover in 2004. Such increase in turnover was primarily due to the growth in the sale of EP products and

FINANCIAL INFORMATION

equipment of approximately 160.2% and the commencement of FGD projects in 2005. EP products and equipment sold during 2005 were primarily water treatment, flue gas treatment and pipes which accounted for approximately 48.3%, 25.1% and 11.5% respectively of the turnover generated from the sale of EP products and equipment. The decrease in the revenue contribution from the sale of pipes was mainly due to the increasing demand for other EP equipment such as water and flue gas treatment equipment. In addition, income from EP construction engineering projects accounted for approximately 5.2% of the total turnover. The Directors believe that the overall increase in revenue in 2005 was mainly due to the increase in number of contracts secured and completed in 2005 primarily resulting from, among other things, the continuous emphasis on EP by the PRC Government and the increasingly stringent EP compliance requirements in the PRC, as well as the Group's market-oriented business strategies to engage in FGD business.

Cost of sales

The cost of sales in 2004 was solely contributed by the sale of EP products and equipment, which mainly comprise cost of raw materials, components and equipment. In 2005, the cost of sales increased by approximately 162.3% principally resulting from the growth of turnover in 2005. The increase in cost of sales was in line with the growth in turnover.

Gross profit

The gross profit in 2005 increased by approximately 196.3% when compared with that in 2004, which was mainly attributable to the growth in revenue in 2005. The gross profit margin in 2005 was approximately 38.2%, which was approximately 2.8% higher than the gross profit margin in 2004. The Directors are of the view that the improvement of gross profit margin recorded in 2005 was principally a result of a higher proportion of revenue contribution from water and flue gas treatment sales which yield higher gross profit margin largely attributable to the customisation of the water and flue gas treatment products or equipment to the Group's customers specific requirements and the complexity of technical specifications involved in such transactions.

Selling and distribution expenses

In 2004, the selling and distribution expenses was approximately RMB2.4 million, which comprised mainly salaries and sales commission of approximately RMB1.9 million.

In 2005, the selling and distribution expenses was approximately RMB8.4 million, which comprised mainly salaries and sales commission of approximately RMB8.2 million. The increase in selling and distribution expenses was primarily attributable to the increase in sales commission of approximately RMB6.3 million.

General and administrative expenses

In 2004, the general and administrative expenses was approximately RMB6.1 million, which comprised mainly salaries and staff's benefits of approximately RMB1.0 million, entertainment and traveling expenses of approximately RMB1.6 million and depreciation of approximately RMB2.2 million.

FINANCIAL INFORMATION

In 2005, the general and administrative expenses was approximately RMB7.4 million, which comprised mainly the salaries and staff's benefits of approximately RMB1.2 million, entertainment and traveling expenses of approximately RMB2.6 million and depreciation of approximately RMB2.1 million.

The general and administrative expenses increased approximately 21.7% in 2005, which was mainly due to increase of entertainment and traveling expenses of approximately RMB1.0 million.

Finance costs

In 2004, the Group recorded finance cost of approximately RMB2.7 million which represented interest expenses on the bank borrowings of RMB50 million.

In 2005, the Group incurred finance costs of approximately RMB2.5 million, which was derived from the bank borrowings of RMB50 million. Such bank borrowings were fully settled near the year-end of 2005.

Taxation

Taxation increased by approximately 235.2% in 2005 when compared to that in 2004. It was mainly due to increase in profit from operation.

Profit for the year

The net profit in 2005 was approximately RMB118.0 million, which increased by approximately 231.1% when compared to that in 2004. The net profit margin improved from approximately 24.7% in 2004 to approximately 29.8% in 2005, which was mainly due to the increase in the Group's turnover and the decrease in the percentage of total general and administrative expenses to turnover from approximately 4.2% in 2004 to approximately 1.9% in 2005.

Comparison of the results for the year ended 31 December 2005 to those for the year ended 31 December 2006

Turnover

In 2006, the turnover of the Group increased by approximately 28.5% over the turnover in 2005. Such increase was mainly attributable to the increase in revenue of approximately RMB144.2 million derived from the EP construction engineering projects, which accounted for approximately 32.4% of the total turnover. The reason for the increase in revenue from EP construction engineering projects was that most of the works of the FGD projects were substantially completed in 2006 despite the slightly drop in the revenue of approximately RMB31.7 million derived from the sale of EP products and equipment.

EP products and equipment sold during 2006 were primarily water treatment, pipes and flue gas treatment which accounted for approximately 83.0%, 11.8% and 5.2% respectively of the turnover generated from the sale of EP products and equipment. The Directors are of the view that the increase in the water treatment sales was primarily due to its accumulated experiences in such area.

FINANCIAL INFORMATION

Cost of sales

The cost of sales in 2006 increased by approximately 22.3% from 2005, which was in line with the growth in turnover in 2006 from the year of 2005.

Gross profit

The gross profit in 2006 increased by approximately 38.4% from 2005 and the gross profit margin increased from approximately 38.2% in 2005 to approximately 41.2% in 2006. The slight increase was mainly due to the reduction in average prices of the major steel related materials of approximately 14.0%.

Selling and distribution expenses

The selling and distribution expenses in 2006 was approximately RMB11.9 million. The increase was mainly attributable to increase in salaries and sales commission amounted to approximately RMB11.2 million.

General and administrative expenses

The general and administrative expenses in 2006 was approximately RMB8.9 million. It comprised mainly the salaries and staff's benefits of approximately RMB2.4 million, depreciation of approximately RMB2.5 million, entertainment and traveling expenses of approximately RMB1.7 million, and rental fee of approximately RMB0.5 million. During the year, the Group recorded impairment on trade and other receivables of approximately RMB25,000.

Finance costs

The significant drop in finance costs from approximately RMB2.5 million in 2005 to nil in 2006 was mainly due to the fact that no new bank loan was made by the Group in 2006.

Taxation

Tax charge increased to approximately RMB22.7 million in 2006 from RMB15.2 million in 2005. This increase was primarily due to an increase in profit from operations. The Group's effective tax rate was 12.1% in 2006 compared to 11.4% in 2005.

Profit for the year

The net profit in 2006 was approximately RMB165.1 million, which increased by approximately 39.9% when compared to that in 2005. The net profit margin increased from approximately 29.8% in 2005 to approximately 32.5% in 2006 despite the increase in the other operating expenses in 2006 by approximately RMB2.5 million primarily attributable to the impairment of goodwill of approximately RMB1.8 million arisen from the acquisitions of Wuxi Zhong Dian and SEEDRI in August 2006. The increases in net profit and net profit margin were mainly attributable to a combination of factors, such as the increase in the Group's turnover, the reduction in average prices of the major steel related materials, no record of finance costs

FINANCIAL INFORMATION

and the increase in other revenue of approximately RMB1.4 million mainly because of the increase in bank interest income as a result of the significant increase in cash and bank balance of the Group from approximately RMB103.9 million in 2005 to approximately RMB307.9 million in 2006 primarily resulting from more settlements from customers due to the growth in sales.

Comparison of the results for the six months ended 30 June 2006 to those for the six months ended 30 June 2007

Turnover

In the six months ended 30 June 2007, the Group recorded turnover of approximately RMB235.4 million which represented a growth of turnover by approximately RMB73.7 million or 45.6% as compared with the corresponding period of 2006. The surge in turnover was mainly due to the growth in the sale of EP products and equipment of approximately 12.4% and the growth in undertaking of EP construction engineering projects of approximately 310.7%.

EP products and equipment sold during the six months ended 30 June 2006 were primarily water treatment and pipes, which accounted for approximately 82.2% and 17.8% respectively of the turnover generated from the sale of EP products and equipment. EP products and equipment sold during the six months ended 30 June 2007 were primarily water treatment, flue gas treatment and pipes, which accounted for approximately 83.7%, 11.6% and 4.7% respectively of the turnover generated from the sale of EP products and equipment.

The growth of revenue from EP construction engineering projects for the six months ended 30 June 2007 was mainly because most of the works of the FGD projects were substantially completed during the second half of 2006 and during the first half of 2007.

Cost of sales

The cost of sales increased by approximately 57.0% to approximately RMB145.3 million for the six months ended 30 June 2007 from approximately RMB92.6 million for the six months ended 30 June 2006, which was in line with the increase in turnover of the period.

Gross profit

The gross profit increased by approximately 30.3% from approximately RMB69.2 million for the six months ended 30 June 2006 to approximately RMB90.1 million for the six months ended 30 June 2007. The increase in gross profit was mainly due to the growth in business volume. The gross profit margin for the six months ended 30 June 2007 was approximately 38.3% which was lower than the gross profit margin of approximately 42.8% for the six months ended 30 June 2006. The decrease in gross profit margin was mainly due to the increase in the average prices of the major steel related materials which were one of the major raw materials consumed during average the six months ended 30 June 2007.

FINANCIAL INFORMATION

Selling and distribution expenses

The selling and distribution expenses in the six months ended 30 June 2007 increased by approximately RMB2.5 million as compared to the six months ended 30 June 2006. The increase was mainly attributable to increase in salaries and sales commission amounted to approximately RMB2.1 million and entertainment expenses of approximately RMB0.3 million.

General and administrative expenses

The general and administrative expenses in the six months ended 30 June 2007 increased by approximately RMB0.4 million from the corresponding period of 2006. It comprised mainly the salaries and staff's benefits of approximately RMB2.2 million, depreciation of approximately RMB1.6 million, entertainment and, traveling expenses of approximately RMB0.9 million.

Finance costs

No finance cost was incurred for the six months ended 30 June 2006 and 2007.

Taxation

For the six months ended 30 June 2007, the Group had higher effective tax rate of 24.7% when compared to 12.0% for the six months ended 30 June 2006, as Wuxi Pan-Asia is no longer enjoying tax exemption in 2007.

Profit for the year

Net profit for the six months ended 30 June 2007 increased by approximately 11.1% from approximately RMB54.7 million to approximately RMB60.8 million.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

Trade receivables

Trade receivables generally include the balances yet to be due such as the quality retention monies (typically 5% to 20% of the total contracted value) that retained by the customers until the fulfillment of the warranty period of generally 1 to 2 years pursuant to the payment terms set out in each of the respective contracts and the due balances that are ought to be settled by the customers. The granting of credit to customers is assessed on a case-by-case basis and the Group may grant an average of credit terms ranging from 1 to 2 months. The Group normally considers factors, such as contract value, profit margin, creditworthiness of the customers, relationship with the customers and transaction volume to offer specific credit terms to customers.

FINANCIAL INFORMATION

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded trade receivables of approximately RMB27.0 million, RMB105.9 million, RMB43.7 million and RMB61.3 million respectively.

The following table sets out the debtor turnover days as at the date indicated below:

	For the year ended 31 December			For the six months ended
	2004	2005	2006	30 June 2007
Debtor turnover days (<i>in days</i>) (<i>Note</i>)	<u>227.5</u>	<u>113.8</u>	<u>31.4</u>	<u>47.5</u>

Note:
$$\frac{\text{Closing balance for trade receivables} + \text{Amount due from a fellow subsidiary}^*}{\text{Turnover}} \times \text{days of relevant year/period}$$

* The amount due from a fellow subsidiary represents balance due from Benxi Fanya for sales made by the Group to it and therefore it is included in the calculation of debtors turnover days.

The high debtors turnover days in 2004 was mainly attributable to trade receivables from Benxi Fanya, a fellow subsidiary of the Company which was yet to be due as at 31 December 2004 pursuant to the payment terms set out in the respective contract. The high debtors turnover days in 2005 was mainly attributable to (i) the significant increase in trade receivables as a result of the growth in turnover and approximately 36.8% of the total turnover related to the sales of EP products and equipment being recognised during the fourth quarter of 2005; and (ii) trade receivables from Benxi Fanya. The relevant receivables were not yet due as at 31 December 2005 pursuant to the respective contracts. The relative low debtors turnover days in 2006 was mainly due to the fact that: (i) the final installment of Benxi Fanya had been received in mid of 2006; (ii) approximately 62.9% of the total turnover related to the sale of EP products and equipment was recognised prior to the fourth quarter of the year 2006; and (iii) the settlements in respect of the prior years sales, were made pursuant to the payment terms of the respective contracts. The slight increase in debtors turnover day for the first half year of 2007 is mainly due to the recognition of approximately 65.3% of the total turnover related to the sale of EP products and equipment during the second quarter. As at 30 June 2007, the amount overdue more than 30 days was approximately RMB1.2 million, representing approximately 2.0% of the total accounts receivable.

Prepayments, deposit and other receivables

Prepayments, deposit and other receivables balances as at the respective year/period end during the Track Record Period mainly represented advances to staff for business purpose, capitalised listing expenses and payment in advance to sub-contractors for FGD projects.

FINANCIAL INFORMATION

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded prepayments, deposits and other receivables of approximately RMB2.1 million, RMB6.5 million, RMB13.1 million and RMB13.4 million respectively. The increase in balance from 2004 to 2005 was mainly due to the prepayment of professional fees in preparation for the Listing. The relatively higher balances as at 31 December 2006 and 30 June 2007 were primarily resulted from the advance payments of approximately RMB6.8 million and RMB6.7 million made by the Group to its sub-contractors of its FGD projects in the corresponding period respectively.

Amounts due from customers for contract works

The amounts due from customers for contract works balances as at the respective year/period end during the Track Record Period represented the accumulated balance of cost of EP construction engineering projects and recognised profits less the amounts already billed to customers.

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded amounts due from customers for contract work of nil, approximately RMB19.5 million, RMB72.9 million and RMB87.4 million respectively. The Group commenced to undertake FGD projects in 2004 but the Group recorded no income of this source until 2005. The balance in 2005 represented the net accumulated balance of costs incurred for the FGD project in Hebei Xingtai and the profits recognised for such project less the amounts already billed to the FGD customers. The increase in balance in 2006 was mainly due to majority of the costs and recognised profits for FGD projects being recorded in 2006 in accordance with the stage of completion of the three FGD projects in Hebei Xingtai, Shandong Linyi and Henan Xinxiang, the PRC and substantial amounts of equipment for the FGD projects been delivered to the customers near the end of 2006. As at 30 June 2007, the amount was further increased because more services were rendered and more costs were incurred during the period. The increase was partially offset upon received the progress payments from these FGD customers. The projects in Hebei Xingtai and Shandong Linyi were completed in April 2007 and August 2007 respectively.

Amount due from a fellow subsidiary

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded amounts due from Benxi Fanya of approximately RMB62.9 million, RMB17.5 million, nil and nil respectively. As at 31 December 2004, the amount due from Benxi Fanya was mainly due to the completion of a contract with Benxi Fanya in 2004 with contract sum of approximately RMB60.7 million. The decrease in the amounts due from Benxi Fanya in 2005 from 2004 were mainly due to certain payments were received from Benxi Fanya.

No balances were recorded as at 31 December 2006 and 30 June 2007 because all relevant payments were received before the year end of 2006.

Amount due to a director

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded amount due to Mr. Jiang of nil, nil, approximately RMB3.0 million and RMB3.3 million respectively. The existence of such amounts were mainly attributable to the due expenses related to the Listing paid by Mr. Jiang on behalf of the Group. As at the Latest Practicable Date, such amounts were fully settled by the Group.

FINANCIAL INFORMATION

Trade payables

Trade payables generally include accounts payables for purchases of raw materials and sub-contracting fees. The granting of credit to the Group was on a case-by-case basis and varies depending on different suppliers, but generally 30 days.

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded trade payables of approximately RMB83,000, RMB23.1 million, RMB60.9 million and RMB78.0 million respectively. The increase in trade payables as at 31 December 2004, 2005 and 2006, and as at 30 June 2007 was consistent with the increase in turnover generated from the sale of EP products and equipment, and the FGD projects in the corresponding period.

The following table sets out the creditor turnover days as at the date indicated below:

	For the year ended 31 December			For the six months ended
	2004	2005	2006	30 June 2007
Creditor turnover days (in days) (Note)	<u>0.3</u>	<u>34.4</u>	<u>74.3</u>	<u>97.9</u>

Note: $\frac{\text{Closing balance for trade payables}}{\text{Cost of sales}} \times \text{days of relevant year/period}$

The low turnover days in 2004 was mainly because all the contracts were completed in the first three quarters of the year and most of the relevant costs of those projects were settled before the year end. The increase in creditors turnover days in 2005 and 2006 was mainly due to the purchases of raw materials, components and equipment for the FGD projects and payment of services performed by subcontractors, but the relevant suppliers and subcontractors had not billed the Group, as well as the retention monies which generally to be settled by the Group pursuant to the payment terms set out in the respective contract after the expiry of the warranty period which is generally one year as provided by the suppliers. The creditors turnover days further increased for the six months ended 30 June 2007, which was mainly due to (i) increased purchases of raw material, components and equipment for the sale of EP products and equipment near the period end; (ii) the subcontractors of the EP construction engineering projects had not billed the Group for the services they performed; and (iii) the retention monies which generally to be settled by the Group pursuant to the payment terms set out in the respective contract after the expiry of the warranty, period which is generally one year as provided by the suppliers.

Accruals and other payables

Accruals and other payables balances as at the respective year/period end during the Track Record Period mainly represented accrued administrative expenses, accrued salaries, sales incentives and value added tax payable.

FINANCIAL INFORMATION

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded accruals and other payables of approximately RMB4.2 million, RMB10.7 million, RMB29.3 million and RMB35.5 million respectively. The increasing trend in balances as at each of the Track Record Period was mainly due to increased sales-related expenses, mainly sales incentives and value added tax, which were accrued as a result of the significant increase in sales of the corresponding period.

Trade deposits received

Trade deposits as at the respective year/period end during the Track Record Period mainly represented 10% to 30% of the total contract value received from customers upon signing of contracts.

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded trade deposits received of approximately RMB10.2 million, RMB32.1 million, RMB6.4 million and RMB6.6 million respectively. Since two FGD contracts with total contract sum of approximately RMB264.4 million were signed in 2005, there were significant increase in trade deposits of the Group as at 31 December 2005. These trade deposits were subsequently utilized for offsetting later billings which brought down the balance in 2006.

Inventories

Inventories were mainly made up of raw materials, work-in-progress and finished goods. Raw materials typically comprise resins, steel related materials and chemical products such as quartz sand, polished sheets and fibre glass. Finished goods typically comprise components and equipment acquired or produced by the Group, most of which were already delivered to the customers and pending for testing and approval from the customers. In general, the Group only keeps raw materials in a low level as most of the products and equipment are made to orders. In addition, the finished goods produced or sourced by the Group will be delivered to customers soon upon the receipt of goods from suppliers or the completion of the production.

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Group recorded inventories of approximately RMB31.5 million, RMB24.9 million, RMB147,000 and RMB5.9 million respectively, which comprised raw materials inventories of approximately RMB61,000, RMB117,000, RMB18,000 and RMB9,000 respectively, work-in-progress inventories of approximately nil, nil, nil and RMB4 million respectively and finished goods inventories of approximately RMB31.4 million, RMB24.8 million, RMB129,000 and RMB1.9 million respectively.

The following table sets out the inventory turnover days as at the date indicated below:

	For the year ended 31 December			For the six months ended
	2004	2005	2006	30 June 2007
Inventory turnover days (in days) (Note)	123.1	37.1	0.2	7.5

Note: $\frac{\text{Closing inventory balance}}{\text{Cost of sales}} \times \text{days of relevant year/period}$

FINANCIAL INFORMATION

The relatively high inventory turnover days in 2004 was mainly due to the fact that relatively higher finished goods were kept by the Group as at 31 December 2004 as a result of a large part of the finished goods being under examination and testing by the customers as required under the contracts. The examination and testing procedures involve trial run for certain period before formal acceptance were granted by customers. The relative low inventory turnover days in 2005 and 2006 were mainly attributable to (i) increase of turnover; and (ii) most of the finished goods were tested and approved by the customers before year ended 2005 and 2006. As at 30 June 2007, other than the fact that most of the finished goods were tested and approved by for customers prior to six months period ended 2007, the inventory turnover days of approximately 7.5 was mainly due to in the possession of work-in-progress inventories of approximately RMB4.0 million.

INDEBTEDNESS

Borrowings

At the close of business on 31 October 2007, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this prospectus, save for dividend payable, amounts due to related companies, a fellow subsidiary and a director of approximately RMB22 million, RMB3.0 million, RMB4.5 million and RMB3.3 million respectively, the Group did not have any outstanding bank loans, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures or other loan capital, mortgages, charges.

Contingent liabilities

The Group has granted warranty to its customers in respect of its two completed FGD projects and certain of its products and equipment sold for warranty periods ranging generally from 1 to 2 years after completion of the project or delivery of products and equipment. At the same time, the Group has also received warranty in respect of those sub-contracting works and equipment supplied from certain of its suppliers. The Directors believe that the amount of crystallised warranty liabilities, if any, in excess of amount covered by the warranty given by its sub-contractors and suppliers, will not have a material adverse effect on the overall combined financial position or results of operations of the Group.

Save the aforesaid, as at the close of business on 31 October 2007, the Group did not have any outstanding contingent liabilities.

Commitments

As at the close of business on 31 October 2007, the Group had no contracted but not provided for capital commitment and commitment under non-cancellable operating lease.

FINANCIAL INFORMATION

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding indebtedness at the close of business on 31 October 2007 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

No material changes

Save as disclosed herein, the Directors confirmed that there has not been any material changes in the indebtedness and contingent liabilities of the Group since 30 June 2007 up to the Latest Practicable Date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

Up to the Latest Practicable Date, the Group has been generally financing its operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Share Offer, the Group expects its capital and operating requirements will be funded principally through internally generated cash flows, the net proceeds from the Share Offer and cash in hand. The Directors believe that in the long term, the Group's operations will be funded by internally generated cash flows and, if necessary, additional equity financing or bank borrowings.

Net current assets

Based on the unaudited management accounts of the Group, as at 31 October 2007, the Group had net current assets of approximately RMB468.8 million.

The current assets as at 31 October 2007 totalling approximately RMB906 million comprised of inventories of approximately RMB9.4 million, trade receivables of approximately RMB75.6 million, prepayment and other receivables of approximately RMB17.1 million, prepaid lease premium for land of approximately RMB169,000, amounts due from related companies of approximately RMB445,000, amounts due from minority shareholders of approximately RMB804,000, amounts due from customers for contract work of approximately RMB220.9 million and cash and bank balances of approximately RMB574.6 million. All amounts due from related parties will be settled prior to the Listing.

The then current liabilities of the Group comprised of trade payables of approximately RMB251.1 million, accruals and other payables of approximately RMB67.7 million, dividend payable of approximately RMB22.0 million, amounts due to a director, a fellow subsidiary and related companies of approximately RMB10.8 million, trade deposits received of approximately RMB76.6 million and tax payable of approximately RMB9.0 million. All amounts due to related parties will be settled prior to the Listing.

FINANCIAL INFORMATION

Borrowings and banking facilities

During the Track Record Period, the Group historically financed its capital requirements primarily by internally generated resources and banking borrowings.

As at the close of business on 31 October 2007, the Group had no banking and credit facilities.

Capital structure

As at 31 October 2007, the Group had net tangible assets of approximately RMB531.2 million, comprising non-current assets of approximately RMB62.5 million (comprising property, plant and equipment of approximately RMB53.4 million, prepaid lease payment of approximately RMB7.1 million and available-for-sale financial asset of approximately RMB2.0 million), net current assets of approximately RMB468.8 million.

Cash flows

Key cash flow position of the Group during the Track Record Period was analysed and summarized below.

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June 2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(27,899)	129,288	270,191	72,094	68,996
Net cash used in investing activities	(8,678)	(9,186)	(6,253)	(1,167)	(902)
Net cash used in financing activities	(2,715)	(41,909)	(60,000)	–	(48,000)
Cash and bank balances at the end of relevant year	<u>25,734</u>	<u>103,927</u>	<u>307,865</u>	<u>174,854</u>	<u>327,959</u>

Cash flow from operating activities

The Group's principal source of liquidity is cash generated from operating activities. Net cash used in operating activities for the year ended 31 December 2004 amounted to approximately RMB27.9 million, whilst the net cash inflow from operating activities for the year ended 31 December 2005 was approximately RMB129.3 million. Such increase in cash inflow from operating activities was mainly attributable to the significant increase in profit

FINANCIAL INFORMATION

before taxation by approximately 231.6% to approximately RMB133.2 million in 2005. The increase in profit was primarily attributable to the increase in turnover resulted from increase in number of contracts secured in 2005. Moreover, the increase in cash flow from operating activities was partly attributable by the settlements of balances due from related companies and the increase in trade deposits received from the customers due to the substantial growth in turnover in 2005. Such growth in sales was mainly attributable to the fact that approximately 36.8% of the total turnover was recognised during the fourth quarter of 2005 which led to the significant increase in trade receivables which alleviated the overall increase in cash flow from operating activities.

Net cash inflow generated from operating activities amounted to approximately RMB270.1 million in 2006. The continuous improvement in cash flow from operating activities was principally attributable to the further increase in profit before taxation by approximately 41.0% (increased by approximately RMB54.6 million) and the release of working capital by collection of trade receivables and amounts due from contract customers, the decrease in inventories of approximately RMB24.7 million and settlements of balances due from directors and the increase of trade payables.

Net cash inflow generated from operating activities amounted to approximately RMB69.0 million in the six months ended 30 June 2007, whilst the net cash inflow from operating activities for the six months ended 30 June 2006 was approximately RMB72.1 million. The decrease of the cash flow from operating activities was principally attributable to the net effect of increase in profit before taxation by approximately RMB18.6 million; net increase of amounts due from contract customers of approximately RMB14.5 million, the slight increase in trade deposits received and settlements of balances due from a director in the six months ended 30 June 2006 amounted to approximately RMB11.2 million.

Cash flow from investing activities

Net cash used in investing activities in 2004 mainly comprised approximately RMB3.9 million for construction of production plants, approximately RMB2.8 million for acquisition of production facilities and equipment and approximately RMB2.0 million for investments in unlisted equity securities issued by private entities incorporated in the PRC.

Net cash used in investing activities in 2005 mainly comprised approximately RMB8.4 million for placement of pledged bank deposits for FGD contract performance guarantee. The net cash used in investing activities in 2006 mainly comprised approximately RMB2.9 million for acquisition of Wuxi Zhong Dian, approximately RMB3.7 million for acquisition of motor vehicles for the Group and approximately RMB0.4 million for the refund of pledged bank deposits for FGD contract performance guarantee upon completion of certain contracts.

Net cash used in investing activities in the six months ended 30 June 2007 mainly comprised approximately RMB2.1 million spent on renovation of office of the Group and approximately RMB1.1 million for the refund of pledged bank deposits for FGD contract performance guarantee upon completion of certain contracts.

FINANCIAL INFORMATION

Cash flow from financing activities

For the year ended 31 December 2004, the net cash used in financing activities represented the interest payment for the Group's bank borrowings of RMB50 million. The increase in net cash used in financing activities in 2005 was mainly due to the full repayment of bank loan of RMB50 million and interest thereon by the Group and additional capital injection in Wuxi Pan-Asia. Cash outflow from financing activities in 2006 and the six months ended 30 June 2007 represented payment of dividends totalling RMB60 million and RMB48 million respectively.

Foreign exchange

During the Track Record Period, the entire sales and EP construction engineering projects of the Group were denominated in Renminbi. The majority of purchase, operating expense and capital expenditure of the Group were denominated in Renminbi. Accordingly, the Directors are of the view that, to a certain extent, the Group has been and will continue to be exposed to foreign currency exchange risk.

During the Track Record Period, the Group did not experience any material operating difficulties in or significant adverse effects of liquidity during periods of fluctuations in currency exchange rates in the past. As such, the Directors do not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems for the Group. Given the above, the Group has not implemented any financial arrangements for hedging purpose. Notwithstanding the aforesaid, the Group will monitor its foreign exchange exposure and re-assess its foreign exchange policies from time to time and may enter into hedging arrangements to mitigate its exchange exposure if necessary.

Working capital

Taking into account the cashflow generated from the operating activities, the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the Share Offer and having regard to the existing business plan of the Group, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

RELATED PARTY TRANSACTIONS

Since the commencement of the Track Record Period and up to the Latest Practicable Date, certain transactions as set out below were made between the Group and its related parties. As at the Latest Practicable Date, all such transactions were discontinued.

Benxi Fanya

Benxi Fanya was at the relevant time owned as to 80% by AGT (HK), and as to 20% by an Independent Third Party. AGT (HK) is beneficially owned as to 60%, 20% and 20% by Ms.

FINANCIAL INFORMATION

Qian Yuanying (the spouse of Mr. Jiang), Mr. Jiang Lei and Mr. Jiang Xin (both of whom are sons of Mr. Jiang) respectively. Benxi Fanya is principally engaged in generating electricity and heat.

The Group sold pipes and equipment to Benxi Fanya for its renewal and expansion of its pipelines network for the supply of heat in 本溪 (Benxi), Liaoning Province, the PRC with aggregate recognised sales amounted to approximately RMB51.9 million and RMB37.4 million for the year ended 31 December 2004 and the year ended 31 December 2005 respectively. Since the completion of the network renewal and expansion work which was a project-based transaction, no sales were made by the Group to Benxi Fanya during the year ended 31 December 2006. As at the Latest Practicable Date, no transaction between the Group and Benxi Fanya was anticipated in the years of 2007 and 2008. Should there be any future transaction between the Group and Benxi Fanya, the Company will comply with the applicable requirements of the Listing Rules. The Directors believe that a lack of transactions with Benxi Fanya following the completion of its earlier projects does not have any material impact on the results and operations of the Group.

During the Track Record Period, the Group has granted payment terms to Benxi Fanya with 20% of the contract sum payable after installation and passing of the testing and the remaining payable within four years provided that there were no quality problems. As advised by the Directors, such payment terms were granted after arm's length negotiations between the Group and Benxi Fanya. The factors taking into consideration for granting such payment term to Benxi Fanya were consistent with those applied on Independent Third Parties. As confirmed by the Directors, the total contract sums under the relevant contracts with Benxi Fanya were settled in full within two and a half years. The Directors and the Sponsor are of the view that the sales to Benxi Fanya were entered into on normal commercial terms, fair and reasonable and on an arm's length basis.

Jiangsu Tianyuan

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

The Group purchased thermal insulation materials from Jiangsu Tianyuan for its production of pipes for Benxi Fanya of approximately RMB16.6 million (excluding value-added tax) during the year ended 31 December 2004. With the termination of sales to Benxi Fanya as mentioned above in this section, the transactions between the Group and Jiangsu Tianyuan also ceased. Then in January 2007, Jiangsu Tianyuan and the Group concluded a contract for the sum of approximately RMB3.7 million for the purchase of thermal insulation materials for the processing of, among other things, chimney, absorbers and pipes in the FGD project in Xinxiang, Henan Province, the PRC. Such transaction with Jiangsu Tianyuan was completed in August 2007. The Directors believe that completion of the transactions with Jiangsu Tianyuan does not have any material impact on the results and operations of the Group. The Company will comply with the applicable requirements of the Listing Rules should there

FINANCIAL INFORMATION

be any further transactions between the Group and Jiangsu Tianyuan. The Directors and the Sponsor are of the view that the above transactions with Jiangsu Tianyuan were entered into on normal commercial terms, fair and reasonable and on an arm's length basis.

SEEDRI

Prior to the acquisition of 70.05% equity interest of SEEDRI by Wuxi Zhong Dian by way of capital injection on 11 August 2006, and the acquisition of the entire equity interest of Wuxi Zhong Dian by Wuxi Pan-Asia on 25 August 2006, Shanghai Kaida was indirectly (through Shanghai Industrial and Shanghai Gongcheng) interested in approximately 94.7% equity interest in SEEDRI. Shanghai Kaida is directly owned as to 60% by Mr. Jiang and 40% by Mr. Jiang Lei, the son of Mr. Jiang. On 11 August 2006, the registered capital of SEEDRI was increased from RMB3,220,000 to RMB10,750,000, and the increased portion of RMB7,530,000 (representing 70.05% of the enlarged registered capital of SEEDRI) was owned by Wuxi Zhong Dian. On 25 August 2006, Wuxi Pan-Asia acquired the entire equity interest in Wuxi Zhong Dian. Following such acquisition, SEEDRI has become a member of the Group. Pursuant to an equity transfer agreement dated 21 March 2007 made between Shanghai Kaida and Shanghai Huanghe Assets Management Limited (上海黃河資產管理有限責任公司) ("Shanghai Huanghe"), an Independent Third Party, Shanghai Kaida transferred all its equity interest in Shanghai Industrial and Shanghai Gongcheng (immediately before such transfer, Shanghai Kaida through Shanghai Industrial and Shanghai Gongcheng, was indirectly interested in approximately 28.37% equity interest in SEEDRI) to Shanghai Huanghe.

Prior to the acquisition of Wuxi Zhong Dian, SEEDRI rendered design services to the Group with aggregate fees amounting to approximately RMB4,904,000 for the year ended 31 December 2006. The Directors confirmed that the design services rendered by SEEDRI were entered into on normal commercial terms, in the usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

Others

During the Track Record Period, Mr. Jiang made some drawings from the director's current account of certain members of the Group. As at 31 December 2004 and 31 December 2005, the total amount due from Mr. Jiang were approximately RMB8.1 million and RMB20.2 million respectively. Such drawings were for Mr. Jiang's personal use.

Such drawings were unsecured, interest free and had no fixed terms of repayment. Mr. Jiang fully repaid such accounts payable to the Group by September 2006.

DISCLOSURE UNDER RULES 13.13-19 OF THE LISTING RULES

Pursuant to Rule 13.13 to Rule 13.19 of the Listing Rules, a disclosure obligation arises where the relevant advance to an entity, financial assistance or guarantees to affiliated companies of the Group exceeds 8% of the Group's total market capitalization.

The Directors have confirmed that, assuming as if the capital structure of the Company had been in place and the Company had an expected market capitalization of HK\$2,160 million

FINANCIAL INFORMATION

(which was calculated based on the estimated 800,000,000 Shares in issue (following the issuance of 200,000,000 Offer Shares without taking into account the effect of the Over-allotment Option) immediately upon the Company's flotation on the Stock Exchange at an Offer Price of HK\$2.70 each) throughout the Track Record Period and save as disclosed above, there were no advances to entities, no financial assistance, and no guarantees to affiliated companies of the Company during the Track Record Period which would otherwise give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Company been listed on the Stock Exchange as at the respective date.

DISTRIBUTABLE RESERVES

The Company was incorporated in the Cayman Islands on 16 August 2006. There were no reserves available for distribution to the Shareholders as at 30 June 2007 (being the date to which the latest audited financial statements of the Group were made up) as the Company did not earn any income since its incorporation.

DIVIDEND POLICY

General dividend policy

The Directors consider that, in general, the Group's decision to make a recommendation for the payment of dividends will depend on, inter alia, the Group's results of operations and cash flows, the Group's financial condition, general business conditions, the Company's capital requirements and future prospects, Shareholders' interests, statutory and regulatory restrictions on the payment of dividends by the Company and the operating subsidiaries of the Company and others factors the Directors deem relevant from time to time.

Apart from interim dividends, dividend declared by the Directors shall be subject to Shareholder's approval.

It is the present intention of the Directors that, upon the Listing and subject always to the above, the Company will declare, for each year, dividends to Shareholders of not less than 30% of the audited consolidated profit after tax of the Group.

Effect of differences in accounting profits on dividends

The Company is essentially an investment holding company. Substantially all of the Group's business operations are conducted through its subsidiaries in the PRC. The Company's ability to pay dividends is therefore dependent upon the earnings of its subsidiaries and their distribution of funds to it, primarily in the form of dividends.

The reserves available for distribution of the subsidiaries established in the PRC is determined in accordance with the PRC GAAP which may differ from that arrived at by adopting the Hong Kong GAAP. There is no assurance that the distributable reserve of the Group's PRC subsidiaries will be comparable to the reported reserve under the Hong Kong

FINANCIAL INFORMATION

GAAP. Accordingly, the operating subsidiaries of the Group's distributable earnings will be equal to its profits, as determined in accordance with PRC GAAP or Hong Kong GAAP, whichever is lower, less allocations to statutory reserves, if any.

Others

The Directors consider that the Company's dividend policy mentioned above will not materially affect the Company's working capital position in the coming years.

No dividends have been paid or declared by the Company since the date of its incorporation.

During the Track Record Period, Wuxi Pan-Asia, the key operating unit of the Group, has declared dividends totalling RMB130 million which represented approximately 34.3% of the accumulated profit for the three years ended 31 December 2006 and the six months ended 30 June 2007.

PROPERTY INTERESTS

Property interests held by the Group in the PRC

The Group owns an industrial complex located at number one of Chuanshan Road, Yixing City, Jiangsu Province, the PRC. The industrial complex consists of three buildings and ancillary structures. The total gross floor area of the buildings is approximately 9,429.18 sq.m. As advised by the PRC Legal Advisers, the Group has legally obtained the ownership and title of the property and is entitled to freely transfer, let and mortgage the property.

The Group also owns an industrial complex at number one of Chuanzhang Road, Yixing City, Jiangsu Province, the PRC. The industrial complex consists of six buildings and other auxiliary structures with total gross floor area of approximately 7,353.58 sq.m. and is occupied by the Group for office, apartment and ancillary facilities except a gross floor area of 553.05 sq.m. is rented by the Group to Wuxi Xin Wei High Temperature Ceramics Co., Ltd. as office. Please refer to the paragraph headed "Exempted continuing connected transaction" under the section headed "Business" of this prospectus for details. As advised by the PRC Legal Advisers, the Group has legally obtained the ownership and title of the property and is entitled to freely transfer, let and mortgage the property.

The Group owns a six-storey dormitory building, namely, Block 18, number one of Chuanzhang Road, Yixing City, Jiangsu Province, the PRC, with a gross floor area of approximately 2,510.01 sq.m. for staff quarter purpose. As advised by the PRC Legal Advisers, the Group has legally obtained the building ownership of the property, but it does not possess the relevant land use rights of the property. In the event that the said property is considered illegal or unauthorized, the relevant government authorities may order forfeiture of the property and payment of fines. The Directors have confirmed that such property is a dormitory building occupied by the Group as staff quarter. As at the Latest Practicable Date, the Group

FINANCIAL INFORMATION

had not identified other dormitory building for replacement. However, the Directors consider that if the Group is required to surrender the said premises, the Group can find another dormitory building as staff quarter without encountering any material impediment and such relocation and the costs related thereto will not have a material impact to the Group. Given that: (1) the dormitory building is used as staff quarter and do not relate to the Group's principal production activities; and (2) the Directors' understanding that the Group can find another dormitory building for replacement without encountering any material impediment and the relocation and the costs related thereto will not have a material impact to the Group, the Directors are of the view that the title defect of the dormitory building would not be a material risk to the Group.

The Group also owns a four-storey industry building located at No. 5 Lane 449, North Shanxi Road, Shanghai, the PRC with a gross floor area of approximately 1,084.06 sq.m. for office purpose. The property is situated on allocated land. In the event that SEEDRI transfers, leases, mortgages or otherwise disposes of the allocated land and the building on it, SEEDRI has to comply with certain regulations, such as the land value gain portion of the rental income may be required to be handed over to the State, approval will be necessary for the transfer of the property and gains derived from land value shall be handed over to the State. Given that (1) this property is used as office and do not relate to the Group's principal production activities; and (2) the Directors' understanding that the Group can find another property for replacement without any material impediment and the relocation and the costs related thereto will not have a material impact to the Group, the Directors are of the view that the location of the property on allocated land would not be a material risk to the Group.

The total gross floor area of properties numbers 3 and 4 as set out in appendix III to this prospectus is approximately 3,594.07 sq.m., representing approximately 17.6% of the total gross floor area of all the property interests held by the Group as at the Latest Practicable Date. Praise Fortune, Mr. Jiang, Mr. Jiang Lei and Mr. Jiang Xin have given joint and several indemnities in favour of the Group in respect of such properties. For details of such indemnities, please refer to the paragraph headed "Estate duty, tax and other indemnities" in appendix V to this prospectus.

Property valuation

The property interests of the Group have been valued at RMB39,950,000 as at 30 September 2007 by American Appraisal China Limited, an independent property valuer. The text of the letter, with a summary of valuations, and a valuation certificate of each of these property interests prepared by American Appraisal China Limited are set out in appendix III to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 June 2007 (being the date to which the latest audited financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

The Directors believe that the EP industry has good development prospects given the rapid economic growth of the PRC economy and the PRC Government's emphasis on EP. The Group's main goal is to strengthen its position in the EP market in the PRC and to tap the growing market potential. To achieve these goals, the Group has formulated a series of development plans as set out below.

Expansion of production capabilities

As disclosed in the paragraph headed "Fine processing workshop and assembly workshop" under the section headed "Business" in this prospectus, the Group is able to manufacture and process most non-standardised parts of the water treatment system such as chemical dosing device, reaction pond, pipes, scum removal device, sludge removal device and aerator. However, most non-standardised parts of the flue gas treatment system such as precipitate removal system, absorber system and limestone system are sourced from and processed by external suppliers.

The Directors believe that the ability of manufacturing and processing non-standardised components and equipment enhances its bargaining power with customers on fees because of the customization works involved. In addition, such ability can help reduce its costs as compared to procuring such services from third parties and has allowed the Group to have better cost control. The Directors are of the view that the Group's ability to manufacture and process most of the non-standardised components and equipment of a water treatment system was one of the factors contributed to its high profit margin during the Track Record Period as sale of water treatment products and equipment accounted for approximately 42.5%, 48.3%, 83.0% and 83.7% of the total sale of products and equipment for each of the Track Record Period. Having regard to the above, the Group has been focusing on manufacturing and processing non-standardised components and equipment. Historically, the Group has not made substantial investment in expanding its production facilities because the Directors consider that the cash on hands (cash and bank balances of approximately RMB328.0 million as at 30 June 2007) were necessary for the Group to maintain a healthy working capital position, particularly in view of the funding requirement when undertaking a new project.

With a view to maintaining or further enhancing its profit margin, and in view of the anticipated growth in demand for EP products and services in the coming years and to consolidate the Group's position in the EP industry, the Group intends to acquire land and set up a new and larger production plant in Jiangsu, the PRC to expand its production and processing capabilities in order to increase the varieties of non-standardised components and equipment in particular, storage bunker and stirring reactor in a limestone system, recycle tower and sprayer tower in an absorber system, and precipitator and cyclone separator in a precipitate removal system, to be offered to its customers. As advised by the Directors, the Group can handle flue gas treatment projects with a total installed capacity of 3,600MW annually after the establishment of the new production plant. In addition, the Directors are confident on the water treatment business as supported by the increasing amount of sale contracts in relation to water treatment secured during the Track Record Period, and therefore, intend to purchase more new and advanced machinery to produce, among other things, city wastewater treatment equipment and industrial wastewater recycling equipment.

FUTURE PLANS AND USE OF PROCEEDS

To cater for the above production expansion plan, the Group intends to purchase more new and advanced machinery including, among other things, two multiple-drilling machines, two laser numerical control cutting machines, two numerical control shearing machines, two hydraulic forming machines, two numerical control bending machines, ten carbon dioxide gas arc welding machines, 50 cranes/traveling cranes, three lathe, four bending machines, one steel plate pre-heat treatment equipment, two numerical control milling machines and four punching machines. Based on the current quotations obtained from the suppliers, the machines that the Group currently intends to purchase cost a total of about HK\$110 million. Such machines are generally of more advanced models as compared to the Group's existing production machinery. For example, some of them will have numerical control, which enables the Group to carry out processing work with greater precision and higher efficiency. The Directors consider that with the establishment of a new production base and the addition of new and more advanced production equipment, the processing and production capabilities of the Group will be enhanced and the competitiveness of the Group will be strengthened. As at the Latest Practicable Date, the Group had not entered into any letter of intent or agreement for the acquisition of such land nor identified any definite acquisition target.

Acquisition and/or establishment of EP related businesses or investments

Depending on the market opportunities, the Group intends to acquire and/or establish EP related businesses or engages in investments that will enable the Group to strengthen its market position and enhance its competitiveness in the EP industry. The Directors believe that through such acquisitions and/or establishment and/or investments, the Group will be able to benefit from possible synergetic effects to its existing business operation. As at the Latest Practicable Date, the Group had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target for expansion purpose.

Enhancement of research and development capability

Currently, the Company does not process the core technologies of FGD. For the three FGD projects undertaken by the Group during the Track Record Period, the Group has nominated oversea technical consultants to undertake the basic design with technical parameters and specifications for the FGD systems. In order to strengthen the Group's technological competence and research and development capability and to differentiate the Group's position in the EP market, the Group intends to develop or acquire core technologies of FGD such that it can apply its own technologies in the FGD Projects in the future. In addition, the Group intends to acquire and/or research and develop new technologies in order to increase the variety of services to be offered to its customers.

Establishment of simulated control facilities for flue gas treatment

Currently, in the absence of its own simulated control facilities for flue gas treatment, training to customers for the scenario practice of controlling the flue gas treatment facilities has been provided by technical consultants. In the long run, it is beneficial to the Group for having its own simulated control facilities for flue gas treatment. The Directors believe that the

FUTURE PLANS AND USE OF PROCEEDS

simulated control facilities for flue gas treatment not only would result in cost saving in long run but also would enhance the Group's professional image in the industry and can thereby attract more potential customers.

Enhancement of sales service and extension of sales network

Given the Group's customers are generally non-recurring in nature, it is essential to extend its sales network in order to sustain its sales level. In addition to Yixing and Shanghai, the PRC, the Group plans to set up six regional sales and support centres in different locations in the PRC so as to extend the coverage of its sales network and facilitate its operations and to meet the rapid expansion of the Group.

PROPOSED USE OF PROCEEDS

Based on an Offer Price of HK\$2.70 per Share (being the mid-point of the Offer Price range between HK\$2.40 and HK\$3.00 per Offer Share, the net proceeds from the Share Offer (assuming Over-allotment Option is not exercised), after deducting of the related expenses, are estimated to be approximately HK\$491 million. The Directors presently intend to apply the net proceeds as follows:

- approximately HK\$228 million for the implementation of the Group's expansion strategy through setting up new production facilities:
 - (i) approximately HK\$118 million for the acquisition of new production equipment;
 - (ii) approximately HK\$60 million for the construction of new production facilities; and
 - (iii) approximately HK\$50 million for the acquisition of land;
- approximately HK\$119 million for the implementation of the Group's expansion strategy by acquisition and/or establishment of EP related businesses or investment targets;
- approximately HK\$45 million for the enhancement of research and development capability:
 - (i) approximately HK\$25 million for the acquisition of EP related technologies and development of new technologies; and
 - (ii) approximately HK\$20 million for establishment of a research and development center;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$25 million for establishing simulated control facilities for flue gas treatment;
- approximately HK\$25 million for establishing sales and support centres in different locations in the PRC; and
- the balance of approximately HK\$49 million for general working capital of the Group.

In the event that the Offer Price is fixed at HK\$3.00 per Offer Share, being the highest point of the indicative Offer Price range, the net proceeds will be increased by approximately HK\$58 million. The Directors presently intend to apply such additional net proceeds as to HK\$38 million for general working capital of the Group and as to HK\$20 million for establishing sales and support centres. In the event that the Offer Price is fixed at HK\$2.40 per Offer Share, being the lowest point of the indicative Offer Price range, the net proceeds will be reduced by approximately HK\$58 million. In such circumstances, the Directors presently intend to reduce correspondingly the application of the proceeds for the acquisition and/or establishment of EP related businesses or investments.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$2.70 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$2.40 per Offer Share and HK\$3.00 per Offer Share) the net proceeds will be increased by approximately HK\$79 million (the “Additional Proceeds”). The Directors intend to apply approximately 60% of the Additional Proceeds for the acquisition and/or establishment of EP related businesses or investments and approximately 40% as for general working capital purpose.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if the Group is unable to effect any part of the future plans as intended, the Group may hold such funds in short-term interest-bearing deposits with banks and/or financial institutions in Hong Kong for so long as it is in the best interests of the Group and the Shareholders as a whole. The Directors may also re-allocate the use of the net proceeds should any of the above future plans not be implemented. In such event, the Company will comply with the appropriate requirements under the Listing Rules and issue an announcement if there is any material change or modification to the use of proceeds.

CORNERSTONE INVESTORS**GE Asset Management Incorporated (“GEAM”)**

GEAM is a company incorporated in the United States, with its principal office at 3001 Summer Street, Stamford, Connecticut, United States and is purchasing the Cornerstone Shares (as defined below) in its capacity as discretionary investment manager.

According to the information downloaded from its website, GEAM (along with its subsidiaries) is a multi-product investment firm with over 450 employees worldwide and offices in the United States, Canada, Asia and Europe. Clients served by GEAM include corporations, public funds, health care organizations, sub-advised relationships, insurance companies, foundations, endowments, and Taft-Hartley programs. GEAM has a heritage of over seventy years of asset management experience. Endowed with more than US\$197 billion (equivalent to approximately HK\$1,536.60 billion) (as at 30 June 2007) in assets under management, GEAM is one of the largest managers of institutional assets in the United States.

General Motors Investment Management Corporation (“GMIMC”)

GMIMC is a company incorporated in the United States, with its registered address at 767 Fifth Avenue, 15th Floor, New York, NY 10153, United States. It is the Named Fiduciary of the First Plaza Group Trust. The First Plaza Group Trust is a 401(a) plan under the US Internal Revenue Code of 1986, set up under The Employee Retirement Income Security Act of 1974 to manage employee benefit plans held for the benefit of employees of the General Motors Corporation. JP Morgan Chase Bank NA, a National Association incorporated in the United States, acts as the Trustee to the First Plaza Group Trust.

By an investment management agreement dated 27 June 2006, GMIMC has appointed Martin Currie Inc (“MCI”) as its investment sub adviser. MCI is a corporation organized under the laws of the State of New York, United States, and having its principal office at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ES, Scotland, United Kingdom.

The China Development Capital Partnership Master Fund LP (“CDCPMF”)

China Development Capital GP Limited (“CDCPGP”) is a company incorporated in Bermuda whose registered office is at Washington Mall I, Phase I, 22 Church Street, Hamilton HM 11, Bermuda. It is acting in its capacity as general partner to CDCPMF, being an exempted limited partnership established under the laws of Bermuda. CDCPMF and CDCPGP have appointed Martin Currie Investment Management Limited (“MCIM”) to act as investment manager to CDCPMF.

CORNERSTONE INVESTORS

MCIM is a company incorporated in Scotland with its registered offices at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ES Scotland, United Kingdom.

MCIM and MCI are specialist active equity managers based in Edinburgh, Scotland, United Kingdom. They manage over US\$31.95 billion (equivalent to approximately HK\$249.21 billion) for clients worldwide, including financial institutions, charities, foundations, pension funds and investment trusts.

None of the Cornerstone Investors will have any board representation in the Company and so far as the Company is aware, the Cornerstone Investors are Independent Third Parties.

THE CORNERSTONE PLACING

As part of the Placing, the Sole Lead Manager have entered into several cornerstone placing agreements on 29 November 2007 and 30 November 2007 with the Cornerstone Investors to place an aggregate of approximately 72,418,000 Cornerstone Shares (assuming an Offer Price of HK\$2.40 per Offer Share (being the lowest point of the Offer Price range) that may be purchased by the Cornerstone Investors, representing in aggregate approximately 9.05% of the issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue (assuming an Offer Price of HK\$2.40 per Offer Share (being the low-point of the Offer Price range) and assuming the Over-allotment Option is not exercised at all) or 36.21% of the Offer Shares (assuming an Offer Price of HK\$2.40 per Offer Share (being the low-point of the Offer Price range) and assuming that the Over-allotment Option is not exercised at all) initially offered under the Share Offer. Under each of the cornerstone placing agreements mentioned above:

- (i) GEAM has agreed to purchase 39,920,000 Shares, representing 4.99% of the issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised at all) or 19.96% of the Offer Shares (assuming the Over-allotment Option is not exercised at all) initially offered under the Share Offer. Assuming the Offer Price is HK\$2.40 per Offer Share (being the lowest point of the Offer Price range), the consideration for such number of Shares that may be purchased is HK\$95,808,000 (excluding brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.004% thereon).
- (ii) GMIMC has agreed to purchase Shares in the sum of approximately US\$4,500,000 (equivalent to approximately HK\$35,100,000). Assuming the Offer Price is HK\$2.40 per Offer Share (being the lowest point of the Offer Price range), GMIMC will purchase about 14,624,000 Shares (rounded down to the nearest board lot), representing approximately 1.83% of the issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised at all) or 7.31% of the Offer Shares (assuming the Over-allotment Option is not exercised at all) initially offered under the Share Offer.

CORNERSTONE INVESTORS

- (iii) CDCPMF has agreed to purchase Shares in the sum of approximately US\$5,500,000 (equivalent to approximately HK\$42,900,000). Assuming the Offer Price is HK\$2.40 per Offer Share (being the lowest point of the Offer Price range), CDCPMF will purchase about 17,874,000 Shares (rounded down to the nearest board lot), representing approximately 2.23% of the issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised at all) or 8.94% of the Offer Shares (assuming the Over-allotment Option is not exercised at all) initially offered under the Share Offer.

The offer of Cornerstone Shares to the Cornerstone Investors for long term investment purpose will not be affected by any reallocation of Offer Shares between the Placing and the Public Offer in the event of oversubscription under the Public Offer. Each of the Cornerstone Investors will not subscribe Shares under the Share Offer other than the Cornerstone Shares to be subscribed pursuant to the relevant cornerstone placing agreements. The number of Cornerstone Shares allocated to the Cornerstone Investors pursuant to the cornerstone placing agreements will be disclosed in the allocation result announcement which is expected to be published on or about 20 December 2007. The Cornerstone Shares to be held by each of the Cornerstone Investors shall be counted towards the public float of the Company.

Restrictions on disposals by each of the Cornerstone Investors

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Sole Lead Manager, it shall not, whether directly or indirectly, at any time during the period of six months following the Listing Date dispose of any of the Cornerstone Shares purchased by it and any shares or other securities of the Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganization or any interest in any company or entity holding any of the Cornerstone Shares. The Sole Lead Manager confirms that the Cornerstone Investors should only be released from the above lock up arrangements in exceptional circumstances.

The above restrictions shall not apply to the transfer of all or part of the Cornerstone Shares to any entity that is owned, directly or indirectly, by the Cornerstone Investor (the "Cornerstone Subsidiary") or in case the Cornerstone Investor is a fund, to any investment or collective investment fund, segregated account or special purpose vehicle managed or advised by such Cornerstone Investor or the same investment manager as such Cornerstone Investor, or any company that controls, is controlled by or under the common control with such Cornerstone Investor or the investment manager of such Cornerstone Investor (the "Cornerstone Affiliate"). Each such Cornerstone Subsidiary or Cornerstone Affiliate being transferred any of the Cornerstone Shares from the relevant Cornerstone Investor will be subject to the restrictions on disposals of such Cornerstone Shares imposed on the Cornerstone Investor pursuant to the relevant cornerstone placing agreement. If such Cornerstone Subsidiary or Cornerstone Affiliate ceases to be a Cornerstone Subsidiary or Cornerstone Affiliate, it shall transfer the Cornerstone Shares to the Cornerstone Investor or another Cornerstone Subsidiary or Cornerstone Affiliate which undertakes to abide by the restrictions on disposals imposed on the Cornerstone Investor pursuant to the relevant cornerstone placing agreement.

Conditions

The subscription obligation of the Cornerstone Investors is conditional upon the conditions of the Share Offer set out in the section headed "Structure and conditions of the Share Offer" of this prospectus. If such conditions have not been fulfilled or waived on or before 8:00 a.m. (Hong Kong time) on the Listing Date, the obligation of the Cornerstone Investors to purchase the relevant Cornerstone Shares shall cease.

UNDERWRITING

UNDERWRITERS

Placing Underwriter

Taifook Securities

Public Offer Underwriters

Taifook Securities
China Merchants Securities (HK) Co., Ltd.
CIMB-GK Securities (HK) Limited
ICEA Capital Limited
Kingsway Financial Services Group Limited
Mega Capital (Asia) Company Limited
Phillip Securities (Hong Kong) Limited
Polaris Capital (Asia) Limited
South China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the related Application Forms, and is offering the Placing Shares for subscription by the professional, institutional and private investors on and subject to the terms and conditions of the Placing, in each case at the Offer Price. Subject to, among other things, the approval of the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (and such listing and permission not subsequently being revoked prior to the date on which dealings in the Shares first commence on the Stock Exchange) being granted by the Listing Committee of the Stock Exchange on or before Friday, 21 December 2007 or such later date as the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may in its absolute discretion determine, the Public Offer Underwriters have agreed to subscribe or procure subscribers, on the terms and conditions of this prospectus and the Application Forms relating hereto, for the Public Offer Shares now being offered for subscription but not taken up under the Public Offer, and the Placing Underwriter has agreed to subscribe or procure subscribers, on and subject to the terms and conditions of the Placing, for the Placing Shares.

Grounds for termination

The Sole Lead Manager (for itself and on behalf of the other Underwriters) are entitled to terminate the Underwriting Agreement by giving written notice to the Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be Friday, 21 December 2007) if certain events, including the following events, shall occur prior to such time:

- (a) there has come to the notice of any of the Sponsor, the Sole Lead Manager and the other Underwriters that:
 - (i) any statement contained in this prospectus or the Application Forms relating thereto or the documents for the Share Offer was when such document was

UNDERWRITING

issued, or has since become, untrue, incorrect or misleading in any material respect in the sole and absolute opinion of the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters); or

- (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus or the documents for the Share Offer, constitute a material omission therefrom in the sole and absolute opinion of the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters); or
 - (iii) any of the representations, warranties and undertakings contained in the Underwriting Agreement is untrue or inaccurate in any respect which the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) in its sole and absolute opinion considers to be material in the context of the Share Offer; or
 - (iv) any event, act or omission which gives or is reasonably likely to give rise to a material liability of any of the Company, the executive Directors and the covenantors under the Underwriting Agreement pursuant to the indemnities given under the Underwriting Agreement; or
 - (v) any of the obligations or undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors, the covenantors under the Underwriting Agreement has not been complied with or observed by any of them in any respect considered by the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) to be material; or
 - (vi) any information, matter or event which in the sole and absolute opinion of the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may lead to a material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of the Group taken as a whole; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any new law or regulation or any change in existing laws or regulations of any nature whatsoever or any change in the interpretation or application thereof by any court or other competent authority of the Cayman Islands, Hong Kong, the PRC, the BVI or any other jurisdiction relevant to any member of the Group (each a “Relevant Jurisdiction”); or
 - (ii) any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) in local, national, or international financial, political, military, industrial, fiscal or economic conditions or prospects in or affecting any Relevant Jurisdiction; or
 - (iii) any change in the conditions of the local, national or international securities or commodities markets (or in conditions affecting a sector only of such market)

UNDERWRITING

in or affecting any Relevant Jurisdiction including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or

- (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (v) a change or development involving a prospective change in taxation or exchange control (or the implementation of exchange control) in or affecting any Relevant Jurisdiction; or
 - (vi) any event, or series of events, beyond the reasonable control of the Underwriters, including, without limitation, acts of government, strikes, lock-outs, fire, explosions, flooding, civil commotion, acts of war, acts of God, acts of terrorism, accidents, interruption or delay in transportation, economic sanctions, public disorder, riots and epidemic in or affecting any Relevant Jurisdiction; or
 - (vii) any litigation or claim brought by any third party against any member of the Group which will or is reasonable likely to result in the Group incurring liability that is material to the Group as a whole; or
 - (viii) the imposition of economic sanctions relating to the business of the Group, in whatever form, directly or indirectly, by, or for the U.S. or by the European Union (or any member thereof) on the PRC; or
 - (ix) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters in a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
 - (x) any other change whether or not ejusdem generis with any of the foregoing,
- and which, in each case, in the sole and absolute opinion of the Sole Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters):
- (aa) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group (taken as a whole); or
 - (bb) has or will have or is likely to have a material adverse effect on the success of the Placing and/or the Public Offer or the level of the Placing Shares or Public Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
 - (cc) makes it inadvisable or inexpedient to proceed with the Placing and/or the Public Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by the documents for the Placing and the Public Offer.

UNDERWRITING

UNDERTAKINGS

Each of Praise Fortune, Mr. Jiang Lei and Mr. Jiang Xin has undertaken to the Company, the Sponsor and the Underwriters not to dispose of its/his interest in the Company during certain period. Details of such non-disposal undertaking are set out in the paragraph headed “Restrictions on disposal of Shares” in the section headed “Persons having notifiable interests under the SFO” in this prospectus.

The Company has also undertaken to the Underwriters that except pursuant to the Share Offer (including the Over-allotment Option), the Capitalisation Issue, the grant of options under the Share Option Scheme and the exercise of the subscription rights attaching to the options that may be granted under the Share Option Scheme, it will not without the prior written consent of the Sole Lead Manager (for itself and on behalf of the Underwriters) (such consent not to be unreasonably withheld or delayed) and subject always to the compliance of the Listing Rules, offer, allot or issue, or agree to allot or issue, grant or agree to grant any option, right or warrant over, either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for equity securities of the Company (whether or not of a class already listed) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to do so within the first six months from the Listing Date.

COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Offer Shares, out of which they will (as the case may be) pay any sub-underwriting commissions. In addition, the Sponsor will receive advisory and documentation fees for acting as the Sponsor to the Share Offer. The Company intends to appoint the Sponsor as its compliance adviser before the Listing Date in accordance with Rule 3A.19 of the Listing Rules. Please refer to the paragraph headed “Compliance adviser” of the “Directors, senior management and staff” section of this prospectus for further details. Assuming the Over-allotment Option is not exercised at all, based on an Offer Price of HK\$2.70 (being the mid-point of the indicative Offer Price range of HK\$2.40 per Offer Share and HK\$3.00 per Offer Share), such underwriting commission and fees, together with the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, applicable printing and other expenses relating to the Share Offer are estimated to amount to approximately HK\$49 million in total and are payable by the Company.

SPONSOR’S AND UNDERWRITERS’ INTERESTS IN THE COMPANY

Save for their respective obligations and the Over-allotment Option granted to the Sole Lead Manager under the Underwriting Agreement and the related Stock Borrowing Agreement and the proposed appointment of the Sponsor as compliance adviser of the Company, none of the Underwriters and the Sponsor has any shareholding interest in the Company or any member of the Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The Directors will ensure there will be a minimum 25% of the total issued share capital of the Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Lead Manager, for itself and on behalf of the Underwriters, and the Company on or before the Price Determination Date, which is currently scheduled on Thursday, 13 December 2007 or by no later than Sunday, 16 December 2007 at 6:00 p.m. (Hong Kong time). **If the Sole Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Sunday, 16 December 2007, the Share Offer will not become unconditional and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$3.00 per Offer Share and is expected to be not less than HK\$2.40 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Sole Lead Manager, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with the Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed “Summary” of this prospectus, and any other financial information which may change as a result of such reduction. **If applications for Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price range is so reduced such applications cannot be subsequently withdrawn.** In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Company expects to announce the final Offer Price, the level of indication of interest under the Placing and the basis of allotment of the Public Offer Shares under the Public Offer on or before Thursday, 20 December 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company’s website at www.paep.com.cn and the website of the Stock Exchange at www.hkex.com.hk.

Results of allocations in the Public Offer, including the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC will be made available via different means as described under the paragraph headed “Publication of results” under the section headed “How to apply for the Public Offer Shares” of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$3.00 per Offer Share and is expected to be not less than HK\$2.40 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum price of HK\$3.00 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% SFC transaction levy, amounting to a total of HK\$6,060.54 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK\$3.00 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed “How to apply for the Public Offer Shares” in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer, the Capitalisation Issue and Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option and upon the exercise of any options that may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, among other things, that the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Sole Lead Manager (for itself and on behalf of the other Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Underwriting Agreement and grounds for termination are set out in the section headed “Underwriting – Underwriting arrangements and expenses” in this prospectus.

If, for any reason, the Price Determination Agreement is not entered into, the Share Offer will not proceed.

If these conditions are not fulfilled on or before the dates/time specified in the Underwriting Agreement or such later date/time as the Sole Lead Manager (for itself and on behalf of the other Underwriters) may in its absolute discretion determine, the Share

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Offer will lapse and your application money will be returned to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 200,000,000 Shares will initially be made available under the Share Offer, of which 180,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Placing. The remaining 20,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Public Offer. The number of Shares offered for subscription under the Placing and the Public Offer will be subject to re-allocation on the basis described below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

OVER-ALLOTMENT OPTION

In addition, the Company has granted the Over-allotment Option, exercisable by the Sole Lead Manager on behalf of the Placing Underwriter at any time prior to 4:00 p.m. on the date falling 30 days after the date of this prospectus, subject to the terms of the Underwriting Agreement, to require the Company to allot and issue up to an aggregate of 30,000,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing and/or to satisfy the Sole Lead Manager’s obligation to return Shares borrowed under the Stock Borrowing Agreement. The additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing or to satisfy its obligations to return Shares under the Stock Borrowing Agreement at the discretion of the Sole Lead Manager, on behalf of the Placing Underwriter. The Sole Lead Manager may also, at its option, cover any over-allocations under the Placing through stock borrowing arrangements and the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued under the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of the Company’s enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent approximately 27.71% of the enlarged issued share capital of the Company immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

In order to facilitate settlement of over-allocations in connection with the Placing, the Stock Borrowing Agreement has been entered into between Praise Fortune, being a controlling shareholder of the Company, and the Sole Lead Manager whereby Praise Fortune has agreed with the Sole Lead Manager that, if requested by the Sole Lead Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Sole Lead Manager up to 30,000,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the Placing, if any.

The Public Offer is open to the public as well as to institutional, professional and private investors in Hong Kong. The Placing involves selective marketing of the Placing Shares by the Placing Underwriter to professional, institutional and private investors. Investors may apply for the Shares under the Public Offer and indicate an interest for the Shares under the Placing, but may only receive an allocation of Shares under the Public Offer or the Placing. The Offer Shares are not available for subscription by the Directors, chief executive of the Company, existing beneficial owners of the Shares or their respective associates.

DISCLOSURE MADE PURSUANT TO RULE 10.07(3)

The Stock Borrowing Agreement is in compliance with Rule 10.07(3) of the Listing Rules. Its terms and conditions are as follows:

- (a) such securities lending arrangement with Praise Fortune will only be effected by the Sole Lead Manager for the sole purpose of covering any short position, if any, prior to the exercise of the Over-allotment Option in connection with the Placing;
- (b) the maximum number of Shares to be borrowed from Praise Fortune by the Sole Lead Manager must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option (i.e. 30,000,000 Shares);
- (c) the same number of Shares borrowed must be returned to Praise Fortune or its nominees, as the case may be, not later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the day on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the Sole Lead Manager and Praise Fortune;
- (d) the securities lending arrangement will be effected in compliance with all applicable Listing Rules, laws and regulatory requirements; and
- (e) no payment or other benefit will be made to Praise Fortune and/or its shareholders by the Sole Lead Manager or any of the Underwriters under the securities lending arrangement.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PLACING

The Company is initially offering, at the Offer Price, 180,000,000 Shares (subject to reallocation as mentioned in the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” below), representing 90% of the total number of Shares being initially offered under the Share Offer, for subscription by way of Placing. The Placing is managed by the Sole Lead Manager and fully underwritten by the Placing Underwriter. Pursuant to the Placing, it is expected that the Placing Underwriter or selling agents nominated by it will, on behalf of the Company, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

As part of the Placing, the Sole Lead Manager entered into on 29 November 2007 and 30 November 2007 several cornerstone placing agreements with the Cornerstone Investors, pursuant to which the Cornerstone Investors have conditionally agreed to acquire in aggregate an estimate of about 72,418,000 Shares (assuming the Offer Price is HK\$2.40 per Offer Share (being the lowest point of the Offer Price range)). Please refer to the section headed “Cornerstone Investors” of this prospectus for further details.

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid broad shareholder base to the benefit of the Company and its Shareholders taken as a whole. The level of indication of interest in the Placing are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before Thursday, 20 December 2007. The Placing is subject to the conditions stated in the paragraph headed “Conditions of the Share Offer” above.

THE PUBLIC OFFER

The Company is initially offering, at the Offer Price, 20,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” below), representing 10% of the total number of Shares being initially offered under the Share Offer, for subscription under the Public Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Underwriting Agreement. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus a 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The total number of Shares available under the Public Offer (after taking into account any re-allocation of the Offer Shares between the Placing and the Public Offer referred to below) will be divided equally into two pools: pool A and pool B. The Public Offer Shares in pool A should be allocated on an equitable basis to applicants who have applied for Public Offer Shares with a total subscription amount (excluding amounts of brokerage, Stock Exchange trading fee and SFC transaction levy payable thereon) of HK\$5 million or less. The Public Offer Shares in pool B should be allocated on an equitable basis to applicants who have applied for Public Offer Shares with a total subscription amount (excluding amounts of brokerage, Stock Exchange trading fee and SFC transaction levy payable thereon) more than HK\$5 million and up to the total initial value of pool B. Where one of the pools is undersubscribed, the surplus Public Offer Shares should be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools and may only apply for Public Offer Shares in either pool A or pool B.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant. When there is over subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The Company expects to announce the final Offer Price, the level of indication of interest under the Placing and the basis of allotment of the Public Offer Shares under the Public Offer on or before Thursday, 20 December 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at www.paep.com.cn and the website of the Stock Exchange at www.hkex.com.hk.

Results of allocations in the Public Offer, including the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC will be made available via different means as described under the paragraph headed "Publication of results" under the section headed "How to apply for the Public Offer Shares" of this prospectus.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications and applications for more than 100% of the Public Offer Shares being initially offered for public subscription in either pool A or pool B under the Public Offer are liable to be rejected.

The Public Offer is subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" above.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the stabilisation price will not exceed the initial public offer price. In other jurisdictions, the stabilisation price may or may not be higher than the initial public offer price. A press announcement will be made in the event that the Over-allotment Option is exercised in part or in full.

In connection with the Share Offer, the Sole Lead Manager may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, the Sole Lead Manager may exercise the Over-allotment Option at any time prior to 4:00 p.m. on the date falling 30 days after the date of this prospectus or make (or agree, offer or attempt to make) open-market purchases in the secondary market for the Stabilisation Period (as defined in the succeeding paragraph). The Sole Lead Manager may also sell or agree to sell any Shares acquired in the course of any stabilisation action in order to liquidate any position that has been established by such action. However, there is no obligation on the Sole Lead Manager to conduct any such stabilisation action which, if began, may be discontinued at any time at the absolute discretion of the Sole Lead Manager. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 30,000,000 Shares, which is 15% of the Shares initially available under the Share Offer.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the commencement of trading of the Offer Shares after this prospectus is issued and ends on the 30th day after the last day for the lodging of applications under the Public Offer ("Stabilisation Period"). The Stabilisation Period is expected to expire on 12 January 2008, and that after such date, when no further stabilising action may be taken, demand for the Shares, and therefore its price, could fall.

During the Stabilisation Period, as detailed below, the Sole Lead Manager as stabilising manager or any person acting for it, may offer or agree to purchase, or purchase, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with any such stabilisation transactions, the Sole Lead Manager as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Sole Lead Manager may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Sole Lead Manager will maintain such a position during the Stabilisation Period, are at the sole discretion of the Sole Lead Manager and is uncertain. In the event that the Sole Lead Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of Offer Shares between the Placing and the Public Offer is subject to re-allocation. If the number of Shares validly applied for in the Public Offer:

- (a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then 40,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 60,000,000 Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer;
- (b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then 60,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 80,000,000 Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer;
- (c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 80,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 100,000,000 Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer; and
- (d) in each of the above cases, the number of Shares allocated to the Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

If the Public Offer is not fully subscribed, the Sole Lead Manager (for itself and on behalf of the Underwriters) has the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Sole Lead Manager, for itself and on behalf of the Underwriters, has the authority to re-allocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such unsubscribed Placing Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

METHODS OF APPLYING FOR THE PUBLIC OFFER SHARES

There are two ways to make an application for the Public Offer Shares. You may apply for the Public Offer Shares by either using a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, **you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC.**

APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant maintained in CCASS.

Note: The Offer Shares are not available to the Directors or chief executive of the Company or any of its subsidiaries, existing beneficial owners of the Shares or any of their respective associates, save for the circumstances permitted by the Listing Rules.

Where to collect the Application Forms

Copies of this prospectus, together with the **WHITE** Application Forms, may be obtained during the normal business hours from 9:00 a.m. on Monday, 10 December 2007 until 12:00 noon on Thursday, 13 December 2007 from:

(1) Any of the following addresses of the Underwriters:

Taifook Securities Company Limited

25/F., New World Tower
16-18 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Ltd.

48/F., One Exchange Square
Central, Hong Kong

CIMB-GK Securities (HK) Limited

25/F., Central Tower
28 Queen's Road Central
Hong Kong

ICEA Capital Limited

26/F., ICBC Tower
3 Garden Road
Central, Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Kingsway Financial Services Group Limited

5/F., Hutchison House
10 Harcourt Road
Central, Hong Kong

Mega Capital (Asia) Company Limited

Units 2213-2214
22/F., Cosco Tower
183 Queen's Road Central
Hong Kong

Phillip Securities (Hong Kong) Limited

11-12/F., United Centre
95 Queensway
Hong Kong

Polaris Capital (Asia) Limited

Unit 6503-06, 65th Floor, The Center, 99 Queen's Road Central
Hong Kong

South China Securities Limited

28/F., Bank of China Tower
1 Garden Road
Central, Hong Kong

(2) or any of the following branches of Hang Seng Bank Limited:

Hong Kong Island:

Branch Name	Address
Head Office	83 Des Voeux Road Central
Wanchai Branch	200 Hennessy Road
Des Voeux Road West Branch	52 Des Voeux Road West
Quarry Bay Branch	989 King's Road
Causeway Bay Branch	28 Yee Wo Street
North Point Branch	335 King's Road

Kowloon:

Branch Name	Address
Tsimshatsui Branch	18 Carnarvon Road
Yaumatei Branch	363 Nathan Road
Kowloon Main Branch	618 Nathan Road
Hung Hom Branch	21 Ma Tau Wai Road
Kowloon Bay Branch	Shop P18-P19 Telford Gardens
Pei Ho Street Branch	151 Pei Ho Street
Hankow Road Branch	4 Hankow Road

New Territories:

Branch Name	Address
Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin
Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The **YELLOW** Application Forms, together with copies of this prospectus, may be obtained during the normal business hours from 9:00 a.m. on Monday, 10 December 2007 to 12:00 noon on Thursday, 13 December 2007 from the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or your stockbroker who may have the **YELLOW** Application Forms and prospectus available.

How to complete the Application Forms

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Company or the Sole Lead Manager as the Company's agent may accept it at their respective discretion, and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney. The Sole Lead Manager in its capacity as agent of the Company, has full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

HKSCC's Customer Service Centre

2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Public Offer Shares on your behalf.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to the Company and the Company's Hong Kong branch share registrar.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, you each jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- **instruct and authorize** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for Public Offer Shares on your behalf;
- **instruct and authorize** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
- **instruct and authorize** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Minimum subscription amount and permitted multiples

You may give or cause your broker or a custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Public Offer Shares. Such instructions in respect of more than 2,000 Public Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Public Offer Share given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any number of the Public Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Allocation of Public Offer Shares

For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

If your application for Public Offer Shares is successful:

- No receipt will be issued for application money paid.
- If your application is wholly or partly successful, your **Share certificates** will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your CCASS Investor Participant stock account or the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf, at the close of business on Thursday, 20 December 2007 or under contingent situation, on any other date HKSCC or HKSCC Nominees chooses.
- If you are instructing your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that broker or custodian.
- If you are applying as a CCASS Investor Participant, you should check the results of the Public Offer via the means described below on Thursday, 20 December 2007 and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 December 2007 or such other time/date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your CCASS Investor Participant stock account and (if you are applying by giving electronic application instructions to HKSCC) the amount of refund money credited to your designated bank account.
- The Company will not issue temporary documents of title.

Circumstances in which you will not be allocated Public Offer Shares

1. At the discretion of the Company or its agents:

The Company and its agents have full discretion to reject or accept any application, or to accept only part of any application. The Company and the Underwriters in their capacity as agents for the Company do not have to give any reason for any rejection or acceptance.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

2. *If you do not receive allocation:*

You will not receive any allocation if:

- you make multiple applications;
- you have been allotted any Placing Shares; or
- your payment is not made correctly.

3. *If HKSCC Nominee's application is not accepted:*

HKSCC Nominee's application will not be accepted if:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its terms.

4. *If the allotment of Public Offer Shares is void:*

The allotment of Public Offer Shares to HKSCC Nominees will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

Refund of your money

For applicants for Shares making their applications through **electronic application instructions**, all refunds of your application monies (including brokerage, transaction levy and trading fee) will be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Clearing Participant or CCASS Custodian Participant) on 20 December 2007.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Warning

The subscription of Public Offer Share by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Sponsor, the Directors, the Company and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares. To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that CCASS Investor Participants have problems connecting to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form (as appropriate), or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on 13 December 2007 or such later time as described under the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Shares will be eligible for CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangement have been made for the Shares to be admitted into CCASS.

HOW MANY APPLICATIONS MAY YOU MAKE

There is only one situation where you may make more than one application for the Public Offer Shares.

If you are a nominee, you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees", you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit. **Otherwise, multiple applications are not allowed.**

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or through giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or through giving **electronic application instructions** to HKSCC, and that you are duly authorised to sign the Application Form as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicants or any of your joint applicants together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** application form and give **electronic application instructions** to HKSCC; or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC for more than 100% of the Public Offer Shares being initially offered in either pool A or pool B; or
- apply for, take up or indicate an interest in any Placing Shares or otherwise participate in the Placing; or
- have been allotted or will be allotted Placing Shares under the Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- *control the composition of the board of directors of that company; or*
- *control more than half of the voting power of that company; or*
- *hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Shares is HK\$3.00 each. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. This means that for every 2,000 Public Offer Shares you will pay HK\$6,060.54. The Application Forms have tables showing the exact amount payable for certain multiples of the Public Offer Shares. You must pay the maximum Offer Price, the brokerage, the SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the related Application Forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 13 December 2007. If the Offer Price as finally determined is less than HK\$3.00 per Offer Share, appropriate refund payments (including the related brokerage, Stock Exchange trading fee and SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Details of the procedures for refund are contained below in the section headed "Collection/posting of Share certificates/refund cheques and deposit of Share certificates into CCASS". If your application is successful, the brokerage is paid to participants of the Stock Exchange and the transaction levy are paid to the SFC, and the trading fee is paid to the Stock Exchange.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, 13 December 2007, or, if the application lists are not open on that day, then by 12:00 noon on the next Business Day the lists are open.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Your completed Application Form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any one of the branches and sub-branches of Hang Seng Bank Limited listed under the paragraph headed “Where to collect the Application Forms” above at the following times:

Monday, 10 December 2007 – 9:00 a.m. to 5:00 p.m.
Tuesday, 11 December 2007 – 9:00 a.m. to 5:00 p.m.
Wednesday, 12 December 2007 – 9:00 a.m. to 5:00 p.m.
Thursday, 13 December 2007 – 9:00 a.m. to 12:00 noon

Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following dates and times:

Monday, 10 December 2007 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 11 December 2007 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 12 December 2007 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 13 December 2007 – 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 10 December 2007 until 12:00 noon on Thursday, 13 December 2007 (24 hours daily, except the last application date).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 13 December 2007 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather on the opening of the application lists” below.

The application lists will be open from 11:45 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on Thursday, 13 December 2007.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on Thursday, 13 December 2007 in Hong Kong. Instead the application lists will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on such day.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated the Public Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an application form or electronically instructing HKSCC or cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following two situations in which the Public Offer Shares will not be allocated to you:

- **If your application is revoked**

By completing the **WHITE** or **YELLOW** Application Form or submitting **electronic application instructions**, you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342B of the Companies Ordinance) issues a public announcement under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration for the Company agreeing that it will not offer any Public Offer Shares to any person before the end of the fifth day after the time of the opening of the application lists except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

If your application has been accepted, it cannot be revoked.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- **If the allotment of Public Offer Shares is void**

Any allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant the permission of the listing of, the Shares either:

- within 3 weeks from the closing of the application lists; or
- within a longer period of up to 6 weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within 3 weeks of the closing of the application lists.

- **Refund of your money**

If you do not receive any Public Offer Shares for any of, but not limited to, the above reasons, the Company will refund your application money together with brokerage, SFC transaction levy and Stock Exchange trading fee to you without interest. If your application is accepted only in part, or, if the final Offer Price is determined at less than HK\$3.00 per Offer Share, the Company will refund the appropriate portion of your application money, brokerage, SFC transaction levy and Stock Exchange trading fee to you, without interest. All such interest will be retained for the benefit of the Company.

All refunds will be made by a cheque crossed “Account Payee Only”, made out to you, or, if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you will be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque. Therefore, you are advised to ensure that your identification numbers are accurately filled in on the related Application Form to avoid delay in cashing your refund cheque, if any. If you are in doubt, you should enquire with the Company’s Hong Kong branch share registrar.

If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Clearing/Custodian Participant) on Thursday, 20 December 2007.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

APPLICATION BY HKSCC NOMINEES

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for Public Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each of the persons:
 - **agrees** that the Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf;
 - **undertakes** and **agrees** to accept the Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any Offer Shares under the Placing nor otherwise participated in the Placing;
 - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instruction** has been given for that person's benefit;
 - (if the person is an agent for another person) **declares** that it has given only one set of **electronic application instruction** for the benefit of that other person, and that it is duly authorized to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by the Company in deciding whether or not to make any allotment of Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if that person makes a false declaration;
 - **authorizes** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Shares allotted in respect of that person's **electronic application instructions** and to send Share certificates and/or refund monies in accordance with arrangements separately agreed between the Company and HKSCC;
 - **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker/custodian to give **electronic application instructions** on that person's behalf;
- **agrees** that the Company, the Underwriters and any other parties involved in the Share Offer are liable only for the information and representations contained in this prospectus;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;
- **agrees** to disclose that person's personal data to the Company and its agents and information which they require about that person;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before 20 December 2007, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 20 December 2007 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for his prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the press announcement on results of the Public Offer published by the Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

The Company will not issue temporary documents of title. No receipt will be issued for application monies received.

WHITE Application Form:

Applicants will receive one share certificate each for all the Public Offer Shares allocated.

If you have applied for 1,000,000 Public Offer Shares or more and have indicated on your Application Form that you wish to collect your Share certificate(s) and/or refund cheque, if any, in person, you may collect it/them in person from:

Tricor Investor Services Limited

26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as at the date of despatch of Share certificates and refund cheques. This is expected to be on Thursday, 20 December 2007.

If you are an individual, you must not authorise any other person to make the collection on your behalf. If you are a corporation, you must attend by your authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.

If you have opted for collection in person but do not collect your Share certificate(s) and/or refund cheque, if any, in person within the time specified for collection, it/they will be sent to the address on your application form shortly after the date of despatch by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you wish to collect your Share certificate(s) and/or refund cheque in person, or if you have applied for less than 1,000,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the paragraph headed "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto has become void, then your certificate(s) and/or refund cheque, if any, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your Application Form on the date of despatch by ordinary post and at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

YELLOW Application Form:

If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS investor participant's stock account or the stock account of your designated CCASS participant maintained in CCASS as instructed by you at the close of business on 20 December 2007 or, under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than a CCASS Investor Participant):

- For the Public Offer Shares credited to the stock account of your designated CCASS participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant on Thursday, 20 December 2007.
- If you are applying as a CCASS Investor Participant, you should check the results of the Public Offer via the means described below on Thursday, 20 December 2007 and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 December 2007 or such other time/date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your CCASS Investor Participant stock account and (if you are applying by giving electronic application instructions to HKSCC) the amount of refund money credited to your designated bank account.
- If you have given **electronic application instructions** to HKSCC, the Company is expected to make available the application results of the Share Offer, including the results of CCASS Participants' applications (and in the case of CCASS Clearing Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong Identity Card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the paragraph headed "Publication of results" in this section. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 December 2007 or any other date HKSCC or HKSCC Nominees chooses.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you are instructing your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** to HKSCC on your behalf:

- You can also check the number of Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Clearing Participant or CCASS Custodian Participant.

If you are applying as a CCASS Investor Participant by giving **electronic application instruction** to HKSCC:

- You can also check the number of the Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 20 December 2007. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of the refund monies to your bank account. HKSCC will also make available to you an activity statement showing the number of the Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

- If you have applied for 1,000,000 Public Offer Shares or more and have indicated on your Application Form that you wish to collect your refund cheque, if any, in person, you may collect it in person from:

Tricor Investor Services Limited

26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers at the date of despatch of refund cheques. This is expected to be on Thursday, 20 December 2007.

- If you are an individual, you must not authorise any other person to make the collection on your behalf. If you are a corporation, you must attend by your authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.
- If you have opted for collection in person but do not collect your refund cheque, if any, in person within the time specified for collection, it will be sent to the address on your application form shortly after the date of despatch by ordinary post and at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- If you have applied for 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you wish to collect your refund cheque in person, or if you have applied for less than 1,000,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the paragraph headed “Conditions of the Share Offer” in the section headed “Structure and conditions of the Share Offer” in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto have become void, then your refund cheque (without interest), if any, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your Application Form on the date of despatch by ordinary post and at your own risk. No receipt will be issued for the application monies paid. The Company will not issue temporary documents of title.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 21 December 2007. Shares will be traded in board lots of 2,000 Shares.

PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest under the Placing and the basis of allotment of the Public Offer Shares under the Public Offer on or before Thursday, 20 December 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company’s website at **www.paep.com.cn** and the website of the Stock Exchange at **www.hkex.com.hk**.

Results of allocations in the Public Offer, including the Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC will be made available at the times and dates and in the manner specified below:

- results of allocations will be available from the website at **www.tricor.com.hk/ipo** on a 24-hour basis from 8:00 a.m. on Thursday, 20 December 2007 to 12:00 midnight on Wednesday, 26 December 2007. The user will be required to key in the Hong Kong Identity Card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;
- results of allocations can be found in the announcement to be posted on the Company’s website at **www.paep.com.cn** and the website of the stock Exchange at **www.hkex.com.hk** on Thursday, 20 December 2007;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- results of allocations will be available from the Company's Public Offer allocation results telephone enquiry hotline. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling 2980-1833 between 9:00 a.m. and 6:00 p.m. from Thursday, 20 December 2007 to Monday, 24 December 2007 (excluding Sunday); and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 20 December 2007 to Saturday, 22 December 2007 at all the receiving bank branches and sub-branches at the addresses set out above.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares on the Stock Exchange or such other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements, as such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants.

**CCIF****CCIF CPA LIMITED**

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

10 December 2007

The Directors

Pan Asia Environmental Protection Group Limited

Taifook Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Pan Asia Environmental Protection Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), including the summaries of the combined results of operation of the Group for each of the three years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007 (the “Relevant Periods”) and of the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and the balance sheet of the Company as at 30 June 2007 (the “Financial Information”) for inclusion in the prospectus of the Company dated 10 December 2007 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 16 August 2006 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the “Group Reorganisation”) as described more fully in the section “Group Reorganisation” in appendix V of the Prospectus, which was completed on 1 December 2007, the Company became the holding company of the subsidiaries set out below.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private company):

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company	Principal activities
Pan Asia Environmental Protection Technologies Limited ("Pan Asia")	British Virgin Islands 5 January 2006	US\$100	100% (directly)	Investment holding
Wuxi Pan-Asia Environmental Protection Technologies Limited ("Wuxi Pan-Asia")	The People's Republic of China (the "PRC") 20 July 1996	US\$13,280,000	100% (indirectly)	Manufacture and sale of environmental protection ("EP") products and equipment and undertaking of EP construction engineering projects
Wuxi Zhong Dian Kong Leng Technology Limited ("Wuxi Zhong Dian")	PRC 30 May 2001	RMB5,000,000	100% (indirectly)	Investment holding
Shanghai Environmental Engineering Design & Research Institute Limited ("SEEDRI")	PRC 10 April 1991	RMB10,750,000	70.05% (indirectly)	Provision of professional service

As at the date of this report, no audited financial statements have been prepared for the Company. In addition, no audited financial statements have been prepared for Pan Asia as it is not subject to any statutory audit requirement as company incorporated in the British Virgin Islands since its date of incorporation. We have, however, reviewed all relevant transactions of these companies since their respective dates of incorporation, and carried out such procedures as we considered necessary for inclusion of the Financial Information relating to these companies in this report.

The statutory financial statements of the following PRC subsidiaries were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC.

Name of subsidiary	Financial period	Auditors
Wuxi Pan-Asia	Years ended 31 December 2004, 2005 and 2006	Yixing Dahua Certified Public Accountants Co. Ltd.
Wuxi Zhong Dian	Year ended 31 December 2006	Yixing Dahua Certified Public Accountants Co. Ltd.
SEEDRI	Year ended 31 December 2006	Yixing Dahua Certified Public Accountants Co. Ltd.

For the purpose of this report, we have performed an independent audit, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), of the consolidated financial statements of Pan Asia prepared under Hong Kong Financial Reporting Standards for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

We have examined the audited financial statements or, where appropriate, management accounts of the companies comprising the Group for the Relevant Periods or since their respective dates of incorporation where this is a shorter period. Our examination was made in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information as set out in this report has been prepared from the audited financial statements, or where appropriate, management accounts of all the companies now comprising the Group, on the basis set out in section A(1) below, after making such adjustments where appropriate.

The directors of the respective companies comprising the Group are responsible for preparing financial statements of the respective companies which give a true and fair view. The directors of the Company are responsible for the preparation of the Financial Information which give a true and fair view. In preparing these financial statements and Financial Information which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report and on the basis of preparation set out in section A(1) below, the Financial Information set out below together with the notes thereto, give a true and fair view of the combined results of operations and cash flows of the Group for the Relevant Periods, and of the state of affairs of the Company as at 30 June 2007 and of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007.

For the purpose of this report, we have performed a review of the combined income statement, cash flow statement and statement of changes in equity of the Group for the six months ended 30 June 2006 (“30 June 2006 Financial Information”), for which the directors of the Company are responsible, in accordance with Hong Kong Standards on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit, and accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

A. FINANCIAL INFORMATION

Combined Income Statements

	Note	Year ended 31 December			Six months ended 30 June	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Turnover	3	144,330	395,973	508,628	161,718	235,429
Cost of sales		<u>(93,282)</u>	<u>(244,696)</u>	<u>(299,298)</u>	<u>(92,557)</u>	<u>(145,307)</u>
Gross profit		51,048	151,277	209,330	69,161	90,122
Other revenue	3	539	511	1,960	1,024	1,775
Selling and distribution expenses		(2,427)	(8,361)	(11,853)	(2,451)	(4,986)
General and administrative expenses		(6,085)	(7,406)	(8,888)	(5,476)	(5,908)
Other operating expenses		<u>(174)</u>	<u>(274)</u>	<u>(2,722)</u>	<u>(91)</u>	<u>(276)</u>
Operating profit		42,901	135,747	187,827	62,167	80,727
Finance costs	4	<u>(2,715)</u>	<u>(2,503)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit before taxation	5	40,186	133,244	187,827	62,167	80,727
Taxation	6	<u>(4,543)</u>	<u>(15,226)</u>	<u>(22,701)</u>	<u>(7,462)</u>	<u>(19,962)</u>
Profit for the year/period		<u>35,643</u>	<u>118,018</u>	<u>165,126</u>	<u>54,705</u>	<u>60,765</u>
Attributable to:						
Equity holders of the Company		35,643	118,018	165,273	54,705	61,141
Minority interests		<u>–</u>	<u>–</u>	<u>(147)</u>	<u>–</u>	<u>(376)</u>
		<u>35,643</u>	<u>118,018</u>	<u>165,126</u>	<u>54,705</u>	<u>60,765</u>
Dividends	7	<u>–</u>	<u>–</u>	<u>108,000</u>	<u>–</u>	<u>22,000</u>
Earnings per share	8					
– basic (RMB cents)		<u>4.46</u>	<u>14.75</u>	<u>20.66</u>	<u>6.84</u>	<u>7.64</u>

Combined Balance Sheets

		The Group At 31 December			At 30 June 2007	The Company At 30 June 2007
	Note	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	2007 RMB'000
Non-current assets						
Prepaid lease payment	11	7,587	7,418	7,249	7,165	–
Property, plant and equipment	12	60,373	56,977	57,153	56,513	–
Available-for-sale financial assets	13	1,950	1,950	1,950	1,950	–
Goodwill	14	–	–	–	–	–
		69,910	66,345	66,352	65,628	–
Current assets						
Inventories	15	31,450	24,880	147	5,943	–
Trade receivables	16	27,025	105,913	43,714	61,337	–
Prepayments, deposits and other receivables		2,110	6,495	13,133	13,407	–
Prepaid lease payment	11	169	169	169	169	–
Amounts due from directors	17	8,178	20,234	–	–	–
Amounts due from related companies	18	9,480	1,805	771	445	–
Amount due from a fellow subsidiary	19	62,942	17,504	–	–	–
Amounts due from minority shareholders	20	–	–	1,838	1,484	–
Amounts due from customers for contract work	27	–	19,533	72,946	87,445	–
Pledged bank deposits	31	–	8,372	8,014	6,865	–
Cash and bank balances	21	25,734	103,927	307,865	327,959	–
		167,088	308,832	448,597	505,054	–
Current liabilities						
Trade payables	22	83	23,060	60,908	77,987	–
Accruals and other payables		4,232	10,748	29,327	35,526	–
Dividend payable		–	–	48,000	22,000	–
Bank borrowings	23	50,000	–	–	–	–
Amount due to a director	24	–	–	2,979	3,338	–
Amounts due to related companies	25	24	227	227	2,951	–
Amount due to a fellow subsidiary	26	2,972	4,529	4,529	4,529	–
Prepayments from customers for contract work	27	–	3,245	–	–	–
Trade deposits received		10,161	32,090	6,368	6,635	–
Tax payables		683	3,823	5,581	21,921	–
		68,155	77,722	157,919	174,887	–
Net current assets		98,933	231,110	290,678	330,167	–
Total assets less current liabilities		168,843	297,455	357,030	395,795	–
Capital and reserves						
Paid-in capital	28	99,330	109,924	2	2	–
Reserves		69,513	187,531	354,726	393,867	–
Equity attributable to equity holders of the Company		168,843	297,455	354,728	393,869	–
Minority interests		–	–	2,302	1,926	–
Total equity		168,843	297,455	357,030	395,795	–

Combined Statements of Changes in Equity

	Attributable to equity holders of the Company									
	Paid-in capital RMB'000	Special reserve (Note) RMB'000	Enterprise expansion reserve (Note) RMB'000	Statutory surplus reserve (Note) RMB'000	Statutory staff welfare reserve (Note) RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Minority interest RMB'000	Total RMB'000
At 1 January 2004	99,330	–	1,590	1,590	1,590	–	29,100	133,200	–	133,200
Profit for the year	–	–	–	–	–	–	35,643	35,643	–	35,643
Transfer to reserve	–	–	1,782	1,782	1,782	–	(5,346)	–	–	–
At 31 December 2004 and 1 January 2005	99,330	–	3,372	3,372	3,372	–	59,397	168,843	–	168,843
Capital injection	10,594	–	–	–	–	–	–	10,594	–	10,594
Profit for the year	–	–	–	–	–	–	118,018	118,018	–	118,018
Transfer to reserve	–	–	5,901	5,901	5,901	–	(17,703)	–	–	–
At 31 December 2005 and 1 January 2006	109,924	–	9,273	9,273	9,273	–	159,712	297,455	–	297,455
Issue of shares	2	–	–	–	–	–	–	2	–	2
Acquisition of subsidiaries	(109,924)	103,582	–	–	–	6,340	–	(2)	2,449	2,447
Profit for the year	–	–	–	–	–	–	165,273	165,273	(147)	165,126
Dividend	–	–	–	–	–	–	(108,000)	(108,000)	–	(108,000)
Transfer to reserve	–	–	8,324	17,597	(9,273)	–	(16,648)	–	–	–
At 31 December 2006 and 1 January 2007	2	103,582	17,597	26,870	–	6,340	200,337	354,728	2,302	357,030
Profit for the period	–	–	–	–	–	–	61,141	61,141	(376)	60,765
Dividend	–	–	–	–	–	–	(22,000)	(22,000)	–	(22,000)
Transfer to reserve	–	–	3,160	3,160	–	–	(6,320)	–	–	–
At 30 June 2007	2	103,582	20,757	30,030	–	6,340	233,158	393,869	1,926	395,795
Unaudited movements for 1 January 2006 to 30 June 2006										
At 1 January 2006	109,924	–	9,273	9,273	9,273	–	159,712	297,455	–	297,455
Profit for the period	–	–	–	–	–	–	54,705	54,705	–	54,705
Transfer to reserve	–	–	2,735	2,735	2,735	–	(8,205)	–	–	–
At 30 June 2006	109,924	–	12,008	12,008	12,008	–	206,212	352,160	–	352,160

Note:

During the year ended 31 December 2006, as part of the Group Reorganisation, Pan Asia acquired the entire share capital of Wuxi Pan-Asia for an aggregate consideration of US\$13,280,000 (equivalent to approximately RMB103,584,000).

Special reserve represents the difference between the consideration paid for the acquisition of the entire interest in Wuxi Pan-Asia and the nominal value of paid-in capital of Wuxi Pan-Asia.

As stipulated by the relevant laws and regulations in the PRC, Wuxi Pan-Asia is required to set aside certain percentage which is decided by their board of directors annually of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of Wuxi Pan-Asia's registered capital), the enterprise expansion reserve and the statutory staff welfare reserve.

According to the Articles of Association of Wuxi Pan-Asia, statutory surplus reserve can be used to make up prior year losses; if any, and can be converted into capital.

The enterprise expansion reserve is used for expanding the capital base of Wuxi Pan-Asia by means of capitalisation issue.

The statutory staff welfare reserve is to be used to provide staff welfare facilities and other collective benefits to the PRC employees. In accordance with the latest PRC relevant laws and regulations it is not required to make appropriations to statutory staff welfare reserve and the unutilised statutory staff welfare reserve as at 31 December 2005 was transferred to statutory surplus reserve in 2006.

Combined Cash Flow Statements

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Cash flows from operating activities					
Profit before taxation	40,186	133,244	187,827	62,167	80,727
Adjustments for:					
Interest income	(431)	(370)	(1,810)	(512)	(1,361)
Interest expenses	2,715	2,503	–	–	–
Depreciation	3,943	4,210	4,747	2,234	2,691
Amortisation of prepaid lease payment	169	169	169	84	84
Impairment on trade and other receivables	–	–	25	–	28
Impairment of goodwill	–	–	1,814	–	–
Operating cash flows before working capital changes	46,582	139,756	192,772	63,973	82,169
Decrease/(increase) in inventories	8,970	6,570	24,733	(19,756)	(5,796)
(Increase)/decrease in trade receivables	(14,780)	(78,888)	67,436	(20,229)	(17,651)
Increase in prepayments, deposits and other receivables	(135)	(4,385)	(2,830)	(24,425)	(274)
(Increase)/decrease in amounts due from directors	(8,178)	(12,056)	20,234	11,150	–
Decrease in amounts due from related companies	2,578	7,675	1,034	–	326
(Increase)/decrease in amount due from a fellow subsidiary	(48,544)	45,438	17,504	–	–
(Increase)/decrease in amounts due from minority shareholders	–	–	(1,838)	–	354
(Increase)/decrease in amounts due from contract customers	–	(19,533)	(53,413)	7,003	(14,499)
(Decrease)/increase in trade payable	(6,829)	22,977	37,723	20,513	17,079
Increase/(decrease) in accruals and other payables	502	6,516	14,856	(6,697)	6,199
Increase in amount due to a director	–	–	2,979	2,396	359
Increase in amounts due to related companies	24	203	–	–	2,724
Increase in amount due to a fellow subsidiary	–	1,557	–	–	–
Increase/(decrease) in prepayments from customers for contract work	–	3,245	(3,245)	(3,245)	–
(Decrease)/increase in trade deposits received	(4,660)	21,929	(28,621)	50,530	267
Cash (used in)/generated from operations	(24,470)	141,004	289,324	81,213	71,257
Interest received	431	370	1,810	512	1,361
PRC enterprises income tax paid	(3,860)	(12,086)	(20,943)	(9,631)	(3,622)
Net cash (used in)/generated from operating activities	(27,899)	129,288	270,191	72,094	68,996

APPENDIX I
ACCOUNTANTS' REPORT

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Cash flows from investing activities						
Payments for acquisition of subsidiaries	29	–	–	(2,934)	–	–
Payments for acquisition of property, plant and equipment		(6,728)	(814)	(3,677)	(1,560)	(2,051)
Payment for acquisition of available-for-sale investment		(1,950)	–	–	–	–
(Increase)/decrease in pledged bank deposits		–	(8,372)	358	393	1,149
Net cash used in investing activities		<u>(8,678)</u>	<u>(9,186)</u>	<u>(6,253)</u>	<u>(1,167)</u>	<u>(902)</u>
Cash flows from financing activities						
Capital injection from shareholders		–	10,594	–	–	–
New bank loans raised		50,000	–	–	–	–
Repayment of bank loans		(50,000)	(50,000)	–	–	–
Payment of dividend		–	–	(60,000)	–	(48,000)
Interest paid		<u>(2,715)</u>	<u>(2,503)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net cash used in financing activities		<u>(2,715)</u>	<u>(41,909)</u>	<u>(60,000)</u>	<u>–</u>	<u>(48,000)</u>
Net (decrease)/increase in cash and cash equivalents for the year/period		(39,292)	78,193	203,938	70,927	20,094
Cash and bank balances at beginning of year/period		<u>65,026</u>	<u>25,734</u>	<u>103,927</u>	<u>103,927</u>	<u>307,865</u>
Cash and bank balances at end of year/period		<u>25,734</u>	<u>103,927</u>	<u>307,865</u>	<u>174,854</u>	<u>327,959</u>
Analysis of the balances of cash and cash equivalents						
Cash and bank balances		<u>25,734</u>	<u>103,927</u>	<u>307,865</u>	<u>174,854</u>	<u>327,959</u>

Notes to Financial Information

1. (a) Basis of presentation

The combined income statements, the combined cash flow statements and the combined statement of changes in equity of the Group for the Relevant Periods which include the results and cash flows of the companies now comprising the Group have been prepared by applying the principles of merger accounting, which is consistent with the principle as stated in Accounting Guideline 5 "Merger accounting under common control combination" issued by the HKICPA, as if the current group structure had been in existence throughout the Relevant Periods or since their respective dates of incorporation or establishment where this is a shorter period. The combined balance sheets of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date except for the interest in Wuxi Zhong Dian and SEEDRI during the Relevant Periods which was acquired by the Group on 25 August 2006.

The address of the registered office of the Company and the principal place of business are disclosed in the paragraph headed "Corporate Information" of the Prospectus.

All significant intra-group transactions and balances have been eliminated on combination.

(b) Early adoption of new and revised Hong Kong Financial Reporting Standards

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs"), Amendments and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 January 2006 and 1 January 2007. For the purposes of preparing and presenting Financial Information of the Relevant Periods, the Group has early adopted all these new and revised HKFRSs.

The HKICPA has issued the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of making assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKAS 23 (revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK (IFRIC) – INT 12	Service Concession Arrangements ³
HK (IFRIC) – INT 13	Customer Loyalty Programmes ⁴
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

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

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention except for certain financial instruments which are measured at fair value and in accordance with the accounting policies set out below which conform with HKFRS. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

(a) Basis of combination

Merger accounting for business combinations under common control

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or

excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is earlier.

Business combinations

The acquisition of Wuxi Zhong Dian and SEEDRI is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(b) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generation units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

(c) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continue use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined income statement in the period in which the item is derecognised.

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing cost capitalised, attributable to such construction. They are not depreciated until completion of construction and the asset is ready for their intended use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, after considering the residual values, using the straight line method, at the following rates per annum:

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

(d) Prepaid lease payment

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

(e) Inventories

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

(f) Financial instruments

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

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Interest-bearing borrowings

Interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest method.

Trade and other payables

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

(g) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) 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.

(i) Operating leases

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

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

(j) Borrowing costs

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

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

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Financial Information, the results and financial position of each entity are expressed in RMB, which is the presentation currency for the Financial Information.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in income statement for the period.

For the purpose of presenting Financial Information, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in income statement in the period in which the foreign operation is disposed of.

(m) Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expenses as they fall due.

(n) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where these parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(o) Provision and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the Financial Information. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the Financial Information but disclosed when an inflow of economic benefits is probable.

(p) Revenue recognition

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

Revenue from EP construction engineering projects is recognised in accordance with the Group's accounting policy on construction contracts set out in Note 2(h).

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. TURNOVER AND OTHER REVENUE

Turnover represents the net amounts received and receivable for goods sold and render of services by the Group to outside customers during the period.

Turnover and other revenue consisted of:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Turnover					
Sale of EP products and equipment	144,330	375,530	343,838	144,065	161,877
Revenue from EP construction engineering projects	—	20,443	164,616	17,653	72,499
Revenue from professional services	—	—	174	—	1,053
	144,330	395,973	508,628	161,718	235,429
Other revenue					
Dividend income	—	100	—	—	—
Exchange gain	—	41	—	—	394
Interest income	431	370	1,810	512	1,361
Sundry income	108	—	150	512	20
	539	511	1,960	1,024	1,775
Total revenue	144,869	396,484	510,588	162,742	237,204

4. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Interests on bank borrowings wholly repayable within five years	2,715	2,503	—	—	—

5. PROFIT BEFORE TAXATION

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

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Auditors' remuneration (Note (a))	50	—	—	—	100
Depreciation	3,943	4,210	4,747	2,234	2,691
Amortisation of prepaid lease payment	169	169	169	84	84
Staff costs (including directors' remuneration)					
Wages and salaries	8,580	10,657	14,551	5,094	6,869
Retirement scheme	174	243	456	173	352
	8,754	10,900	15,007	5,267	7,221
Impairment on trade and other receivables	—	—	25	—	28
Impairment of goodwill (Note 14)	—	—	1,814	—	—
Exchange loss	—	—	629	—	—

Notes:

- (a) Auditors' remuneration for the years ended 31 December 2005 and 2006 of approximately RMB50,000 and RMB50,000 respectively were paid in March 2007.
- (b) Details of directors' and senior management's emoluments are set out in note 10.

6. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
PRC enterprise income tax	<u>4,543</u>	<u>15,226</u>	<u>22,701</u>	<u>7,462</u>	<u>19,962</u>

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

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.

SEEDRI, which is a joint stock limited company, is subject to the PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the year.

By a legislation passed by the National People's Congress in 2007, a uniform enterprise income tax of 25% will become generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008. There will be a transitional period of five years in which all foreign investment enterprises can enjoy the current tax benefit. It is currently expected that with effect from 1 January 2008, the enterprise income tax rate applicable to Wuxi Pan-Asia, Wuxi Zhong Dian and SEEDRI will be 24%, 25% and 25% respectively.

- (ii) No provision for Hong Kong profits tax has been made for the Relevant Periods as the income neither arises in, nor is derived from Hong Kong.
- (iii) As at 31 December 2004, 2005, 2006 and 30 June 2007 respectively, the Group had no significant unprovided deferred tax assets or liabilities.

The reconciliation between the Group's profits for the Relevant Periods and the amount which is calculated based on the applicable tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Profit before taxation	<u>40,186</u>	<u>133,244</u>	<u>187,827</u>	<u>62,167</u>	<u>80,727</u>
Tax calculated at the applicable tax rate	9,645	31,978	44,871	14,920	19,154
Effect of tax relief	(4,823)	(15,989)	(22,701)	(7,460)	–
Tax effect of non-taxable income	(279)	(763)	–	–	–
Tax effect of non-deductible expenses	–	–	531	2	808
Taxation	<u>4,543</u>	<u>15,226</u>	<u>22,701</u>	<u>7,462</u>	<u>19,962</u>

7. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. During the Relevant Periods, certain companies of the Group had paid dividends to their then shareholders prior to the Group Reorganisation. Details of dividends attributable to each of the financial period of the Relevant Periods are as follows:

	Year ended 31 December			Six months ended	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Pan Asia	–	–	48,000	–	22,000
Wuxi Pan-Asia					
– Final dividend for 2005*	–	–	60,000	–	–
– Final dividend for 2006	–	–	48,000	–	–
– Interim dividend for 2007	–	–	–	–	22,000
	–	–	156,000	–	44,000
Less: Elimination of dividends from intra-group companies	–	–	(48,000)	–	(22,000)
	–	–	108,000	–	22,000

* Final dividend for 2005 was declared and paid in 2006.

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Periods is based on the combined profits attributable to equity holders of the Company for the respective periods and on the assumption that 800,000,000 shares of the Company are in issue and issuable, comprising 100,000,000 shares in issue as at the date of the Prospectus and 700,000,000 shares to be issued pursuant to a new issue and the capitalisation issue as described in the paragraph headed "Further information about the Company and its subsidiaries" in appendix V to the Prospectus, as if the shares were outstanding throughout the entire Relevant Periods.

Diluted earnings per share is not presented as there were no potential dilutive ordinary shares during the Relevant Periods

9. RETIREMENT BENEFITS COSTS

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 combined income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

The contributions paid which have been dealt with in the combined income statement of the Group for the Relevant Periods are as follows:

	Year ended 31 December			Six months ended	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Contributions paid	174	243	456	173	352

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (i) The directors of the Company were members of the senior management of the Group throughout the Relevant Periods. Assuming these existing directors had already been appointed directors at the beginning of the Relevant Periods, details of the directors' emoluments paid by the Group can be summarized as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Fees	—	—	—	—	—
Bonuses	15	—	—	—	—
Other emoluments	955	3,654	2,443	859	250
Contributions to retirement scheme	2	2	3	2	4
	<u>972</u>	<u>3,656</u>	<u>2,446</u>	<u>861</u>	<u>254</u>

Year ended 31 December 2004					
Name of director	Fees RMB'000	Bonuses RMB'000	Other emoluments RMB'000	Contributions to retirement scheme RMB'000	Total RMB'000
<i>Executive directors</i>					
Mr. Fan Yajun	—	—	—	—	—
Mr. Fang Guohong	—	15	19	2	36
Mr. Gan Yi	—	—	—	—	—
Mr. Jiang Lei	—	—	—	—	—
Mr. Jiang Quanlong	—	—	936	—	936
<i>Independent non-executive directors</i>					
Mr. Lai Wing Lee	—	—	—	—	—
Mr. Leung Shu Sun, Sunny	—	—	—	—	—
Professor Wang Guozhen	—	—	—	—	—
	<u>—</u>	<u>15</u>	<u>955</u>	<u>2</u>	<u>972</u>

Year ended 31 December 2005					
Name of director	Fees RMB'000	Bonuses RMB'000	Other emoluments RMB'000	Contributions to retirement scheme RMB'000	Total RMB'000
<i>Executive directors</i>					
Mr. Fan Yajun	—	—	—	—	—
Mr. Fang Guohong	—	—	3,654	2	3,656
Mr. Gan Yi	—	—	—	—	—
Mr. Jiang Lei	—	—	—	—	—
Mr. Jiang Quanlong	—	—	—	—	—
<i>Independent non-executive directors</i>					
Mr. Lai Wing Lee	—	—	—	—	—
Mr. Leung Shu Sun, Sunny	—	—	—	—	—
Professor Wang Guozhen	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>3,654</u>	<u>2</u>	<u>3,656</u>

Name of director	Year ended 31 December 2006				
	Contributions				Total
	Fees	Bonuses	Other emoluments	to retirement scheme	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
Mr. Fan Yajun	—	—	18	—	18
Mr. Fang Guohong	—	—	2,407	3	2,410
Mr. Gan Yi	—	—	—	—	—
Mr. Jiang Lei	—	—	—	—	—
Mr. Jiang Quanlong	—	—	18	—	18
<i>Independent non-executive directors</i>					
Mr. Lai Wing Lee	—	—	—	—	—
Mr. Leung Shu Sun, Sunny	—	—	—	—	—
Professor Wang Guozhen	—	—	—	—	—
	—	—	2,443	3	2,446

Name of director	Six months ended 30 June 2006 (unaudited)				
	Contributions				Total
	Fees	Bonuses	Other emoluments	to retirement scheme	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
Mr. Fan Yajun	—	—	—	—	—
Mr. Fang Guohong	—	—	859	2	861
Mr. Gan Yi	—	—	—	—	—
Mr. Jiang Lei	—	—	—	—	—
Mr. Jiang Quanlong	—	—	—	—	—
<i>Independent non-executive directors</i>					
Mr. Lai Wing Lee	—	—	—	—	—
Mr. Leung Shu Sun, Sunny	—	—	—	—	—
Professor Wang Guozhen	—	—	—	—	—
	—	—	859	2	861

Name of director	Six months ended 30 June 2007				
	Contributions				Total
	Fees	Bonuses	Other emoluments	to retirement scheme	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
Mr. Fan Yajun	—	—	48	2	50
Mr. Fang Guohong	—	—	154	—	154
Mr. Gan Yi	—	—	—	—	—
Mr. Jiang Lei	—	—	—	—	—
Mr. Jiang Quanlong	—	—	48	2	50
<i>Independent non-executive directors</i>					
Mr. Lai Wing Lee	—	—	—	—	—
Mr. Leung Shu Sun, Sunny	—	—	—	—	—
Professor Wang Guozhen	—	—	—	—	—
	—	—	250	4	254

The emoluments of the above directors fall within the following bands:

Emolument	Number of individuals				
	Year ended 31 December			Six months ended	
	2004	2005	2006	2006 30 June (unaudited)	2007
Nil to HK\$1,000,000 (RMB970,000 equivalent)	8	7	7	8	8
HK\$2,000,001 (RMB1,940,001 equivalent) to HK\$2,500,000 (RMB2,425,000 equivalent)	–	–	1	–	–
HK\$3,500,001 (RMB3,398,001 equivalent) to HK\$4,000,000 (RMB3,880,000 equivalent)	–	1	–	–	–
	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>

During the Relevant Periods, no director of the Company waived any emoluments and no emoluments was paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office.

- (ii) The five highest paid individuals included two directors in 2004, one director in 2005 and 2006, 2 in six months ended 30 June 2006, and none in six months ended 30 June 2007, details of whose emoluments are set out above. The five highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended	
	2004			2006	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Salaries and allowances	1,900	7,697	9,472	3,105	2,002
Bonuses	45	–	–	–	–
Contributions to retirement scheme	5	4	3	8	8
	<u>1,950</u>	<u>7,701</u>	<u>9,475</u>	<u>3,113</u>	<u>2,010</u>
Number of directors	2	1	1	2	–
Number of employees	3	4	4	3	5
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, 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.

The emoluments of those remaining individuals fall within the following bands:

Emolument	Number of individuals				
	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June 2006 (unaudited)	2007
Nil to HK\$1,000,000 (RMB970,000 equivalent)	3	3	1	3	5
HK\$1,000,001 (RMB970,001 equivalent) to HK\$1,500,000 (RMB1,455,000 equivalent)	–	–	1	–	–
HK\$1,500,001 (RMB1,455,001 equivalent) to HK\$2,000,000 (RMB1,940,000 equivalent)	–	–	1	–	–
HK\$2,000,001 (RMB1,940,001 equivalent) to HK\$2,500,000 (RMB2,425,000 equivalent)	–	1	–	–	–
HK\$3,000,001 (RMB2,910,001 equivalent) to HK\$3,500,000 (RMB3,395,000 equivalent)	–	–	1	–	–
	<u>3</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>5</u>

11. PREPAID LEASE PAYMENT

	The Group			
	At 31 December			At 30 June
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Net book value at beginning of year/period	7,925	7,756	7,587	7,418
Amortisation	<u>(169)</u>	<u>(169)</u>	<u>(169)</u>	<u>(84)</u>
Net book value at end of year/period	<u>7,756</u>	<u>7,587</u>	<u>7,418</u>	<u>7,334</u>
Analysed by:				
Non-current portion	7,587	7,418	7,249	7,165
Current portion	<u>169</u>	<u>169</u>	<u>169</u>	<u>169</u>
	<u>7,756</u>	<u>7,587</u>	<u>7,418</u>	<u>7,334</u>

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

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress RMB'000	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Plant and machineries RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost							
As at 1/1/2004	–	46,953	903	12,542	–	2,706	63,104
Additions	3,800	–	165	2,763	–	–	6,728
As at 31/12/2004 and at 1/1/2005	3,800	46,953	1,068	15,305	–	2,706	69,832
Additions	548	–	30	236	–	–	814
Transfer	(4,348)	4,348	–	–	–	–	–
As at 31/12/2005 and at 1/1/2006	–	51,301	1,098	15,541	–	2,706	70,646
Acquisition of subsidiaries	–	1,048	198	–	–	–	1,246
Additions	–	–	39	6	–	3,632	3,677
As at 31/12/2006 and 1/1/2007	–	52,349	1,335	15,547	–	6,338	75,569
Additions	–	–	171	–	1,880	–	2,051
As at 30/6/2007	–	52,349	1,506	15,547	1,880	6,338	77,620
Accumulated depreciation							
As at 1/1/2004	–	3,386	300	1,130	–	700	5,516
Charge for the year	–	2,113	173	1,171	–	486	3,943
As at 31/12/2004 and at 1/1/2005	–	5,499	473	2,301	–	1,186	9,459
Charge for the year	–	2,137	179	1,407	–	487	4,210
As at 31/12/2005 and at 1/1/2006	–	7,636	652	3,708	–	1,673	13,669
Charge for the year	–	2,355	200	1,425	–	767	4,747
As at 31/12/2006 and 1/1/2007	–	9,991	852	5,133	–	2,440	18,416
Charge for the period	–	1,190	131	712	150	508	2,691
As at 30/6/2007	–	11,181	983	5,845	150	2,948	21,107
Net book value							
At 31/12/2004	3,800	41,454	595	13,004	–	1,520	60,373
At 31/12/2005	–	43,665	446	11,833	–	1,033	56,977
At 31/12/2006	–	42,358	483	10,414	–	3,898	57,153
At 30/6/2007	–	41,168	523	9,702	1,730	3,390	56,513

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

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group			At 30 June
	At 31 December	2005	2006	2007
	2004			
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares in the PRC, at cost	1,950	1,950	1,950	1,950

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

14. GOODWILL

	The Group			At 30 June
	At 31 December	2005	2006	2007
	2004			
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
Arising on acquisition of subsidiaries	—	—	1,814	1,814
Impairment				
Impairment loss recognised	—	—	(1,814)	(1,814)
Carrying amount				
At 31 December/30 June	—	—	—	—

15. INVENTORIES

	The Group			At 30 June
	At 31 December	2005	2006	2007
	2004			
	RMB'000	RMB'000	RMB'000	RMB'000
At costs				
Raw materials	61	117	18	9
Work in progress	—	—	—	3,992
Finished goods	31,389	24,763	129	1,942
	31,450	24,880	147	5,943

16. TRADE RECEIVABLES

	The Group			At 30 June 2007
	At 31 December 2004	2005	2006	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	27,025	105,913	43,714	61,337

The Group normally grants credit terms from 1 to 2 months to its customers.

The aging analysis of trade receivables is as follows:

	The Group			At 30 June 2007
	At 31 December 2004	2005	2006	
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 30 days	–	4,550	728	12,922
31 to 60 days	–	25,912	7,155	20,759
61 to 90 days	–	29,097	1,612	2,735
91 to 180 days	13,610	683	10,929	1,753
181 to 365 days	12,539	45,671	6,246	11,342
Over 365 days	876	–	17,180	11,990
	27,025	105,913	43,850	61,501
Impairment loss for bad and doubtful debts	–	–	(136)	(164)
	27,025	105,913	43,714	61,337

17. AMOUNTS DUE FROM DIRECTORS

Name of directors	The Group			At 30 June 2007
	At 31 December 2004	2005	2006	
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Jiang Quanlong	8,098	20,193	–	–
Mr. Fan Yajun	80	41	–	–
	8,178	20,234	–	–

Name of directors	Maximum amount outstanding Year ended 31 December			Six months ended 30 June 2007
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Jiang Quanlong	8,098	21,969	24,835	–
Mr. Fan Yajun	100	80	63	–

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

18. AMOUNTS DUE FROM RELATED COMPANIES

Name of company	Connected party	The Group							
		Maximum amount outstanding							Six months ended 30 June 2007
		At 31 December 2004	At 31 December 2005	At 31 December 2006	At 30 June 2007	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wuxi Xin Wei High Temperature Ceramics Co., Ltd.	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	9,264	1,805	–	–	12,745	10,167	2,708	–
Yixing Leeshing Rare Earth Company Limited	A company in which Mr. Jiang Quanlong and Mr. Jiang Lei, directors of the Company, have interest	216	–	–	–	216	216	–	–
上海工程成套有限公司 (Shanghai Gongcheng Cheng Tao Company Limited)	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	–	–	771	445	–	–	771	771
		<u>9,480</u>	<u>1,805</u>	<u>771</u>	<u>445</u>				

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

19. AMOUNT DUE FROM A FELLOW SUBSIDIARY

Name of company	The Group							
	Maximum amount outstanding							Six months ended 30 June 2007
	At 31 December 2004	At 31 December 2005	At 31 December 2006	At 30 June 2007	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
本溪泛亞環保熱電有限公司 (Benxi Fanya Environmental Heat & Power Co., Ltd.)	62,942	17,504	–	–	75,077	106,653	17,504	–

The amount due from a fellow subsidiary are of trade nature. The Group normally grants credit terms from 1 month to 2 months to the fellow subsidiary. The aging analysis is as follows:

	At 31 December 2004	At 31 December 2005	At 31 December 2006	At 30 June 2007
	RMB'000	RMB'000	RMB'000	RMB'000
181 to 365 days	60,679	17,504	–	–
Over 1 year but within 2 years	2,263	–	–	–
	<u>62,942</u>	<u>17,504</u>	<u>–</u>	<u>–</u>

20. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

Name of company	The Group							
	Maximum amount outstanding							Six months ended 30 June 2007
	At 31 December 2004	At 31 December 2005	At 31 December 2006	At 30 June 2007	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
上海泛亞環保產業發展有限公司 (Shanghai Pan-Asia Environmental Protection Industrial Development Limited) (formerly known as 上海華源環保產業發展有限公司 (Shanghai Wah Yuen Environmental Protection Property Development Company Limited))	–	–	1,776	1,307	–	–	6,336	1,776
上海工程成套建設有限公司 (Shanghai Gongcheng Cheng Tao Development Company Limited)	–	–	62	177	–	–	788	177
	<u>–</u>	<u>–</u>	<u>1,838</u>	<u>1,484</u>				

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

21. CASH AND BANK BALANCES

Majority of the cash and bank balances for all Relevant Periods were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

22. TRADE PAYABLES

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

	The Group			At 30 June
	At 31 December			
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 30 days	–	15,137	55,040	60,280
31 to 60 days	21	116	626	1,341
61 to 90 days	13	–	1,557	3,733
91 to 180 days	49	7,807	3,167	8,279
181 to 365 days	–	–	393	1,603
Over 365 days	–	–	125	2,751
	<u>83</u>	<u>23,060</u>	<u>60,908</u>	<u>77,987</u>

23. BANK BORROWINGS

	The Group			At 30 June
	At 31 December			
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Repayable within one year	<u>50,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

The annual rates of the bank borrowings during the Relevant Periods varied from 4.5% to 6.0% respectively.

24. AMOUNT DUE TO A DIRECTOR

	The Group			At 30 June
	At 31 December			
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Jiang Quanlong	<u>–</u>	<u>–</u>	<u>2,979</u>	<u>3,338</u>

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

25. AMOUNTS DUE TO RELATED COMPANIES

Name of company	Connected party	The Group At 31 December		At 30 June	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Yixing Leeshing Rare Earth Company Limited	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	–	227	227	227
江蘇天元科技有限公司 (Jiangsu Tianyuan Technologies Limited) (formerly known as 宜興市大浦 窯爐密封材料廠 (Yixing Dapu Yaolu Sealed Material Factory))	A company in which Mr. Fang Guohong, a director of the company, has interest	24	–	–	2,724
		<u>24</u>	<u>227</u>	<u>227</u>	<u>2,951</u>

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

26. AMOUNT DUE TO A FELLOW SUBSIDIARY

	The Group At 31 December		At 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Asia Global Tech Group Limited (formerly known as Asia Environmental Protection Technologies Group Limited)	2,972	4,529	4,529	4,529

The amount due to a fellow subsidiary is of non-trade nature and is unsecured, interest free and repayable on demand.

27. AMOUNTS DUE FROM/(PREPAYMENTS FROM) CUSTOMERS FOR CONTRACT WORK

Contracts in progress at the balance sheet date:

	The Group At 31 December		At 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Contract costs incurred to date	–	29,070	158,064	214,484
Recognised profits less recognised losses	–	4,298	53,525	82,155
	–	33,368	211,589	296,639
Less: Progress billings	–	(17,080)	(138,643)	(209,194)
	–	16,288	72,946	87,445
Amounts due from customers for contract work	–	19,533	72,946	87,445
Prepayments from customers for contract work	–	(3,245)	–	–
	–	16,288	72,946	87,445

28. PAID-IN CAPITAL

For the purpose of this report, the paid-in capital at 31 December 2004, 2005 and 2006 and 30 June 2007 represented the aggregate amount of the nominal value of the share capital of the companies comprising the Group as at the respective dates.

29. ACQUISITION OF SUBSIDIARIES

On 25 August 2006, the Group acquired 100% of the issued share capital of Wuxi Zhong Dian. This transaction has been accounted for by the purchase method of accounting.

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

30. SEGMENT INFORMATION

Business segments

For the year ended 31 December 2004, analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and liabilities by business segments has not been presented as they are substantially generated from sales of EP products and equipment.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information of the Group's business segments.

Year ended 31 December 2005

	Sale of EP products and equipment <i>RMB'000</i>	EP construction engineering projects <i>RMB'000</i>	Provision of professional service <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	338,170	20,443	–	358,613
Sales to related parties	37,360	–	–	37,360
Total revenue	<u>375,530</u>	<u>20,443</u>	<u>–</u>	<u>395,973</u>
Segments results	<u>146,978</u>	<u>4,299</u>	<u>–</u>	<u>151,277</u>
Other revenue				511
Unallocated corporate expenses				<u>(16,041)</u>
Operating profit				135,747
Finance costs				<u>(2,503)</u>
Profit before taxation				133,244
Taxation				<u>(15,226)</u>
Profit for the year				<u>118,018</u>
Segment assets	130,793	20,593	–	151,386
Unallocation corporate assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>223,791</u>
Total assets	<u>130,793</u>	<u>20,593</u>	<u>–</u>	<u>375,177</u>
Segment liabilities	32,090	26,064	–	58,154
Unallocation corporate liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,568</u>
Total liabilities	<u>32,090</u>	<u>26,064</u>	<u>–</u>	<u>77,722</u>
Other segment information:				
Depreciation	4,210	–	–	4,210
Capital expenditure	<u>814</u>	<u>–</u>	<u>–</u>	<u>814</u>

Year ended 31 December 2006

	Sale of EP products and equipment <i>RMB'000</i>	EP construction engineering projects <i>RMB'000</i>	Provision of professional service <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	343,838	164,616	174	508,628
Sales to related parties	—	—	—	—
Total revenue	<u>343,838</u>	<u>164,616</u>	<u>174</u>	<u>508,628</u>
Segments results	<u>157,484</u>	<u>52,143</u>	<u>(297)</u>	209,330
Other revenue				1,960
Unallocated corporate expenses				<u>(23,463)</u>
Operating profit				187,827
Finance costs				<u>—</u>
Profit before taxation				187,827
Taxation				<u>(22,701)</u>
Profit for the year				<u>165,126</u>
Segment assets	53,519	87,763	2,389	143,671
Unallocation corporate assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>371,278</u>
Total assets	<u>53,519</u>	<u>87,763</u>	<u>2,389</u>	<u>514,949</u>
Segment liabilities	3,665	59,988	3,623	67,276
Unallocation corporate liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>90,643</u>
Total liabilities	<u>3,665</u>	<u>59,988</u>	<u>3,623</u>	<u>157,919</u>
Other segment information:				
Depreciation	4,708	—	39	4,747
Capital expenditure	<u>3,677</u>	<u>—</u>	<u>—</u>	<u>3,677</u>

Six months ended 30 June 2006

	Sale of EP products and equipment <i>RMB'000</i>	EP construction engineering projects <i>RMB'000</i>	Provision of professional service <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	144,065	17,653	–	161,718
Sales to related parties	–	–	–	–
Total revenue	<u>144,065</u>	<u>17,653</u>	<u>–</u>	<u>161,718</u>
Segments results	<u>66,244</u>	<u>2,917</u>	<u>–</u>	69,161
Other revenue				1,024
Unallocated corporate expenses				<u>(8,018)</u>
Operating profit				62,167
Finance costs				<u>–</u>
Profit before taxation				62,167
Taxation				<u>(7,462)</u>
Profit for the year				<u>54,705</u>
Segment assets	170,778	31,112	–	201,890
Unallocation corporate assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>223,732</u>
Total assets	<u>170,778</u>	<u>31,112</u>	<u>–</u>	<u>425,622</u>
Segment liabilities	84,571	41,622	–	126,193
Unallocation corporate liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>12,857</u>
Total liabilities	<u>84,571</u>	<u>41,622</u>	<u>–</u>	<u>139,050</u>
Other segment information:				
Depreciation	2,234	–	–	2,234
Capital expenditure	<u>1,560</u>	<u>–</u>	<u>–</u>	<u>1,560</u>

Six months ended 30 June 2007

	Sale of EP products and equipment <i>RMB'000</i>	EP construction engineering projects <i>RMB'000</i>	Provision of professional service <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	161,877	72,499	1,053	235,429
Sales to related parties	—	—	—	—
Total revenue	<u>161,877</u>	<u>72,499</u>	<u>1,053</u>	<u>235,429</u>
Segments results	<u>62,479</u>	<u>27,787</u>	<u>(144)</u>	90,122
Other revenue				1,775
Unallocated corporate expenses				<u>(11,170)</u>
Operating profit				80,727
Finance costs				<u>—</u>
Profit before taxation				80,727
Taxation				<u>(19,962)</u>
Profit for the year				<u>60,765</u>
Segment assets	76,182	102,295	5,679	184,156
Unallocation corporate assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>386,526</u>
Total assets	<u>76,182</u>	<u>102,295</u>	<u>5,679</u>	<u>570,682</u>
Segment liabilities	28,430	51,751	4,441	84,622
Unallocation corporate liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>90,265</u>
Total liabilities	<u>28,430</u>	<u>51,751</u>	<u>4,441</u>	<u>174,887</u>
Other segment information:				
Depreciation	2,477	—	214	2,691
Capital expenditure	<u>35</u>	<u>—</u>	<u>2,016</u>	<u>2,051</u>

Geographical segments

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

31. PLEDGE OF ASSETS

The Group has pledged a building with a net book value of approximately RMB1,049,000 as at 31 December 2006 (2004 and 2005: Nil) to secure general banking facilities granted to a minority shareholder of a subsidiary. During the six months ended 30 June 2007, the building was released from pledging as a security.

A deposit of a subsidiary of approximately RMB6,864,900 as at 30 June 2007 (2004: Nil; 2005: approximately RMB8,372,000 and 2006: approximately RMB8,014,000) was pledged to a bank as security in respect of the subsidiary's EP construction engineering projects.

32. RELATED PARTY TRANSACTION

- (a) During the Relevant Periods, in addition to those disclosed in notes 17, 18, 19, 20, 24, 25, 26 and 31 the Group had the following related party transactions which in the opinion of the directors of the Company, were entered into in the ordinary course of business between the Group and its related parties and in accordance with the terms of agreements governing these transactions:

Name of related party	Relationship with related party	Nature of transaction	The Group			Six months ended 30 June	
			Year ended 31 December			2006	
			2004	2005	2006	2006	2007
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)	
本溪泛亞環保熱電有限公司 (Benxi Fanya Environmental Heat & Power Co., Ltd.)	A fellow subsidiary	Sales of goods	51,862	37,360	—	—	—
江蘇天元科技 有限公司 (formerly known as 宜興市大浦窯爐 密封材料廠)	A company in which Mr. Fang Guohong, a director of the Company, has interest	Purchases of goods	19,448	—	—	—	3,720
Wuxi Xin Wei High Temperature Ceramics Co., Ltd.	A company in which Mr. Jiang Quanlong, a director of the Company, has interest	Receipt of rental income	53	53	53	—	—

- (b) During the year ended 31 December 2004, 2005 and 2006 prior to the acquisition of Wuxi Zhong Dian, SEEDRI, a subsidiary of Wuxi Zhong Dian, rendered design service to Wuxi Pan-Asia for RMB Nil, RMB Nil and RMB4,904,000 respectively.
- (c) The details of emolument of key management personnel during the Relevant Periods are set out in note 10.

33. COMMITMENTS**(a) Operating commitments**

The Group as lessee

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

	The Group			At 30 June 2007 RMB'000
	At 31 December			
	2004	2005	2006	
	RMB'000	RMB'000	RMB'000	
Within one year	—	—	1,400	—
In the second to fifth year inclusive	—	—	805	—
	—	—	2,205	—

The Group as lessor

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

	The Group			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	18	53	53	–
In the second to fifth years inclusive	–	71	18	–
	<u>18</u>	<u>124</u>	<u>71</u>	<u>–</u>

(b) Capital commitments

	The Group			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment	2,379	–	–	–

34. 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 projects or product delivery. At the same time, the Group also has received warranty in respect of those construction work and equipment supplied from its sub-contractors and suppliers. The Directors believe that the amount of crystalised warranty liabilities, if any, in excess of amount covered by the warranty given by the sub-contractors and suppliers, will not have a material adverse effect on the overall combined financial position or results of operations of the Group.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group include cash and bank balances, trade and other receivables, balances with related parties and investments. Financial liabilities of the Group include bank borrowings, balances with related parties and trade and other payables. The Group does not hold or issue financial instruments for trading purposes. The Group had no position in derivatives contracts at 31 December 2004, 2005, 2006 and 30 June 2007. Exposures to credit, interest rate, currency and liquidity risks arise in the normal course of the Group's business.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(b) Interest rate risk

The Group exposed to fair value interest rate risk through the impact of rate change on interest bearing financial assets and liabilities, mainly interest bearing bank deposits and balances and bank borrowings.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

(c) Foreign exchange risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

(d) Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year <i>RMB'000</i>
As at 31 December 2004	
Trade payables	83
Accruals and other payables	4,232
Bank borrowings	50,000
Amounts due to related companies	24
Amount due to a fellow subsidiary	2,972
Trade deposits received	10,161
Tax payables	683
	<u>68,155</u>
	<u><u>68,155</u></u>
	Within 1 year <i>RMB'000</i>
As at 31 December 2005	
Trade payables	23,060
Accruals and other payables	10,748
Amounts due to related companies	227
Amount due to a fellow subsidiary	4,529
Prepayments from customers for contract work	3,245
Trade deposits received	32,090
Tax payables	3,823
	<u>77,722</u>
	<u><u>77,722</u></u>
	Within 1 year <i>RMB'000</i>
As at 31 December 2006	
Trade payables	60,908
Accruals and other payables	29,327
Dividend payable	48,000
Amount due to a director	2,979
Amounts due to related companies	227
Amount due to a fellow subsidiary	4,529
Trade deposit received	6,368
Tax payables	5,581
	<u>157,919</u>
	<u><u>157,919</u></u>

Within 1 year
RMB'000

As at 30 June 2007

Trade payables	77,987
Accruals and other payables	35,526
Dividend payable	22,000
Amount due to a director	3,338
Amounts due to related companies	2,951
Amount due to a fellow subsidiary	4,529
Trade deposit received	6,635
Tax payables	21,921
	174,887
	174,887

(e) Fair value of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the Financial Information approximate their fair values at the respective balance sheet dates due to their short maturities.

(f) Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of bank deposits, cash and cash equivalents and equity attributable to equity holders of the Company, comprising paid-in capital, special reserve, enterprise expansion reserve, statutory surplus reserve, statutory staff welfare reserve, translation reserve and retained profits as disclosed in the Financial Information. At 31 December 2004, the Group had bank borrowings of RMB50,000,000 and at 31 December 2005 and 2006 and 30 June 2007, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payments of dividend, new share issues of the proposed flotation of the Company, as well as the raise of bank borrowings.

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Net realisable value of inventories

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

(ii) Trade and other receivables

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

(iii) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising performs 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.

B. NET TANGIBLE ASSETS OF THE COMPANY

Had the Group reorganisation, as set out in the paragraph headed "Group Reorganisation" in appendix V to the Prospectus, been completed on 30 June 2007, the net tangible assets of the Company as at 30 June 2007 would have been approximately RMB393,869,000 and were represented by its investments in subsidiaries.

C. DISTRIBUTABLE RESERVES

The Company was incorporated on 16 August 2006 and did not earn any income since incorporation. As at 30 June 2007, the Company did not have any reserve available for distribution to the shareholders of the Company.

D. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group after the completion of the Group Reorganisation is Praise Fortune Limited, a company incorporated in the British Virgin Islands.

E. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the Relevant Periods by the Company or any of its subsidiaries to the directors of the Company.

Under the arrangement currently in force, the estimated aggregate amount of remuneration of the directors of the Company payable for the year ending 31 December 2007 is approximately RMB68,000, excluding discretionary bonuses which are payable at the Group's discretion.

F. SIGNIFICANT SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2007:

- (a) Pursuant to written resolutions of the Company passed on 1 December 2007, the transactions which are set out in the paragraph headed "3. Resolutions in writing of the sole shareholder of the Company passed on 1 December 2007" in appendix V to the Prospectus had been taken into effect.
- (b) The companies in the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Stock Exchange, details of which are set out in the paragraph headed "Corporate reorganisation" in appendix V to the Prospectus.

G. SUBSEQUENT FINANCIAL STATEMENTS

No audit financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2007.

Yours faithfully,
CCIF CPA LIMITED
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the Accountants' Report received from CCIF CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in appendix I to this prospectus, and is included herein for information only.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Public Offer on the net tangible assets of the Group as at 30 June 2007 as if they had taken place on that date. The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the Public Offer been completed as at 30 June 2007 or at any future date.

The unaudited pro forma adjusted net tangible assets is based on the audited combined net assets of the Group attributable to the equity holders of the Company as at 30 June 2007 as shown in the Accountants' Report, the text of which is set out in appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2007 ⁽²⁾ RMB'000	Estimated net proceeds to the Company from the Public Offer ⁽³⁾ RMB'000	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company ⁽⁴⁾⁽⁵⁾⁽⁶⁾ RMB'000	Unaudited pro forma adjusted net tangible asset value per Share ⁽⁷⁾	
				RMB	HK\$
Based on an offer price of HK\$2.40, being the lowest point of the indicative Offer Price range per Share ⁽¹⁾	393,869	420,388	814,257	1.018	1.048
Based on an offer price of HK\$2.70, being the mid-point of the indicative Offer Price range per Share ⁽¹⁾	393,869	476,699	870,568	1.088	1.121
Based on an offer price of HK\$3.00, being the highest point of the indicative Offer Price range per Share ⁽¹⁾	393,869	533,981	927,850	1.160	1.195

Notes:

(1) Assuming no Over-allotment Option is exercised.

- (2) The audited combined net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2007 is extracted from the Accountants' Report as set out in the appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to equity holders of the Company as at 30 June 2007 of approximately RMB393,869,000, whilst no intangible asset (except for the prepaid lease premium in respect of land use right below-mentioned) has been recognized by the Group. The land use rights of the Group are accounted for as operating lease under Hong Kong Accounting Standard 17 "Leases" and are treated as prepaid lease premium payment. Hong Kong Accounting Standard 38 does not apply to land use rights. Accordingly, land use rights of approximately RMB7,334,000 as at 30 June 2007 were not excluded for the preparation of unaudited pro forma adjusted net tangible assets of the Group.
- (3) The estimated net proceeds from the Share Offer are based on the offer price of HK\$2.40, HK\$2.70 and HK\$3.00 per Share respectively under the respective scenario, after the deduction of the underwriting fees and other related listing expenses. The estimated net proceeds are converted into RMB at the rate of RMB1.00 = HK\$1.03.
- (4) Our properties were revalued at 30 September 2007, a copy of the property valuation report was included as appendix III to this prospectus. The net revaluation deficit of such properties classified under the captions "Property, plant and equipment" and "Land use rights" in appendix I – "Accountants' Report", representing the shortfall of market value of such properties below their net book value, is approximately RMB8.55 million. In accordance with our accounting policy, such properties are stated at historical cost less accumulated depreciation/amortization and impairment for permanent diminution. As such, the net revaluation deficit arising from the valuation of properties will not be included in our consolidated financial statements for the six months ended 30 June 2007 nor the calculation of the above unaudited pro forma adjusted tangible assets attributable to the equity holders of the Company. Had these properties been stated at such valuation, depreciation/amortization will be decreased by approximately RMB0.43 million per annum.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2007.
- (6) The pro forma financial information is not prepared in accordance with Hong Kong Financial Reporting Standards.
- (7) The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustment referred to in note (3) above and on the basis as if 800,000,000 Shares are in issue as at 30 June 2007. The unaudited pro forma net tangible asset value per Share is converted into Hong Kong Dollars at the rate of RMB1.00 = HK\$1.03.

B. UNAUDITED PRO FORMA EARNINGS PER SHARE

The following unaudited pro forma earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Public Offer as if it had taken place on 30 June 2007. This unaudited pro forma earnings per Share has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the earnings per Share of the Group for the six months ended 30 June 2007 or for any future period.

Consolidated profit	
attributable to equity holders of the Company	
for the six months ended 30 June 2007 ⁽¹⁾⁽²⁾	RMB61.1 million
	(approximately HK\$62.9 million)
Pro forma earnings per Share ⁽²⁾⁽³⁾⁽⁴⁾	RMB0.076 (approximately HK\$0.078)

Notes:

- (1) The consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 is extracted from the combined income statements under the section headed “Accountant’s Report” as set forth in appendix I to this prospectus.
- (2) The consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 and unaudited pro forma earnings per Share are converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.97.
- (3) The calculation of the unaudited pro forma earnings per Share is based on the consolidated profit attributable to equity holders of the Company for the year ended 30 June 2007, as if the Public Offer had been completed on 30 June 2007 and the Group’s capital structure has been in place with a total of 800,000,000 Shares in issue throughout the entire year.
- (4) The pro forma financial information contained herein is not prepared in accordance with Hong Kong Financial Reporting Standards.

C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter received from CCIF CPA Limited in connection with the unaudited pro forma financial information of the Group set out in the paragraphs headed “Unaudited pro forma adjusted net tangible assets” under the section headed “Financial information” in this prospectus and prepared for the purpose of inclusion in this prospectus:

**CCIF****CCIF CPA LIMITED**

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

10 December 2007

The Directors
Pan Asia Environmental Protection Group Limited
Taifook Capital Limited

Dear Sirs,

We report on the unaudited pro forma financial information (“Unaudited Pro Forma Financial Information”) of Pan Asia Environmental Protection Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how the proposed placing and public offer of the shares of the Company might have affected the financial information presented, for inclusion in appendix II of the prospectus of the Company dated 10 December 2007 (the “Prospectus”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in appendix II to the Prospectus.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2007 or at any future date; or
- the earnings per share of the Group for the year ended 30 June 2007 or for any future periods.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation of this prospectus received from American Appraisal China Limited, an independent valuer, in connection with their valuations as at 30 September 2007 of the property interests of the Group:

American Appraisal China Limited
1506 Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong
Tel +852 2511 5200
Fax +852 2511 9626



10 December 2007

The Directors
Pan Asia Environmental Protection Group Limited
No.1, Chuanshan Road
Environmental Protection Science & Technology Industrial Park
Yixing City
Jiangsu Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the property interest owned by Pan Asia Environmental Protection Group Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such property interests as at 30 September 2007 (the "valuation date").

BASIS OF VALUATION

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

VALUATION METHODOLOGY

Our valuation has been based on the depreciated replacement cost of the buildings and structures (referred to as the "Buildings") which is defined as the gross replacement cost of the Buildings, from which appropriate deductions may then be made to allow for age, condition, economic/external and functional obsolescence and environmental factors etc. All of these might result in the existing Buildings being worth less to the undertaking in occupation than would a new replacement. For the land portion, we have made reference to the similar transaction in the locality and the published standard land price from the local authorities.

ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to increase the value of such property interests. In addition, no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their rental values.

For the property interests held under land use rights in the PRC, we have assumed that the owner of the property interests has free and uninterrupted rights to use, lease, sell or mortgage the property interests for the whole of the unexpired term of its respective land use rights. Unless stated as otherwise, vacant possession is assumed for the property interests concerned.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificate. Further, it is assumed that the utilization of the property and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificate.

TITLESHP INVESTIGATION

We have been provided with the extracts of documents of the property interests situated in the PRC. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Group and the opinion given by the Group's legal advisers on the PRC Law.

All legal documents disclosed in this letter and valuation certificate are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificate.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, site and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the property interests included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the property interests are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services. In the course of our inspection, we did not notice any serious defects.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the proposed development, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

REMARKS

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi Yuan (RMB).

We enclose herewith the summary of valuation and the valuation certificate.

Yours faithfully,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Calvin K. C. Chan
MRICS MHKIS RPS(GP) CREA CFA
Vice President

Note: Mr. Calvin K. C. Chan, who is a Chartered Valuation Surveyor, has over 10 years experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATION

Property interests held by the Group in the PRC

Property	Market Value in existing state as at 30 September 2007 (RMB)	Interest attributable to the Group	Market Value attributable to the Group as at 30 September 2007 (RMB)
1. An Industrial Complex located at No.1 Chuanshan Road Yixing City Jiangsu Province The PRC	20,100,000	100%	20,100,000
2. An Industrial Complex located at No.1 Chuanzhang Road Yixing City Jiangsu Province The PRC	19,850,000	100%	19,850,000
3. Block 18 No.1 Chuanzhang Road Yixing City Jiangsu Province The PRC	No Commercial Value	100%	No Commercial Value
4. No.5 Lane 449 North Shanxi Road Shanghai The PRC	No Commercial Value	70.05%	No Commercial Value

VALUATION CERTIFICATE

Property interests held by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 September 2007 (RMB)										
1. An Industrial Complex located at No.1 Chuanshan Road Yixing City Jiangsu Province The PRC	<p>The property comprises an industrial complex erected on a piece of land with a site area of approximately 23,712.1 square meters.</p> <p>The industrial complex consists of 3 buildings and ancillary structures. The total gross floor area of the buildings is approximately 9,429.18 square meters and the details of which are summarized as follows:</p> <table><tr><th>Usage</th><th>GFA (sq.m.)</th></tr><tr><td>Pipe Workshop</td><td>4,705.80</td></tr><tr><td>Fine Processing Workshop</td><td>2,376.00</td></tr><tr><td>Assembly Workshop</td><td>2,347.38</td></tr><tr><td>Total:</td><td><u>9,429.18</u></td></tr></table> <p>The Land Use Rights of the property is held for a term expiry on 9 November 2050.</p>	Usage	GFA (sq.m.)	Pipe Workshop	4,705.80	Fine Processing Workshop	2,376.00	Assembly Workshop	2,347.38	Total:	<u>9,429.18</u>	The property is occupied by the Group for workshop and ancillary facilities.	<p>20,100,000</p> <p>100% Interest attributable to the Group</p> <p>20,100,000</p>
Usage	GFA (sq.m.)												
Pipe Workshop	4,705.80												
Fine Processing Workshop	2,376.00												
Assembly Workshop	2,347.38												
Total:	<u>9,429.18</u>												

Notes:

- Pursuant to the State-owned Land Use Rights Certificate Yi Guo Yong (2004) Zi No. 002566, a piece of land located in Chuanbu Village, Dingshu Town, with the site area of approximately 23,712.1 square meters, was held by Wuxi Pan-Asia Environmental Protection Technologies Limited for a term expiry on 9 November 2050 for industry use.
- Pursuant to the Building Ownership Certificate Yi Fang Quan Zheng Yi Cheng Zi No. A0019144, a single storey factory building, with a floor area of 4,705.80 square meters, was held by Wuxi Pan-Asia Environmental Protection Technologies Limited for industry and storage use.
- Pursuant to the Building Ownership Certificate Yi Fang Quan Zheng Yi Cheng Zi No. A0019146, a single storey factory building, with a floor area of 2,376.00 square meters, was held by Wuxi Pan-Asia Environmental Protection Technologies Limited for industry and storage use.
- Pursuant to the Building Ownership Certificate Yi Fang Quan Zheng Ding Shu Zi No. B0014611, a single storey factory building, with a floor area of 2,347.38 square meters, was held by Wuxi Pan-Asia Environmental Protection Technologies Limited for industry and storage use.
- Pursuant to the Business Licence No. Qi Du Su Yi Zong Fu Zi No. 004222 issued by Wuxi City Yixing Industry and Commerce Administrative Bureau on 13 October 2006, Wuxi Pan-Asia Environmental Protection Technologies Limited was registered with a registered capital of US\$13,280,000.
- We have been provided with a legal opinion on the property prepared by the PRC Legal Advisers, which contains, inter alia, the following information:
 - Wuxi Pan-Asia Environmental Protection Technologies Limited has legally obtained the ownership and title of the subject property.
 - Wuxi Pan-Asia Environmental Protection Technologies Limited is entitled to freely transfer, let and mortgage the property.

Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 September 2007 (RMB)																
2. An Industrial Complex located at No.1 Chuanzhang Road Yixing City Jiangsu Province The PRC	<p>The property comprises an industrial complex erected on a piece of land with a site area of approximately 12,679 square meters.</p> <p>The industrial complex consists of 6 buildings and other auxiliary structures. The total gross floor area of the buildings is approximately 7,353.58 square meters and the details of which are summarized as follows:</p> <table><thead><tr><th>Usage</th><th>GFA (sq.m.)</th></tr></thead><tbody><tr><td>Bathroom</td><td>207.69</td></tr><tr><td>Garage</td><td>264.00</td></tr><tr><td>Specialist Apartment</td><td>3,214.13</td></tr><tr><td>Office Building and Dining Room</td><td>2,249.23</td></tr><tr><td>Office Building</td><td>553.05</td></tr><tr><td>Office Building</td><td>865.48</td></tr><tr><td>Total:</td><td><u>7,353.58</u></td></tr></tbody></table> <p>The Land Use Rights of the property is held for a term expiry on 9 November 2050.</p>	Usage	GFA (sq.m.)	Bathroom	207.69	Garage	264.00	Specialist Apartment	3,214.13	Office Building and Dining Room	2,249.23	Office Building	553.05	Office Building	865.48	Total:	<u>7,353.58</u>	<p>The property is occupied by the Group for office, apartment and ancillary facilities, except an office building is rented to third party.</p>	<p>19,850,000</p> <p>100% Interest attributable to the Group</p> <p>19,850,000</p>
Usage	GFA (sq.m.)																		
Bathroom	207.69																		
Garage	264.00																		
Specialist Apartment	3,214.13																		
Office Building and Dining Room	2,249.23																		
Office Building	553.05																		
Office Building	865.48																		
Total:	<u>7,353.58</u>																		

Notes:

- Pursuant to the State-owned Land Use Rights Certificate Yi Guo Yong (2004) Zi No. 001039, a piece of land located in Chuanbu Village, Dingshu Town, with a site area of approximately 12,679 square meters, was held by Wuxi Pan-Asia Environmental Protection Technologies Limited for a term expiry on 9 November 2050 for industry use.
- Pursuant to the six Building Ownership Certificates Yi Fang Quan Zheng Yi Cheng Zi Nos. A0035439 to A0035444 respectively, six buildings, with a total floor area of approximately 7,353.58 square meters, was held by Wuxi Pan-Asia Environmental Protection Technologies Limited for industry, storage and residential use.
- Pursuant to the Business Licence No. Qi Du Su Yi Zong Fu Zi No. 004222 issued by Wuxi City Yixing Industry and Commerce Administrative Bureau on 13 October 2006, Wuxi Pan-Asia Environmental Protection Technologies Limited, a wholly owned subsidiary of the Company, was registered with a registered capital of US\$13,280,000.
- Pursuant to the <Building Lease Agreement> entered into between the Group and Wuxi Xin Wei High Temperature Ceramics Co., Ltd., an office building with gross floor area of approximately 553.05 square meters is rented to Wuxi Xin Wei High Temperature Ceramics Co., Ltd. for a term of 3 years commencing from 1 May 2005 to 30 April 2008 at an annual rent of RMB53,092.80.
- We have been provided with a legal opinion on the property prepared by the PRC Legal Advisers, which contains, inter alia, the following information:
 - Wuxi Pan-Asia Environmental Protection Technologies Limited has legally obtained the ownership and title of the subject property.
 - Wuxi Pan-Asia Environmental Protection Technologies Limited is entitled to freely transfer, let and mortgage the property.
 - The lease agreement in Note 4 is valid and enforceable.

Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 September 2007 (RMB)
3. Block 18 No.1 Chuanzhang Road Yixing City Jiangsu Province The People's Republic of China	The subject property comprises a 6-storey dormitory building completed in about 2001. The gross floor area of the building is approximately 2,510.01 square meters.	The property is occupied by the Group for staff quarter.	No Commercial Value 100% Interest attributable to the Group No Commercial Value

Notes:

1. Pursuant to the Building Ownership Certificate Yi Fang Quan Zheng Yi Cheng Zi No. A0035438, a 6-storey factory building with gross floor area of 2,510.01 square meters is held by Wuxi Pan-Asia Environmental Protection Technologies Limited for residential use.
2. Pursuant to the Business Licence No. Qi Du Su Yi Zong Fu Zi 004222 issued by Wuxi City Yixing Industry and Commerce Administrative Bureau on 13 October 2006, Wuxi Pan-Asia Environmental Protection Technologies Limited was registered with a registered capital of US\$13,280,000.
3. In the course of our valuation, we have ascribed no commercial value to the property because Wuxi Pan-Asia Environmental Protection Technologies Limited does not obtain the relevant land use rights of the property. For indicative purpose, the total depreciated replacement cost of the building as at the date of valuation was RMB4,740,000.
4. We have been provided with a legal opinion on the property prepared by the PRC Legal Advisers, which contains, inter alia, the following information:
 - a. Wuxi Pan-Asia Environmental Protection Technologies Limited has legally obtained the building ownership of the subject property.
 - b. Wuxi Pan-Asia Environmental Protection Technologies Limited does not possess the relevant land use rights of the subject property.

Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 September 2007 (RMB)
4. No.5 Lane 449 North Shanxi Road Shanghai The People's Republic of China	<p>The subject property comprises a 4-storey industrial building completed in about 1980s.</p> <p>The property contains a gross floor area of approximately 1,084.06 square meters erected on a parcel of land with total site area of 282.91 square meters.</p>	The property is occupied by the Group as office.	<p>No Commercial Value</p> <p>70.05% Interest attributable to the Group</p> <p>No Commercial Value</p>

Notes:

1. Pursuant to the Shanghai City Real Estate Ownership Certificate Hu Fang Di Zha Zi (2002) No. 020457, a 4-storey industry building with gross floor area of 1,084.06 square meters and a parcel of allocated land with gross site area of 282.91 square meters is held by Shanghai Environmental Engineering Design & Research Institute Limited, a 70.05% owned subsidiary of the Company.
2. In the course of our valuation, we have ascribed no commercial value to the property situated on the allocated land because it is not freely transferable. For indicative purpose, the total depreciated replacement cost of the building as at the date of valuation was RMB1,410,000.
3. We have been provided with a legal opinion on the property prepared by the PRC Legal Advisers, which contains, inter alia, the following information:
 - a. Shanghai Environmental Engineering Design & Research Institute Limited has legally obtained the ownership and title of the subject property.
 - b. As the legal status of the land is allocated from the government, transfer of the property is subject to the government approval and land premium should be paid at the time of the transaction.

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in appendix VI to this Prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "**Articles**") were adopted on 1 December 2007. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of Cayman Islands to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred, for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence or (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of the Company or its holding company

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;

- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing, the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any

of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) Qualification shares

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions – majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

(f) Voting rights and right to demand a poll

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which

is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (as defined in the Articles) (or its nominees), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules (as defined in the Articles) or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or (v) if required by the Listing Rules (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him,

in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant Share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that

class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and

a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

- (iii) in redeeming or purchasing its shares as provided in the Companies Law;
- (iv) in writing off
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (v) in providing for the premium payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances, be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by

or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(I) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16 August 2006 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 16 August 2006, an aggregate of 1,000,000 Shares were allotted and issued nil paid, as to 999,999 Shares to YY Holdings and as to one Share to Codan Trust Company (Cayman) Limited; on the same date, Codan Trust Company (Cayman) Limited transferred its one Share to YY Holdings. The said 1,000,000 nil paid Shares were subsequently paid up in the manner described in paragraph 4 below.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Law is set out in appendix IV to this prospectus.

2. Changes in share capital of the Company*(a) Increase in authorised share capital*

Pursuant to a resolution in writing passed by the then sole shareholder of the Company (namely, YY Holdings) on 1 December 2007, the authorised share capital of the Company was increased from HK\$100,000 to HK\$10,000,000 by the creation of a further 99,000,000 Shares, which were on that date issued and credited as fully paid as described in paragraph 4 below.

(b) Transfer of entire issued share capital

On 1 December 2007, the entire issued share capital of HK\$10,000,000 in the Company held by YY Holdings were transferred to Praise Fortune, in consideration for a promissory note issued by Praise Fortune in favour of YY Holdings for a sum of HK\$407,669,000, which was determined by reference to the net tangible asset value of the Group as at 30 June 2007.

(c) Further increase in authorised share capital

The authorised share capital of the Company was further increased to HK\$400 million by the creation of a further 3,900 million Shares pursuant to a resolution passed by the sole shareholder, Praise Fortune, as referred to in paragraph 3 below.

Immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, 800,000,000 Shares will be issued fully paid or credited as fully paid, and 3,200

million Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 30,000,000 Shares will be issued fully paid or credited as fully paid, and 3,170 million Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in paragraphs 1 and 3 of this appendix, there has been no alteration in the share capital of the Company since its incorporation.

(d) Founder shares

The Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of the sole shareholder of the Company passed on 1 December 2007

On 1 December 2007, pursuant to resolutions in writing passed by Praise Fortune, the sole shareholder of the Company:

- (a) the Company adopted its existing articles of association;
- (b) conditional on the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the authorised share capital was increased from HK\$10 million to HK\$400 million by the creation of a further 3,900 million Shares;
 - (ii) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the Offer Shares and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15 of this appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;

- (iv) conditional on the share premium account being credited as a result of the Share Offer, the Directors were authorised to capitalise HK\$50 million standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 500 million Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 1 December 2007 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in the Company;
- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or pursuant to the grant of options under the Share Option Scheme or exercise of any options which may be granted under the Share Option Scheme or under the Share Offer or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding any Shares which may be issued pursuant to the exercise (if any) of the Over-allotment Option or the exercise of any options that may be granted under the Share Option Scheme); and (bb) the nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) a general unconditional mandate (“**Repurchase Mandate**”) was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the Share Offer and the Capitalisation Issue and upon the exercise (if any) of the Over-allotment Option, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first.

4. Group Reorganisation

The companies comprising the Group underwent a Reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on the Stock Exchange and the Company became the holding company of the Group.

The Reorganisation involved the transfer to the Company by YY Holdings of an aggregate of 200 shares of US\$1 each, being the entire issued share capital of Pan Asia (BVI), the intermediate holding company of the Group, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 99 million new Shares to YY Holdings, and (ii) credited as fully paid at par the 1 million nil-paid Shares then held by YY Holdings. Immediately following such transfer of shares in Pan Asia (BVI) to the Company from YY Holdings, the entire issued share capital in the Company held by YY Holdings were transferred to Praise Fortune, in consideration for a promissory note issued by Praise Fortune in favour of YY Holdings for a sum of HK\$407,669,000, which is was determined by reference to the net tangible asset value of the Group as at 30 June 2007.

In addition to the acquisition of shares in Pan Asia (BVI) by the Company as referred to above, the Group also underwent the following corporate restructuring:

(a) acquisition of SEEDRI:

- (i) on 11 August 2006, Wuxi Zhong Dian subscribed for equity capital in SEEDRI by way of capital injection at a consideration of RMB7,530,000, as a result of which Wuxi Zhong Dian becoming the holder of approximately 70.05% of enlarged equity interest in SEEDRI; and
- (ii) on 25 August 2006, Wuxi Pan Asia acquired the entire equity interest in Wuxi Zhong Dian at a consideration of RMB5 million from Yixing Xinwei Group Company, Fan Yajun, and Zhu Panjun.

(b) acquisition of Wuxi Pan-Asia:

- (i) on 9 September 2006, Pan Asia BVI acquired the entire equity interest in Wuxi Pan Asia from AGT (BVI) at a consideration equivalent to the registered capital of Wuxi Pan Asia (i.e. US\$13.28 million);
- (ii) on 1 October 2006, at the direction of AGT (BVI), Pan Asia BVI issued 100 shares of US\$1 each in the capital of Pan Asia BVI to YY Holdings for purpose of settlement of the consideration mentioned in sub-paragraph (b)(i) above; and
- (iii) on 1 October 2006, YY Holdings issued a promissory note in the amount of US\$13.28 million in favour of AGT (BVI) in consideration of AGT (BVI)'s direction to Pan Asia (BVI) to issue the said 100 shares to YY Holdings.

Immediately prior to the acquisition of approximately 70.05% equity interest of SEEDRI by Wuxi Zhong Dian by way of capital injection on 11 August 2006 and the acquisition of the entire equity interest of Wuxi Zhong Dian by Wuxi Pan-Asia on 25 August 2006, Shanghai Kaida was indirectly (through Shanghai Industrial and Shanghai Gongcheng) interested in approximately 94.7% equity interest of SEEDRI. Shanghai Kaida was directly owned as to 60% by Mr. Jiang and 40% by Mr. Jiang Lei, the son of Mr. Jiang. On 11 August 2006, the registered capital of SEEDRI was increased from RMB3,220,000 to RMB10,750,000. The additional portion of capital injected was recorded at its face value in the registered capital of SEEDRI and fully paid up by Wuxi Zhong Dian in cash. On 25 August 2006, Wuxi Pan-Asia acquired the entire equity interest in Wuxi Zhong Dian. Immediately following such acquisition, SEEDRI was indirectly owned as to approximately 70.05% by Wuxi Pan-Asia (through Wuxi Zhong Dian), approximately 28.37% by Shanghai Kaida (through Shanghai Industrial and Shanghai Gongcheng) and approximately 1.58% by Shanghai Industrial Development Fund (through Shanghai Gongcheng and indirectly through Shanghai Industrial).

Proposals were examined as to whether the approximately 28.37% equity interests in SEEDRI indirectly owned by Shanghai Kaida could be transferred to the Group. As advised by the PRC Legal Adviser, the transfer of the approximately 28.37% equity interests in SEEDRI to the Group might be subject to more onerous examination procedures by local commerce department of the PRC. As such, it was advised that the approximately 28.37% equity interests in SEEDRI would be sold to an Independent Third Party in the PRC so as to sever the associate relationship between SEEDRI and Mr. Jiang and Mr. Jiang Lei. Pursuant to an equity transfer agreement dated 21 March 2007 made between Shanghai Kaida and Shanghai Huanghe Assets Management Limited (“Shanghai Huanghe”), an Independent Third Party, Shanghai Kaida transferred all its equity interest in both Shanghai Industrial and Shanghai Gongcheng to Shanghai Huanghe at the consideration of RMB5 million. Shanghai Huanghe is established in the PRC with limited liability. It is mainly engaged in equity investment, asset management, merger and restructuring, investment and financial consulting services. Following such transfer, Shanghai Huanghe held an indirect equity interest of approximately 28.37% in SEEDRI. As at the Latest Practicable Date, as the equity interest in Shanghai Gongcheng held by Shanghai Industrial Development Fund had been sold to another Independent Third Party, SEEDRI was indirectly owned as to approximately 70.05% by Wuxi Pan-Asia, approximately 28.37% by Shanghai Huanghe and approximately 1.58% by another Independent Third Party.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in appendix I to this prospectus.

In addition to the reorganisation described in paragraph 4 of this appendix, the following alterations in the share capital of each of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) on 15 July 2006, 100 shares of US\$1 each in Pan Asia (BVI) were allotted and issued to YY Holdings for cash at par;
- (b) on 11 August 2006, the registered capital of SEEDRI was increased from RMB3,220,000 to RMB10,750,000, the increased part of RMB7,530,000 (representing 70.05% of the enlarged registered capital of SEEDRI) were fully paid up by Wuxi Zhong Dian on 10 August 2006;
- (c) on 25 August 2006, Wuxi Pan-Asia acquired from Yixing Xinwei Group Company (宜興新威集團有限公司), Fan Yajun and Zhu Panjun the 100% equity interest in Wuxi Zhong Dian at the consideration of RMB5,000,000, being the then registered capital of Wuxi Zhong Dian;
- (d) on 9 September 2006, Pan Asia (BVI) acquired from AGT (BVI) the 100% equity interest in Wuxi Pan-Asia at the consideration of US\$13,280,000, being the then registered capital of Wuxi Pan-Asia; and
- (e) on 1 October 2006, 100 shares of US\$1 each in Pan Asia (BVI) were allotted and issued to YY Holdings for satisfying the consideration payable by Pan Asia (BVI) for its acquisition of the entire equity interest in Wuxi Pan-Asia.

Save as disclosed herein and in paragraph 4 of this appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by the sole shareholder of the Company on 1 December 2007 a general unconditional mandate ("Repurchase Mandate") was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue, such mandate will expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the same, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company's articles of association and the Companies Law. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Cayman Islands laws, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorised by its articles of association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of profits or the share premium account of the Company or, if authorised by its articles of association and subject to the Companies Law, out of capital.

(c) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

(d) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its articles of association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

Assuming that the Over-allotment Option is not exercised, the exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after the listing of the Shares on the Main Board, would result in up to 80,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

Assuming that the Over-allotment Option is exercised in full and on the basis of 830,000,000 Shares in issue immediately after the exercise of the Over-allotment Option, the exercise in full of the Repurchase Mandate, would result in up to 83,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(e) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

7. Registration under Part XI of the Companies Ordinance

The Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at 41st Floor, Jardine House, 1 Connaught Place, Hong Kong. The Company has been registered as an oversea company under Part XI of the Companies Ordinance. The application contains a notice of appointment of Mr. Wan San Fai Vincent (being the company secretary of the Company) both being as agent of the Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**8. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:


- (a) an agreement dated 25 August 2006 made between Wuxi Pan-Asia as purchaser and Yixing Xinwei Group Co. Ltd. (宜興新威集團有限公司) as vendor for the acquisition of 80% registered capital of Wuxi Zhong Dian at the consideration of RMB4 million;
- (b) an agreement dated 25 August 2006 made between Wuxi Pan-Asia as purchaser and Fan Yajun as vendor for the acquisition of 10% registered capital of Wuxi Zhong Dian at the consideration of RMB500,000;
- (c) an agreement dated 25 August 2006 made between Wuxi Pan-Asia as purchaser and Zhu Panjun as vendor for the acquisition of 10% registered capital of Wuxi Zhong Dian at the consideration of RMB500,000;
- (d) (i) an agreement dated 9 September 2006 and (ii) a supplemental agreement dated 19 March 2007 thereto (and taking effect as of 1 October 2006), both made between AGT (BVI) as vendor and Pan Asia (BVI) as purchaser for the acquisition of the 100% registered capital of Wuxi Pan-Asia at a consideration of US\$13.28 million;
- (e) a cornerstone placing agreement made between the Sole Lead Manager and GE Asset Management Incorporated (“GEAM”), pursuant to which GEAM has agreed to purchase 39,920,000 Shares at the Offer Price, which agreement comprises a placing letter dated 28 November 2007 from the Sole Lead Manager (as agent of the Company) to GEAM, and an acknowledgement letter dated 30 November 2007 from GEAM to the Sole Lead Manager;

- (f) a cornerstone placing agreement made between the Sole Lead Manager and The China Development Capital Partnership Master Fund LP (“**CDCPMF**”), pursuant to which CDCPMF has agreed to purchase such number of Shares which may be purchased at the Offer Price with US\$5,500,000, which agreement comprises a placing letter dated 28 November 2007 from the Sole Lead Manager (as agent of the Company) to CDCPMF, and an acknowledgement letter dated 29 November 2007 from CDCPMF to the Sole Lead Manager;
- (g) a cornerstone placing agreement made between the Sole Lead Manager and General Motors Investment Management Corporation (“**GMIMC**”), pursuant to which GMIMC has agreed to purchase such number of Shares which may be purchased at the Offer Price with US\$4,500,000, which agreement comprises a placing letter dated 28 November 2007 from the Sole Lead Manager (as agent of the Company) to GMIMC, and an acknowledgement letter dated 29 November 2007 from GMIMC to the Sole Lead Manager;
- (h) an agreement dated 1 December 2007 made between (i) YY Holdings as vendor, (ii) the Company as purchaser and (iii) Praise Fortune, Mr. Jiang, Mr. Jiang Lei, Mr. Jiang Xin and Ms. Qian Yuanying as covenantors for the acquisition of the entire issued share capital in Pan Asia (BVI), in consideration and in exchange for which the Company (aa) allotted and issued, credited as fully paid, an aggregate of 99 million new Shares, and (bb) credited as fully paid at par the 1 million nil paid Shares then held by YY Holdings;
- (i) a deed of indemnity dated 1 December 2007 executed by Praise Fortune, Mr. Jiang, Mr. Jiang Lei and Mr. Jiang Xin, in favour of the Company (for itself and as trustee for its subsidiaries stated therein) containing the indemnities in respect of estate duty and taxation and other liabilities more particularly referred to in paragraph 16 of this appendix; and
- (j) the Underwriting Agreement.

9. Intellectual property rights of the Group




Trademarks

As at the Latest Practicable Date, the following trademarks of the Group were registered in the PRC:

Trademark	Place of registration	Class	Registration number	Date of application	Date of registration
	PRC	11 (<i>Note</i>)	4294575	30 September 2004	21 March 2007
泛亚	PRC	11 (<i>Note</i>)	4294576	30 September 2004	21 March 2007

Note: The products covered under class 11 include air-cleaning devices, incinerators and waste-water treatment facilities (氣體淨化裝置, 焚化爐, 污水處理設備).

As at the Latest Practicable Date, the Group made application for registration of the following trademark in Hong Kong:

Trademark	Place of application	Class	Application number	Date of application
^A 	Hong Kong	11, 17, 35, 37, 40, 42 (<i>Note</i>)	300999866	23 November 2007
^B 				
^C 				

Note: The products and/or services covered under these classes include air-cleaning devices, incinerators and waste-water treatment facilities; non-metallic pipes; project management; building construction supervision; treatment of hazardous materials, waste treatment (transformation) and water treating; and consultation in environmental protection.

Domain Name

As at the Latest Practicable Date, the Group had registered the following domain name:

Domain name	Registration Date	Expiry Date
www.paep.com.cn	19 June 2003	19 June 2008

10. Further information about the Group's PRC establishments

The Group has interests in the registered capital of four enterprises established in the PRC. A summary of the corporate information of these enterprises are set out as follows:

(a)	(i)	Name of the enterprise:	Wuxi Pan-Asia Environmental Protection Technologies Limited (無錫泛亞環保科技有限公司)
	(ii)	Economic nature:	limited liability company (wholly owned by foreign legal person)
	(iii)	Owner:	Pan Asia (BVI) (100%)
	(iv)	Total investment:	US\$28,000,000 (equivalent to approximately HK\$218,400,000)
	(v)	Registered capital:	US\$13,280,000 (equivalent to approximately HK\$103,584,000)
	(vi)	Attributable interest to the Group:	100%
	(vii)	Term:	approximately 50 years, from 4 July 1996 to 3 July 2046
	(viii)	Scope of business:	Manufacturing of complete set of equipment for refuse burning, complete set of equipment for urban sewage treatment, catalysts for purification of automobile exhaust gas and other EP products; underwriting of EP projects; initiating environment design, research and development and provision of integrated environment services
(b)	(i)	Name of the enterprise:	Wuxi Zhong Dian Kong Leng Technology Limited (無錫市中電空冷技術有限公司)
	(ii)	Economic nature:	limited liability company (wholly owned by legal person)
	(iii)	Owner:	Wuxi Pan-Asia (100%)
	(iv)	Registered capital:	RMB5,000,000 (equivalent to approximately HK\$5,150,000)
	(v)	Attributable interest to the Group:	100%
	(vi)	Term:	approximately 13 years, from 30 May 2001 to 1 July 2014

	(vii)	Scope of business:	The manufacture and sales of large air-cooling equipment for power generation; and the development of air-cooling technology.
(c)	(i)	Name of the enterprise:	Shanghai Environmental Engineering Design & Research Institute Limited (上海環境工程設計研究院有限公司)
	(ii)	Economic nature:	limited liability company (jointly owned by domestic enterprises)
	(iii)	Owners:	(i) Wuxi Zhong Dian (70.05%)
			(ii) Shanghai Industrial (26.98%)
			(iii) Shanghai Gongcheng (2.97%)
	(iv)	Registered capital:	RMB10,750,000 (equivalent to approximately HK\$11,072,500)
	(v)	Attributable interest to the Group:	Approximately 70.05%
	(vi)	Term:	32 years, from 10 April 1991 to 1 April 2023
	(vii)	Scope of business:	Provide energy, energy saving, EP, municipal engineering as well as consultation, research and development and design for industrial related technology improvement projects, and residential building design and product design
(d)	(i)	Name of the enterprise:	Da Tang Environmental Technology Engineering Company Limited (大唐環境科技工程有限公司)
	(ii)	Economic nature:	limited liability company
	(iii)	Owners:	(i) China Da Tang Group Company (中國大唐集團公司) (51%)
			(ii) China Water and Electric Materials Company Limited (中國水利電力物資有限公司) (23%)
			(iii) Xinzheng Business Development Company (欣正實業發展總公司) (10%)
			(iv) Beijing Hua Ke Electric Engineering Technology Company Limited (北京華科電力工程技術有限公司) (6%)
	(v)	Tuo Ke Tuo Electric Tong Fa Trading Company Limited (托克托電力同發商貿有限責任公司) (5%)	
	(vi)	Wuxi Pan-Asia (5%)	

- | | | |
|-------|-------------------------------------|--|
| (iv) | Registered capital: | RMB39,000,000 (equivalent to approximately HK\$40,170,000) |
| (v) | Attributable interest to the Group: | 5% |
| (vi) | Term: | 50 years, from 10 May 2004 to 10 May 2054 |
| (vii) | Scope of business: | Environment technology development and consultation services, research and development, manufacturing and sale of environment equipment and products, flue gas desulphurisation, denitrogenate, separation of dust, polluted air, water, oil and remanent, design, construction, testing, underwriting of environment engineering projects, environment technology supervision and consultation and import and export business |

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND EXPERTS**11. Directors***(a) Disclosure of interests of directors*

- (i) Mr. Jiang, Mr. Jiang Lei and Mr. Fan Yajun are interested in the corporate reorganisation referred to in paragraph 4 of this appendix.
- (ii) Save as disclosed in this prospectus, none of the Directors or their associates (as defined in the Listing Rules) were engaged in any dealings with the Group during the two years preceding the date of this prospectus.

(b) Particulars of service contracts

Each of Mr. Jiang, Mr. Fan Yajun, Mr. Fang Guohong, Mr. Gan Yi and Mr. Jiang Lei, being all the executive Directors, has entered into a service contract with the Company for an initial term of 36 months commencing from 1 December 2007. The executive Directors are entitled to a basic salary subject to an annual increment after 31 December 2008 at the discretion of the Directors of not more than 15% of the annual salary immediately prior to such increase. In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 5% of the audited combined or consolidated audited net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Annual salary
Jiang Quanlong	HK\$120,000
Fan Yajun	HK\$120,000
Fang Guohong	HK\$120,000
Gan Yi	HK\$120,000
Jiang Lei	HK\$120,000
	<hr/>
	Total: <u>HK\$600,000</u>

The independent non-executive Directors have been appointed for a term expiring on 30 November 2009. The Company intends to pay a director's fee of HK\$60,000 per annum to each of Mr. Lai Wing Lee and Professor Wang Guozhen, and a director's fee of HK\$216,000 per annum to Mr. Leung Shu Sun Sunny. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors' remuneration

- (i) During the year ended 31 December 2006, the aggregate emoluments paid by the Group to the Directors was approximately HK\$2,520,400. Details of the Directors' remuneration are set out in note 10 to the accountants' report set out in appendix I to this prospectus.
- (ii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31 December 2007 are estimated to be approximately HK\$399,600, exclusive of performance incentive and discretionary management bonus.

- (iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31 December 2006 as (i) an inducement to join or upon joining the Company; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2006.
- (d) *Interests and short positions of Directors in the Shares, underlying shares or debentures of the Company and its associated corporations*

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue, the interests and short positions of the Directors in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed, will be as follows:

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

Notes:

- The letter "L" denotes the Director's long position in the Shares.
- These 600,000,000 Shares will, subject to any stock borrowing arrangement effected under the Stock Borrowing Agreement, be registered in the name of Praise Fortune. Mr. Jiang is the sole director of Praise Fortune and is deemed to be interested in all the Shares in which Praise Fortune is interested by virtue of the SFO.
- These 600,000,000 Shares will, subject to any stock borrowing arrangement effected under the Stock Borrowing Agreement, be registered in the name of and beneficially owned by Praise Fortune, 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.
- The total number of issued shares in Praise Fortune as at the Latest Practicable Date 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 is Mr. Jiang, an executive Director.

(e) Interests of substantial shareholders in subsidiaries of the Company

So far as the Directors are aware, the following entity is, either directly or indirectly, interested in, shares representing 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a subsidiary of the Company:

Name of subsidiary	Name of shareholder	Amount of capital interested	Approximate percentage of equity interest
SEEDRI	Shanghai Industrial	RMB2,900,000	26.98%
SEEDRI	上海黃河資產管理 有限責任公司 (Shanghai Huanghe Assets Management Limited) (“Shanghai Huanghe”)	RMB2,900,000 (Note)	26.98%

Note: Shanghai Industrial is the registered holder of a portion of SEEDRI’s registered capital in the amount of RMB2,900,000, and SEEDRI’s total registered capital is RMB10,750,000. Shanghai Industrial is owned as to approximately 78.57% by Shanghai Huanghe. Shanghai Huanghe is therefore deemed to be interested in all such portion of registered capital in SEEDRI in which Shanghai Industrial is interested.

12. Interest disclosable under the SFO and substantial shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Share Offer and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), the following persons (other than the Directors or chief executive officer of the Company) will have an interest or short position 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 and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding (assuming the Over-allotment Option is not exercised)
Praise Fortune	Beneficial owner	600,000,000 Shares (L)	75%

Name	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding (assuming the Over- allotment Option is not exercised)
Mr. Jiang Xin (Note 2)	Interest of a controlled corporation	600,000,000 Shares (L)	75%
Ms. Qian Yuanying (Note 3)	Interest of spouse	600,000,000 Shares (L)	75%
Ms. Li Jingru (Note 4)	Interest of spouse	600,000,000 Shares (L)	75%
Ms. Chai Yongping (Note 5)	Interest of spouse	600,000,000 Shares (L)	75%

Notes:

1. The Letter “L” denotes the person’s long position in the Shares.
2. These Shares will, subject to any stock borrowing arrangement effected under the Stock Borrowing Agreement, be registered in the name of and beneficially owned by Praise Fortune, 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.
3. Ms. Qian Yuanying is the spouse of Mr. Jiang and is therefore deemed to be interested in all the Shares in which Mr. Jiang is deemed to be interested.
4. 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.
5. 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.

13. Related party transactions

During the two years preceding the date of this prospectus, the Group engaged in dealings with certain Directors and their associates as described in:

- (a) note 32 to section A of the accountants’ report set out in appendix I to this prospectus; and
- (b) paragraph 4 of this appendix.

14. Disclaimers

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Share Offer or upon the exercise of the Over-allotment Option or the options granted or which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following the Share Offer and the Capitalisation Issue hold either directly or indirectly, or be beneficially interested in Shares representing 10% or more of the Company in issue and to be issued as mentioned in this prospectus;
- (ii) none of the Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the Shares or underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 352 of the SFO or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules once the Shares are listed on the Main Board;
- (iii) none of the Directors or the experts named in paragraph 21 of this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) none of the Directors or the experts named in paragraph 21 of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (v) none of the experts named in paragraph 21 of this appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

OTHER INFORMATION

15. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the sole shareholder of the Company on 1 December 2007:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

The Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) 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 (“**Eligible Employee**”);
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;

- (ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (ff) 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;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and
- (hh) 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,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' option as to his contribution to the development and growth of the Group.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group shall not exceed 30% of the issued share capital of the Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board ("**General Scheme Limit**").
- (cc) Subject to (aa) above but without prejudice to (dd) below, the Company may issue a circular to its shareholders and seek approval of its shareholders in general meeting to refresh the General Scheme Limit

provided that 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 options scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to its shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, the Company may seek separate shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to connected persons

- (aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined under the Listing Rules) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (bb) Where any grant of options to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by shareholders of the Company in general meeting. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates must be approved by the shareholders of the Company in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors 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.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

(aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members ("**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of the Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "**Shares**" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(x) Restrictions on the time of grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements

of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of the Directors for the approval of the Company's results for any year, half-year, quarterly or any other interim period; and (ii) the last date on which the Company must publish its announcement of its results for any year, half-year, quarterly or any other interim period under the Listing Rules, and ending on the date of the announcement of the results, no option may be granted.

The Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may (subject to the Directors' decision at their absolute discretion as to whether or not the option remain exercisable) exercise the option (to the extent not already exercised) in whole or in part within a period of not more than 12 months (as may be determined by the

Directors at their absolute discretion) following the date of cessation which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of its relations with the Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of the Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as

consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When the Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the shareholders of the Company pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

The Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(aa) the expiry of the period referred to in paragraph (vi); and

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

(xxiv) Others

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in, such

number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of the Company in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the

Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

16. Estate duty and tax and other indemnities

Each of Praise Fortune, Mr. Jiang, Mr. Jiang Lei and Mr. Jiang Xin (collectively the “**Indemnifiers**”) has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8(i) of this appendix) and all its present subsidiaries to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Share Offer becomes unconditional.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, BVI and the PRC.

The Indemnifiers shall be under no liability under the deed of indemnity in respect of any taxation:

- (a) where provision has been made for such taxation in the audited accounts of the Company or any of its subsidiaries up to 30 June 2007; or
- (b) to the extent that liability for such taxation falling on any member of the Group in respect of their current accounting periods or any accounting period commencing on or after 1 July 2007 where liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 30 June 2007; or

- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2007 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of the Group up to 30 June 2007 and which is finally established to be an over-provision or an excessive reserve (in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve), provided that the amount of any such provision or reserve applied referred to in this item (d) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Other indemnities

Pursuant to the deed of indemnity, the Indemnifiers have also given indemnity in connection with (i) the land use right in respect of a dormitory building currently used by the Group as staff quarters located in Yixing, Jiangsu, the PRC, and (ii) the allocated land in Shanghai, PRC where the office premises of SEEDRI situate (the “**Affected Properties**”). The Indemnifiers have given indemnity in favour of the Company (for itself and its subsidiaries) in relation to any costs, expenses, claims, losses, liabilities and proceedings (collectively, “**costs and expenses**”) which may be incurred or suffered by the Group for title defects of Affected Properties. The costs and expenses incurred in the relocation of the Group's businesses and assets from the Affected Properties include (i) costs and expenses incurred in the relocation of the Group's businesses and assets from the Affected Properties (including the erections thereon to another land or property), and (ii) any loss or profits or benefits as a result of or in connection with the disruption of operation or business incurred as a result of such relocation.

For the avoidance of doubt, the aforesaid indemnity shall not apply if the Group is not permitted to use, occupy, enjoy, possess or prevented from so doing or suffer an eviction from any of the locations where the Affected Properties are situated on account of any one or more of the following reasons:

- (1) the Group voluntarily surrenders the real estate ownership certificate or the building ownership certificate in respect of any Affected Properties or otherwise voluntarily gives up enjoyment, possession or use of such property or any part thereof;

- (2) the occurrence of any of the following disaster affecting the land under which any Affected Properties is erected (namely, fire, flooding or earthquake, or the occurrence of any other event beyond the control of the Group) which renders such land or property constructed thereon or situated thereat dangerous or unsuitable for use or occupation; and
- (3) any requisition or resumption of the land (or any part thereof) on or at which any Affected Properties is erected or situated in accordance with applicable laws and regulations of the PRC not as a result of or arising from the title defects.

17. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

18. Sponsor

The Sponsor has made an application for and on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued upon the exercise of the Over-allotment Option or any Shares to be issued within the General Scheme Limited pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Main Board.

19. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$3,000 (equivalent to HK\$23,400) and are payable by the Company.

20. Promoter

- (a) The promoter of the Company is Mr. Jiang.
- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph 20(a) above in connection with the Share Offer of the related transactions described in this prospectus.

21. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Taifook Capital Limited	Corporation licensed to carry on type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
CCIF CPA Limited	Certified Public Accountants
Shanghai United Law Firm	Licensed legal advisers on PRC laws
American Appraisal China Limited	Professional surveyors

22. Consents of experts

Each of Taifook Capital, Conyers Dill & Pearman, CCIF CPA Limited, Shanghai United Law Firm and American Appraisal China Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

23. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

24. Taxation of holders of Shares

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

25. Miscellaneous

(a) Save as disclosed herein:

(i) within two years preceding the date of this prospectus:

(aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in the Company or any of its subsidiaries; and

(dd) no amount or benefit has been paid or given or intended to be paid or given to the promoter of the Company;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) there has been no material adverse change in the financial position or prospects of the Group since 30 June 2007 (being the date to which the latest audited combined financial statements of the Group were made up); and

(iv) there has not been any interruption in the business of the Group which has had a material adverse effect on the financial position of the Group.

- (b) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by HSBC Trustee (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND DOCUMENTS AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in appendix V to this prospectus under the paragraph headed “Consents of experts”, the statement of adjustments made by CCIF CPA Limited in auditing the figures set out in their accountant’s report and giving their reasons therefor, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in appendix V to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 24 December 2007:

- (a) the memorandum of association of the Company and the Articles of Association;
- (b) the audited consolidated financial statements of Pan Asia (BVI) for each of the three years ended 31 December 2006 and the six-month period ended 30 June 2007;
- (c) the accountants’ report prepared by CCIF CPA Limited, the text of which is set out in appendix I to this prospectus, together with the related statement of adjustments;
- (d) the letter from CCIF CPA Limited relating to the unaudited pro forma financial information of the Group, the text of which is set out in appendix II to this prospectus;
- (e) the letter, summary of values and with valuation certificate relating to the property interests of the Group prepared by American Appraisal China Limited, the texts of which are set out in appendix III to this prospectus;
- (f) the PRC legal opinion dated 10 December 2007 issued by Shanghai United Law Firm, the PRC Legal Advisers;
- (g) the material contracts referred to in the paragraph headed “Summary of material contracts” in appendix V to this prospectus;
- (h) the service contracts with Directors, referred to in the paragraph headed “Directors – Particulars of service contracts” in appendix V to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND DOCUMENTS AVAILABLE FOR INSPECTION**

- (i) the written consents referred to in the paragraph headed “Consents of experts” in appendix V to this prospectus;
- (j) the rules of the Share Option Scheme;
- (k) the letter of advice prepared by Conyers Dill & Pearman referred to in appendix IV to this prospectus, summarizing certain aspects of the Cayman Islands law; and
- (l) the Companies Law.