*For identification purposes only

Annual Report

2008

深圳市東江環保股份有限公司

Shenzhen Dongjiang Environmental Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8230)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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Corporate Information

EXECUTIVE DIRECTORS

ZHANG Wei Yang *(Chairman)*
CHEN Shu Sheng
LI Yong Peng

NON-EXECUTIVE DIRECTORS

FENG Tao *(Vice-chairman)*
WU Shui Qing
SUN Ji Ping

INDEPENDENT NON-EXECUTIVE DIRECTORS

YE Ru Tang
HAO Ji Ming
LIU Xue Sheng

SUPERVISORS

YUAN Wei
LUO Xiao Hong
LIU An

QUALIFIED ACCOUNTANT

TSANG Wan Sing

COMPANY SECRETARY

LO Wah Wai

AUDIT COMMITTEE

YE Ru Tang *(Chairman)*
HAO Ji Ming
LIU Xue Sheng

REMUNERATION COMMITTEE

ZHANG Wei Yang *(Chairman)*
YE Ru Tang
HAO Ji Ming
LIU Xue Sheng

COMPLIANCE OFFICER

ZHANG Wei Yang

AUTHORIZED REPRESENTATIVES

LO Wah Wai
ZHANG Wei Yang

GEM STOCK CODE

8230

AUTHORIZED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESSES AND NOTICES

LO Wah Wai

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISORS

X. J. WANG & Co.

PRINCIPAL BANKER

China Merchant Bank

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Office Units A, B, C, D and H
16th Floor, Shenmao Commercial Center
59 Xinwen Road
Futian District, Shenzhen
Guangdong Province
The PRC

COMPANY HOMEPAGE

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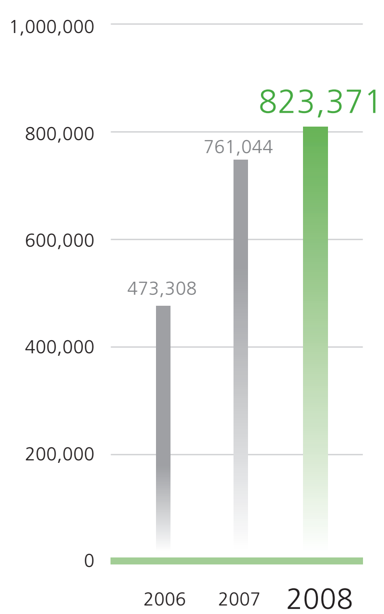
PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 06-12, 33rd Floor
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

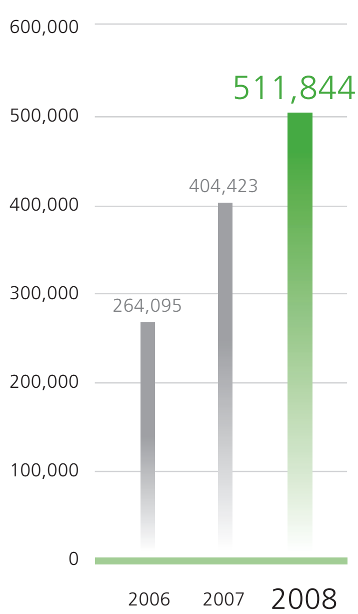
Financial Summary

	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Result				
Revenue	**823,371**	761,044	473,368	292,374
Gross profit	**322,733**	298,166	193,559	134,089
Gross profit ratio	**39.20%**	39.18%	40.89%	45.86%
Profit attributable to equity holders of the Company	**106,477**	140,540	79,495	50,815
Financial position				
Total assets	**1,192,720**	830,445	477,244	303,379
Total liabilities	**523,035**	360,653	160,975	52,239
Minority interests	**157,841**	65,369	52,174	53,942
Equity attributable to equity holders of the Company	**511,844**	404,423	264,095	197,198

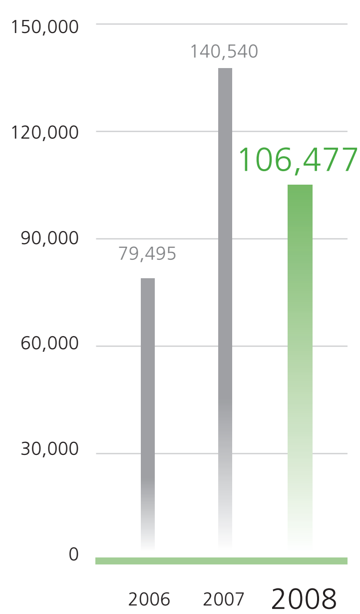
Revenue
(RMB'000)



Equity attributable to
equity holders of the Company
(RMB'000)



Profit attributable to equity
holders of the Company
(RMB'000)



Chairman's Statement

On behalf of the board of directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited (深圳市東江環保股份有限公司) (the "Company"), I would like to present the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

REVIEW

The year of 2008 was an extraordinary year full of ups and downs, in which the Group experienced a range of severe challenges in its operation and development. In light of the pressure from intensified market competition and rising operating costs in the first half -year and the drastically deteriorated operation environment in the second half-year, the Group vigorously realigned its thoughts on operation. Externally, it adhered to market expansion, service quality and brand building; internally, it introduced the management thinking of refinement, low costs and innovation with an aim to keep costs and expenditure under strict control and reinforce risk prevention. As a result, its businesses sustained steady development.

For the year ended 31 December 2008, the Group's revenue was increased by approximately 8.19% to RMB823,371,000 as compared to 2007. Mainly affected by the sharp deterioration of the economy, profit attributable to the equity holders of the Company decreased by 24.26% to RMB106,477,000 as compared to that of the corresponding period in 2007.

In the last few years, the Group unceasingly pushed forward strategic transformation, which was to transform from only treating waste for customers to the provision of comprehensive and integrated environmental service, and carried out competition strategy with a focus on service and branding. The current economic adjustment, although brought unfavorable effect on the Group in the short run, weeded out poor competitors and made more room in the market, which mended the disorderly competition in the market to a certain extent. In line with changes in the market, the Group seized the opportunity to speed up its industrial restructuring and achieved rapid development in solid waste treatment and disposal business in 2008. Revenue generated by this business increased by 112.16% to RMB127,279,000 as compared to that in 2007. At the same time, the Group took a long-term view and focused on the expansion of projects endowed with monopolistic power that generated stable income stream so as to maintain growth momentum and make the Group more resistant to risks and economic cycles.

Overall, the Group continued to implement and enforce its strategy of "consolidation and expansion of solid waste business and enhancement of integrated service capacity" in 2008. With concerted efforts of the management and all staff members, the Group successfully coped with the complex and volatile difficult situation, achieving remarkable results in areas like market expansion, project construction, technological research and professional management. The Group was accredited with various awards in 2008, including "Top-100 Private Enterprise in Guangdong Province", "Leading Enterprise in Proprietary and Innovative Industries" and "Top-Ten Enterprise Contributing to the recycling Economy" granted by Shenzhen Municipal Government, as well as "Leading Private Enterprise in Futian District of Shenzhen" and "Top-100 Tax Paying Private Enterprise", which showed that the Group was widely recognized by the government and the industry.

Chairman's Statement

OUTLOOK

The year of 2009 will be a crucial year for the Group to adjust and develop. With a series of major macro-adjustment measures and economic stimulus package introduced by the government, the economy is expected to stabilize and EP industry to embrace new opportunities for development. While adhering to its strategic transformation, the Group will deepen various adjustment strategies in order to achieve steady growth in existing businesses. Besides, it will take the opportunity posted by the industry integration to create new modes of capital raising so as to reinforce its composite strength and, at the same time, further improve its management process in terms of strengthened cost controls and enhanced operating efficiency. Leveraging on our solid business foundation, good market adaptability, sound and clear development strategies, we are confident to not only overcome current obstacles but also stay calm in the face of future opportunities and challenges so that we can consolidate our composite strength and enhance shareholder value unceasingly.

ACKNOWLEDGEMENT

Finally, on behalf of the Board, I would like to express sincere gratitude to our shareholders for your long-term support and all staff for your tireless efforts to the development of the Group.

Shenzhen Dongjiang Environmental Company Limited
ZHANG Wei Yang
Chairman
Shenzhen, Guangdong Province, the PRC

26 March 2009

Management Discussion and Analysis

BUSINESS REVIEW

The complex and changing external environment, particularly the rapid spread of the impact of the global financial crisis in the fourth quarter, and the grim macroeconomic situation in China adversely affected the Group's business operation in 2008. Faced with difficulties and challenges, the Group took resolute and effective measures to turn the adversity around in a relatively short period of time, and at the same time, to speed up its business transformation and internal integration, and to realign its strategies for market expansion, basically sustained steady development of its businesses.

Industrial Waste Treatment and Disposal

The development in industrial waste treatment and disposal is the main force driving the growth of the Group's business. In respect of market expansion, the Group adhered to its thoughts of development in terms of "integration of waste collection markets" in an effort to build a service brand to enhance comprehensive competitiveness. As the Guangdong hazardous waste treatment Demonstration Center started its trial operation during the year, the Group made more effort in internal resources integration in due course so as to establish a waste collection market system operating under one team, one brand name and one standard, which was necessary for the gradual formation of business platform that featured uniform deployment, management and centralized allocation. In line with the trend of integration, the Group reorganized and expanded its original customer service center and waste relocation center, thus optimized the allocation of the Group's existing market resources. With the structure established, the Group adopted the market strategy of active expansion during the year, setting up several new operation sites in Guangdong Province to concentrate its strength on developing new market and major potential customers.

The 2008 financial crisis adversely affected the Group's market expansion, but on the other hand, it provided the Group with opportunities to speed up the above business transformation. In light of unfavorable market environment, the Group provided more technical support and value-added services to its customers and made timely adjustment to its pricing mechanism and service modes based on the principle of surviving difficulties together with them. In particular, the changes in modes of fee collection gradually broke the vicious cycle of competition existed in the industry in the past which emphasized on resources but neglected environmental protection and service, and created favorable conditions for the Group to implement competition strategies that emphasized on service and branding in the future.

The above strategies stabilized the existing customers and markets effectively, while new market expansion and new businesses mitigated the adverse impact of the economic downturn. With unceasing efforts, the waste collection volume of the Group sustained growth in 2008, of which the income from solid waste treatment amounted to approximately RMB127,279,000, representing an increase of approximately 112.16% as compared to that in 2007. Over 1,000 new customers were acquired and customer satisfactory level reached all-time highs. It was a hard-won achievement given the current depression.

In respect of the waste treatment, the Group had strengthened industrial solid waste storage and treatment capability at each waste treatment in 2008. The construction of chemical/biological plant and ancillary facilities in Huizhou Treatment Base was completed in the second half year and it was in trial operation, which further enhanced the capacity of Huizhou Treatment Base in treating highly concentrated industrial waste water. With the completion of the project in relation to making and expansion of facilities, Kunshan Treatment Base has been put into operation with a brand-new appearance and achieved major breakthrough in market expansion as it secured a large number of quality customers and recorded strong growth in business volume. In addition, operation in the treatment bases remained healthy as they vigorously pushed forward measures of energy saving and emission reduction and cost control, which mitigated the narrowed profit margin due to surging operating costs.

The plunge in prices of raw materials such as metals in the fourth quarter exerted heavy impact on the Group's recycling business. The Group promptly implemented strategies to link the prices in both upstream and downstream markets, to diversify and upgrade its products, which were conductive to enhancing market competitiveness of products and to maintaining reasonable level of profitability in the long run.

The Group continued to push forward the construction of Qingyuan Treatment Base and the North Guangdong Treatment Project in 2008, but made proper adjustment in the construction scale of Qingyuan Project to control construction costs and avoid idling of facilities based on its estimation of market demand. The land clearance for the North Guangdong Project was completed while the planning for the phase-one project was finished.

Municipal Waste Treatment and Disposal

The municipal waste treatment and disposal, a core business newly established by the Group, is in its early developmental stage. The business was relatively less hit by the economic fluctuation with projects in smooth progress, paving the way for its further development.

Xiaping Landfill Gas Power Generation Project, the Group's first landfill gas utilization project, was operating well overall in 2008 with the first three electricity generating units in full load operation. The two new electricity generating units added in 2008 had been fine tuned and started supplying electricity to the power grid. The project recorded an income of approximately RMB8,825,000 for the first complete operating year in 2008. It is expected that there will still be much room for increment in the future with more stabilized gas supply volume and higher utilization rate of electricity generating units.

Clean Development Mechanism ("CDM") projects had achieved promising developments in China in recent years, offering enormous business opportunities. Currently, the Group has secured two projects for methane utilization, one of which is Lao Hu Keng Landfill Methane Utilization CDM Project ("Lao Hu Ken CDM Project") with electricity generating units having a capacity of 3 X 1 megawatt. The preparatory work, such as project proposal and land utilization planning, has been finished and it is expected to complete and commence production in the second half of 2009. The other is Qingdao Xiaojianxi Landfill Gas Collection, Power Generation and Utilization CDM Project ("Qingdao CDM Project"), a bid won in June 2008, which have a capacity of 3 X 1063KW and is expected to generate a total of 247 gigawatt hour of electricity approximately over the term of 12-year concession right. The project is under construction and is expected to complete and commence production in the second half of 2009.

The above CDM projects will further expand the Group's business scale with respect to methane utilization and the field of CDM and enhance its competitive advantage. In addition, the Group worked with AES AgriVerde, one of the world's largest independent power providers, to undertake green house gas emission reduction projects in China and will establish a very favorable international co-operation platform for the Group's development in the field of CDM.

Management Discussion and Analysis

With accelerated process of urbanization in China in recent years, the domestic waste treatment market will be a promising future. In February 2008, the Group was granted by Hunan Shaoyang Municipal Government 30 years of concession right for investment in, building and operation of "Shaoyang Domestic Waste Landfill" (the "Shaoyang Project"). It is the Group's first domestic waste treatment project, the designed capacity of which is approximately 700 tons per day. The project is now under construction, which is expected to complete in the second half of 2009 and make it to be the only domestic waste landfill in Shaoyang upon its completion.

Meanwhile, the Group zealously promoted other municipal waste management projects during the year, of which the pilot project of municipal sludge treatment with a daily treatment capacity of 700 tons had completed its construction and commenced trial operation, laying the foundation for the application and industrialization promotion of the Group's sludge treatment technology. Furthermore, the Group acquired Lik Shun Services Limited ("Lik Shun") in May 2008, which specializes in waste collection business and is now responsible for municipal waste collection in some of the areas in Hong Kong. Besides, it also supplies waste compressors to 15 waste compressing stations in Hong Kong and provides waste collection services to some industrial districts and schools. The acquisition of Lik Shun enables the Group to venture into the field of municipal waste treatment in Hong Kong and will enhance the Group's recognition in Hong Kong. Lik Shun had been in smooth operation since it joined the Group and successfully bid for a 5-year government contract in August 2008, which was also the fifth government contract it has secured.

Environmental Engineering

In line with the goal for strategic transformation, the Group focused on the expansion of the environmental engineering business in 2008. It established an environmental services branch company by integrating the Engineering Department and the Operation Department with an aim to promote professional and sizeable development of the business. For the year ended 31 December 2008, this business sector achieved substantial growth in revenue by approximately 10.24% to approximately RMB76,905,000, comparing to year of 2007.

In respect of the environmental engineering operation, while continuing to enlarge the operation scale, the Group also strived to enhance its engineering business management standard and service quality with an emphasis on establishing its corporate and brand image. Meanwhile, profitability was enhanced by continuously reducing operating costs through advancement in technology. With regard to the environmental engineering construction, the business volume recorded satisfactory growth, making it a record high. Furthermore, significant breakthrough was achieved in technological innovation in terms of new practical technology for printed circuit board waste water treatment being successfully developed during the year, which has been applied by a number of circuit boards manufacturers in reconstructions and new constructions to upgrade their waste water treatment facilities.

Beijing Novel Environmental Protection Co., Ltd ("Beijing Novel"), a company acquired by the Group at the end of 2007, had completed its structural adjustment and gradually incorporated into the Group's business chain, making the effect of synergy more apparent. During the year ended 31 December 2008, Beijing Novel went smoothly in its business development by taking advantage of its strengths in terms of broad business network and flexibility with 85 new contracts concluded in relation to environmental engineering and consultancy. It had also provided technical support to the other related businesses of the Group.

Management Discussion and Analysis

Research and Development

The Group continued to push forward research and development ("R&D") on its core businesses in 2008 and achieved progress in stages as the R&D Center launched 23 research projects, 19 of which were fulfilled during the year. In the aspect of technology management, the Group's project on "Comprehensive Treatment and Utilization Technology of PCB (Printed Circuit Board) Waste Liquid (Water)" won the Shenzhen 2008 Technical Innovation Award (industry category) in May, ranking it the first in industry category. It also won the second prize of the 2008 Guangdong Environmental Protection Science and Technology Award in June. And the "Demonstration Project of Waste Water Centralized Treatment and Pollution Control Technology for Electroplating and Circuit Board Industries" was approved as a 2008 State Torch Program project. In addition, the Group's technological advancement and proprietary innovation was further promoted by the fact that several projects, including "Research on the Technology to Produce Electrolyzed Copper from Copper-containing Sludge" (利用含銅污泥生產電積銅技術研究), "Research on Integrated Utilization Technology to Disassemble and Recycle E-Waste" (電子廢物拆解及資源化綜合利用技術研究), and "Recovery and Treatment Work of TBCC&BCC Crystallized Liquid Ammonia and Nitrogen" (TBCC&BCC 結晶母液氨氮回收與治理工程) were supported by research funds granted by the State and governments at various levels.

In order to strengthen its research capability in the field of environmental monitoring, the Group acquired an environment monitoring company, namely Shenzhen Hua Bao Technology Company Limited in April 2008. This company successfully passed the assessment recently, which enlarged its scope of quantitative certification and enabled it to extend its testing capability to four categories and a total of 59 testing projects. That made the Company equivalent to a Grade 3 State Environmental Monitoring Station, laying a solid foundation for the Group to build its central laboratory and environmental analysis and testing center.

Operation Management

The Group made major adjustment to its management structure in the first half of 2008, classifying its businesses into "Industrial Solid Waste Business Division" and "Municipal Solid Waste Business Division", which were managed by two operation teams so as to be in line with the Group's strategies and direction of future development. The adjustment had further promoted the specialization and internal resource integration of business divisions. It is believed that the new management structure will facilitate the implementation of the Group's strategies.

The Group continues to strengthen the function of the environment, health and safety ("EHS") to meet the requirement of business development. The original safety and environmental protection office was upgraded to the EHS Department with more comprehensive functions to take charge of the EHS management. In 2008, besides routine affairs, the EHS Department mainly assisted various business departments of the Group in the professional management of hazardous waste to ensure that the waste operation was conducted properly and safely. Meanwhile, it actively took part in emergency and rescue affairs with three emergency and rescue teams formed in Shenzhen and Huizhou, and completed over ten public emergency and rescue tasks which showed the professional image and quality of the Group and gained favorable recognition from the government and society.

Management Discussion and Analysis

In order to enhance the image of the Group and to promote the circulation and publicity of our shares, the proposed resolution in relation to making application to the China Securities Regulatory Commission (the "CSRC") for the prosposed migration from GEM Board to Main Board (the "Migration") was passed at the extraordinary general meeting and class shareholders' meetings of the Company held on 19 March 2008. The Stock Exchange revised the procedure and requirements of the Migration in May 2008, but the CSRC had not issued the detailed application rules corresponding to such change. As a result, the Group had not any made application to the CSRC with regard to the transfer.

SUBSTANTIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

(a) The Company has entered into the Capital Contribution Agreement with Mr. Zhang Guo Yan and Mr. Tang Xiao Guan in respect of the joint development of the North Guangdong Hazardous Waste Treatment and Disposal Centre ("North Guangdong Treatment Center") on 30 November 2007. In 2008, the Company invested RMB100,000,000 in Shaoguan Green Recycling Resource Development Co., Ltd (the "Shaoguan Green") to acquire its 50% interest. The Shaoguan Green is responsible for the implementation of the project of North Guangdong Treatment Center. Details of the transaction were set out in the Company's announcement dated 30 November 2007 and circular dated 20 December 2007.

(b) The Company's 95% owned subsidiary named Hunan Dongjiang Environmental Investment & Development Co., Ltd has invested approximately RMB30,000,000 in the Shaoyang Project for its construction up to 31 December 2008.

(c) In April 2008, the Company invested RMB500,000 to acquire 100% interest in Shenzhen Huabao Technology Co., Ltd. (深圳市華保科技有限公司) ("Huabao technology"). Huabao Technology is mainly engaged in the environmental monitoring. This investment will allow the Group to expansion the chain of environmental services and therefore strengthen its competitiveness.

(d) In May 2008, the Group invested RMB2,550,000 to establish a 51%-owned subsidiary, namely Shenzhen Dongjiang Lisai Recycled Power Co., Ltd., which will be mainly responsible for the implementation of Lao Hu Keng CDM Project.

(e) In May 2008, the Group's wholly-owned subsidiary Dongjiang Environmental (HK) Co., Ltd. (the "Dongjiang HK") invested HK$3,600,000 to acquire 100% interest in Lik Shun.

(f) In June 2008, the Group invested RMB15,000,000 to establish a 100%-owned subsidiary, namely Qingdao Dongjiang Environmental Recycled Power Co., Ltd. (青島市東江環保再生能源有限公司) ("Qingdao Dongjiang") in the PRC. Qingdao Dongjiang is mainly responsible of the implementation of Qingdao CDM Project.

(g) In October 2008, the Company invested HK$17,000,000 in the registered capital of a 100%-owned subsidiary, namely Dongjiang HK.

(h) In October 2008, the Company invested RMB15,000,000 in the registered capital of a 50%-owned subsidiary Shenzhen Resource Environmental Technology Co., Ltd. ("Shenzhen Resource"), along with Shenzhen Resource's another shareholder according to their respective shareholding in Shenzhen Resource.

Save as disclosed in this report, the Group does not have any substantial investments, acquisitions and disposals of subsidiaries and associates.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2008, the Group's revenue was increased by approximately 8.19% to approximately RMB823,371,000 as compared to 2007 (2007: approximately RMB761,044,000). The increase of revenue mainly results from the growth of waste treatment business.

Profit

For the year ended 31 December 2008, the Group's gross profit increased by approximately 8.24% to approximately RMB322,733,000 (2007: approximately RMB298,166,000).

During the year ended 31 December 2008, the Group's consolidated gross profit margin increase from approximately 39.18% in 2007 to approximately 39.20% in 2008.

For the year ended 31 December 2008, profit attributable to equity holders of the Company was decreased by approximately 24.26% to approximately RMB106,447,000 (2007: approximately RMB140,540,000). The decrease was mainly due to the drop of the recycled products and the increased income tax rate of the Company.

Selling and Distribution Costs

During the year under review, the Group's selling and distribution costs was approximately RMB42,154,000 (2007: approximately RMB31,875,000), represented approximately 5.12% (2007: approximately 4.19%) of the total revenue.

Administrative Expenses

For the year ended 31 December 2008, the Group's administrative expenses was approximately RMB121,182,000 (2007: approximately RMB109,209,000), represented a approximately 14.72% (2007: approximately 14.35%) of the total revenue.

The increase in the administrative expenses is mainly due to the expanding business scale and further investment in the market development of the municipal waste treatment.

Finance Cost

For the year ended 31 December 2008, finance cost of the Group was approximately RMB15,812,000 (2007: approximately RMB3,113,000), representing approximately 1.92% (2007: approximately 0.41%) of the Group's revenue. The increase in finance cost was attributable to the increased bank loans of RMB175,700,000 to finance the project investment of the Group.

Income Tax Expenses

For the year ended 31 December 2008, the Group's income tax expenses was approximately RMB36,186,000 (2007: approximately RMB15,964,000), representing approximately 24.73% of the Group's profit before tax (2007: approximately 10.02%). The increase was mainly due to implementation of the law of the People's Republic of China on Enterprise Income Tax (the "New Law"). Pursuant to the New Law, the income tax rate for the subsidiaries located in Shenzhen increased from 15% to 18%. Meanwhile, the Company ceased to be entitled to a 50% reduction of income tax for 2008 and is subject to the income tax rate of 18% (2007: 7.5%).

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2008, the Group had net current assets of approximately RMB104,597,000 (2007: approximately RMB167,548,000), including bank balances and cash of approximately RMB247,693,000 (2007: approximately RMB250,996,000).

As at 31 December 2008, the Group had total liabilities of approximately RMB523,035,000 (2007: approximately RMB360,653,000). The Group's gearing ratio was approximately 43.85% (2007: approximately 43.43%) which is calculated based on the Group's total liabilities over total assets. The current liabilities of the Group was approximately RMB390,443,000 (2007: approximately RMB276,903,000). As at 31 December 2008, the Group had outstanding bank loans of approximately RMB310,500,000 (2007: approximately RMB134,800,000).

The Board believes that the Group has stable and strong financial and liquidity position and will have sufficient resources to meet the needs of its operations and future business development.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Saved as disclosed elsewhere in this report, the Group does not have other future plans for material investments or capital assets.

INTEREST RATE AND EXCHANGE RISK

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate 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 action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base rate published by People's Bank of China arising from the Group's RMB borrowings.

Currency risk

The Group's functional currency is RMB which most of the transactions are denominated. However, certain bank balances, trade and other receivables and other payables are denominated in currencies other than RMB. Foreign currencies are also used to settle expenses for overseas operations.

PLEDGE OF ASSETS

As at 31 December 2008, certain assets of the Group were pledged to secure bank borrowings granted to the Group and as follows:

	2008	2007
	RMB'000	RMB'000
Property, plant and equipment	**–**	6,234
Prepaid lease payments on land use rights	**2,492**	4,183
Bank deposits	**20,814**	10,842
	23,306	21,259

INFORMATION ON EMPLOYEES

As at 31 December 2008, the number of full-time employees stood at 1,140 (2007: 1,256) with a total staff cost of approximately RMB54,457,000 (2007: approximately RMB59,441,000). The Group offered continuing training, remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

CONTINGENT LIABILITIES

Due to the existing collection and processing of industrial waste method adopted by the Group, the Group has not incurred any significant expenditure on environmental rehabilitation since their establishment. There is, however, no assurance that stringent environmental policies and/or standards on environmental rehabilitation will not be implemented by the relevant authorities in the PRC in the future which require the Group to undertake the environmental measures. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental policies and/or standards.

Other than as disclosed in this report, the Group had no significant contingent liabilities at 31 December 2008 and 2007.

CAPITAL COMMITMENT

As at 31 December 2008, the Group had the following capital commitments:

	2008	2007
	RMB'000	RMB'000
Capital expenditure contracted, but not provided for in the financial statements in respect of:		
Property, plant and equipment	**34,555**	10,249
Construction in progress	**45,418**	79,824
Addition capital injection in a subsidiary	**–**	7,410
Acquisition of a subsidiary	**–**	100,000
	79,973	197,483

FUTURE PROSPECTS

In 2009, as the impact of the global financial crisis on economic entities becomes more intensive, the operating environment is not optimistic with China's economy facing various uncertainties. However, on the other hand, we witnessed that the China government raised the macro-economic objectives of maintaining growth, expanding domestic demand and adjusting economic structure with a series of adjusting measurements being introduced which were aiming at maintaining a steady and relatively fast economic growth. In the economic-stimulating investment plan of RMB4,000 billion made by the China government, it emphasized on ecological environment construction and, projects of energy saving and emission reduction. The development of environmental protection industry will benefit from the above policies. At the same time, the economic adjustment will also intensify the competition in the industry, which provides opportunities for big enterprises to consolidate the market by carrying out mergers and acquisitions.

In light of opportunities and challenges, on one hand, the Group will continue to carry out various adjustment strategies with full awareness of negative factors to maintain a steady growth of the existing businesses. On the other hand, the Group will take advantage of the policies and opportunities of expanding domestic demand and industrial adjustment, continuing to advance the strategic transformation to develop the projects that boost stable returns and bright prospects. Meanwhile, we will closely monitor the trend of industrial integration, strengthening the market consolidation as well as mergers and acquisitions under the principle of low-cost expansion to accumulate strength for the next round of economic growth.

Management Discussion and Analysis

In 2009, the industrial waste treatment business will face heavy pressure. With two major targets of "innovation" and "profit-earning", the Group will continue to invest resources to expand the solid waste business. Through unified market deployment, the target will be specified to each region, business location and carried out by marketing personnel. Meanwhile, more direct incentive measures will be implemented to achieve the targets. The Group will continue to implement the strategy of competition, which regards good service and brand name as its priority. With the fulfillment of our strength in qualifications, treatment capacity and operating management, we will carry out different service strategies and management modes according to different customers and expand our market share and business scale through co-operations and acquisitions. As to the treatment facilities, we will focus on promoting the ability to store and transfer waste and to improve the operation efficiency through optimized deployment of the capacity of existing treatment bases. In respect of recycling business, we will manage to tackle the risks of market fluctuation through flexible pricing policy and reasonable inventory arrangement. Meanwhile, we will speed up the innovation of products and structure adjustment with an aim to create new recycling modes.

The municipal waste treatment business was relatively less affected by the economic fluctuation. Furthermore, most of its projects are granted by the government and thus are encouraged by the policy of increased investment, more opportunities will appear in 2009. The Group will speed up the construction of projects, the domestic waste treatment, methane power generation and other projects, and put them into operation to generate profit. Besides, we will take advantage of the industrial opportunities to develop new projects with our own strength, especially in the areas of biomass energy untilization and domestic waste treatment, so as to secure more projects with stable returns and risks resistance.

In 2009, the Group will continue to invest more in technical "R&D". First is to strengthen the establishment of the technical system, and to build the advanced technical system by way of optimizing its management structure, integrating internal technical resources, improving the advanced research and technical innovation ability of the production lines, strengthening the management of the science and technology achievements and the construction of a comprehensive platform, as well as bringing in talents. Second is to strengthen the construction of hardware facilities and software in the research and inspection center, and to advance various research projects that centers on the core businesses which include the development of high value-added copper products, the corrosive solution recycling technology and equipment, the kitchen waste bio-gas and bio-fertilizer production, the sludge dehydration reduction technology and the like. With strong technological strength, the Group is confident in maintaining the steady growth in business and delivering ideal returns to shareholders.

Management Profile

DIRECTORS

Executive Directors

ZHANG Wei Yang (張維仰), aged 43, is the chairman, chief executive officer and executive director of the Company and founder of the Group. Mr. Zhang is responsible for the overall strategic development and policy of the Group. He has over 10 years of experience in the field of environmental protection and chemical technology, including approximately 5 years in Shenzhen environmental protection authorities and 6 years in Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. (深圳市方元化工實業有限公司). Mr. Zhang is currently a committee member of the Association for High and New Technology Industry of Shenzhen (深圳市新技術產業高協會) and a committee member of the Association for Environmental Protection Industry of Shenzhen (深圳市環保產業協會).

CHEN Shu Sheng (陳曙生), aged 42, is an executive director and the deputy manager of the Company. Mr. Chen joined the Group in July 2001 and is responsible for the management of daily operations of industrial waste treatment business of the Group. He obtained a bachelor degree from the chemistry department of Jiangxi University in 1988 majoring in organic chemistry. Mr. Chen worked in Jiangxi Provincial Research Institute of Rare Earth for about 13 years.

LI Yong Peng (李永鵬), aged 34, is an executive director of the Company and is responsible for the management of daily operation of one of the subsidiaries in the Group. He graduated from Zhong Nan Finance University (中南財經大學) (currently known as Zhong Nan Finance & Law University (中南財經政法大學)) with a bachelor degree in state-owned assets management and valuation in 1998.

Non-executive Directors

FENG Tao (馮濤), aged 41, is a non-executive director and the vice-chairman of the Company. Mr. Feng obtained a master degree in science from the Department of Statistics and Applied Probability from the University of Alberta in 1992. Since 1999, he has been serving as the vice president officer (副主任) of The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission of the PRC (中華人民共和國國家經濟貿易委員會) and China Science Academy. He is also a director of Venturepharm Laboratories Limited (listed on GEM (Stock Code: 8225)), Ecogreen Fine Chemicals Group Limited (Stock Code: 2341)), Western Mining Co., Ltd. (listed on the Shanghai Stock Exchange (Stock Code: 601168)), and Jiangsu Lianhuan Pharmaceutical Co., Ltd. (listed on the Shanghai Stock Exchange (Stock Code: 600513)).

WU Shui Qing (吳水清), aged 42, is a non-executive director of the Company. Mr. Wu graduated from South China University of Technology (華南理工大學) with a doctorate degree in bio-technology in 1995. He has over three years of experience in the field of bio-technology and worked with Shenzhen University in the field of research and development of bio-technology projects. Mr. Wu also has over seven years of experience in the field of investment.

SUN Ji Ping (孫集平), aged 52, is a non-executive director of the Company and an investment manager of China Venture Capital Inc. (中國風險投資有限公司). Ms. Sun graduated from the Beijing Television Broadcast University specializing in Chinese and obtained a Diploma in economics from the Capital University of Economics & Trade (首都經貿大學) in 2002. She worked with China Petroleum and Chemical Group Limited (中國石油化學工業部) for about three years and with Petrochina Group Limited (中國石油天然氣集團公司) for over 20 years.

Management Profile

Independent non-executive Directors

YE Ru Tang (葉如棠), aged 69, is an independent non-executive director of the Company graduated from Tsinghua University majoring in architectonics in 1965. From 1985 to 2000, he has acted as Minister of The Ministry of Urban-Rural Construction and Environment Protection, the PRC and Deputy Minister of the Ministry of Construction, the PRC, Mr. Ye has been Vice Director Member of the Ninth and Tenth Committee of Environment and Resource Protection of the National People's Congress (the "NPC") from February 2001 to March 2008, and the Standing Member of the NPC from March 2003 to March 2008. Mr. Ye is now the Vice Chamber of the China International Institute of Multinational Corporations, honorary director of Architectural Society of China. He is also a director of Youngor Group Co.,Ltd. (listed on the Shanghai Stock Exchange (Stock Code: 600177)). Saved as disclosed above, Mr. Ye did not hold any directorship held in listed public companies in the last three years and he does not hold any other position in the Group.

HAO Ji Ming (郝吉明), aged 62, is an independent non-executive director of the Company and an academician of the Chinese Academy of Engineering. Mr. Hao graduated from the Water Supply and Sewage Engineering Department of Tsinghua University in 1970 with a bachelor degree. In 1984, Mr. Hao obtained a doctorate degree in Environment Engineering Department from the University of Cincinnati, US. Since 1970, Mr. Hao has been working at Tsinghua as lecturer, professor and the Dean of the Environment Science and Engineering Department. He is now the director of the Research Institute of Environmental Science and Engineering of Tsinghua University. Mr. Hao did not hold any directorship held in listed public companies in the last three years and he does not hold any other position in the Group.

LIU Xue Sheng (劉雪生), aged 45, is an independent non-executive director of the Company and a Certificated Public Accountant of the PRC. Mr. Liu graduated from Jiangxi University of Finance & Economics with a bachelor degree in 1989 and graduated from Shanghai University of Finance & Economics majoring in accounting and obtained a master degree in economics in 1992. From 1992 to 1999, Mr. Liu worked as an accountant with 華僑城集團 (the OTC Group). Since 1999, Mr. Liu has been working with Shenzhen Institute of Certified Public Accountants ("AICPA") and is the Deputy Secretary General of the AICPA. Mr. Liu did not hold any directorship held in listed public companies in the last three years and he does not hold any other position in the Group.

SUPERVISORS

YUAN Wei (袁桅), aged 38, is a supervisor of the Company. Ms. Yuan graduated from Tsinghua University in 1993 majoring in environmental engineering and obtained a master degree in technology management from Tsinghua University in 1995. Ms. Yuan worked in the Science and Technology Department of the PRC for about four years. Since August 2000, she has been an investment manager and investment director of Shanghai New Margin Veture Capital Co., Ltd.

LUO Xiao Hong (駱曉紅), aged 42, is a supervisor of the Company. He graduated from South China University of Technology with a bachelor degree in radio engineering in 1988. He worked with Shenzhen Bao Hua Electronical Co., Ltd. and Shenzhen Longgang Huaxia Real Estate Management Co., Ltd. from 1988 to 1999. Mr. Luo is a PRC registered real estate valuer and has over 10 years experience in the field of real estate management and valuation. Mr. Luo is currently the general manager of Shenzhen Guo Ce Real Estate Consulting Co., Ltd.

Management Profile

LIU An (劉安), aged 36, was elected as supervisor of the Company at the staff representatives meeting of the Company held on 19 June 2008 and his appointment took effect on the same day. Mr. Liu has been working in the Chief Executive Officer's office of the Company since 2005 when he joined the Company. He has over 10 years of experience in the field of management.

QUALIFIED ACCOUNTANT

TSANG Wan Sing (曾穩成), aged 39, is the qualified accountant of the Company, he is a practicing certified public accountant in Hong Kong. Mr. Tsang is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Mr. Tsang has obtained a bachelor's degree in accounting from City University of Hong Kong. Prior to joining the Company, Mr. Tsang has gained more than 10 years of experience in the accounting and auditing industry.

COMPANY SECRETARY

LO Wah Wai（盧華威）, aged 45, is the Company Secretary of the Company. He is a practicing member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants. Mr. Lo holds a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in science from New Jersey Institute of Technology, the United States.

SENIOR MANAGEMENT

CAO Ting Wu (曹庭武), aged 43, was appointed as the deputy general manager of the Group in March 2007 in charge of financial management and capital planning. Mr. Cao graduated in statistics from Jiang Xi University of Finance and Economics (江西財經大學), and obtained degree of MBA in Finance from Chinese University of Hong Kong. Mr. Cao has 19 years of experience in financial management.

WANG Tian（王恬）, aged 32, is the secretary of the Board. Ms. Wang joined the Group in March 2002. She graduated from Zhongshan University in 1999 majoring in international finance and obtained a master degree in economics from University of Birmingham of United Kingdom. Ms. Wang has over 6 years of experience in the field of investment and management.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the processing and sale of recycled products, the provision of waste treatment services, the construction of environmental protection systems, and the trading of chemical products. Details of the principal activities of the subsidiaries are set out in note 39 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The result of the Group for the year ended 31 December 2008 are set out in the consolidated income statements on page 36.

DIVIDENDS

The Board did not recommend the payment of any dividend for the year ended 31 December 2008 (2007: Nil).

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 3. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the audited consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital are set out in note 31 to the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China (the "PRC"), being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

Since the H Shares of the Company commenced trading on GEM on 29 January 2003, the Company has not purchased, sold or redeemed any of its listed securities.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to approximately RMB347,088,000. In addition, the Company's share premium account, in the amount of approximately RMB30,309,000, is available for distribution by way of capitalisation issues.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 21.67% of the total sales for the year and sales to the largest customer included therein amounted to 6.83%. Purchases from the Group's five largest suppliers accounted for approximately 13.05% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company ("Directors") during the year were: Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng as the executive Directors; Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping as the non-executive Directors; Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng as the independent non-executive Directors.

DIRECTORS' REPORT

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographies details of the Directors and the senior management of the Group are set out on pages 16 to 18 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors of the Company ("Supervisors") (including independent non-executive Directors and Supervisors) has entered a contract with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

Details of the emoluments for Directors, supervisors and employees of the Company are set out in note 8 to the audited consolidated financial statements.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2008, the interests and short positions of the Directors, Supervisors and chief executive in the share, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name	**Capacity**	**Number and class of shares**	**Percentage of shareholding in this class**
Mr. Zhang Wei Yang	Beneficial owner	233,651,966 domestic shares	51.98%
Mr. Li Yong Peng	Interest of a controlled corporation	35,389,750 domestic shares *(Note 1)*	7.87%
Mr. Chen Shu Sheng	Interest of a controlled corporation	30,781,384 domestic shares *(Note 2)*	6.85%

Notes:

(1) These shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd., 90% of which is owned by Mr. Li Yong Peng.

(2) These shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.

Save as disclosed above, as at 31 December 2008, none of the Directors, Supervisors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2008, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests of 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholders	Capacity	Number and class of shares	Percentage of shareholding in this class
上海聯創創業投資有限公司 *(Note 1)*	Beneficial Owner	61,566,558 domestic shares	13.70%
Shenzhen Fang Yuan Petrochemical Industries Co., Ltd	Beneficial Owner	35,389,750 domestic shares *(Note 2)*	7.87%
Shenzhen Wen Ying Trading Limited	Beneficial Owner	30,781,384 domestic shares *(Note 3)*	6.85%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services *(Note 4)*	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP	Beneficial Owner	11,500,000 H shares	6.46%

Notes:

1. 上海聯創創業投資有限公司 is owned as to 25% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 25% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 50% equally held by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the Directors, Supervisors, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.

2. The shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd, 90% of which is owned by Mr. Li Yong Peng.

3. The shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.

4. Leading Environmental Solutions and Services owns approximately 76.92% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the Directors, Supervisors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 31 December 2008, the Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed in this report, during the year, none of the Directors, Supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 31 December 2008, none of the Directors, Supervisors and chief executives of the Company had any rights to acquire H share in the Company.

SHARE OPTION SCHEME

No share option scheme was adopted since the date of incorporation of the Company.

CONNECTED AND RELATED PARTY TRANSACTIONS

Non-exempted Continuing Connected Transaction

On 2 February 2007, Shenzhen Dongjiang Heritage Technologies Company Limited (深圳東江華瑞科技有限公司) ("DJ Heritage"), a 62% owned subsidiary of the Company, entered into the sales contract for a term of three years until 31 December 2009 ("Sales Contract") with Heritage Technologies, LLC ("Heritage"), a substantial shareholder of DJ Heritage and is therefore a connected person of the Company under the GEM Listing Rules. Pursuant to the Sales Contract, Heritage agreed to purchase TBCC from DJ Heritage at a maximum annual cap of RMB46 million, RMB58 million and RMB69 million for each of the three financial years ending 31 December 2009 respectively ("Continuing Connected Transaction").

An extraordinary general meeting of the Company was held on 12 April 2007, at which an ordinary resolution was passed to approve the Sales Contract with the related annual caps.

The Directors (including the independent non-executive Directors) have reviewed the Continuing Connected Transaction and confirmed that the transactions under the Sales Contract have been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms which are not less favourable to the Group than terms available to independent third parties; and 3) in accordance with the Sales Contract on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

Directors' Report

Connected Transaction in relation to Acquisition of Interest

In addition, the Board announced on 18 October 2007 that the Company entered into a share transfer agreement with Mr. Luo Xiao Hong (駱曉紅), pursuant to which the Company agreed to acquire from Mr. Luo Xiao Hong 50% equity interest in Shenzhen Resource Environmental Technology Company Limited (深圳市萊索思環境技術有限公司) ("Shenzhen Resources") for a cash consideration of RMB4,247,000 (approximately equivalent to HK$4,247,000) ("Share Transfer Agreement"). Mr. Luo Xiao Hong is a supervisor of the Company therefore is a connected person of the Company under rule 20.11(3) of the GEM Listing Rules and the Acquisition constitutes a connected transaction of the Company under the GEM Listing Rules.

Since the final dividend of RMB5,000,000 proposed by the then shareholders of Shenzhen Resource on 20 August 2007 will not be paid, the original consideration of RMB4,247,000 to be paid by the Company to acquire the 50% equity interest in Shenzhen Resource will be adjusted to RMB6,747,000 according to the adjusted book value of the net assets of Shenzhen Resource as at 31 August 2007. Details have been published in the Company's announcement dated 6 June 2008.

The Directors (including the independent non-executive Directors) consider that the Share Transfer Agreement is entered into upon normal commercial terms and is fair and reasonable and in the interests of the Company and its shareholders as a whole are concerned.

Continuing Connected Transaction

On 5 December 2008, Shenzhen Resource, a non-wholly owned subsidiary of the Company in which the Company beneficially holds a 50% equity interest, entered into the Waste Treatment Agreement with Shenzhen Hazardous Waste Treatment Station (深圳市危險廢物處理站) ("SHWTS"). As SHWTS beneficially holds the remaining 50% equity interest in Shenzhen Resource, SHWTS is a connected person of the Company under the GEM Listing Rules and the Waste Treatment Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules. In accordance with the terms of the Waste Treatment Agreement, SHWTS has engaged Shenzhen Resource to provide lead and tin contained waste treatment services for a term commencing on 5 December 2008 and ending on 4 December 2010.

As each of the applicable percentage ratios in respect of the annual cap is less than 2.5%, the Waste Treatment Agreement (aggregated with previous transactions between SHWTS and Shenzhen Resource as required under the GEM Listing Rules) is only subject to the reporting and announcement requirements under the GEM Listing Rules and is exempt from the independent shareholders' approval requirements of the GEM Listing Rules. Details have been published in the Company's announcement dated 8 December 2008.

Save as disclosed above and in note 40 to the consolidated financial statements, there were no other connected transactions, which were discloseable under Chapter 20 of the GEM Listing Rules and there were no other related party transactions that have to be disclosed.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors or the management shareholders of the Company and their respective associates are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in GEM Listing Rules.

AUDITORS

The consolidated financial statements for the years ended 31 December 2005 to 2008 were audited by SHINEWING (HK) CPA Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint them as auditors of the Company.

ON BEHALF OF THE BOARD
Shenzhen Dongjiang Environmental Company Limited

Zhang Wei Yang
Chairman
Shenzhen, Guangdong Province, the PRC
26 March 2009

Supervisory Committee's Report

To all shareholders of
Shenzhen Environmental Company Limited (the "Company")

During the year, the supervisory committee of the Company (the "Supervisory Committee") has duly carried out its supervisory duties in a stringent manner to effectively protect the interests of the Company and its shareholders (the "Shareholder(s)") in accordance with the relevant provisions of the PRC Company Law and the requirement of the relevant laws and regulations of Hong Kong and Articles of Association of the Company (the "Articles").

On 26 March 2009, the Supervisory Committee convened a meeting, which the 2008 financial statements of the Company and its subsidiaries (collectively the "Group") and a preliminary draft of the independent auditor's report were reviewed and approved. The Supervisory Committee is of the view that the financial statements have been prepared in accordance with the relevant accounting standards and fairly reflect the financial condition and results of operations of the Group.

The Supervisory Committee concluded that, during the year, all members of the board of directors of the Company (the "Board") and the senior management of the Group had, under the principles of diligence, fairness and honesty, duly performed the responsibilities stipulated in the Articles, carefully implemented all resolutions of the general meetings and the Board had never breached any laws, regulations and the Articles.

In the coming year, the Supervisory Committee shall continue to carry out its duties in accordance with the relevant provisions of requirements and regulations, the Articles and the GEM Listing Rules, and commit to perform supervisory duties honestly and diligently, with the aim of protecting the interests of the Company and the Shareholders as a whole.

By Order of the Supervisory Committee
Shenzhen Dongjiang Environmental Company Limited

Yuan Wei
Chairman of the Supervisory Committee
Shenzhen, Guangdong Province, the PRC
26 March 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practices stated in Appendix 15 of the GEM Listing Rules (the "Code"). The Company has complied with all the code provisions throughout the year under review, except for the deviation mentioned below:

Under the code provision A.2.1, the roles of chairman and chief executive officer should not be performed by the same individual. The chairman and chief executive officer of the Company are currently performed by Mr. Zhang Wei Yang ("Mr. Zhang").

Taking into account Mr. Zhang's strong expertise and excellent insight of the environmental protection industry, the board of directors of the Company (the "Board") considered that the chairman and chief executive officer being performed by Mr. Zhang will lead to more effective implementation of the overall strategy and ensure smooth operation of the Group. In order to maintain the good corporate governance and fully comply with code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors") on terms no less than rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2008.

THE BOARD

The Board is responsible to the shareholders. The primary tasks of the board is firstly, to formulate development guidance and strategies for the Group; secondly, to monitor the implementation of policies and strategies as well as the performance of the management. Moreover, the Board is responsible for formulating and reviewing the basic systems and procedures of the Group, approving the annual budgets, quarter and annual results; as well as approving major transactions and other significant operational and financial matters.

The Board currently comprises three executive Directors, being Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng; three non-executive Directors, being Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping; and three independent non-executive Directors, being Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng. The skills and expertise among the existing Directors are considered appropriate to the business and nature of the Group. The experience and qualifications of Directors and senior management and the relationship among them are set out on pages 16 to 18 of this annual report.

Corporate Governance Report

According to the articles of association of the Company (the "Articles"), the Board delegates day-to-day operations of the Group to executive Directors and senior management, including responsible for managing the Group's business, the implementation of major strategies and initiatives adopted by the Board.

The Board meets regularly at approximately quarter intervals. Notice of a regular meeting is given at least 14 days in advance to give all Directors an opportunity to attend. The agenda of the regular meeting is set in consultation with members of the Board so that all Directors are given an opportunity to include matters in agenda. The Board papers are circulated not less than 3 days before the Board meetings.

The Board held fourteen meetings during the year. The following table shows the attendance record of individual Directors:

Name of Directors		**Attendance/Number of meetings held**
Executive Directors		
Mr. Zhang Wei Yang *(Chairman)*		14/14
Mr. Chen Shu Sheng		14/14
Mr. Li Yong Peng		14/14
Non-executive Directors		
Mr. Feng Tao *(Vice Chairman)*		14/14
Mr. Wu Shui Qing		14/14
Ms. Sun Ji Ping		14/14
Independent Non-executive Directors		
Mr. Ye Ru Tang	(Appointed on 19 June 2008)	6/6
Mr. Hao Ji Ming	(Appointed on 19 June 2008)	6/6
Mr. Liu Xue Sheng	(Appointed on 19 June 2008)	6/6
Mr. Meng Chun	(Retired on 19 June 2008)	8/8
Mr. Yang Zhi Feng	(Retired on 19 June 2008)	8/8
Mr. Wang Ji Wu	(Retired on 19 June 2008)	8/8
Average attendance rate		100%

NON-EXECUTIVE DIRECTORS

Since the listed date of the Company, more than two-third of the Board has been non-executive directors (one-third has been independent non-executive directors). Non-executive Directors have appropriate professional qualification, therefore, there is strong element on the Board, which can effectively exercise independent judgment, and the non-executive Directors are of sufficient caliber and number for their views to carry weight. The Board has received a written confirmation from each of the independent non-executive Directors confirming their independence to the Company pursuant to rule 5.09 of the GEM Listing Rules, and considers that all of the independent non-executive Directors are independent.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The division of the responsibilities of the chairman and chief executive officer of the Company are clearly set out in the Articles. But both of the two roles are currently performed by Mr. Zhang, which deviate from the code provision A.2.1 that roles of chairman and chief executive officer should not be performed by the same individual.

NOMINATION, ELECTION AND RE-ELECTION OF DIRECTORS

Subject to the election by the general meeting of shareholders, the selection and nomination of a director are determined by the Board. The Board's nomination procedures of a new director are: 1) collecting the candidate recommendation letter, or seeking and identifying by itself (or by intermediary agencies) the qualified candidate: 2) examining the qualifications of the prospective candidates, and determining the formal director candidates at Board meeting: 3) proposing the formal candidate to the general meeting of shareholders for election through ordinary resolution.

The criteria for prospective candidates for nomination is: 1) the skills, knowledge and working experiences to carry out the duties a director of the Company: 2) compliance of the qualifications set out in the Articles, the Company Law of PRC and the GEM Listing Rules for a director and an independent non-executive director. The new director will be provided with the information prepared by an external lawyer and orientation on the company's background and business with the senior management.

According to the Articles, the terms of office of the Directors (including non-executive Directors) shall be three years and eligible for re-election.

The Board remains satisfied with the current system of Director's nomination and appointment. The establishment of the nomination committee is therefore not considered necessary by the Board.

AUDIT COMMITTEE

The Company has set up an audit committee on 14 January 2003 with written terms of reference, for the purpose of reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, formulating and implementing policies in relation to the non-audit services provided by auditors, reviewing the Company's financial information and its disclosure, monitoring the Company's internal control system and its implementation, reviewing and providing supervision over the Group's financial reporting process and internal controls of the Company.

The audit committee comprises three independent non-executive Directors, namely Messrs. Ye Ru Tang, Hao Ji Ming and Liu Xue Sheng. Mr. Liu Xue Sheng has been appointed as the chairman of the audit committee. The audit committee has reviewed the Company's financial statements for the year ended 31 December 2008 and has provided advice and comments thereon.

The principle responsibilities of the audit committee include:

a. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
b. to formulate and implement policies in relation to the non-audit services provided by auditors;
c. to review the Company's financial information and its disclosure;
d. to monitor the Company's internal control system and its implementation;
e. to review and provide supervision over the Group's financial reporting process and internal controls of the Company.

The Audit Committee met four times in the year to discuss the Group's quarterly and the annual finance report, and review the accounting principles and practices and internal controls adopted by the Group. The following table shows the attendance record of individual members of the audit committee:

Name of audit committee members		**Attendance/Number of meetings held**
Mr. Ye Ru Tang	(Appointed on 19 June 2008)	2/2
Mr. Hao Ji Ming	(Appointed on 19 June 2008)	2/2
Mr. Liu Xue Sheng	(Appointed on 19 June 2008)	2/2
Mr. Meng Chun	(Retired on 19 June 2008)	2/2
Mr. Yang Zhi Feng	(Retired on 19 June 2008)	2/2
Mr. Wang Ji Wu	(Retired on 19 June 2008)	2/2

THE REMUNERATION COMMITTEE

The remuneration committee was established in June 2005 with terms of reference in compliance with the Code. The remuneration committee comprises three independent non-executive Directors, namely Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng and one executive director, Mr. Zhang. Mr. Zhang has been appointed as the chairman of the remuneration committee.

The principle responsibility of the remuneration committee is to review the remuneration and assessment schemes of the Directors and the senior management of the Company, as well as other related remuneration matters instructed by the Board.

The Remuneration Committee met twice in the year to discuss the Directors and senior management remuneration and the assessment policy. The following table shows the attendance records of individual members of the remuneration committee:

Name of remuneration committee members		**Attendance/Number of meetings held**
Mr. Zhang Wei Yang		2/2
Mr. Ye Ru Tang	(Appointed on 19 June 2008)	1/1
Mr. Hao Ji Ming	(Appointed on 19 June 2008)	1/1
Mr. Liu Xue Sheng	(Appointed on 19 June 2008)	1/1
Mr. Meng Chun	(Retired on 19 June 2008)	1/1
Mr. Yang Zhi Feng	(Retired on 19 June 2008)	1/1
Mr. Wang Ji Wu	(Retired on 19 June 2008)	1/1

AUDITORS' REMUNERATION

The remuneration in respect of audit services provided by the auditors, SHINEWING (HK) CPA Limited, to the Company in the year 2008 amounted to RMB500,000. There is no non-audit service provided by the auditors in the year 2008.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

Shareholders are encouraged to attend the general meeting for which at least 45 days' notice is given. According to the Articles, shareholders who possess over 10% (including 10%) voting shares issued by the Company has the right to call for extraordinary general meeting by submitting written request to the Board. Shareholders enjoy the right to supervise business activities of the Company and make recommendations and queries.

Shareholders and public investors are welcome to make enquiries and contribute comments and suggestions. The Company also sets up the section of investor relations on its website to publish the updated and key information of the Group.

INTERNAL CONTROL AND INTERNAL AUDIT

The Board has conducted a review of the effectiveness of the Group's internal control systems in the year. The scope of reviews covers all material controls including finance, operations and regulatory compliance and risk management. After reviewing, the Board considered that nothing has come to its attention to cause the Board to believe that the internal control system is inadequate.

Corporate Governance Report

The Group's system of internal control includes a complete internal management system and approving procedures which apply to all members of the Group. The Group has formulated a comprehensive budget management system, pursuant to which, business plans and budgets are prepared annually by the management of subsidiaries and individual core businesses and subject to review and approval by the executive Directors. Each month the executive Directors meet with the management of subsidiaries and individual businesses to review monthly operating performance and address potential business risks and countermeasures.

The Company has established internal audit function to ensure the effectiveness of internal control system, as well as identify and prevent the potential risk. The head of internal audit submits working reports and recommendations on a regular basis to the executive Directors. The annual internal audit report for the year 2008 was submitted to the Board, and no major issues had been identified.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is the independent auditors' responsibility to form an independent opinion, based on their audit, on those consolidated financial statements and to report their opinion to the Company's shareholders. The responsibilities of the independent auditors are set out in the independent auditors' report on pages 34 to 35 of this annual report.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
SHENZHEN DONGJIANG ENVIRONMENTAL COMPANY LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shenzhen Dongjiang Environmental Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 122【77, which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.】

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Tam Kwok Ming, Banny
Practising Certificate Number: P03289

Hong Kong
26 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Revenue	5	**823,371**	761,044
Cost of sales		**(500,638)**	(462,878)
Gross profit		**322,733**	298,166
Other income		**19,572**	24,484
Selling and distribution costs		**(42,154)**	(31,875)
Administrative expenses		**(121,182)**	(109,209)
Other operating expenses		**(16,816)**	(19,040)
Finance costs	7	**(15,812)**	(3,113)
Share of results of associates		**(10)**	(71)
Profit before tax	9	**146,331**	159,342
Income tax expenses	10	**(36,186)**	(15,964)
Profit for the year		**110,145**	143,378
Attributable to:			
Equity holders of the Company		**106,477**	140,540
Minority interests		**3,668**	2,838
		110,145	143,378
Dividend	11	**–**	–
Earnings per share			
Basic	12	**RMB0.1697**	RMB0.2240
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	13	**357,215**	173,854
Investment properties	14	**3,727**	3,896
Prepaid lease payments	15	**38,561**	34,252
Goodwill	16	**33,884**	–
Concession intangible assets	17	**192,405**	147,641
Intangible assets	18	**309**	329
Interests in associates	19	**277**	679
Available-for-sale financial assets	20	**1,800**	1,800
Prepayment for acquisition of property, plant and equipment		**59,318**	14,676
Deferred tax assets	21	**10,184**	8,867
		697,680	385,994
Current assets			
Inventories	22	**30,881**	54,935
Prepaid lease payments	23	**848**	752
Amounts due from customers for contract works	24	**21,502**	3,154
Trade and other receivables	15	**191,094**	124,927
Investments held for trading	25	**3,022**	9,687
Bank balances and cash	26	**247,693**	250,996
		495,040	444,451
Current liabilities			
Trade and other payables	27	**136,726**	210,120
Amounts due to customers for contract works	23	**686**	219
Income tax payable		**16,713**	4,264
Obligations under finance lease	28	**3,318**	–
Interest-bearing bank borrowings	29	**233,000**	62,300
		390,443	276,903
Net current assets		**104,597**	167,548
Total assets less current liabilities		**802,277**	553,542

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Non-current liabilities			
Deferred revenue	*30*	**47,029**	11,250
Obligations under finance lease	*28*	**7,757**	–
Interest-bearing bank borrowings	*29*	**77,500**	72,500
Deferred tax liabilities	*21*	**306**	–
		132,592	83,750
Total net assets		**669,685**	469,792
Capital and reserves			
Share capital	*31*	**62,738**	62,738
Reserves		**449,106**	341,685
Equity attributable to equity holders of the Company		**511,844**	404,423
Minority interests		**157,841**	65,369
Total equity		**669,685**	469,792

The consolidated financial statements on pages 36 to 122 were approved and authorised for issue by the Board of Directors on 26 March 2009 and are signed on its behalf by :

Zhang Wei Yang
Director

Li Yong Peng
Director

Consolidated Statement Of Changes In Equity

As at 31 December 2008

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Reserve funds RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007								
Originally stated	62,738	30,309	45,984	(50)	125,114	264,095	52,174	316,269
Effect on adoption of new accounting standards	–	–	–	–	132	132	127	259
Restated	62,738	30,309	45,984	(50)	125,246	264,227	52,301	316,528
Expenses recognised directly from the equity Exchange differences arising on translation	–	–	–	(344)	–	(344)	–	(344)
Profit for the year (Restated)	–	–	–	–	140,540	140,540	2,838	143,378
Total recognised income (expenses) for the year	–	–	–	(344)	140,540	140,196	2,838	143,034
Contribution from minority shareholders	–	–	–	–	–	–	9,913	9,913
Disposal of a subsidiary	–	–	–	–	–	–	(7)	(7)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(4,842)	(4,842)
Acquisition of subsidiaries	–	–	–	–	–	–	5,166	5,166
Transfer from retained earnings	–	–	15,646	–	(15,646)	–	–	–
At 31 December 2007 and 1 January 2008 (Restated)	62,738	30,309	61,630	(394)	250,140	404,423	65,369	469,792
Expenses recognised directly from the equity Exchange differences arising on translation	–	–	–	944	–	944	–	944
Profit for the year	–	–	–	–	106,477	106,477	3,668	110,145
Total recognised income for the year	–	–	–	944	106,477	107,421	3,668	111,089
Contribution from minority shareholders	–	–	–	–	–	–	52,428	52,428
Disposal of a subsidiary	–	–	–	–	–	–	(293)	(293)
Adjustment to acquisition consideration *(Note)*	–	–	–	–	–	–	2,500	2,500
Acquisition of subsidiaries	–	–	–	–	–	–	34,169	34,169
Transfer from retained earnings	–	–	9,529	–	(9,529)	–	–	–
At 31 December 2008	62,738	30,309	71,159	550	347,088	511,844	157,841	669,685

Note: (i) The Company acquired 50% equity interests in Shenzhen Resource Environmental Technology Company Limited 深圳市萊索思環境技術有限公司("Shenzhen Resource") at a consideration of RMB4,247,000 during the year ended 31 December 2007 (Note 34e). Before the acquisition was taken place, the then shareholders of Shenzhen Resource proposed to distribute a final dividend of RMB5,000,000. On this basis, the original consideration of RMB4,247,000 for the acquisition was determined based on the net assets of Shenzhen Resource after deducting the proposed dividend. However, Shenzhen Resource has confirmed that the payment of the proposed dividend will not be made due to the disapproval by the relevant approving authority, so that the proposed dividend was reversed and then retained at Shenzhen Resource. As such, the fair value of the net assets of Shenzhen Resource as at the acquisition date was adjusted upwards by RMB5,000,000 and the original consideration to be paid by the Company will be adjusted upwards by RMB2,500,000 and net assets attributable to minority shareholder of Shenzhen Resource was increased by RMB2,500,000. Up to 31 December 2008, the Company has not paid the additional considertion of RMB2,500,000 to the then minority shareholders.

(ii) Pursuant to the relevant laws and regulations, the Group's subsidiaries established and operated in the PRC are required to appropriate at the discretion of their board of directors at least 10% of their after-tax net profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to equity owners.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
OPERATING ACTIVITIES			
Profit before tax		**146,331**	159,342
Adjustments for:			
Amortisation of intangible assets		**80**	21
Amortisation of concession intangible assets		**5,734**	4,052
Allowance for bad and doubtful debts of other receivables		**452**	2,068
Allowance for bad and doubtful debts of trade receivables		**569**	5,505
Allowance for slow-moving inventories		**3,992**	–
Amortisation of prepaid lease payments		**711**	677
Change in fair value on investment properties		**169**	(982)
Depreciation of property, plant and equipment		**32,049**	18,456
Discount on acquisition of additional interests in subsidiaries		**–**	(1,842)
Discount on acquisition of a subsidiary		**–**	(918)
Finance costs		**15,812**	3,113
Gain on disposal of a subsidiary	*35*	**(278)**	(284)
Gain on disposal of property, plant and equipment		**(844)**	(339)
Gain on disposal of prepaid lease payments		**(53)**	–
Gain on disposals of investment held for trading		**(2,245)**	(9,812)
Decrease (increase) in fair value of investment held for trading		**6,911**	(4,408)
Interest income		**(1,979)**	(2,480)
Impairment losses on goodwill		**–**	9,750
Impairment losses on intangible assets		**–**	160
Impairment losses on property, plant and equipment		**6,164**	7,217
Recovery of allowance for bad and doubtful debts of other receivables		**(350)**	(1,000)
Recovery of allowance for bad and doubtful debts of trade receivables		**(758)**	–
Impairment losses on interests in associates		**392**	–
Share of results of associates		**10**	71
Operating cash flows before movements in working capital		**212,869**	188,367
Decrease (increase) in inventories		**20,079**	(11,847)
Increase in amounts due from customers for contract works		**(18,348)**	(2,701)
Increase in trade and other receivables		**(64,622)**	(43,447)
(Decrease) increase in trade and other payables		**(96,343)**	52,665
Increase (decrease) in amounts due to customers for contract works		**467**	(12,469)
Increase in deferred revenue		**35,779**	1,250
Cash generated from operations		**89,881**	171,818
Income taxes paid		**(24,852)**	(21,259)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NET CASH FROM OPERATING ACTIVITIES		**65,029**	150,559
INVESTING ACTIVITIES			
Acquisition of subsidiaries	*34*	**4,127**	26,777
Decrease in other current assets		**–**	24,000
Proceeds from disposals of investment held for trading		**103,476**	19,401
Proceeds from disposal of property, plant and equipment		**8,692**	2,997
Proceeds from disposals of prepaid lease payments		**1,332**	
Interest received		**1,979**	2,480
Purchases of property, plant and equipment		**(185,520)**	(96,601)
Decrease (increase) in guarantee deposit for tendering		**10,157**	(7,447)
Purchase of investment held for trading		**(101,477)**	(14,868)
Increase of in prepayment in acquisition of property, plant and equipment		**(44,642)**	(14,676)
Purchase of prepaid lease payments		**(2,795)**	(13,031)
Increase in pledged bank deposit		**(9,972)**	(10,842)
Purchase of additional interests in subsidiaries		**–**	(4,300)
Purchase of available-for-sale investment		**–**	(1,800)
Purchase of intangible assets		**(60)**	(350)
Payment for concession intangible assets		**(50,498)**	(77,928)
Proceeds from disposal of a subsidiary	*35*	**(20)**	(13)
NET CASH USED IN INVESTING ACTIVITIES		**(265,221)**	(166,201)
FINANCING ACTIVITIES			
New bank borrowings raised		**260,000**	183,600
Contributions by minority shareholders		**37,428**	9,913
Repayments of bank borrowings		**(86,001)**	(87,800)
Interest paid		**(15,297)**	(3,113)
NET CASH FROM FINANCING ACTIVITIES		**196,130**	102,600
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(4,062)**	86,958
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**229,997**	143,073
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**944**	(34)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**226,879**	229,997

1. GENERAL

The Company is a public limited company incorporated in the People's Republic of China (the "PRC") and its H shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"). The functional currency of the Company and the subsidiaries established in the PRC are RMB. The functional currency of subsidiaries established in Hong Kong is Hong Kong Dollars ("HKD").

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the processing and sale of recycled products, the provision of waste treatment services, the trading of chemical products, the construction and operation of environmental protection systems. There were no significant changes in the nature of the Group's principal activities during the year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, the following amendments and interpretations ("INTs") (herein collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

Hong Kong Accounting Standards ("HKAS") 39 & HKFRS 7	Reclassification of Financial Assets
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – INT 12	Service Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

Amendments to HKAS 39 and HKFRS 7 – Reclassification of Financial Assets

Those amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendments also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The amendments to HKAS 39 and HKFRS 7 have had no effect on these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

HK(IFRIC)-INT 11 HKFRS 2– Group and Treasury Share Transactions

HK(IFRIC)-INT 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-INT 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The Group expects that the adoption of this interpretation will not have any significant impact on the Group's consolidated financial statements as it is consistent with the Group's current accounting policy.

HK(IFRIC) – INT 12 Service Concession Arrangements

The Group as a waste treatment operator has access to operate the infrastructure of a waste treatment centre to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement contract.

HK(IFRIC) – INT 12 Service Concession Arrangements provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services.

In prior years, the construction costs incurred by the Group on the waste treatment infrastructure, which the Group is entitled to operate for the specified concession period, was recorded as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. Depreciation of the waste treatment infrastructure was calculated to write off its cost, over its expected useful life or the remaining concession period, whichever was shorter, commencing from the date of commencement of commercial operation of the waste treatment, on a straight-line basis.

In accordance with HK(IFRIC) – INT 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the infrastructure, this interpretation requires the operator to account for its revenue and costs in accordance with HKAS 11 *Construction Contracts* for the construction and upgrade services of the infrastructure and to account for the fair value of the consideration received and receivable for the construction as an intangible asset in accordance with HKAS 38 *Intangible Assets* to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the services in relation to the operation of the infrastructure in accordance with HKAS 18 *Revenue*.

In the current year, the Group applied this interpretation retrospectively. See below for the financial impact.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

HK(IFRIC)-Int 14 – HKAS 19 – The Limit on a Defined Benefit Asset

HK(IFRIC)-INT 14 – HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This is not relevant to the Group's operations.

Summary of the Effects of the Changes in Accounting Policies

The effect of changes in accounting policies resulted from adoption of the new interpretation for the current and prior year by line items are as follows:

	2008	2007
	RMB'000	RMB'000
Increase in revenue on construction	**50,498**	77,928
Increase in construction cost	**(49,942)**	(77,672)
Decrease in depreciation expense	**8,361**	2,476
Increase in amortisation expense	**(5,734)**	(4,052)
Increase/(decrease) in profit for the year	**3,183**	(1,320)
Attributable to :		
Equity holders of the Company	**1,880**	(673)
Minority interests	**1,303**	(647)
	3,183	(1,320)

Analysis of increase/(decrease) in profit for the current and prior year by line items presented according to their function:

	2008	2007
	RMB'000	RMB'000
Increase in revenue	**50,498**	77,928
Increase in cost of sales	**(47,315)**	(79,248)
Increase/(decrease) in profit for the year	**3,183**	(1,320)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

Summary of the Effects of the Changes in Accounting Policies (Continued)

The effect of the application of the new interpretation as at 31 December 2007 is summarised below:

	As at 31 December 2007 (originally stated)	Adjustments	As at 31 December 2007 (restated)
	RMB'000	RMB'000	RMB'000
Balance sheet items			
Property, plant and equipment	322,556	(148,702)	173,854
Concession intangible assets	–	147,641	147,641
Total effects on assets	322,556	(1,061)	321,495
Retained profits	250,681	(541)	250,140
Minority interests	65,889	(520)	65,369
Total effect on equity	316,570	(1,061)	315,509

The effects of the application of the new interpretation on the Group's equity at 1 January 2007 are summarised below:

	As at 1 January 2007 (originally stated)	Adjustments	As at 1 January 2007 (restated)
	RMB'000	RMB'000	RMB'000
Retained profits	125,114	132	125,246
Minority interests	52,174	127	52,301
Total effect on equity	177,288	259	177,547

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

Summary of the Effects of the Changes in Accounting Policies (Continued)

The effects of the application of the new interpretation on the Group's basic and diluted earnings per share for the current and prior year:

Impact on basic earnings per share

	2008	2007
	RMB	RMB
Reported figures before adjustments	**0.1667**	0.2251
Adjustments arising from changes in accounting policies in respect of service concession arrangements	**0.0030**	(0.0011)
Restated	**0.1697**	0.2240

There is no impact on diluted earnings per share as no diluted earnings per share have been presented for the year ended 31 December 2007 because there were no diluting events existed during 2007.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

Summary of the Effects of the Changes in Accounting Policies (Continued)

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1	First time Adoption of Hong Kong Financia Reporting Standards[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 and HKAS 39	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customer[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfer of assets from customers received on or after 1 July 2009

HKAS 1 (Revised) is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

Summary of the Effects of the Changes in Accounting Policies (Continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a change of control, which will be accounted for as equity transactions.

HKAS 23 (Revised) may result in inclusion of borrowing costs in the cost of qualifying assets when the borrowing costs are directly attributable to such assets.

HKFRS 8 Operating Segments may result in new or amended disclosures. The directors of the Company are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material effect on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries 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.

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.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of a subsidiary, represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition. After reassessment, discount on acquisition is recognised immediately in profit or loss.

Purchase of additional interests in subsidiaries

Difference between any consideration paid and the relevant share of the fair value of net assets of the subsidiary attributable to the additional interests in subsidiary acquired from minority interests are recognised as goodwill or discount on acquisition in accordance with the respective accounting policies set out above.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates (Continued)

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of recycled products, chemical products and raw materials income are recognised when goods are delivered and title has passed.

Waste treatment income is recognised when services are rendered.

Revenue from construction of environmental protection system and infrastructure under service concession arrangements are recognised by using the percentage of completion method (see the accounting policy in respect of construction contracts).

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 consolidated income statement in the year in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

Concession intangible assets

Concession intangible assets represent the rights to charge users of the public service, that the Group obtained under the service concession arrangements. Concession intangible assets are recognised at cost, i.e., the fair value of the consideration received or receivable in exchange for the construction services provided under the service concession arrangements.

Service concession arrangements is recognised as an intangible assets when the operator has a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concession intangible assets (Continued)

Concession intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation of Concession intangible assets is calculated to write off their costs on a straight-line basis over the terms of operation under the service concession arrangements. Amortisation is provided as the operations commence.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over its estimated useful life.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment losses on tangible and intangible assets (other than goodwill)

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 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.

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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts

Where the outcome of a construction contract (including construction services of the infrastructure under a service concession arrangement) 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 year 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 amounts 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 amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating lease.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange difference arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and are 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 other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits 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 is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are presented as deferred revenue and are released to income over the useful life of the asset.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sale of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Interest income is recognised on an effective basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent investment held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, which changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial asset at FVTPL, 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. Charges in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at each time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

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 (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and as equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Other financial liabilities (including trade and other payables, obligations under finance lease and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Construction contracts

Revenue from individual contract (including construction services of the infrastructure under a service concession arrangement) is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the contract revenue, contract costs and foreseeable losses of construction work based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, management reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses, where the actual contract revenue are less than expected or actual contract costs are more than expected, a material impairment loss may arise.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying the entity's accounting policies (Continued)

Land and buildings

The property usage permits of certain of the Group's land and buildings were granted by relevant government authorities as detailed in Note 13. In the opinion of the directors, the absence of property usage permits to these land and buildings does not impair the value of the relevant land and buildings to the Group.

Land use rights

Despite the Group has paid the full purchase consideration as detailed in Note 15, certain of the Group's rights to the use of the land were not granted formal titles from the relevant government authorities. The directors are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal title to these land rights does not impair the value of the relevant properties to the Group.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of property, plant and equipment, land use rights, technical know-how and concession intangible assets

The impairment losses for property, plant and equipment, land use rights, technical know-how and concession intangible assets are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Estimate of fair value of investment property

Investment property is stated at fair value based on the valuation performed by the management. In determining the fair value, the management has based on method of valuation which involves certain estimates and assumptions. Should there are any changes in assumptions due to change of market conditions, the fair value of the investment property will be adjusted accordingly.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Allowances for bad and doubtful debts of receivables

The policy for allowance of bad and doubtful debts of receivables of the Group 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 debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Amortisation of technical know-how

Technical know-how is amortised on a straight-line basis over its estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful life of the technical know-how and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

5. REVENUE

Revenue represents the net amounts received and receivables for recycled products sold, provision of waste treatment services and trading of chemical products by the Group to outside customers, less returns and trade discounts, and revenue arising on construction contracts during the year.

An analysis of the Group's revenue for the year is as follows:

	2008	2007
	RMB'000	RMB'000
Sales of recycled products and the provision of waste treatment services	**724,018**	675,796
Revenue from construction and operation of environmental protection systems	**76,905**	69,762
Trading of chemical products	**22,448**	15,486
	823,371	761,044

6. SEGMENT INFORMATION

For management purposes, the Group is currently organised into three operating divisions – production and sales of recycled products and provision of waste treatment services, construction and operation of environmental protection systems and trading of chemical products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(a) Production and sales of recycled products and the provision of waste treatment services segment engages in production and sales of recycled products, provision of waste collection and treatment services;

(b) Construction and operation of environmental protection systems segment engages in construction contract work as a main contractor or subcontractor, primarily in respect of environmental protection systems; and

(c) Trading of chemical products segment engages in the sales of chemical products to customers in the PRC.

6. SEGMENT INFORMATION (CONTINUED)

Segment information about these businesses is presented below:

For the year ended 31 December:

	Production and sales of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)
REVENUE								
External sales	**724,018**	675,796	**76,905**	69,762	**22,448**	15,486	**823,371**	761,044
RESULT								
Segment results	**188,116**	151,818	**(14,605)**	(4,988)	**(4,322)**	6,008	**169,189**	152,838
Unallocated operating income and expenses							**(7,036)**	9,688
Finance costs							**(15,812)**	(3,113)
Share of results of associates							**(10)**	(71)
Profit before tax							**146,331**	159,342
Income tax expenses							**(36,186)**	(15,964)
Profit for the year							**110,145**	143,378

6. SEGMENT INFORMATION (CONTINUED)

	Production and sales of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)
OTHER INFORMATION								
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**30,329**	17,129	**2,318**	1,939	**113**	65	**32,760**	19,133
Amortisation of intangible assets	**80**	21	**–**	–	**–**	–	**80**	21
Amortisaion of concession intangible assets	**5,734**	4,052	**–**	–	**–**	–	**5,734**	4,052
Recovery of allowance for bad and doubtful debts of trade receivables	**(378)**	–	**(376)**	–	**(4)**	–	**(758)**	–
Recovery of allowance for bad and doubtful debts of other receivables	**(350)**	(1,000)	**–**	–	**–**	–	**(350)**	(1,000)
Impairment loss on investment in an associate	**–**	–	**–**	–	**–**	–	**392**	–
Impairment loss on property, plant and equipment	**6,164**	7,217	**–**	–	**–**	–	**6,164**	7,217
Allowance for bad and doubtful debts of other receivables	**214**	2,068	**238**	–	**–**	–	**452**	2,068
Allowance for bad and doubtful debts of trade receivables	**522**	5,065	**47**	–	**–**	440	**569**	5,505
Allowance for slow-moving inventories	**3,992**	–	**–**	–	**–**	–	**3,992**	–
Impairment loss on goodwill	**–**	1,300	**–**	8,450	**–**	–	**–**	9,750
Gain on disposal of property, plant and equipment	**(786)**	(127)	**(48)**	(195)	**(10)**	(17)	**(897)**	(339)
Gain on disposal of prepaid lease payments	**(53)**	–	**–**	–	**–**	–	**(53)**	–
Impairment loss on intangible assets	**–**	160	**–**	–	**–**	–	**–**	160
Discount on acquisition of additional interests in subsidiaries	**–**	(1,842)	**–**	–	**–**	–	**–**	(1,842)
Discount on acquisition of a subsidiary	**–**	(918)	**–**	–	**–**	–	**–**	(918)
Capital expenditure of property, plant and equipment and prepaid lease payments	**193,866**	73,461	**2,997**	36,114	**387**	407	**197,250**	109,982

6. SEGMENT INFORMATION (CONTINUED)

Included in the revenue of production and sales of recycled products and the provision of waste treatment service segment is contract revenue under concession intangible assets recognised for the year of approximately RMB50,498,000 (2007: RMB77,928,000). The related cost for the year is approximately RMB47,315,000 (2007: RMB79,248,000).

Balance sheet at 31 December

	Production and sales of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)
ASSETS								
Segment assets	**655,733**	311,798	**263,973**	233,450	**10,038**	13,168	**929,744**	558,416
Interests in associates							**277**	679
Unallocated assets							**262,699**	271,350
Consolidated total assets							**1,192,720**	830,445
LIABILITIES								
Segment liabilities	**71,332**	107,327	**73,182**	97,119	**3,973**	5,893	**148,487**	210,339
Unallocated liabilities							**374,548**	150,314
Consolidated total liabilities							**523,035**	360,653

Over 90% of the Group's turnover and results were derived from the PRC and at the balance sheet date, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no geographical segment analysis is presented for the year.

7. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**15,297**	3,113
Finance lease	**515**	–
	15,812	3,113

8. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Directors' and supervisors' emoluments

Directors' and supervisors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2008 RMB'000	2007 RMB'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,221**	3,026
Retirement benefits scheme contributions	**76**	26
	1,297	3,052

8. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' emoluments (Continued)

The remuneration of each director and supervisor of the Company for the two years ended 31 December 2008, disclosed pursuant to the GEM Listing Rules, is set out below:

For the year ended 31 December 2008	**Other emoluments**		
Name	**Salaries, allowance and benefits in kind RMB'000**	**Retirement benefits scheme contributions RMB'000**	**Total RMB'000**
Executive directors:			
Zhang Wei Yang	**600**	**21**	**621**
Li Yong Peng	**108**	**20**	**128**
Chen Shu Sheng	**192**	**21**	**213**
	900	**62**	**962**
Non-executive directors:			
Feng Tao	**–**	**–**	**–**
Wu Shui Qing	**–**	**–**	**–**
Sun Ji Ping	**–**	**–**	**–**
	–	**–**	**–**
Independent non-executive directors:			
Ye Ru Tang (Appointed on 19 June 2008)	**7**	**–**	**7**
Hao Ji Min (Appointed on 19 June 2008)	**73**	**–**	**73**
Liu Xue Sheng (Appointed on 19 June 2008)	**73**	**–**	**73**
Meng Chun (Retired on 19 June 2008)	**30**	**–**	**30**
Yang Zhi Feng (Retired on 19 June 2008)	**30**	**–**	**30**
Wang Ji Wu (Retired on 19 June 2008)	**30**	**–**	**30**
	243	**–**	**243**
Supervisors:			
Liu An (Appointed on 19 June 2008)	**78**	**14**	**92**
Yuan Wei	**–**	**–**	**–**
Luo Xiao Hong	**–**	**–**	**–**
Zhou Xiu Hong (Retired on 19 June 2008)	**–**	**–**	**–**
	78	**14**	**92**
Total	**1,221**	**76**	**1,297**

8. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' emoluments (Continued)

For the year ended 31 December 2007

Name	Other emoluments: Salaries, allowance and benefits in kind RMB'000	Other emoluments: Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:			
Zhang Wei Yang	2,450	8	2,458
Li Yong Peng	122	7	129
Chen Shu Sheng	202	7	209
	2,774	22	2,796
Non-executive directors:			
Feng Tao	–	–	–
Wu Shui Qing	–	–	–
Sun Ji Ping	–	–	–
	–	–	–
Independent non-executive directors:			
Meng Chun	65	–	65
Yang Zhi Feng	65	–	65
Wang Ji Wu	65	–	65
	195	–	195
Supervisors:			
Yuan Wei	–	–	–
Luo Xiao Hong	–	–	–
Zhou Xiu Hong	57	4	61
	57	4	61
Total	3,026	26	3,052

Except that Ye Ru Tang who wavied the directors emoluments RMB66,000 payable to him for the year ended 31 December 2008, there was no arrangement under which other directors or supervisors waived or agreed to waive any emoluments in the two years ended 31 December 2008.

8. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES (CONTINUED)

(b) Employees' emoluments

Of the five highest paid individuals in the Group three (2007: two) were directors of the Company, whose emoluments are set out in 8(a) above. The emoluments of the remaining two(2007: three) highest paid individuals were as follows:

	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**240**	460
Retirement benefits scheme contributions	**40**	15
	280	475

Their emoluments were within the following bands:

	No. of employees	
	2008	2007
Nil to RMB1,000,000	**2**	3

During the two years ended 31 December 2008, no emoluments have been paid by the Group to any directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. PROFIT BEFORE TAX

	2008 RMB'000	2007 RMB'000 (Restated)
Profit before tax has been arrived at after charging/(crediting):		
Staff costs including directors' emoluments (Note 8(a)):		
–Salaries, wages and other benefits	**49,506**	56,399
– Retirement benefits scheme contributions	**4,951**	3,042
Total staff costs	**54,457**	59,441
Allowance for bad and doubtful debts of other receivables (included in administrative expenses)	**452**	2,068
Allowance for bad and doubtful debts of trade receivables (included in administrative expenses)	**569**	5,505
Allowance for slow-moving inventories (included in cost of sales)	**3,992**	–
Amortisation of intangible assets (included in other operating expenses)	**80**	21
Amortisation of prepaid lease payments	**711**	677
Amortisation of concession intangible assets	**5,734**	4,052
Auditors' remuneration	**826**	500
Change in fair value on investment properties	**169**	(982)
Cost of inventories recognised as an expense	**446,686**	385,175
Decrease (increase) in fair value of investment held for trading	**6,911**	(4,408)
Depreciation of property, plant and equipment	**32,049**	18,456
Discount on acquisition of additional interests in subsidiaries	**–**	(1,842)
Discount on acquisition of a subsidiary	**–**	(918)

9. PROFIT BEFORE TAX (CONTINUED)

	2008 **RMB'000**	2007 RMB'000 (Restated)
Gain on disposal of a subsidiary	**(278)**	(284)
Gain on disposal of investment held for trading	**(2,245)**	(9,812)
Gain on disposal of prepaid lease payments	**(53)**	–
Gain on disposal of property, plant and equipment	**(844)**	(339)
Impairment loss on goodwill (included in other operating expenses)	**–**	9,750
Impairment loss on intangible assets (included in other operating expenses)	**–**	160
Impairment loss on investment in an associates	**392**	–
Impairment loss on property, plant and equipment (included in other operating expenses)	**6,164**	7,217
Interest income	**(1,979)**	(2,480)
Minimum lease payments under operating leases: Office premises, plant and staff quarters	**5,565**	2,565
Recovery of allowance for bad and doubtful debts of other receivables	**(350)**	(1,000)
Recovery of allowance for bad and doubtful debts of trade receivables	**(758)**	–
Rental income	**(142)**	(142)
Research and development costs	**10,735**	3,236
Share of taxation of an associate	**83**	–

10. INCOME TAX EXPENSES

	2008	2007
	RMB'000	RMB'000
Hong Kong Profits Tax		
– Current	**6**	–
PRC Enterprise Income Tax		
– Current	**37,135**	21,796
– Under-provision in prior years	**160**	237
	37,295	22,033
Deferred taxation (Note 21)		
– Current	**397**	(3,433)
– Attributable to a change in tax rate	**(1,512)**	(2,636)
	(1,115)	(6,069)
	36,186	15,964

The Company is located in the Shenzhen Special Economic Zone and subject to the PRC enterprise income tax at a rate of 18% (2007: 15%) of the estimated assessable income determined in accordance with the relevant income tax rules and regulations of the PRC.

The subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC enterprise income tax at a rate of 18% (2007: 15%). Subsidiaries located in other cities are subject to the PRC enterprise income tax at a rate of 25% (2007: 33%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company's subsidiary, Shenzhen Dongjiang Heritage Technologies Co., Ltd. 深圳東江華瑞科技有限公司 is exempt from PRC enterprise income tax for two years commencing from their first profit-making year, followed by a 50% tax reduction for the next three years. Another two subsidiaries, Shenzhen Donjiang Environmental Recycled Power Limited 深圳市東江環保再生能源有限公司 ("Recycle Poser") and Hui Zhou Dong Jiang Veolia Environmental Services Limited 惠州東江威立雅環境服務有限公司 (Formerly known as Huizhou Dongjiang Onyx Solid Waste Treatment Co., Limited 惠州東江奧綠思固體廢物處理有限公司 is exempted from PRC enterprise income tax for two years from the date of commencement of operations and followed by a 50% tax reduction for the next three years.

10. INCOME TAX EXPENSES (CONTINUED)

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law (the "Implementation"). Pursuant to the New Law and Implementation Regulations, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Hong Kong Profits Tax has been provided for the subsidiaries in Hong Kong at 16.5% on the estimated assessable profits for the year ended 31 December 2008. No Hong Kong Profits Tax has been provided for the year ended 31 December 2007 because the subsidiaries in Hong Kong did not have any assessable profit for that year.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2008 **RMB'000**	2007 RMB'000 (Restated)
Profit before tax	**146,331**	159,342
Tax at the applicable income tax rate	**24,712**	24,115
Tax effect of expenses not deductible for tax purposes	**5,542**	4,612
Tax effect of income not taxable for tax purposes	**–**	(891)
Tax effect of tax losses and deductible temporary difference not recognised	**18,637**	64
Utilisation of deductible temporary difference previously not recognised	**(2,946)**	–
Effect on change in tax rate	**(1,512)**	(2,636)
Under-provision in respect of prior years	**160**	237
Income tax on concessionary rate	**(8,407)**	(9,577)
Income tax expense for the year	**36,186**	15,964

11. DIVIDENDS

The Board does not recommend any dividend for the year ended 31 December 2008 (2007: Nil).

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of approximately RMB105,947,000 (2007: RMB140,425,000 (restated)), and the weighted average of 627,381,872 (2007: 627,381,872) ordinary shares in issue during the year.

No diluted earnings per share have been presented for the two years ended 31 December 2008 as there were no diluting events existed during both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Leasehold improve-ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2007(Originally stated)	48,813	50,063	1,869	4,651	18,449	8,141	101,755	233,741
Effect on adoption of new accounting standards	–	(352)	–	–	–	–	(73,171)	(73,523)
At 1 January 2007(Restated)	48,813	49,711	1,869	4,651	18,449	8,141	28,584	160,218
Additions	9,839	7,393	–	2,751	10,392	2,315	63,911	96,601
Acquisition of subsidiaries	1,398	1,781	–	559	1,936	221	–	5,895
Transfers	8,012	34,576	–	–	–	676	(43,264)	–
Disposals	–	(638)	–	(316)	(3,002)	(25)	–	(3,981)
Disposal of subsidiary	–	–	–	(102)	–	(3)	–	(105)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings RMB'000	Plant and machinery RMB'000	Leasehold improve-ments RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2007 and 1 January 2008 (Restated)	68,062	92,823	1,869	7,543	27,775	11,325	49,231	258,628
Additions	2,916	11,846	–	4,624	24,918	7,649	142,442	194,395
Acquisition of subsidiaries	–	236	–	290	4,015	–	30,486	35,027
Transfers	27,156	30,773	–	458	–	1,927	(60,314)	–
Disposals	(4,806)	(21,377)	–	(915)	(3,050)	(674)	–	(30,822)
At 31 December 2008	93,328	114,301	1,869	12,000	53,658	20,227	161,845	457,228
DEPRECIATION AND IMPAIRMENT LOSS								
At 1 January 2007 (Originally stated)	12,898	30,448	1,702	2,640	7,798	5,046	–	60,532
Effect on the adoption of new accounting standards	–	(17)	–	–	–	–	–	(17)
At 1 January 2007 (Restated)	12,898	30,431	1,702	2,640	7,798	5,046	–	60,515
Provided for the year	2,407	10,095	31	984	3,833	1,106	–	18,456
Eliminated on disposals	–	(490)	–	(261)	(554)	(18)	–	(1,323)
Disposal of subsidiaries	–	–	–	(88)	–	(3)	–	(91)
Impairment loss recognised	4,312	1,653	–	10	–	613	629	7,217
At 31 December 2007and 1 January 2008 (Restated)	19,617	41,689	1,733	3,285	11,077	6,744	629	84,774
Provided for the year	3,679	16,342	31	1,920	5,925	4,152	–	32,049
Eliminated on disposals	(3,028)	(16,567)	–	(760)	(2,306)	(313)	–	(22,974)
Provision of impairment losses	2,216	3,529	–	45	273	101	–	6,164
At 31 December 2008	22,484	44,993	1,764	4,490	14,969	10,684	629	100,013
CARRYING VALUES								
At 31 December 2008	70,844	69,308	105	7,510	38,689	9,543	161,216	357,215
At 31 December 2007 (Restated)	48,445	51,134	136	4,258	16,698	4,581	48,602	173,854

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Land and buildings	4.85%
Plant and machinery	19.40%
Leasehold improvements	Over the lease terms
Office equipment, furniture and fixtures	19.40%
Motor vehicles	19.40%
Other equipment	19.40%

The buildings of the Group are located in the PRC and held under medium-term leases.

As at 31 December 2008, the property usage permits of certain land and buildings have not been granted by relevant government authorities with the aggregate carrying values approximately of RMB12,673,000 (2007: RMB16,538,000). In the opinion of the directors, the absence of property usage permits to these land and buildings does not impair the value of the relevant land and buildings to the Group. The directors also believe that property usage permits to these land and buildings will be granted to the Group in due course.

As at 31 December 2008, the net book value of property, plant and equipment held under finance leases amounted to approximately RMB8,774,000 (2007: NIL).

During the year, the directors conducted a review of the Group's property, plant and machinery and determined that certain of the assets were impaired due to physical damage and obsolescence. Accordingly, an impairment loss of approximately RMB6,164,000 (2007: RMB7,217,000) has been recognised in the consolidated income statement. The recoverable amounts of the relevant assets have been determined by the Group's management on the basis of fair value less costs to sell.

14. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2007	2,914
Net increase in fair value	982
At 31 December 2007 and 1 January 2008	3,896
Net decrease in fair value	(169)
At 31 December 2008	3,727

The Group's investment properties were located in Shenzhen under medium-lease terms (lease period of 10 years or more but less than 50 years). The fair value of the investment properties as at 31 December 2008 have been arrived at management of the Group by reference to market evidence of transaction prices for similar properties in same locations and conditions.

The investment properties are leased to a company of which a director of the Company is a shareholder. Further details of which are included in Note 40.

15. PREPAID LEASE PAYMENTS

	2008	2007
	RMB'000	RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in PRC	**39,409**	35,004
Analysed for reporting purposes as:		
Current asset	**848**	752
Non-current asset	**38,561**	34,252
	39,409	35,004

The Group had paid the full consideration for its land use rights in the PRC. As at 31 December 2008, the Group had not yet obtained the title of land use rights with an aggregate carrying amount of RMB6,295,000 (2007: NIL). The directors are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal title to these land rights does not impair the value of the relevant properties to the Group.

16. GOODWILL

	2008 RMB'000
COST	
At 1 January 2007	–
Arising on acquisition of a subsidiary	8,450
Arising on acquisition of remaining equity interest of a subsidiary	1,300
At 31 December 2007 and 1 January 2008	9,750
Arising on acquisition of a subsidiary	33,884
At 31 December 2008	43,634
IMPAIRMENT	
At 1 January 2007	–
Impairment loss recognised during the year	9,750
At 31 December 2007, 1 January 2008 and 31 December 2008	9,750
CARRYING VALUES	
At 31 December 2008	33,884
At 31 December 2007	–

IMPAIRMENT TESTING ON GOODWILL

The goodwill was arising from the acquisition of subsidiaries, Shao Guan Green Reeycling Resource Development Co.Ltd. 韶關綠然再生資源發展有限公司 ("Green Reeycling Resource") and Hong Kong Lik Shun Services Limited ("Lik Shun HK"). For the purposes of impairment testing, the goodwill has been allocated to the respective cash generating units ("CGUs").

During the year ended 31 December 2008, the management of the Group determined that the CGUs containing goodwill had not suffered any impairment. The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

16. GOODWILL (CONTINUED)

IMPAIRMENT TESTING ON GOODWILL (Continued)

The recoverable amount of the CGUs has been determined based on value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period and a discount rate of 8%-10%. The forecast turnover is based on the relevant industry growth and does not exceed the average long-term growth rate for the relevant industry. The forecast turnover beyond 5-year period is constant with zero growth rate. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the management's past performance and expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGUs to fall below its carrying amount.

17. CONCESSION INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2007	
As originally stated	–
Effect on adoption of new accounting standards	73,765
As restated	73,765
Additions	77,928
At 31 December 2007 and 1 January 2008	151,693
Additions	50,498
At 31 December 2008	202,191
AMORTISATION	
At 1 January 2007	–
Charge for the year	4,052
At 31 December 2007 and 1 January 2008	4,052
Charge for the year	5,734
At 31 December 2008	9,786
CARRYING VALUES	
At 31 December 2008	192,405
At 31 December 2007	147,641

17. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The subsidiary of the Company, Hui Zhou Dong Jiang Weiliya Environmental services Limited 惠州東江威立雅環境服務有限公司 (Formerly known as Huizhou Dongjiang Onyx Solid Waste Treatment Co., Limited 惠州東江奧綠思固體廢物處理有限公司 ("Huizhou Veolia"), entered into a service concession arrangement with the local government whereby Huizhou Veolia is required to build the infrastructure of a waste treatment centre and is granted with an exclusive operating rights for provision of waste treatment services to the public users for a period of 30 years commencing from April 2005. At the end of the operating period, Huizhou Veolia is required to transfer the waste treatment centre to the government. Huizhou Veolia commenced the construction in 2005 and finished in 2007. During the construction period, the waste treatment centre has been put into operation by phrases. The fair value of the consideration receivable for the construction services rendered under the service concession arrangement is recognised using the percentage of completion method. Amortisation has been provided on a straight-line basis over the remaining terms of the operating rights since commencement of operations. The receipt from this service concession arrangement is contingent on the extent that public uses the services.

In April 2008, the subsidiary of the Group, Shenzhen Dongjiang Environment Recycled Power Limited 深圳東江環保再生能源有限公司 ("Recycled Power"), entered into a service concession arrangement with the local government whereby Recycled Power is required to build the infrastructure of a waste-soil treatment station and is granted with an exclusive operating rights for provision of waste-soil treatment service to the public users for a period of at least 3 years from date of commencement of operation of the station. At the end of the operating period, Recycled Power is required to transfer the waste-soil treatment station to the government. After the construction works has been completed and has been audited by the government, Recycled Power will be reimbursed with the construction cost based on the audited figures. As at 31 December 2008, the construction works has not been completed. The fair value of the consideration for the construction services under this service concession arrangement is recognised for the year using the percentage of completion method. No amortisation has been provided for the year. The receipt from this service concession arrangement is contingent on the extent that the disbursement from the government and the public uses the services.

On February 2008, the subsidiary of the Group, Hunan Dongjiang Environmental Protection Investment Development Limited 湖南東江環保投資發展有限公司 ("Hunan Dongjiang"), entered into a service concession arrangement with the local government whereby Hunan Dongjiang is required to build the infrastructure of a domestic waste landfill and is granted with an exclusive operating rights for provision of domestic waste treatment service to the public users for a period of 30 years as from the waste treatment services commences. At the end of the operating period, Hunan Dongjiang is required to transfer the domestic waste landfill to the government. After the construction works has been completed and audited by the government, Hunan Dongjiang will be reimbursed with the construction cost based on the audited figures in 30 years with the interest charged at market rates. As at 31 December 2008, the construction works has not been completed. The fair value of the consideration for the construction services under this service concession arrangement is recognised for the year using the percentage of completion method. No amortisation has been provided for the year. The receipt from this service concession arrangement is contingent on the extent that the disbursement from the government and the public uses the services.

18. INTANGIBLE ASSETS

	Know-how RMB'000
COST	
At 1 January 2007	260
Additions	350
At 31 December 2007 and 1 January 2008	610
Additions	60
At 31 December 2008	670
AMORTISATION AND IMPAIRMENT	
At 1 January 2007	100
Charge for the year	21
Impairment loss recognised during the year	160
At 31 December 2007 and 1 January 2008	281
Charge for the year	80
At 31 December 2008	361
CARRYING VALUES	
At 31 December 2008	309
At 31 December 2007	329

The know-how is amortised on a straight-line basis over its estimated useful life of 7 to 10 years as determined by the directors of the Company.

19. INTERESTS IN ASSOCIATES

	2008 RMB'000	2007 RMB'000
Unlisted associates in the PRC:		
Cost of investment	**2,884**	2,884
Share of post-acquisition losses	**(919)**	(909)
	1,965	1,975
Less: Impairment losses recognised	**(1,688)**	(1,296)
	277	679

As at 31 December 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Class of shares held	Place of registration and operations	Attributable equity interest of the Group	Principal activities
Shenzhen Fugeri Environmental Protection Equipment Co., Ltd. 深圳市福格瑞環保設備有限公司 ("Shenzhen Fuguri")	Incorporated	Contributed capital	PRC	40%	Suspended operation
Heritage Dongjiang Weiyingyang Additives (Shenzhen) Co., Ltd. 華端東江微營養添加劑(深圳)有限公司 ("Dongjiang Weiyingyang")	Incorporated	Contributed capital	PRC	38%	Development of new technologies for feed additives
北京永新立升膜技術有限公司（「立升膜」）	Incorporated	Contributed capital	PRC	45%	Treatment of Industrial waste water treatment

19. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised unaudited financial information in respect of the Group's associates is set out below:

	2008	2007
	RMB'000	RMB'000
Total assets	**5,848**	5,325
Total liabilities	**(978)**	(732)
Net assets	**4,870**	4,593
Group's share of net assets of associates	**1,965**	1,975
Revenue	**2,354**	2,249
Profit (loss) for the year	**277**	(759)
Group's share of losses of associates for the year	**(10)**	(71)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of losses of those associates, extracted from the relevant management accounts of associates are as follows:

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**197**	–
Unrecognised share of loss for the year	**157**	197
Recognition of unrecognised share of losses of previous years *(Note)*	**(197)**	–
Balance at end of the year	**157**	197

Note: One of the associates, which was suffered from losses in previously years, turned to have profit this year, accordingly the share of unrecognised losses of previous years is recognised and included in the share of results of associates for the year ended 31 December 2008.

20. AVAILABLE-FOR-SALE INVESTMENT

	2008	2007
	RMB'000	RMB'000
Unlisted equity investments	**1,800**	1,800

The above unlisted investment represents investment in unlisted equity security issued by a private entity 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 its fair value cannot be measured reliably.

21. DEFERRED TAXATION

The followings are the major deferred tax asset (liabilities) recognised and movements thereon during the current and prior year is as follows:

	Pre-operating expenses	**Impairment losses and allowance for bad and doubtful debts**	**Difference between depreciation and tax allowance**	**Provision of staff salaries**	**Deferred revenue**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	324	1,439	1,035	–	–	–	2,798
(Charged) credited to the income statement	(56)	1,396	368	1,725	–	–	3,433
Effect of changes in tax rate	(39)	848	102	1,725	–	–	2,636
At 31 December 2007 and 1 January 2008	229	3,683	1,505	3,450	–	–	8,867
Acquisition of subsidiaries	–	–	–	–	–	(104)	(104)
(Charged) credited to the income statement	(201)	999	(639)	(3,450)	2,331	563	(397)
Effect of changes in tax rate	11	987	170	–	259	85	1,512
At 31 December 2008	39	5,669	1,036	–	2,590	544	9,878

21. DEFERRED TAXATION (CONTINUED)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 RMB'000	2007 RMB'000
Deferred tax assets	**10,184**	8,867
Deferred tax liabilities	**(306)**	–
	9,878	8,867

As at 31 December 2008, the Group had unused tax losses of approximately RMB34,467,000 (2007: RMB2,311,000) available for offsetting against future profits. No deferred tax assets has been recognised in respect of these tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for five years from the respective years in which the loss arose.

As at 31 December 2008, the Group had deductible temporary difference of approximately RMB56,106,000 (2007: RMB21,915,000). No deferred tax asset had been recognised in relation to such deductible temporary difference as it was not probable that the taxable profit will be available against which the deductible temporary differences can be utilised.

22. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**7,854**	16,342
Work in progress	**102**	6,664
Finished goods	**22,925**	31,929
	30,881	54,935

23. AMOUNTS DUE FROM / (TO) CUSTOMERS FOR CONTRACT WORKS

	2008 RMB'000	2007 RMB'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses to date	**39,225**	23,091
Less: Progress billings	**(18,409)**	(20,156)
	20,816	2,935
Analysed for reporting purposes as:		
Amounts due from contract customers	**21,502**	3,154
Amounts due to contract customers	**(686)**	(219)
	20,816	2,935

At 31 December 2008, there were no retentions held by customers for contract work (2007: Nil).

24. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	**75,794**	73,232
Less: Allowance for bad and doubtful debts of trade receivables	**(10,685)**	(11,117)
	65,109	62,115
Bills receivable	**1,788**	14,457
Prepayment, deposit and other receivables	**129,035**	56,589
Less: Allowance for bad and doubtful debts of other receivables	**(4,838)**	(8,234)
	191,094	124,927

As at 31 December 2008, included in trade receivables amounting to RMB11,000 (2007: RMB8,704,000) are due from a minority shareholder.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group allows an average credit period of 90 days to its trade customers, except for new customers, where payment in advance is normally required.

An aged analysis of the trade receivables net of allowance for bad and doubtful debts of trade receivables as at the balance sheet date, based on invoice date, is as follows:

	2008	2007
	RMB'000	RMB'000
Within 90 days	**53,944**	35,395
91 to 180 days	**6,587**	6,772
181 to 365 days	**3,027**	17,712
Over 1 year	**1,551**	2,236
Total	**65,109**	62,115

The Group will assess the client's credit before accept any new client and determining the customer's credit limit. Client's limit will be reviewed regularly. Most receivables that are not overdue and no impairment have no adverse repayment records.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB11,165,000 (2007: RMB26,720,000) which were past due at the reporting date and for which the Group has not provided for impairment loss. Ageing of trade receivables which are past due but not impaired:

	2008	2007
	RMB'000	RMB'000
Within 90 days	**6,587**	6,772
91 to 180 days	**1,514**	17,712
181 to 365 days	**3,064**	2,236
Total	**11,165**	26,720

No impairment losses are provided for these customers based on the historical payment records. The Group does not hold any collateral over these balances.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the allowance for bad and doubtful debts of trade receivables:

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**11,117**	2,193
Arised on acquisition of subsidiaries	**–**	3,695
Allowance for bad and doubtful debts recognised on trade receivables	**569**	5,505
Amounts written off as uncollectible	**(243)**	(276)
Amounts recovered during the year	**(758)**	–
Balance at the end of the year	**10,685**	11,117

Included in the allowance for bad and doubtful debts are individually impaired trade receivable with an aggregate balance of RMB570,000 (2007: NIL) which have either been placed under liquidation or in severe financial difficulties. The impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.

Movement in allowance for bad and doubtful debts of other receivables:

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**8,234**	4,507
Arised on acquisition of subsidiaries	**–**	2,659
Allowance for bad and doubtful debts recognised on other receivables	**452**	2,068
Amounts written off as uncollectible	**(3,498)**	–
Amounts recovered during the year	**(350)**	(1,000)
Balance at the end of the year	**4,838**	8,234

The allowance for bad and doubtful debts are individually impaired other receivables which have either been placed under liquidation or in severe financial difficulties. The impairment recognised represents the difference between the carrying amount of the specific other receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.

25. INVESTMENTS HELD FOR TRADING

	2008 RMB'000	2007 RMB'000
Listed equity securities listed in the PRC, at market value	**3,022**	9,687

26. BANK BALANCES AND CASH

	2008 RMB'000	2007 RMB'000
Bank balances and cash	**247,693**	250,996
Less: Guarantee deposit for tendering for construction contracts	**–**	(10,157)
Pledged bank deposit	**(20,814)**	(10,842)
Cash and cash equivalents	**226,879**	229,997

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. During the year, the bank deposits carry interest at the prevailing market interest rate.

The pledged bank deposits represent deposits pledged to bank to secure banking facilities granted to the Group in respect of bills and letter of credit facilities and are therefore classified as current assets.

Majority of the bank balances and cash for the year 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.

Included in bank balances and cash are the following amounts denominated in foreign currencies other than the functional currency of the Group to which they relate:

	2008 RMB'000	2007 RMB'000
EURO	**–**	6,787
HKD	**15,218**	3,482
	15,218	10,289

27. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date, based on payment due date:

	2008 RMB'000	2007 RMB'000
Within 90 days	**39,171**	87,228
91 to 180 days	**756**	4,144
181 to 365 days	**15,151**	17,036
Over 1 year	**15,406**	4,778
	70,484	113,186
Advances from customers	**21,078**	20,191
Other payables	**35,352**	41,706
Accruals	**9,812**	35,037
	66,242	96,934
	136,726	210,120

The average credit period for payment of purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2008, included in trade payables amounting to approximately RMB50,000 and RMB1,712,000 (2007: RMB49,000 and RMB3,647,000) are due to an associate and minority shareholders respectively.

28. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles, equipment under finance leases. The average lease term is 2-5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract form at an average rate of 3.25% as for the year ended 31 December 2008. These leases have no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**3,901**	–	**3,318**	–
In more than one year but less than two years	**3,314**	–	**2,920**	–
In more than two yearas but less than five years	**5,117**	–	**4,837**	–
	12,332	–	**11,075**	–
Less: future finance charges	**(1,257)**	–	**N/A**	N/A
Present value of lease obligations	**11,075**	–	**11,075**	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(3,318)**	–
Amount due for settlement after 12 months			**7,757**	–

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Finance lease obligations are denominated in Hong Kong dollars which is the functional currency of the relevant group entities.

29. INTEREST-BEARING BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Secured	**28,000**	29,800
Unsecured	**42,500**	30,000
Guaranteed	**240,000**	75,000
	310,000	134,800
Carrying amount repayable:		
Within one year	**233,000**	62,300
More than one year, but less than two years	**12,500**	10,000
More than two years, but less than five years	**65,000**	62,500
	310,500	134,800
Less: Amounts due within one year shown under current liabilities	**(233,000)**	(62,300)
	77,500	72,500

29. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Note:

(i) The Group's borrowings are denominated in RMB.

(ii) At 31 December 2007 and 2008, the Group's guaranteed bank borrowings were guaranteed by a director and a minority shareholder of the Company's subsidiaries. (Note 40)

(iii) During the year ended 31 December 2008, the Group obtained new borrowings in the amount of RMB260,000,000 (2007: RMB183,600,000). These borrowings carry interest at market rates and will be repayable varying from 2009 to 2013.

(iv) The Group's bank borrowings are interest-bearing as follow:

	2008 **RMB'000**	2007 RMB'000
Fixed rate borrowings	**45,000**	29,800
Floating-rate borrowings	**265,500**	105,000
	310,500	134,800

(v) The floating-rate borrowings carry interest at base rate published by the People's Bank of China less 5% to 10%.

(vi) The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2008	2007
Effective interest rate:		
Fixed rate borrowings	**5.3% to 7.47%**	7.0965% to 8.4564%
Floating-rate borrowings	**5.0787% to 7.0666%**	5.9130% to 7.3530%

(vii) At 31 December 2008, the secured bank borrowings of RMB28,000,000 was also guaranteed by a director of the Company (2007: RMB19,800,000).

30. DEFERRED REVENUE

The balance represents subsidies granted for financing the research and development of environmental projects. The subsidies are non-refundable, subject to the project being approved and certified by the relevant authorities upon their completion.

In addition, the Group received government grants in respect of the construction services under the service concession arrangements of the Guangdong Hazardous Waste Comprehensive Treatment Demonstration Center. The grant will be released to profit and loss over the operation period on a straight-line basis in the consolidated income statement.

31. SHARE CAPITAL

	Number of shares		Share capital	
	2008	2007	**2008**	2007
	'000	'000	**RMB'000**	RMB'000
Ordinary shares of RMB0.10 each				
Authorised, issued and fully paid:				
Domestic shares	**449,480**	449,480	**44,948**	44,948
H shares	**177,900**	177,900	**17,790**	17,790
	627,380	627,380	**62,738**	62,738

There were no movements in the Company's share capital during both years.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in Note 29, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and the raise of bank borrowings.

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Fair value through profit and loss – held for trading	**3,022**	9,687
Loans and receivables (including cash and cash equivalents)	**383,981**	359,264
Available-for-sale financial assets	**1,800**	1,800
Financial liabilities		
Amortised cost	**427,411**	237,383

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, borrowings, bank balances, guarantee deposits, trade and other receivables and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

33. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Currency risk

The Group's functional currency is RMB is which most of the transactions are denominated. However, certain bank balances, trade and other receivables and other payables are denominated in currencies other than RMB. Foreign currencies are also used to settle expenses for overseas operations.

	As at 31 December 2008			As at 31 December 2007		
	EURO'000	**USD'000**	**HKD'000**	EURO'000	USD'000	HKD'000
Assets	**153**	**–**	**26,023**	1,233	1,192	3,899
Liabilities	**108**	**–**	**56,431**	907	–	–

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of RMB against each foreign currency while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% (2007: 5%) change in foreign currency rates.

	EURO		**USD**		**HKD**	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Increase (decrease) in profit for the year						
– if RMB weakens against foreign currencies	**18**	155	**–**	435	**(1,073)**	183
– if RMB strengthens against foreign currencies	**(18)**	(155)	**–**	(435)	**1,073**	(183)

A change of 5% (2007: 5%) in exchange rate of RMB against each foreign currency does not affect other components of equity.

In management's opinion, the sensitivity analysis is not necessarily of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

33. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to obligations under finance leases and fixed-rate bank borrowings (see Note 28 and 29 for details). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 29 for details). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base rate published by People's Bank of China arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the financial liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher / lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease / increase by RMB1,062,000 (2007: RMB525,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

In management's opinion, the sensitivity analysis is not necessarily of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

33. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Other price risk

The Group's other price risk is mainly concentrated on investments held for trading quoted in the stock exchange of the PRC. The management monitors the price risk exposure and will take appropriate measures should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based in the exposure to other price risks at the balance sheet date.

If the prices of the respective investments held for trading had been 5% higher/lower:

	2008	2007
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
– as a result of increase in equity price	**121**	484
– as a result of decrease in equity price	**(121)**	(484)

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures 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 the counterparties are banks with high credit ratings.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

33. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, 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 following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount at 31 December
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2008					
Non-derivative financial liabilities					
Trade and other payables	**105,836**	**–**	**–**	**105,836**	**105,836**
Finance lease payables	**3,901**	**3,314**	**5,117**	**12,332**	**11,075**
Bank borrowings	**255,390**	**14,616**	**84,957**	**354,963**	**310,500**
	365,127	**17,930**	**90,074**	**473,131**	**427,411**
2007					
Non-derivative financial liabilities					
Trade and other payables	154,892	–	–	154,892	154,892
Bank borrowings	69,801	15,157	72,021	156,979	134,800
	224,693	15,157	72,021	311,871	289,692

33. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturity.

34. ACQUISITION OF SUBSIDIARIES

(a) During the year ended 31 December 2008, the Group acquired 100% equity interests in, Lik Shun HK at a consideration of RMB3,600,000 (including direct expense of RMB1,800,000). The acquisition has been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value. The amount of goodwill as a result of the acquisition was approximately RMB3,052,000.

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

	RMB'000
Net assets acquired:	
Property, plant and equipment	4,006
Trade and other receivables	2,477
Bank balances and cash	11
Bank borrowings	(1,701)
Obligations under finance lease	(1,685)
Deferred tax liabilities	(104)
Trade and other payables	(2,456)
Net assets	548
Goodwill	3,052
	3,600
Satisfied by:	
Cash	3,600
Net cash outflow arising on acquisition:	
Cash consideration paid	(1,800)
Direct expenses	(1,800)
Bank balances and cash acquired	11
	(3,589)

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) During the year ended 31 December 2008, the Group acquired 100% equity interests in 深圳市華保科技有限公司 ("Huabao Technology") at a consideration of RMB500,000. The acquisition has been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value.

The net assets acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	385
Inventories	17
Trade and other receivables	58
Bank balances and cash	217
Trade and other payables	(177)
	500
Satisfied by:	
Cash	500
Net cash outflow arising on acquisition:	
Cash consideration paid	(500)
Bank balances and cash acquired	217
	(283)

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(c) During the year ended 31 December 2008, the Group invested RMB100,000,000 in Green Recycling Resource while the other shareholders of Green Recycling Resource made an aggregate additional contribution of RMB40,000,000. Pursuant to the agreement, the Group has 50% equity interests in the enlarged Green Recycling Resource. The acquisition has been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value. The amount of goodwill acquisition as a result of the acquisition was RMB30,832,000.

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

	RMB'000
Net assets acquired:	
Property, plant and equipment	30,636
Trade and other receivables	70,291
Bank balances and cash	57,999
Trade and other payables	(24,268)
Prepayments	79
Prepaid lease payments	3,600
Net assets	138,337
Less: Minority interests	(69,169)
	69,168
Goodwill	30,832
	100,000
Satisfied by :	
Cash	50,000
Other payable	50,000
	100,000
Net cash inflow arising on acquisition:	
Cash consideration paid	(50,000)
Bank balances and cash acquired	57,999
	7,999

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(c) (Continued)

The contribution to the Group's revenue and profit (loss) by the above subsidiaries during the year is as follows:

	Revenue RMB'000	**Profit (loss)** RMB'000
Lik Shun HK	14,698	1,017
Huabao Technology	1,902	62
Green Recycling Resource	–	(3,332)

If the above acquisitions have been completed on 1 January 2008, the contribution to the Group's revenue and profit for the period would have been as follows:

	Revenue RMB'000	**Profit (loss)** RMB'000
Lik Shun HK	19,598	1,355
Shenzhen Huabao	1,902	62
Green Recycling Resource	–	(3,332)

The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2008, nor is it intended to be a projection of future results.

Details of acquisition of subsidiaries during the year ended 31 December 2007 are set out in (d) and (e) below:

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(d) On 31 July 2007, the Group acquired 55% equity interests in Beijing Novel Environmental ProtectionnCo., Ltd 北京永新環保有限公司 ("Beijing Novel") for a consideration of RMB220,000. The acquisition has been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value. The amount of goodwill as a result of the acquisition was RMB8,450,000.

The net liabilities acquired and the goodwill arising were as follows:

	RMB'000
Net liabilities acquired:	
Property, plant and equipment	529
Interest in an associate	357
Inventories	5,952
Trade and other receivables	12,415
Bank balances and cash	17,189
Trade and other payables	(44,672)
	(8,230)
Goodwill	8,450
	220
Satisfied by:	
Cash	220
Net cash inflow arising on acquisition:	
Cash consideration paid	(220)
Bank balances and cash acquired	17,189
	16,969

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(e) On 18 October 2007, the Group acquired 50% equity interests in Shenzhen Resource for a consideration of RMB4,247,000 from Mr. Luo Xiao Hong, a supervisor of the Company. The acquisition has been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value. The amount of discount on acquisition as a result of the acquisition was RMB918,000.

The net assets acquired and the discount arising were as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	5,366
Inventory	2,343
Trade and other receivables	5,466
Bank balances and cash	14,055
Trade and other payables	(16,899)
	10,331
Minority interests	(5,166)
Discount on acquisition	(918)
	4,247
Satisfied by:	
Cash	4,247
Net cash inflow arising on acquisition:	
Cash consideration paid	(4,247)
Bank balances and cash acquired	14,055
	9,808

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(e) (Continued)

The contribution to the Group's revenue and profit by the above subsidiaries during the year ended 31 December 2007 was as follows:

	Revenue	**Profit (loss)**
	RMB'000	RMB'000
Shenzhen Resource	15,124	984
Beijing Novel	29,722	(247)

If the above acquisitions have been completed on 1 January 2007, the contribution to the Group's revenue and profit for the year ended 31 December 2007 would be as follows:

	Revenue	**Profit (loss)**
	RMB'000	RMB'000
Shenzhen Resource	43,055	5,429
Beijing Novel	43,763	(4,223)

The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2007, nor is it intended to be a projection of future results.

35. DISPOSAL OF A SUBSIDIARY

(a) During the year ended 31 December 2008, the subsidiary of the Group, Chengdu Hazardous Waste Treatment Centre Co., Ltd. 成都市危險廢物處理中心有限公司 ("Chengdu Treatment Centre") disposed of 80% interests in Sichuan Xingli Environmental Protection Project Co., Ltd. 四川省興利環保工程有限公司 ("Xingli") to the minority shareholder. The consideration is satisfied by offsetting the amount of RMB1,447,000 due from Chengdu Treatment Centre to Xingli.

The net assets of Xingli at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Other receivables	1,447
Bank balances and cash	20
Trade and other receivables	(5)
	1,462
Minority interests	(293)
Gain on disposal of subsidiary	278
Total consideration	1,447
Satisfied by:	
Other payable	1,447
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(20)

The subsidiary disposed of during the year ended 31 December 2008 had no significant impact on the revenue and results of the Group.

35. DISPOSAL OF A SUBSIDIARY (CONTINUED)

(b) On 30 April 2007, the Group disposed of its 70% entire interests in Shenzhen Isoway Corporate Management Consulting Company Limited ("Shenzhen Isoway") for a cash consideration of RMB300,000 to an independent third party. The net assets of Shenzhen Isoway at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	14
Trade and other receivables	62
Bank balances and cash	313
Other payables	(366)
	23
Minority interests	(7)
Gain on disposal	284
Total consideration	300
Satisfied by:	
Cash	300
Net cash outflow arising on disposal:	
Cash consideration	300
Bank balances and cash disposed of	(313)
	(13)

The subsidiary disposed of during the year ended 31 December 2007 had no significant impact on the revenue and results of the Group.

36. COMMITMENTS

(i) Capital commitments

	2008 RMB'000	2007 RMB'000
Capital expenditure contracted, but not provided for in the financial statements in respect of:		
Property, plant and equipment	**34,555**	10,249
Construction in progress	**45,418**	79,824
Addition capital injection in a subsidiary	**–**	7,410
Acquisition of a subsidiary	**–**	100,000
	79,973	197,483

(ii) Operating lease commitments

The Group leases certain of its land and office properties under operating lease arrangements. Leases are negotiated for terms ranging from one to thirteen years.

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**3,448**	4,956
In the second to fifth years, inclusive	**9,164**	7,764
Over five years	**6,462**	8,478
	19,074	21,198

(iii) Other commitments

In 2003, the Group entered into an agreement with Shenzhen Baoan District Shajing Town Gonghe Economic Development Corporation (深圳市寶安區沙井鎮共和經濟發展公司) and Shenzhen Baoan District Shajing Town Gonghe Village Committee (深圳市寶安區沙井鎮共和村村民委員會) to acquire the land use rights of a plot of land at a consideration of RMB9,875,000. Pursuant to the terms of the agreement, the Group was committed to pay an annual management fee of RMB273,000 (2007: RMB273,000) for a period of 52 years up to 31 December 2055 for obtaining the land use rights in relation to the waste treatment and recycling plant in Shajing to be used by the Group.

37. CONTINGENT LIABILITIES

Due to the existing collection and processing of industrial waste method adopted by the Group, the Group has not incurred any significant expenditure on environmental rehabilitation since their establishment. There is, however, no assurance that stringent environmental policies and / or standards on environmental rehabilitation will not be implemented by the relevant authorities in the PRC in the future which require the Group to undertake the environmental measures. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental policies and / or standards.

Other than as disclosed above, the Group had no significant contingent liabilities at 31st December 2008 and 2007.

38. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees of the Group's subsidiaries which operates in the PRC are member of a state-managed retirement benefit scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to consolidated income statement of approximately RMB4,951,000 (2007: RMB3,042,000 represents contributions payable to these schemes by the Group in respect of the current accounting period.

39. SUBSIDIARIES

Details of the subsidiaries at 31 December 2008, are as follows:

Name	Nominal value of registered capital RMB	Percentage of equity interest attributable of the Group Direct	Indirect	Principal activities
Chengdu Treatment Centre	10,000,000	100%	–	Inactive
Shenzhen Lishan Environmental Protection Materials Co., Ltd 深圳立山環保材料有限公司	18,000,000	100%	–	Production and sales of polyamide resin, plasticising agent and paint activating agent from collected waste
Shenzhen Longgang Dongjjang Industrial Waste Treatment Company Limited 深圳市龍崗東江工業廢物處置有限公司	5,000,000	51%	–	Collection, processing and treatment of industrial waste
Shenzhen Dongjiang Environmental Recycled Resources Co. Ltd. 深圳市東江環保再生資源有限公司	1,000,000	100%	–	Collection and treatment of industrial waste
Huizhou Dongjiang Environmental Technology Co., Ltd 惠州市東江環保技術有限公司	5,000,000	100%	–	Production and sales of recycled products and provision of waste treatment services
DJ Heritage	25,000,000	62%	–	Production and sales of recycled products
Kunshan KunPeng Environmental and Technology Co., Ltd. 昆山市昆鵬環境技術有限公司	6,600,000	51%	–	Collection, processing and treatment of industrial waste; provision of consulting services for the construction of environmental protection systems

39. SUBSIDIARIES (CONTINUED)

Name	Nominal value of registered capital	Percentage of equity interest attributable of the Group		Principal activities
	RMB	Direct	Indirect	
Kunshan QianDeng here Wastes Treatement Co., Ltd. 昆山市千燈三廢淨化有限公司	7,680,000	51%	–	Collection, processing and treatment of industrial waste
Huizhou Veolia	60,000,000	51%	–	Investing, manufacturing, operating and managing in the safety disposing, burning of dangerous wastes and the recycling of wasteful batteries and poisonous chemical wastes
Shaoguan Dongjiang Environmental Technology Company Limited 韶關市東江環保技術有限公司	5,000,000	90%	10%	Collection and treatment of industrial wastes
Shenzhen Dongdi Coating Technology Limited 深圳市東迪塗層技術有限公司	3,000,000	51%	–	Promotion and application of new environmental paint coating technology
Shenzhen Dongjiang Environmental Recycled Power Limited 深圳市東江環保再生能源有限公司	10,000,000	100%	–	Generation of power through the utilization of landfill methane
Dongjiang Environmental (HK) Limited 東江環保(香港)有限公司	HK$24,700,000	100%	–	Trading of environmental products
Shenzhen Resource[1]	35,000,000	50%	–	Recovery and disposal of industrial waste
Beijing Novel	30,000,000	55%	–	Treatment of water treatment, provision of environmental consultation, waste disposal and operation

39. SUBSIDIARIES (CONTINUED)

Name	Nominal value of registered capital RMB	Percentage of equity interest attributable of the Group Direct	Indirect	Principal activities
Hunan Dongjiang	2,200,000	95%	–	Provision of waste soil treatment
清遠市東江環保技術有限公司	2,000,000	90%	–	Not yet commenced business
Green Reeycling Resource[2]	80,000,000	50%	–	Treatment of Hazardous waste
深圳市東江利賽再生能源有限公司[3]	5,000,000	51%	–	Development of landfill gas collection technology
Huabao Technology[4]	500,000	100%	–	Provision of environmental protection technology consultation services and laboratory testing
Qingdao Dongjiang Environmental Recycled Power Limited 青島東江環保再生能源有限公司[5]	15,000,000	100%	–	Development of waste landfill gas utilization technology, investment and management of energy saving projects
Huizhou Dongjiang Logistic Limited 惠州東江運輸有限公司[5]	2,000,000	–	100%	Not yet commenced business
Lik Shun HK[6]	HK$10,000,000	–	100%	Collection and treatment of municipal waste
廊坊萊索思環境技術有限公司[7]	8,000,000	–	50%	Collection, transportation and storage of industrial waste, provision of industrial waste disposal technology consultation and services and trading of environmental protection material

39. SUBSIDIARIES (CONTINUED)

Note:

1 The subsidiary was acquired during the year ended 31 December 2007. The Group has 50% equity interests of increased capital. The Group nominated 4 out of 7 directors in the board of directors of the entity. Accordingly, the entity is classified as a subsidiary of the Group.

2 The entity was acquired during the year. The Group has 50% entity interest therein. The Group has control over the operating and financial decision of the entity in accordance with its Articles of Association. Accordingly, the entity is classified as a subsidiary of the Group.

3 The subsidiary was established with an independent third party during the year.

4 The subsidiary was acquired during the year (Note 35b)

5 The subsidiary was established by the Group during the year.

6 The subsidiary was acquired during the year (Note 35a)

7 The subsidiary was established by Shenzhen Resources during the year.

Other than Dongjiang (HK) and Lik Shun (HK), which are unlisted corporate entities incorporated and operated in Hong Kong, all subsidiaries are unlisted corporate entities incorporated and operated in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

The English translation of the subsidiaries is for reference only. The official names of them are in Chinese.

40. RELATED PARTY TRANSACTIONS

(a) The principal related party transactions are as follows:

	2008 RMB'000	2007 RMB'000
Purchased goods from:		
Shenzhen Hazardous Waste Treatment Station 深圳市危險廢物處理站 ("Waste Treatment Station")[1]	**15,912**	13,339
Received commission from:		
Waste Treatment Station	**311**	–
Paid technology use right to:		
Shenzhen Longgang Dongjiang Environmental Technology Service Centre 深圳市龍崗區環保科技服務中心 ("Longgang Technology")[3]	**285**	400
Paid commission to:		
Dongjiang Weiyingyang[2]	**905**	44
Longgang Technology	**–**	995
Received rental income from:		
Shenzhen Guoce Valuation Limited 深圳市國策房地產土地估價有限公司 (formerly known as "深圳市國策評估交易有限公司") ("Shenzhen Guoce")[4]	**142**	142
Sold goods to:		
Waste Treatment Station	**–**	39,419
Dongjiang Weiyingyang	**15**	–
Heritage Technologies LLC ("Heritage")[5]	**56,213**	–
Paid rental to:		
Shenzhen Fang Yuan Detrochemical Industries Co., Ltd 深圳市方元化工實業有限公司 ("Fang Yuan Chemical")[6]	**778**	632

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties as at the year end date are as follows:

	2008 RMB'000	2007 RMB'000
Trade receivables:		
Heritage	**11**	8,704
Trade payables:		
Dongjiang Weiyingyang	**50**	49
Waste Treatment Station	**1,689**	3,647
	1,739	3,696
Other receivables:		
Zhang Wei Yang[7]	**1,450**	681
Longgang Technology	**108**	300
立升膜[8]	**238**	–
Yuan Yu[9]	**880**	–
Tang Xiao Guan[10]	**50**	–
Waste Treatment Station	**4**	–
Yam Pui Yang1[1]	**–**	2,355
Chen De Ming[12]	**–**	700
Ku Ying Ying[13]	**–**	700
Shenzhen Fuguri[14]	**–**	1,165
Shenzhen Guoce	**–**	12
Fang Yuan Chemical	**–**	57
	2,730	5,970
Other payables:		
Dongjiang Weiyingyang	**906**	16
Cai Hong	**8**	–
Shenzhen Fuguri	**1**	1,165
Waste Treatment Station	**–**	657
	915	1,838

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties as at the year end date are as follows: (Continued)

The amounts due from/ (to) the related parties are unsecured, interest-free and repayable on demand.

[1] Shareholder of Shenzhen Resource
[2] Associate of the Group
[3] Shareholder of Longgang DJ
[4] Company controlled by the director of the Company
[5] Shareholder of DJ Heritage
[6] Shareholder of the Company
[7] Director and beneficial shareholder of the Company
[8] Associate of the Group
[9] Shareholder of Hunan Dongjiang
[10] Shareholder of Shao Guan Green Recycling Resource
[11] Shareholder of KunPeng and QianDeng
[12] Shareholder of QianDeng
[13] Shareholder of QianDeng
[14] Associate of the Group

(c) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008	2007
	RMB'000	RMB'000
Short-term benefits	**1,406**	3,784
Post-employment benefits	**121**	53
	1,527	3,837

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) At 31 December 2008, Mr. Zhang Wei Yang provides personal guarantee to banks to secure banking facilities amounting to RMB213,000,000 (2007:RMB49,800,000) granted to the Group.

(e) During the year ended 31 December 2007, the Group acquired 50% equity interests in Shenzhen Resource for a consideration of RMB4,247,000 from a supervisor of the Company, Mr. Luo Xiao Hong. During the year ended 31 December 2008, the consideration was revised by the increase of RMB2,500,000. The details are set out in the Consolidated Statement of Changes in Equity.

(f) At 31 December 2008, Veolia provided financial guarantee to a bank to secure banking facilities granted to the Group to the extent of RMB55,000,000 (2007: RMB45,000,000).

(g) During the year ended 31 December 2008, the Group disposed of the subsidiary, Xingli, to the minority shareholder, He Jun, at consideration of RMB1,447,000.

(h) During the year ended 31 December 2007, the Group acquired the remaining 49% equity interests in two subsidiaries, Chengdu Treatment Centre and Lishan from the minority shareholders for a consideration of RMB1,300,000 and RMB3,000,000 respectively.

41. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, as follows:

	2008 **RMB'000**	2007 RMB'000
Property, plant and equipment	**–**	6,234
Prepaid lease payments on land use rights	**2,492**	4,183
Bank deposits	**20,814**	10,842
	23,306	21,259

42. NON-CASH TRANSACTIONS

a) During the year ended 31 December 2008, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB8,875,000.

b) During the year ended 31 December 2008, the Group disposed of the subsidiary, Xingli at a consideration of RMB1,447,000. The consideration was satisfied by offsetting the amount of RMB1,447,000 by its immediate holding company, Chengdu Treatment Centre to the buyer. The disposal was set out in note 35 above.

43. COMPARATIVE FIGURES

Certain comparative amounts for the year ended 31 December 2007 have been reclassified to conform with the current year's presentation.