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)

Annual Report 2009

*For identification purposes only

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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

COMPANY SECRETARY

LO Wah Wai, *HKICPA, AICPA*

AUDIT COMMITTEE

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

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, *HKICPA, AICPA*
ZHANG Wei Yang

GEM STOCK CODE

8230

AUTHORIZED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESSES AND NOTICES

LO Wah Wai, *HKICPA, AICPA*

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISORS

JUN HE LAW OFFICES

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

1st Floor, 3rd Floor, North of 8th Floor
9th Floor, 10th Floor, 11th Floor, 12th Floor
Dongjiang Environmental Building
No. 9 Langshan Road
North Zone of Hi-tech Industrial Park
Nanshan District, Shenzhen

COMPANY HOMEPAGE

http://www.dongjiang.com.cn

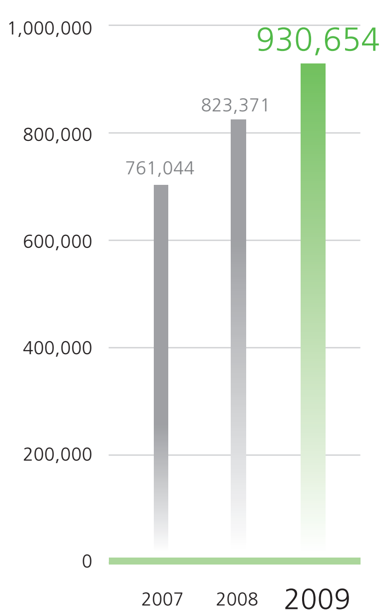
PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

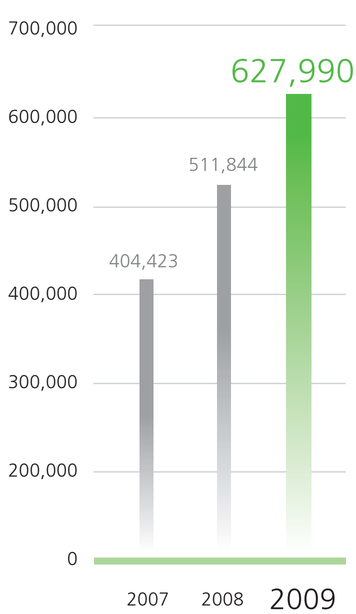
Financial Summary

	2009 RMB'000	2008 RMB'000	2007 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
Result					
Turnover	**930,654**	823,371	761,044	473,368	292,374
Gross profit	**305,635**	322,733	298,166	193,559	134,089
Gross profit ratio	**32.84%**	39.20%	39.18%	40.89%	45.86%
Profit attributable to equity holders of the Company	**116,154**	106,477	140,540	79,495	50,815
Financial position					
Total assets	**1,715,311**	1,192,720	830,445	477,244	303,379
Total liabilities	**917,836**	523,035	360,653	160,975	52,239
Minority interests	**169,485**	157,841	65,369	52,174	53,942
Equity attributable to owner of the Company	**627,990**	511,844	404,423	264,095	197,198

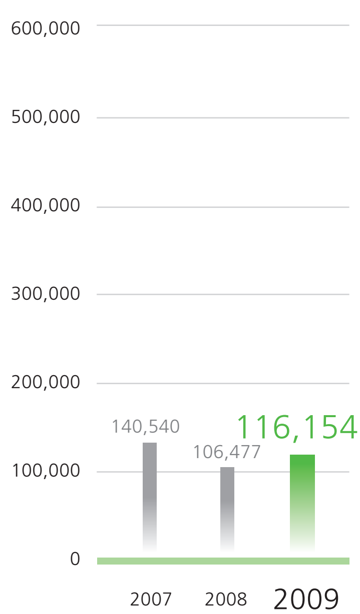
Turnover
(RMB'000)



Equity attributable to owner 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 audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009.

REVIEW

Confronted with both opportunities and difficulties in 2009, the Group calmly coped with the continuing impact of the global financial crisis and continued deepening the adoption of each adjustment strategy to maintain a stable development of the existing business. Meanwhile, the Group took 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.

For the year ended 31 December 2009, the Group's revenue was increased by approximately 13.03% to RMB930,654,000 as compared to 2008, and profit attributable to the equity holders of the Company increased by 9.09% to RMB116,154,000 as compared to 2008. To thank the continuing support of the shareholders of the Company, the Board proposed a final dividend of RMB0.05 per share and issue bonus shares on the basis of one bonus share for each existing share held by the shareholders of the Company, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

In recent years, the Group continually promoted strategic transformation, veering from pure waste treatment for customers to providing comprehensive environment services with the integration of waste collection, treatment and disposal, environmental engineering design, construction, operation and consultation. The Group accommodates changes in market situation to accelerate the implementation of industry structure adjustment and to constantly optimize industry chain. In respect of market development, it continues to carry out a market competition strategy centered on service and brand, which involves bringing into full play the Group's strength in qualification, disposal capability and operation management as a comprehensive environment service provider to provide more customized professional services, and to unceasingly enhance its brand value. Meanwhile, through unified market deployment, the target was specified to each region, business location and carried out by marketing personnel, and more direct incentive measures were implemented to achieve the targets. Through implementation of these strategies, the Group realized desirable achievements in broadening such areas as market, business scale and customer resource, with a constant perfection of business structure.

Apart from consolidating and broadening the core business, as the Chinese government has been vigorously promoting energy conservation & emission reduction and low-carbon economy in recent years, the Group grasped such an opportunity to actively step in related domains and construct by investment in several Clear Development Mechanism (CDM) programs. At present, the first domestic waste landfill gas power generation project is in smooth operation, and the other two projects in relation to methane utilization and CDM are under construction, which will become a new stable source of income for the Group. In 2009, the Group made new progress in the field of CDM as it collaborated with AES Corporation, one of the largest independent power providers in the world, with respect to joint development of the ventilation air methane (VAM) utilization project, which was remarkable as the related cooperation agreement was signed at the "Singing Ceremony for Sino-US Clean Energy Cooperation" held at Great Hall of the People in Beijing. The implementation of the project will further strengthen the Group's development advantage in the field of CDM and provide opportunities to open up more CDM operation models in the future.

Overall, in 2009, the Group continued implementing the operation strategy of "consolidating and expanding principal business, building up an integrated business chain, and aquire first-mover advantages in the industry", and made efforts to foster the brand and image of a comprehensive environmental service provider to realize a stable business development. In 2009, the Group was honored as one of the Top 100 Chinese Small-Medium Enterprises of Science and Technology Innovation, the National Hi-Tech Enterprises, the Companies Headquartered in Shenzhen, etc, which represented recognitions by the governments and in the industry.

Chairman's Statement

OUTLOOK

In the light of a gradual recovery of economy of China and the world, the environmental industry, as an emerging industry with the brightest prospect, will be benefited by the economic growth of China and support from the government's policy for sustainable development and therefore maintain a rapid development momentum. In the further, the Group will take full advantage of the opportunities and adhere to the principle of "exerting advantages with best utilization of resources". By focusing on the two major business sectors of treatment and disposal of industrial and municipal solid waste, the Group will vigorously expand the market and source of income and seek development in projects with both steady revenue and promising prospect. Meanwhile, the Group will carry through the strategic objective that is to become a leading environment service provider as well as a leader in the industry in China, to forge unique core competitiveness, and to enhance its brand value.

ACKNOWLEDGEMENT

Finally, on behalf of the Board, I would like to express sincere gratitude to our shareholders, customers, supplies and business partners 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 People's Republic of China (the "PRC")

25 March 2010

Management Discussion and Analysis

BUSINESS REVIEW

In 2009, confronted with the global economic crisis and changes in market environment, the Group continued to further its adjustment policies and reinforce the management that focused on cost control, all of which have eased and defused the impact of the financial crisis. Meantime, with capitalizing on the opportunities brought about by the Chinese Government's economic stimulating package and industry restructuring policies, the Group accelerated its strategic transformation and revitalize its business gradually, finally realizing recovery growth in operating results. For the year ended 31 December 2009, the Group's turnover was increased by approximately 13.03% to RMB930,654,000 as compared to 2008, and the profit attributable to the equity holders of the Company increased by 9.09% to RMB116,154,000 as compared to 2008.

Industrial Waste Treatment and Disposal

Treatment and disposal of industrial wastes as the core business of the Group mainly include treatment, disposal and recylcing of various industrial wastes. In the first half of 2009, in order to address the rapidly changing economic situation and to coordinate the strategy of business transformation, the Group focused its efforts on geographical expansion and deployment of the upstream market of waste collection, intensified its input in developing the paid service oriented market and customer resources, which effectively weathered the unfavorable situation with customers' under-operating rate and reduced business volume. Along with the economic recovery in the second half of 2009, the Group, based on early-stage adjustment and integration of market, adhered to its thoughts of development in terms of integration of waste collection markets, kept enhancing market expansion, and gave full play to its overall synergistic advantage in qualification, disposal capability as well as operation management, resulting in an remarkable monthly increase in business volume. For the year ended 31 December 2009, the Group recorded a turnover of RMB142,753,000 in industrial waste treatment and disposal, representing an increase of approximately 35.95% as compared to 2008. The marketing team has developed over 1,300 new customers. With a scale development of customer basis, the Group has embarked on establishing a more effective customer management and service system to ensure a sustained improvement in services and promotion in brand strength.

During the year ended 31 December 2009, each treatment base of the Group was well operated. The Group's treatment base at Kunshan made a breakthrough in market expansion at the upper and lower stream and the volume of business maintained a strong growth which went on track for its development. For the year ended 31 December 2009, Kunshan Treatment Base recorded a turnover of RMB148,533,000, representing an increase of approximately 135.87% as compared with that of 2008. Guangdong Hazardous Waste Treatment Demonstration Center constantly optimized its functions and technical workmanship in its trial operation and has treated a total of approximately 28,000 tons of hazardous wastes and recorded a turnover of approximately RMB48,340,000. In addition, measures to broaden source of income and reduce expenditure, as well as measures to unearth potential and improve efficiency were implemented in each treatment base. Treatment costs were reduced effectively and the value of waste was maximized in each treatment base of the Group through innovative thinking and technological breakthrough whereby waste was used to treat waste. In respect of recycling business, the Group manage to tackle the risks of market fluctuation through flexible pricing policy and reasonable inventory arrangement. Meanwhile, we speed up the innovation of products and structure adjustment with an aim to create new recycling modes.

To cope with the expansion of the waste collection market and the growth for future business volume, the Group further increased its investment in waste treatment facilities during the year ended 31 December 2009. These included the completion of extension and construction on the facilities of the Shajing Treatment Base, which proceeded to the stage of trial operation and technical testing. It can improve its treatment ability of copper containing waste liquid and produce more types of recycled products including copper oxide, electroplating copper sulphate, ammonia chloride after putting into operation. The industrial waste treatment project at Langfang, Hebei province invested and built by Shenzhen Resource Environmental Technology Co., Ltd., a subsidiary of the Group, has commenced trial operation in the fourth quarter of 2009. This project will be able to treat approximately 30,000 tons of industrial waste per year after its formal operation. To expand its business scope and suit the new market environment, the Group adjusted timely the planning for Phase I Project of Qingyuan Treatment Base with a newly added disassembly demonstration line that can treat 10,000 tons of worn-out household appliance per year. In addition, the Group accelerated the planning work for Longgang hazardous waste treatment and disposal project and the construction of the hazardous waste treatment and disposal center in north Guangdong to put them into function as soon as possible.

The Group has been searching for new ways of waste treatment in recent years. In light of the international advanced waste management experience that proves the cement production process an effective method of waste treatment and disposal, the Group paid special attention to opportunities in this field and has acquire 50% interest of a cement company for an innovation plan on its traditional cement production facilities with our experience and technology in waste treatment to make them suitable for waste treatment and disposal and to realize fully use of resources. The Group will implement this project gradually in a most feasible way and believes that if it is successfully carried out, it will reduce the cost for waste treatment substantially, improve the disposal capability and further optimize the business chain of waste treatment and disposal and recycling.

Municipal Waste Treatment and Disposal

Municipal waste treatment and disposal is a newly established pillar business of the Group with main development fields including the treatment and disposal of domestic waste, the utilization of renewable energy and the development of Clean Development Mechanism ("CDM") project, the treatment and disposal of municipal sludge, construction waste and recylcing as well as the comprehensive utilization of kitchen waste. Currently, this business is in its early developmental stage, but it has opened up a sound situation in which all its projects are in smooth progress.

As to the business of municipal waste treatment and disposal, the municipal sludge treatment project that has already been put into operation is running well. In 2009, it has treated approximately 300,000 tons of sludge with a turnover of approximately RMB60,306,000. The construction for the landfill area of Hunan Shaoyang Domestic Waste Landfill, the Group's first domestic waste landfill project, has been completed and was qualified for receiving waste. Its supporting facilities including the infiltration treatment system is now under construction. In addition, the Company undertook the landfill, disinfection and sewage plant management for Shenzhen Xiaping garbage landfill ground for five months ended 31 December 2009 and has established a favorable situation for further expansion of operation management business for domestic waste treatment projects.

In 2009, the Group was proceeding well with business of application of renewable resources and CDM. Xiaping Landfill Gas Power Generation Project was operating extremely well with seven electricity generating units in full load operation and has contributed a turnover of approximately RMB22,007,000 for the year ended 31 December 2009, representing an increase of approximately 150.96% as compared to 2008. The Qingdao Landfill Gas Utilization Project ("Qingdao Project") has completed its major construction and installment and has been approved by the National Development and Reform Commission ("NDRC") as a CDM project, while the Lao Hu Keng project has also filed the relevant application with the NDRC. In addition, the latest progress the Group has made in the development of CDM projects includes the Chongqing Song Zao Coal Mine Ventilation Air Utilization Project which was carried out in cooperation with AES Corporation, one of the world's largest independent power generators. It is to reduce the greenhouse gas emission by capturing and eliminating methane contained in ventilation air discharged by coal bed through method of High Temperature Oxidation Technology. This project has been carried out in accordance to the CDM under the United Nations Framework Convention on Climate and is estimated to reduce the emission of greenhouse gas by 200,000 tons of carbon dioxide each year. The construction of this project was expected to commenced in the first quarter in 2010 and finished by the end of 2010.

Management Discussion and Analysis

Environmental Engineering and Services

To coordinate with the implementation of strategic transformation, the Group continued enhancing input and development of environment engineering and consulting services which mainly include such related services as design and construction of environment and municipal projects, operation of environment protecting facilities and assessment of environmental impact, environmental monitoring, and consulting, which had a turnover of RMB91,892,000 for the year ended 31 December 2009, increased by 17.65% compared with 2008.

The Group continued to capture the opportunity in the "Optimization and Upgrade Plan for Environmental Protection Facilities" led by government authorities and to assist its customers in implementing the upgrade of environmental protection facilities. Meanwhile, the waste water operation business got on track for a healthy development and turned losses into gains for the existing operation sites by adopting a more flexible and reasonable operation rate pricing mechanism. In addition, Beijing Novel Environmental Protection Co., Ltd, a subsidiary of the Group, continued to strengthen its advantageous businesses such as environmental evaluation, engineering design and operation, and broaden the scope of services. It signed up 107 projects in 2009 with a contract sum of approximately RMB57,893,000.

Research and Development

In 2009, the Group continued its research and development ("R&D") in its core business. In respect of new technology development, the R&D Center of the Group furnished ten new technology development reports such as *Research on Technology of Making Copper Oxide of High Purity and Reactivity from Copper-containing Waste* and *Research on Reclamation Technology of Heavy Metal-containing Sludge with Wet Metallurgy*. For technology management, we had, during the year ended 31 December 2009, 12 science and technology achievements which were passed expert authentication and registered for the same, including *Making Copper Oxide from Copper-containing Sludge and Waste Cupric Liquor, New Technology of Nitrogen-containing Wastewater Disposal in Circuit Board Factories, Collecting and Utilizing Technology of Landfill Gas in Domestic Waste Landfill Sites*, and so on. Because of its leading technology exploring level, the Company was certified as a national hi-tech enterprise and was supported by several specified science and technology development funds. Meanwhile, the Group accelerated the transformation from technology achievement to application, among others, the new technology research on recycling of cupric chloride etchant wastewater has entered its pilot phase and the application of which will have significant effect on the advancement of recycling technology and product structure adjustment of the Group.

To harmonize with business development of the Group, the Inspection Center of the Group is determined on talent team building and laboratory construction. In 2009, the Inspection Center re-planned and re-designed the function and layout of the laboratory with the addition of several large-scale analysis and detection instruments to upgrade the laboratory. In order to promote its inspecting capability and level, the inspection center has initiated its efforts to pass national laboratory certification and to further enlarge the quantitative certification. It is expected that the inspection to be broadened from general items like water and wastewater, air and exhaust gas, to such wider scopes as soil, solid waste and products.

Operation Management

In 2009, adhering to the philosophy of "Fine Management and Continuous Improvement" in inner management, the Group continually strengthened professional production and operation management and implemented and perfected the performance appraisal system to establish a more direct and effective incentive and result appraisal system, especially for the market development team, which was conducive to market and business development. In addition, in the light of the severe business situation in 2009, the Group has unfolded an all-out "Specialized Activity of Cost Control" since the beginning of 2009, which has yielded markedly results and helped form a sound sense of cost control, paving the way for further enhancement of operational effectiveness. In respect of human resources, the Group intensified team training continually and timely carried out qualification training in systems like technology, marketing, production, finance and administration and the like to meet the needs of business development.

In order to enhance the image of the Group and to promote the circulation and publicity of the shares of the Company, the proposed resolution in relation to making application to the China Securities Regulatory Commission (the "CSRC") for the proposed 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, and the CSRC issued the detailed application rules corresponding to such change in October 2009. The Company has made the application regarding the Migration to the CSRC and has obtained the application acceptance letter from CSRC. Currently, the application is under the process of approval by CSRC.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2009, the Group's turnover was increased by approximately 13.03% to approximately RMB930,654,000 as compared to 2008 (2008: approximately RMB823,371,000). The increase of turnover mainly results from the growth of businesses of waste treatment and disposal, renewable energy and environmental engineering and services. Due to the impact of the financial crisis, the turnover of recycled products decrease 5.39% compared to 2008.

Profit

For the year ended 31 December 2009, the Group's gross profit was decreased by approximately 5.30% to approximately RMB305,635,000 (2008: approximately RMB322,733,000). The decrease in gross profit was mainly due to the drop in the selling price of the recycled product.

For the year ended 31 December 2009, the Group's gross profit margin was approximately 32.84% (2008: approximately 39.20%). The decrease in gross profit margin was mainly due to decrease of the gross profit of sales of recycled products. The sold price of the Group's recycled products was affected substantially by the financial crisis resulting in a fast drop of the net profit margin. The Group took a series of measures to control the costs of raw materials and production, and finally maintained the gross profit margin above 30%.

For the year ended 31 December 2009, profit attributable to owners of the Company was increased approximately 9.09% to approximately RMB116,154,000 (2008: approximately RMB106,477,000). The increase was mainly because the Group strengthened the control of the cost during the year ended 31 December 2009. In addition, the Company was awarded as National High-tech Enterprise in 2009, as a result, the income tax rate was reduced to 15% (2008:18%).

Selling and Distribution Costs

For the year ended 31 December 2009, the Group's selling and distribution costs was approximately RMB33,378,000 (2008: approximately RMB42,154,000), representing approximately 3.59% (2008: approximately 5.12%) of the turnover.

Administrative Expenses

For the year ended 31 December 2009, the Group's administrative expenses was approximately RMB123,430,000 (2008: approximately RMB121,182,000), representing a approximately 13.26% (2008: approximately 14.72%) of the total turnover. The increase in the administrative expenses was is mainly because that more resources were put into the R&D in 2009 and several projects completed the construction and entered into the phase of trial run which caused more administrative expenses.

Finance Cost

For the year ended 31 December 2009, finance cost of the Group was approximately RMB17,756,000 (2008: approximately RMB15,812,000), representing approximately 1.91% (2008: approximately 1.92%) of the Group's turnover. The increase in finance cost was attributable to the net increased bank loans of RMB323,237,000 to finance the project investment of the Group.

Income Tax Expenses

For the year ended 31 December 2009, the Group's income tax expenses was approximately RMB24,534,000 (2008: approximately RMB36,186,000), representing approximately 15.73% of the Group's profit before tax (2008: approximately 24.73%). The decrease in income tax expenses was because the Company was awarded as National High-tech Enterprise in 2009; as a result, the income tax rate was reduced to 15% (2008:18%).

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2009, the Group had net current assets of approximately RMB158,992,000 (2008: approximately RMB104,597,000), including bank balances and cash of approximately RMB243,699,000 (2008: approximately RMB247,693,000).

As at 31 December 2009, the Group had total liabilities of approximately RMB917,836,000 (2008: approximately RMB523,035,000). The Groups gearing ratio was approximately 53.51% (2008: approximately 43.85%) which is calculated based on the Groups total liabilities over total assets. The current liabilities of the Group was approximately RMB537,597,000 (2008: approximately RMB390,443,000). As at 31 December 2009, the Group had outstanding bank loans of approximately RMB633,737,000 (2008: approximately RMB310,500,000).

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.

SUBSTANTIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

(a) In April 2009, the Company invested RMB7,410,000 in the registered capital of a 95% owned subsidiary of the Company, namely Hunan Dongjiang Environmental Investment and Development Co., Ltd ("Hunan Dongjiang").

(b) In September 2009, to cope with the demand of the business structural adjustment, the Company disposed 100% equity interest of Shenzhen Lishan Environmental Protection Materials Co., Ltd at a consideration of RMB12,766,575.

(c) In October 2009, the Company invested RMB43,900,000 to acquire 50% interest in Huizhou Huiyang Shuangxin Cement Co., Ltd. ("Shuangxin Cement"). Shuangxin Cement mainly produce and sell the general cement. Investment to Shuangxin Cement was mainly for the purpose of implementing the business strategy of the Group of applying new technology on the traditional cement production to treat wastes.

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

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

At at 31 December 2009, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, as follows:

	2009 **RMB'000**	2008 RMB'000
Property, plant and equipment	**6,204**	–
Prepaid lease payments on land use rights	**–**	2,492
Bank deposits	**31,240**	20,814
Inventories	**94,981**	–
	132,425	23,306

INFORMATION ON EMPLOYEES

As at 31 December 2009, the number of full-time employees stood at 1,647 (2008: 1,140) with a total staff cost of approximately RMB79,085,000 (2008: approximately RMB64,322,000). 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 above, the Group had no significant contingent liabilities at 31 December 2008 and 2009.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had the following capital commitments:

	2009	2008
	RMB'000	RMB'000
Capital expenditure contracted, but not provided for in the consolidated financial statements in respect of:		
– Property, plant and equipment	**26,940**	34,555
– Construction in progress	**31,915**	45,418
– Concession intangible assets	**98,971**	–
– Establishment of an associate	**16,734**	–
	174,560	79,973

FUTURE PROSPECTS

In the future, the environmental industry, as an emerging industry with the brightest prospect, will be benefited by the economic growth of China and support from the government's policy for sustainable development and therefore the Company maintains a rapid development momentum. As a comprehensive professional environmental protection enterprise and a leader of the environmental protection industry in China, the Group is bound to be benefited by the rapid growth of this industry. The Group will take full advantage of the opportunities and adhere to the principle of "exerting advantages with best utilization of resources". By focusing on the two major business sectors of treatment and disposal of industrial and municipal solid waste, the Group will vigorously expand the market and source of income and seek development in projects with both steady revenue and promising prospect.

Meantime, the Group will proceed with its strategic transformation with an aim to enhance its comprehensive competence in providing environment related services. In the course of business and market expansion, the Group will attach importance to coordination between its business units and the integration of their resources to establish a corporate public information platform as well as the management system for customer relationship so as to realize the transformation of operation model and to establish the brand for a professional environmental service and enhance its overall competitiveness. In 2010, the Group will speed up the construction of its new project, improve its capability in waste treatment, seek to gain more concession and built-operation-transfer (BOT) projects and will continue to make substantial breakthrough in its inter-regional market expansion and operation management services through acquisition and merger to achieve a new phase of scaled development. To meet the demand of resource integration, the Group will carry on with the construction of information platform in 2010 to realize an overall improvement in the corporate operation efficiency as well as an effective integration and utilization of information.

In the coming year, the Group will constantly increase investment in R&D, push forward the transformation of scientific and technological results into benefits and establish a development mechanism for corporate innovation. "Medium-and-Long Term Strategic Development Plan for Technology" will be implemented in all aspects to provide technological support for marketing, production as well as service. On the other hand, cooperation and introduction of technology as well as R&D will be carried out in areas including the disassembling and intensive application of worn-out household appliance, the treatment and application of bio-waste, the treatment and utilization of mineral waste of heavy metal, development of new workmanship for renewable energy as well as the intensive treatment and recycling of industrial liquid waste. Technological engineering centers in various areas will be established and the cooperation in R&D with senior scientific research institutions will be encouraged. Efforts in talent introduction and training will be strengthened and an incentive mechanism of technicians as well as a management system for scientific and technological results will both be optimized. The group will build a research base to accelerate the transformation of technological results into benefits and enhance its technological innovation and core competitiveness.

In respect of corporate development, as the Group has conformed to the financial requirements for listing in the main board of the Stock Exchange, the Group will continue to advance the listing of the Company's H shares to the main board from the GEM. It is believed that this will help promote the Group's image and win a broader space for its development.

Management Profile

EXECUTIVE DIRECTORS

ZHANG Wei Yang (張維仰), aged 44, is the chairman of the Board, chief executive officer and executive Director and founder of the Group. Mr. Zhang is responsible for the overall strategic development and policy of the Group. He has over 20 years of experience in the field of environmental protection and chemical technology, including approximately 6 years in Shenzhen environmental protection authorities and 6 years in Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. (深圳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 (深圳市新技術產業協會) and a committee member of the Association for Environmental Protection Industry of Shenzhen (深圳市環保產業協會). Mr. Zhang is an uncle of Mr. Li Yong Peng, an executive Director.

CHEN Shu Sheng (陳曙生), aged 43, is an executive Director and the vice president 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 and technology development 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 35, is an executive Director 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. Mr. Li is a nephew of Mr. Zhang Wei Yang, the chairman of the Board, chief executive officer and the executive Director of the Company.

NON-EXECUTIVE DIRECTORS

FENG Tao (馮濤), aged 42, is a non-executive Director and the vice-chairman of the Board. 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 the GEM board of the Stock Exchange (Stock Code: 8225)), Ecogreen Fine Chemicals Group Limited (listed on the main board of the Stock Exchange (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 43, is a non-executive Director. 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 10 years of experience in the field of investment.

SUN Ji Ping (孫集平), aged 53, is a non-executive Director and the operation executive officer 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. Ms. Sun is also a director of Beijing Dinghan Technology Company (listed on the GEM board of the Shenzhen Stock Exchange (Stock Code:300011)).

INDEPENDENT NON-EXECUTIVE DIRECTORS

YE Ru Tang (葉如棠), aged 70, 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)).

HAO Ji Ming (郝吉明), aged 63, 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.

LIU Xue Sheng (劉雪生), aged 46, 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.

SUPERVISORS

YUAN Wei (袁桅), aged 39, 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., 40% interest of which is owned by Mr. Zhang Wei Yang, the chairman of the Board, chief executive officer and executive Director of the Company.

LIU An (劉安), aged 37, is a supervisor of the Company. 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.

MANAGEMENT PROFILE

COMPANY SECRETARY

LO Wah Wai (盧華威), aged 46, 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 44, is the vice president of the Company 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 a degree of MBA in Finance from Chinese University of Hong Kong. Mr. Cao has 19 years of experience in financial management.

LAN Yonghui (蘭永輝), aged 52, Senior Engineer, is the vice president of the Company in charge of human resource, administration, and management of Environment, Health and Safety of the Group. Mr. Lan graduated in Northwest University of Light Industry with a master degree in Polymer Materials and Engineering in 1988. From 1991 to 2003, Mr. Lan worked with China Merchants Group in management position. After joining the Group in 2004, Mr. Lan acted as the general manager of several subsidiaries of the Group. Mr. Lan has rich experience in the technology and management.

XIE Henghua (謝亨華), aged 44, is the general manager of the Municipal Waste Treatment and Disposal Department of the Company and a senior engineer. Mr. Xie is also a National Registered Environmental Protection Engineer and National Registered Chemical Engineer. Mr Xie graduated in Jiangxi Industry University majoring in inorganic chemicals in 1988. Mr. Xie worked in (Nanchang Engineering & Research Institute of Nonferrous metals (currently known as China Nerin Engineering Co., Ltd.) form July 1988 to August 2008. Mr. Xie has rich experience in project design and management of municipal waste treatment and disposal and industrial waste treatment and disposal.

WANG Tian (王恬), aged 33, 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 7 years of experience in the field of investment and management.

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the processing and sale of recycled products, the provision of waste treatment services, the construction and provision of environmental protection systems and services, and the trading of chemical products. Details of the principal activities of the subsidiaries are set out in note 47 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2009.

RESULTS

The result of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 34.

DIVIDENDS

The final dividend of RMB0.05 per share has been proposed by the Board and is subject to approval by the shareholders in annual general meeting (2008: nil).

The dates of book closure period of the register of members of the Company and the payment date for the above proposed dividend will be announced as soon as practicable.

BONUS ISSUE OF SHARES

The Board proposes to issue bonus shares to the shareholders of the Company whose names appear on the register of members of the Company as at a specified date to be decided on the basis of one bonus share for each existing share held by them (the "Bonus Issue") by converting RMB31,369,093.6 in the capital reserve fund and by capitalizing RMB31,369,093.6 of distributable retained profits. The amount standing in the capital reserve fund account of the Company as at 31 December 2009 was approximately RMB104,535,000 and the remaining balance in the capital reserve fund account after the above proposed conversion will be approximately RMB73,166,000.

The completion of Bonus Issue is conditional upon the following:

(i) the passing of a special resolution to approve the Bonus Issue by the shareholders of the Company at each of the Company's annual general meeting (the "AGM") and separate class meetings for holders of domestic shares and H shares;

(ii) the approval of the Bonus Issue by the relevant governmental authorities of the People's Republic of China (if necessary); and

(iii) the GEM Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new bonus H shares.

Based on the number of issued shares of the Company, being 627,381,872 shares (including 449,481,872 domestic shares and 177,900,000 H shares) of RMB0.10 each, upon completion of the Bonus Issue, an additional 627,381,872 new shares (including 449,481,872 new domestic shares and 177,900,000 new H shares) of RMB0.10 each shall be issued. In relation to the calculation of the number of new shares to be issued, the shareholders of the Company are hereby informed that the issue price for each new share shall be nominal value of RMB0.10 each.

It is uncertain as to how prompt the approval of the Bonus Issue by the relevant authorities would be. Investors should exercise caution in their dealings in the securities of the Company.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Directors proposed that the articles of association of the Company be amended to reflect the increase in the registered capital and change in the share capital structure of the Company following the completion of the Bonus Issue.

Based on the number of shares in issue of the Company, being 627,381,872 shares (including 449,481,872 domestic shares and 177,900,000 H shares) of RMB0.10 each, upon completion of the Bonus Issue, the registered capital of the Company shall be increased from RMB62,738,187.2 to RMB125,476,374.4. The shareholding structure of the Company will be as follows: the total number of ordinary shares of the Company is 1,254,763,744, comprising of 898,963,744 domestic shares which represent 71.64% of the total number of issued shares of the Company, and 355,800,000 H shares which represent 28.36% of the total number of issued shares of the Company.

The coming into effect of such proposed amendments to the articles of association of the Company is conditional upon:

(i) the passing of a special resolution to approve the amendments by the shareholders of the Company at the AGM; and

(ii) the completion of the Bonus Issue.

CHANGE OF BOARD LOT SIZE

The Board has also resolved that, upon the Bonus Issue becoming effective, the board lot size for trading in the H shares will be changed from 10,000 H shares to 2,000 H shares. The Board expects that the reduced board lot size may improve the trading liquidity of the shares and enable the Company to attract more investors, thus broadening its shareholder base. The closing price per H share as at the date prior to the bulk printing of this report was HK$5.00. Based on such closing price, the value of each board lot of H shares would be HK$10,000. The Directors expect that there will not be odd lots of H shares arising from the Bonus Issue and so odd lot matching services will not be provided.

The expected timetable and the dates of book closure period of the register of members of the Company for the Bonus Issue and change of board lot size will be announced as soon as practicable.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five 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 14 to the audited consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital are set out in note 38 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 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 ended 31 December 2009 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to approximately RMB74,226,000. 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 32.49% of the total sales for the year and sales to the largest customer included therein amounted to 15.22%. Purchases from the Group's five largest suppliers accounted for approximately 40.19% of the total purchases for the year and purchase from the Group's largest supplier accounted for 16.40% for the year ended 31 December 2009.

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 during the year ended 31 December 2009 and up to the date of this report 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' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographies details of the Directors and the senior management of the Group are set out on pages 14 to 16 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 into 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2009.

EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

Details of the emoluments for Directors, supervisors and employees of the Company are set out in note 9 to the audited consolidated financial statements.

The emoluments of the Directors are recommended by the remuneration committee of the Company, and approved by the Board, as authorized by shareholders in the annual general meeting of the Company, having regard to their time commitment and responsibilities, the salaries paid by comparable companies, employment conditions elsewhere in the Group and desirability of performance-based remuneration. No Directors are involved in deciding their own remuneration.

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

At 31 December 2009, the interests and short positions of the Directors and chief executive or their respective associates of the Company in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (Chapter 571 of the Laws of Hong Kong), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests 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 the 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	15,423,884 domestic shares *(Note 2)*	3.43%

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 2009, none of the Directors or chief executive of the Company 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 in the register of interests 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

So far as is known to the Directors or chief executive of the Company, as at 31 December 2009, the following persons (other than the Directors, supervisors and chief executive of the Company) had their interests or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO as follows:

Long position in the shares of the Company

Name of shareholders	**Capacity**	**Number and class of shares**	**Percentage of shareholding in this class**
Shanghai New Margin Venture Capital Co., Ltd. *(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%
Cai Hong	Beneficial owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services *(Note 3)*	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. Shanghai New Margin Venture Capital Co., Ltd. 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. Leading Environmental Solutions and Services and China Environmental Fund 2002 Management Ltd. own approximately 76.92% and 0.10% 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 2009, 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 and debentures 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 of interests 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 2009, 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

Details of continuing connected transactions during the year ended 31 December 2009 are set out as follows:

Non-exempted Continuing Connected Transactions

1. On 2 February 2007, 深圳東江華瑞科技有限公司 (Shenzhen Dongjiang Heritage Technologies Company Limited*) ("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.

   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.

   For the year ended 31 December 2009, the aggregate fees paid by Heritage to DJ Heritage under the Sales Contract amounted to RMB25,302,000.

2. As the Sales Contract as defined above was expired on 31 December 2009, the Company entered into a supply and purchase agreement on 29 September 2009 (the "Sales Agreement") with Heritage in which Heritage, its subsidiaries and affiliated companies ("Heritage Group") from time to time agreed to purchase chemical products from the Group and the affiliated companies of the Company from time to time. The term of the Sales Agreement is 3 years commencing from 1 December 2009 and ending on 30 November 2012. The annual cap is RMB20 million for the period from 1 December 2009 to 31 December 2009; RMB189 million for the period from 1 January 2010 to 31 December 2010; RMB208 million for the period from 1 January 2011 to 31 December 2011; RMB220 million for the period from 1 January 2012 to 30 November 2012.

   Heritage is a substantial shareholder of DJ Heritage, which is a 62% owned subsidiary of the Company, and is therefore a connected person of the Company under the GEM Listing Rules. The Sales Agreement constituted a continuing connected transaction for the Company under the GEM Listing Rules.

   An extraordinary general meeting of the Company was held on 7 December 2009, at which an ordinary resolution was passed to approve the Sales Agreement with the related annual caps.

   For the year ended 31 December 2009, the aggregate fees paid by Heritage Group to the Group under the Sales Agreement amounted to RMB9,682,000.

Details of the above transaction had been published in the Company's announcement dated 29 September 2009 and the Company's circular dated 20 October 2009.

Exempted Continuing Connected Transactions

1. On 5 December 2008, 深圳市萊索思環境技術有限公司 (Shenzhen Resource Environmental Technology Company Limited*) ("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 深圳市危險廢物處理站有限公司 (Shenzhen Hazardous Waste Treatment Station Company Limited*) ("SHWTS") (the "Waste Treatment Agreement"). 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.

   For the year ended 31 December 2009, the aggregate fees paid by Shenzhen Resource to SHWTS amounted to RMB11,021,000.

2. On 30 April 2009, 深圳市東江環保股份有限公司貿易分公司 (Shenzhen Dongjiang Environmental Company Limited Trading Branch*) ("Dongjiang Trading"), a wholly owned subsidiary of the Company in which the Company beneficially holds 100% equity interest, entered into the sales agreement (the "Sales Agreement 2") with SHWTS in relation to the trading of chemical products for a term commencing from 30 April 2009 and ending on 31 December 2011. The annual caps are RMB4 million under the Sales Agreement 2 for each of the year ending 31 December 2009, 2010 and 2011. SHWTS is a connected person of the Company under the GEM Listing Rules and the Sales Agreement 2 constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

   For the year ended 31 December 2009, the aggregate fees paid by SHWTS to Dongjiang Trading under the Sales Agreement amounted to RMB711,000.

3. On 30 April 2009, 惠州東江威立雅環境服務有限公司 (Huizhou Dongjiang Veolia Environmental Services Company Limited*) ("Dongjiang Veolia"), a non-wholly owned subsidiary of the Company in which the Company beneficially holds 51% equity interest, entered into the waste treatment agreement (the "Waste Treatment Agreement 2") with SHWTS in relation to the provision of waste treatment services for a term commencing from 30 April 2009 and ending on 31 December 2009. The annual cap are RMB5 million under the Waste Treatment Agreement 2 for the year ending 31 December 2009. SHWTS is a connected person of the Company under the GEM Listing Rules and the Waste Treatment Agreement 2 constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

   For the year ended 31 December 2009, the aggregate fees paid by SHWTS to Dongjiang Veolia under the treatment 2 amounted to RMB4,499,000.

As each of the applicable percentage ratios in respect of the aggregate value of the annual caps of the Sales Agreement and Waste Treatment Agreement 2 is less than 2.5%, each of the Sales Agreement 2 and Waste Treatment Agreement 2 is only subject to the reporting and announcement requirements under the GEM Listing Rules and is exempt from the independent shareholders' approval requirements pursuant to the GEM Listing Rules.

Details of the above transactions regarding the Sales Agreement 2 and the Waste Treatment Agreement 2 had been published in the Company's announcement dated 30 April 2009.

The Directors (including independent non-executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of the Group's business; (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and (3) have been carried out in accordance with the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditors as required under Rule 20.38 of the GEM Listing Rules, confirming that the continuing connected transactions:

1. have received the approval of the Board;

2. are in accordance with the pricing policies of the Group; and

3. have been entered into in accordance with the relevant agreements governing the transactions,

and the aggregate amounts of the continuing connected transactions for the year ended 31 December 2009 did not exceed the annual cap amounts as disclosed in the Company's circular dated 23 February 2007 and 20 October 2009 and the Company's announcement dated 8 December 2008 and 30 April 2009, respectively.

Connected Transactions

On 11 December 2009, the Company and Mr. Tang* (唐孝觀), a substantial shareholder of 韶關綠然再生資源發展有限公司 (Shaoguan Green Recycling Resource Development Company Limited*) ("Shaoguan Green") entered into the agreement in which the Company will acquire 10% of equity interest in Shaoguan Green from Mr. Tang ("Shaoguan Green Agreement"). Shaoguan Green is a non-wholly owned subsidiary of the Company in which the Company beneficially currently holds a 50% equity interest.

Mr. Tang is a substantial shareholder of Shaoguan Green and is therefore a connected person of the Company. As such, the Shaoguan Green Agreement constitutes a connected transaction of the Company under the Listing Rules. As each of the applicable percentage ratios under Chapter 20 of the GEM Listing Rules is less than 2.5%, the Shaoguan Green Agreement 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.

Post Balance Sheet Transactions

On 21 January 2010, the Company and 深圳市利賽實業發展有限公司 (Shenzhen Lisai Development Limited*) ("Lisai Development"), a substantial shareholder of 深圳市東江利賽再生能源有限公司 (Shenzhen Dongjiang Lisai Renewable Energy Limited*) ("Dongjiang Lisai"), a 51% owned subsidiary of the Company, entered into the agreement ("Dongjiang Lisai Agreement") in which the Company will acquire 29% of equity interest in Dongjiang Lisai from Lisai Development. Dongjiang Lisai is a non-wholly owned subsidiary of the Company in which the Company beneficially currently holds a 51% equity interest.

Lisai Development is a substantial shareholder of Dongjiang Lisai and is therefore a connected person of the Company. As such, the Dongjiang Lisai Agreement constitutes a connected transaction of the Company under the Listing Rules. As each of the applicable percentage ratios under Chapter 20 of the GEM Listing Rules is less than 2.5%, the Dongjiang Lisai Agreement 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.

On 4 March 2010, Dongjiang Veolia, a non-wholly owned subsidiary of the Company in which the Company beneficially holds 51% equity interest, entered into an agreement with SHWTS in relation to the provision of waste treatment services (the "Waste Treatment Agreement 3") at an annual cap of RMB10 million (equivalent to HK$11.4 million for the year ending 31 December 2010). As SHWTS is a connected person of the Company under the GEM Listing Rules and the Waste Treatment Agreement 3 constitutes continuing connected transactions of the Company under the GEM Listing Rules.

As applicable percentage ratios in respect of the aggregate value of the annual cap of the Waste Treatment Agreement 3 is less than 2.5%, the Waste Treatment Agreements is only subject to the reporting and announcement requirements under the GEM Listing Rules and is exempt from the independent shareholders' approval requirements pursuant to the GEM Listing Rules.

Save as disclosed above and in note 48 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.

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.

AUDITOR

The consolidated financial statements for the years ended 31 December 2006 to 2009 were audited by SHINEWING (HK) CPA Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint them as auditor of the Company.

ON BEHALF OF THE BOARD
Shenzhen Dongjiang Environmental Company Limited

Zhang Wei Yang
Chairman
Shenzhen, Guangdong Province, the PRC
25 March 2010

Supervisory Committee's Report

To all shareholders of
Shenzhen Dongjiang 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 25 March 2010, the Supervisory Committee convened a meeting, which the 2009 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 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
25 March 2010

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practice 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 of code provision A.2.1 mentioned in the paragraph below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by 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 2009.

THE BOARD

The Board is responsible to the shareholders of the Company. 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 14 to 16 of this annual report.

According to 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. On the other hand, the Board reserves certain key matters in making strategic decision for its approval.

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 seventeen 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)*	17/17
Mr. Chen Shu Sheng	17/17
Mr. Li Yong Peng	17/17
Non-executive Directors	
Mr. Feng Tao *(Vice Chairman)*	17/17
Mr. Wu Shui Qing	17/17
Ms. Sun Ji Ping	17/17
Independent Non-executive Directors	
Mr. Ye Ru Tang	17/17
Mr. Hao Ji Ming	17/17
Mr. Liu Xue Sheng	17/17
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.

Each of the Directors (including independent non-executive Directors) has entered into a contract with the Company for a term of three years.

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.

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 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.

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 the 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 (the "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 control 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 2009 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; and
e. to review and provide supervision over the Group's financial reporting process and internal control of the Company.

The Audit Committee met four times in the year ended 31 December 2009 regularly 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	4/4
Mr. Hao Ji Ming	4/4
Mr. Liu Xue Sheng	4/4

THE REMUNERATION COMMITTEE

The remuneration committee of the Company (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 Wei Yang. 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 once in the year ended 31 December 2009 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	1/1
Mr. Ye Ru Tang	1/1
Mr. Hao Ji Ming	1/1
Mr. Liu Xue Sheng	1/1

AUDITORS' REMUNERATION

The remuneration in respect of audit and non-audit services provided by the auditors, SHINEWING (HK) CPA Limited, to the Company in the year 2009 amounted to RMB600,000. There is no non-audit service provided by the auditors in the year 2009.

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 system 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.

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 2009 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 32 to 33 of this annual report.

INDEPENDENT AUDITOR'S REPORT

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 34 to 112, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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, in accordance with our agreed terms of engagement 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the 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 2009 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
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
25 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	**930,654**	823,371
Cost of sales		**(625,019)**	(500,638)
Gross profit		**305,635**	322,733
Other income	7	**36,965**	19,572
Selling and distribution costs		**(33,378)**	(42,154)
Administrative expenses		**(123,430)**	(121,182)
Other operating expenses		**(10,451)**	(16,816)
Finance costs	8	**(17,756)**	(15,812)
Share of results of associates		**(277)**	(10)
Share of result of a jointly controlled entity		**(1,350)**	–
Profit before tax	10	**155,958**	146,331
Income tax expenses	11	**(24,534)**	(36,186)
Profit for the year		**131,424**	110,145
Other comprehensive (loss) income			
Exchange differences arising on translation		**(8)**	944
Total comprehensive income for the year, net of tax		**131,416**	111,089
Profit for the year attributable to:			
Owners of the Company		**116,154**	106,477
Minority interests		**15,270**	3,668
		131,424	110,145
Total comprehensive income attributable to:			
Owners of the Company		**116,146**	107,421
Minority interests		**15,270**	3,668
		131,416	111,089
Earnings per share – basic and diluted	13	**RMB0.1851**	RMB0.1697

Consolidated Statement of Financial Position

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	14	**462,214**	299,794
Investment properties	15	**51,468**	3,727
Prepaid lease payments	16	**47,541**	38,561
Goodwill	17	**26,884**	33,884
Concession intangible assets	18	**241,718**	192,405
Intangible assets	19	**362**	309
Interests in associates	20	**–**	277
Interests in a jointly controlled entity	21	**42,550**	–
Available-for-sale investment	22	**1,800**	1,800
Prepayment for acquisition of property, plant and equipment		**34,161**	59,318
Deposit paid for acquisition of additional interests in a subsidiary	23	**7,000**	–
Other non-current assets	24	**92,158**	57,421
Deferred tax assets	25	**10,866**	10,184
		1,018,722	697,680
Current assets			
Inventories	26	**140,476**	30,881
Prepaid lease payments	16	**1,055**	848
Amounts due from customers for contract works	27	**28,811**	21,502
Trade and other receivables	28	**258,994**	191,094
Investments held for trading	29	**6,111**	3,022
Amount due from a jointly controlled entity	30	**17,443**	–
Pledged bank deposits	31	**31,240**	20,814
Bank balances and cash	31	**212,459**	226,879
		696,589	495,040
Current liabilities			
Trade and other payables	32	**198,129**	136,726
Amounts due to customers for contract works	27	**719**	686
Derivative financial instruments	33	**447**	–
Income tax payable		**17,790**	16,713
Obligations under finance leases	34	**3,475**	3,318
Interest-bearing bank borrowings	35	**317,037**	233,000
		537,597	390,443
Net current assets		**158,992**	104,597
Total assets less current liabilities		**1,177,714**	802,277

Consolidated Statement of Financial Position

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Deferred revenue	*36*	**53,863**	47,029
Obligations under finance leases	*34*	**5,459**	7,757
Interest-bearing bank borrowings	*35*	**316,700**	77,500
Provision	*37*	**541**	–
Deferred tax liabilities	*25*	**3,676**	306
		380,239	132,592
Total net assets		**797,475**	669,685
Capital and reserves			
Share capital	*38*	**62,738**	62,738
Reserves		**565,252**	449,106
Equity attributable to owners of the Company		**627,990**	511,844
Minority interests		**169,485**	157,841
Total equity		**797,475**	669,685

The consolidated financial statements on pages 34 to 112 were approved and authorised for issue by the board of directors on 25 March 2010 and are signed on its behalf by :

Zhang Wei Yang
Director

Li Yong Peng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Reserve funds (Note ii) RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Dividend reserve RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	62,738	30,309	61,630	(394)	250,140	–	404,423	65,369	469,792
Profit for the year	–	–	–	–	106,477	–	106,477	3,668	110,145
Other comprehensive income for the year	–	–	–	944	–	–	944	–	944
Total comprehensive income for the year	–	–	–	944	106,477	–	107,421	3,668	111,089
Contribution from minority shareholders	–	–	–	–	–	–	–	17,428	17,428
Disposal of a subsidiary	–	–	–	–	–	–	–	(293)	(293)
Adjustment to acquisition consideration *(Note i)*	–	–	–	–	–	–	–	2,500	2,500
Acquisition of subsidiaries *(note 41)*	–	–	–	–	–	–	–	69,169	69,169
Transfer from retained earnings	–	–	9,529	–	(9,529)	–	–	–	–
At 31 December 2008 and 1 January 2009	62,738	30,309	71,159	550	347,088	–	511,844	157,841	669,685
Profit for the year	–	–	–	–	116,154	–	116,154	15,270	131,424
Other comprehensive loss for the year	–	–	–	(8)	–	–	(8)	–	(8)
Total comprehensive income for the year	–	–	–	(8)	116,154	–	116,146	15,270	131,416
Contribution from minority shareholders	–	–	–	–	–	–	–	390	390
Deregistration of a subsidiary *(note 43)*	–	–	–	–	–	–	–	(216)	(216)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(3,800)	(3,800)
Transfer from retained earnings	–	–	3,067	–	(3,067)	–	–	–	–
Proposed 2009 final dividend *(note 11)*	–	–	–	–	(31,369)	31,369	–	–	–
At 31 December 2009	62,738	30,309	74,226	542	428,806	31,369	627,990	169,485	797,475

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. 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 had confirmed that the payment of the proposed dividend would 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 would be adjusted upwards by RMB2,500,000 and net assets attributable to minority shareholder of Shenzhen Resource was increased by RMB2,500,000. During the year ended 31 December 2009, the Company had paid the additional consideration 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 People's Republic of China ("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 Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**155,958**	146,331
Adjustments for:			
Amortisation of intangible assets		**52**	80
Amortisation of concession intangible assets		**13,980**	5,734
Amortisation of deferred revenue		**(1,926)**	–
Amortisation of prepaid lease payments		**894**	711
Allowance for bad and doubtful debts of trade receivables		**3,364**	569
Allowance for bad and doubtful debts of other receivables		**8,934**	452
Allowance for slow-moving inventories		**–**	3,992
Bank interest income		**(1,805)**	(1,979)
Change in fair value on investment properties		**(2,237)**	169
Depreciation of property, plant and equipment		**36,609**	32,049
Finance costs		**17,756**	15,812
Gain on disposal of subsidiaries	*42*	**(3,768)**	(278)
Gain on disposal of property, plant and equipment		**(543)**	(844)
Gain on disposal of prepaid lease payments		**–**	(53)
Gain on disposal of investment held for trading		**(93)**	(2,245)
Loss on deregistration of a subsidiary	*43*	**600**	–
(Increase) decrease in fair value of investments held for trading		**(5,811)**	6,911
Impairment loss on goodwill		**7,000**	–
Impairment loss on property, plant and equipment		**–**	6,164
Interest income from a jointly controlled entity		**(54)**	–
Provision		**541**	–
Recovery of allowance for bad and doubtful debts of other receivables		**–**	(350)
Recovery of allowance for bad and doubtful debts of trade receivables		**–**	(758)
Reversal of write down of inventories		**(3,534)**	–
Impairment loss on interests in associates		**–**	392
Share of results of associates		**277**	10
Share of results of a jointly controlled entity		**1,350**	**–**
Unrealised loss on derivative financial instruments		**447**	–
Operating cash flows before movements in working capital		**227,991**	212,869
(Increase) decrease in inventories		**(81,121)**	20,079
Increase in amounts due from customers for contract works		**(7,309)**	(18,348)
Increase in trade and other receivables		**(114,437)**	(64,622)
Increase (decrease) in trade and other payables		**63,032**	(96,343)
Increase in amounts due to customers for contract works		**33**	467
Increase in deferred revenue		**8,760**	35,779
Cash generated from operations		**96,949**	89,881
Income taxes paid		**(20,769)**	(24,852)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NET CASH FROM OPERATING ACTIVITIES		**76,180**	65,029
INVESTING ACTIVITIES			
Proceeds from disposals of investment held for trading		**8,664**	103,476
Proceeds from disposal of a subsidiary	*42*	**8,605**	(20)
Proceeds from disposal of property, plant and equipment		**3,023**	8,692
Payment to minority shareholders in respect of adjustment to acquisition consideration of a subsidiary		**2,500**	–
Interest received		**1,805**	1,979
Purchases of property, plant and equipment		**(126,964)**	(158,585)
Payment for concession intangible assets		**(63,293)**	(50,498)
Purchase of investment properties		**(45,504)**	–
Acquisition of a jointly controlled entity		**(43,900)**	–
Increase in prepayment in acquisition of property, plant and equipment		**(42,593)**	(44,642)
Increase in other non-current assets		**(34,737)**	(26,935)
Advance to a jointly controlled entity		**(17,389)**	–
Increase in pledged bank deposit		**(10,426)**	(9,972)
Purchase of prepaid lease payments		**(10,081)**	(2,795)
Increase in deposit paid for acquisition of additional interests in a subsidiary		**(7,000)**	–
Purchase of investment held for trading		**(5,849)**	(101,477)
Purchase of intangible assets		**(105)**	(60)
Acquisition of subsidiaries	*41*	**–**	4,127
Proceeds from disposals of prepaid lease payments		**–**	1,332
Decrease in guarantee deposit for tendering		**–**	10,157
NET CASH USED IN INVESTING ACTIVITIES		**(383,244)**	(265,221)
FINANCING ACTIVITIES			
New bank borrowings raised		**608,527**	260,000
Contributions from minority shareholders		**390**	37,428
Repayments of bank borrowings		**(285,290)**	(86,001)
Interest paid		**(23,304)**	(15,297)
Repayments of obligations under finance leases		**(3,900)**	–
Dividend paid to minority shareholders		**(3,800)**	–
NET CASH FROM FINANCING ACTIVITIES		**292,623**	196,130
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,441)**	(4,062)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**226,879**	229,997
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**21**	944
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**212,459**	226,879

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 ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section of the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and subsidiaries established in the PRC. 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 processing and sale of recycled products, provision of waste treatment services, construction and provision of environmental system and services, production of renewable energy and trading of chemical products.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning of after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
Hong Kong Accounting Standard ("HKAS 1") (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – INT 9 & HKAS39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer Loyalty Programmes
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) – INT 16	Hedges of a Net investment in a Foreign Operation
HK(IFRIC) – INT 18	Transfer of Assets from Customers

Except as discribed below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 7 – Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 8 – Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 6) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

New and revised HKFRSs affecting the reporting results and/or financial position

HKAS 23 (Revised 2007) – Borrowing costs

In previous year, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all the borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In the current year, borrowing costs of RMB6,487,000 were capitalised as part of the cost of construction in progress.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

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

New and revised HKFRSs affecting the reporting results and/or financial position (Continued)

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

[2] Amendments those are effective for annual periods beginning on or after 1 July 2009 and 1 January, 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for annual periods beginning on or after 1 February 2010.

[5] Effective for annual periods beginning on or after 1 July 2010.

[6] Effective for annual periods beginning on or after 1 January 2011.

[7] Effective for annual periods beginning on or after 1 January 2013.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of *HKAS 39 Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs (2009)*, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to *HKAS 17*, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

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 the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 statement of comprehensive income 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.

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 businesses 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly controlled entities

Joint venture arrangement that involved the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in a jointly controlled entity are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), 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 jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets and liabilities, and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount if the investment in the jointly controlled entity. Any reversal of impairment loss in recognised to the extent that the recoverable amount of the investment subsequently increases.

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 a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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 on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 profit or loss in the period 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 profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. The concession intangible assets representing waste treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses.

The concession intangible assets are amortised to write-off their cost, over their expected useful lives in the remaining concession period using an amortisation period which reflects the pattern in which their future economic benefits are expected to be consumed on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the waste treatment infrastructures are recognised as expenses in the periods in which they are incurred.

Other non-current assets

Other non-current assets are stated at cost, less any identified impairment losses.

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 their estimated useful lives.

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 profit or loss in the period 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 (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Construction contracts

Where the outcome of a construction contract (including construction and upgrade 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 end of the reporting period, 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 the amount can be measured reliably and its receipt is considered probable.

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as 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 statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position 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 profit or loss 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 statement of financial position 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.

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant leases.

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 leases and amortised over the lease term on a straight-line basis, except for those that are classified and accounted for as investment properties under the fair value model.

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 including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of foreign operation.

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 end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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 end of the reporting period. 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 statement of comprehensive income 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 end of the reporting date.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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, associates and joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. 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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest 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 represented 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.

Financial assets at FVTPL are measured at fair value, which changes in fair value arising from remeasurement 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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from a jointly controlled entity 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.

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 the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment on financial assets (Continued)

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 and other 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 and other 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.

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 other comprehensive income and accumulated in equity.

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 an 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity (Continued)

Other 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

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 other comprehensive income 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. 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

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.

Buildings and investment properties

The property usage permits of certain of the Group's buildings and investment properties were not granted by relevant government authorities as detailed in notes 14 and 15, respectively. In the opinion of the directors of the Company, the absence of property usage permits to these buildings and investment properties does not impair the value of the relevant buildings and investment properties to the Group.

Land use rights

Despite the Group has paid the full purchase consideration as detailed in note 16, certain of the Group's rights to the use of the land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these land use rights does not impair the value of the relevant properties to the Group.

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 estimation 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.

Estimate of fair value of investment property

Investment property is stated at fair value based on the valuation performed by an independent firm. In determining the fair value, the valuation was 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 properties will be adjusted accordingly.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

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. As at 31 December 2009, the carrying amount of goodwill was approximately RMB26,884,000 (2008: RMB33,884,000) (net of impairment loss of approximately RMB16,750,000 (2008: RMB9,750,000)). Details of goodwill impairment test are set out in note 17.

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.

Provision

The Group has contractual obligations which it must fulfill as a condition of the operating concession granted by the grantor, that is to maintain or restore the infrastructure to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the infrastructure, except for upgrade element, are recognised and measured in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the facilities over the service concession period with reference to the market data on the maintenance or restoration costs of the facilities.

5. TURNOVER

Turnover represents the net amounts received and receivables for processing and sale of recycled products, construction and provision of environmental services, provision of waste treatment service, production of renewable energy and trading of chemical products by the Group to outside customers, less trade discounts during the year.

5. TURNOVER (CONTINUED)

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

	2009 RMB'000	2008 RMB'000
Processing and sale of recycled products	**511,206**	540,348
Collection treatment and disposal of industrial waste	**142,753**	105,006
Collection, treatment and disposal of municipal waste	**86,394**	18,752
Construction and provision of environmental system and services	**148,346**	128,048
Production of renewable energy	**22,007**	8,769
Trading of chemical products	**19,948**	22,448
	930,654	823,371

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e, processing and sale of recycled products, provision of waste treatment services, construction and provision of environmental system and services, production of renewable energy, and trading of chemical products). However, information reported to the chief operating decision maker is more specifically focused on the category of customer for each type of goods and services. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

(a)	Processing and sale of recycled products	Processing and sale of recycled products
(b)	Provision of waste treatment services	Collection, treatment and disposal of industrial waste as well municipal waste
(c)	Construction and provision of environmental system and services	Construction contract work as a main contractor or subcontractor in respect of environmental services, such as design and construction of environmental projects; operation of environment protection facilities, assessment of environmental impact, environment monitoring and consulting
(d)	Production of renewable energy	Operation of methane-to-energy power plants
(e)	Trading of chemical products	Sales of chemical products in the PRC

6. SEGMENT INFORMATION (CONTINUED)

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

Segment information about these reportable segments is presented below:

Segment Revenue and Results

For the year ended 31 December:

	Processing and sale of recycled products		Provision of waste treatment service		Construction and provision of environmental system and services		Production of renewable energy		Trading of chemical products		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue												
External sales	**511,206**	540,348	**229,147**	123,758	**148,346**	128,048	**22,007**	8,769	**19,948**	22,448	**930,654**	823,371
Segment results	**97,480**	167,687	**66,174**	28,234	**(1,879)**	(12,553)	**7,428**	(9,867)	**2,147**	(4,232)	**171,350**	169,269
Unallocated operating income and expenses											**(13,765)**	(22,928)
Share of results of associates											**(277)**	(10)
Share of results of a jointly controlled entity											**(1,350)**	–
Profit before tax											**155,958**	146,331
OTHER SEGMENT INFORMATION												
Amounts included in the measure of segment profit or loss or segment assets:												
Addition to non-current assets *(note)*	**155,085**	148,208	**85,655**	43,213	**100,258**	24,733	**14,441**	31,207	**302**	387	**355,741**	247,748
Allowance for bad and doubtful debts of other receivables	**2,137**	–	**–**	214	**6,797**	238	**–**	–	**–**	–	**8,934**	452
Allowance for bad and doubtful debts of trade receivables	**2,918**	503	**446**	19	**–**	47	**–**	–	**–**	–	**3,364**	569
Allowance for slow-moving inventories	**–**	3,992	**–**	–	**–**	–	**–**	–	**–**	–	**–**	3,992
Amortisation of intangible assets	**12**	–	**34**	35	**6**	45	**–**	–	**–**	–	**52**	80
Amortisaion of concession intangible assets	**–**	–	**13,890**	5,734	**–**	–	**–**	–	**–**	–	**13,980**	5,734
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**16,567**	15,107	**11,920**	15,633	**2,594**	2,832	**6,276**	75	**146**	113	**37,503**	32,760

6. SEGMENT INFORMATION (CONTINUED)

Segment Revenue and Results (Continued)

	Processing and sale of recycled products		Provision of waste treatment service		Construction and provision of environmental system and services		Production of renewable energy		Trading of chemical products		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Loss on deregistration of a subsidiary	**600**	–	**–**	–	**–**	–	**–**	–	**–**	–	**600**	–
Impairment loss on goodwill	**7,000**	–	**–**	–	**–**	–	**–**	–	**–**	–	**7,000**	–
Impairment loss on property, plant and equipment	**–**	6,164	**–**	–	**–**	–	**–**	–	**–**	–	**–**	6,164
Unrealised loss of derivative financial instruments	**447**	–	**–**	–	**–**	–	**–**	–	**–**	–	**447**	–
Recovery of allowance for bad and doubtful debts of other receivables	**–**	(350)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(350)
Reversal of write down of inventories	**(3,534)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(3,534)**	–
(Gain) loss on disposal of property, plant and equipment	**(166)**	(786)	**(142)**	–	**(240)**	(48)	**–**	–	**5**	(10)	**(543)**	(844)
Gain on disposal of a subsidiary	**(3,768)**	–	**–**	–	**–**	(278)	**–**	–	**–**	–	**(3,768)**	(278)
Recovery of allowance for bad and doubtful debts of trade receivables	**–**	(382)	**–**	–	**–**	(376)	**–**	–	**–**	–	**–**	(758)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:												
Interests in associates	**–**	277	**–**	–	**–**	–	**–**	–	**–**	–	**–**	277
Interests in a joint controlled entity	**42,550**	–	**–**	–	**–**	–	**–**	–	**–**	–	**42,550**	–
Share of results of associates	**277**	10	**–**	–	**–**	–	**–**	–	**–**	–	**277**	10
Share of result of a jointly controlled entity	**1,350**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,350**	–
Impairment loss on investment in an associate	**–**	392	**–**	–	**–**	–	**–**	–	**–**	–	**–**	392
Bank interest income	**(1,007)**	(1,112)	**(416)**	(315)	**(332)**	(476)	**(42)**	(58)	**(8)**	(18)	**(1,805)**	(1,979)
Interest expense	**4,959**	2,044	**5,744**	5,310	**7,053**	8,458	**–**	–	**–**	–	**17,756**	15,812
Income tax expenses	**14,359**	25,031	**1,850**	2,280	**8,325**	8,875	**–**	–	**–**	–	**24,534**	36,186

Note: Non-current assets exclude financial instruments and deferred tax assets.

6. SEGMENT INFORMATION (CONTINUED)

Segment Revenue and Results (Continued)

The accounting policies of the reportable segments are same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, fair value change in investment properties, change in fair value of investment held for trading, rental income, gain on disposal of investment held for trading, gain on disposal of subsidiaries, directors' and supervisors' salaries, share of results of associates and a jointly controlled entity, bank interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment Assets and Liabilities

At 31 December

	Processing and sale of recycled products		Provision of waste treatment service		Construction and provision of environmental system and services		Production of renewable energy		Trading of chemical products		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
ASSETS												
Segment assets	**531,307**	328,899	**388,684**	326,236	**273,061**	211,860	**158,443**	50,061	**7,322**	8,961	**1,358,817**	926,017
Unallocated assets											**356,494**	266,703
Consolidated total assets											**1,715,311**	1,192,720
LIABILITIES												
Segment liabilities	**53,691**	58,174	**90,545**	78,733	**96,601**	46,887	**14,526**	7,747	**7,270**	3,975	**262,633**	195,516
Unallocated liabilities											**655,203**	327,519
Consolidated total liabilities											**917,836**	523,035

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments, other than interest in associates, investment properties, interests in a jointly controlled entity, available-for-sale investment, deferred tax assets, investment held for trading and bank balances and cash.
- all liabilities are allocated to reportable segments, other than current and deferred tax liabilities and bank borrowings.

Geographical information

Over 90% of the Group's turnover and results were derived from the PRC and at the end of reporting period, over 90% of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC. Accordingly, no geographical information is presented for the year.

6. SEGMENT INFORMATION (CONTINUED)

Information about major customer

Turnover from customer of the corresponding year contributing over 10% of the total turnover of the Group are as follows:

	2009 **RMB'000**	2008 RMB'000
Customer A[1]	**141,691**	N/A[2]

[1] Revenue from processing and sale of recycled products.

[2] The corresponding turnover did not contribute over 10% of the total turnover of the Group in the respective year.

7. OTHER INCOME

	2009 **RMB'000**	2008 RMB'000
Government subsidies *(note 1)*	**11,844**	–
Government grants *(note 2)*	**8,283**	10,663
Increase in fair value of investment held for trading	**5,811**	–
Gain on disposal of subsidiaries	**3,768**	278
Increase in fair value of investment properties	**2,237**	–
Bank interest income	**1,805**	1,979
Interest income from a jointly controlled entity	**54**	–
Gain on disposal of property, plant and equipment	**543**	844
Net rental income (less: direct outgoings of RMB89,000 (2008: nil))	**132**	142
Gain on disposal of investment held for trading	**93**	2,245
Recovery of allowance for bad and doubtful debts of trade receivables	**–**	758
Recovery of allowance for bad and doubtful debts of other receivables	**–**	350
Gain on disposal of prepaid lease payments	**–**	53
Others	**2,395**	2,260
	36,965	19,572

Notes:

1. Pursuant to Cai Shui [2008] No. 157 issued by the State Council, the Company was subject to value-added tax ("VAT") at a rate of 17% on sales of renewable products, and was granted VAT refund of 70% of the actual VAT paid for the year ended 31 December 2009.

2. Included in government grants were government subsidies of RMB1,926,000 (2008: nil) on research and development of environmental projects and construction services under the service concession arrangement which were transferred from deferred revenue during the year. The remaining government grants were received from several local government authorities for the Group's contribution to environmental protection, of which there were no unfulfilled conditions or contingencies relating to those grants.

8. FINANCE COSTS

	2009	2008
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**23,304**	15,297
Finance leases	**939**	515
Total borrowing cost	**24,243**	15,812
Less: amounts capitalised	**(6,487)**	–
	17,756	15,812

All the above capitalised interests were arose from the borrowings made specifically for the purpose of obtaining the qualifying assets.

9. 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:

	2009	2008
	RMB'000	RMB'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,425**	1,221
Retirement benefits scheme contributions	**76**	76
	1,501	1,297

9. 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 2009, disclosed pursuant to the GEM Listing Rules, is set out below:

For the year ended 31 December 2009

	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**	**18**	**126**
Chen Shu Sheng	**196**	**21**	**217**
	904	**60**	**964**
Non-executive directors:			
Feng Tao	**–**	**–**	**–**
Wu Shui Qing	**–**	**–**	**–**
Sun Ji Ping	**–**	**–**	**–**
	–	**–**	**–**
Independent non-executive directors:			
Ye Ru Tang	**144**	**–**	**144**
Hao Ji Min	**144**	**–**	**144**
Liu Xue Sheng	**144**	**–**	**144**
	432	**–**	**432**
Supervisors:			
Liu An	**89**	**16**	**105**
Yuan Wei	**–**	**–**	**–**
Luo Xiao Hong	**–**	**–**	**–**
	89	**16**	**105**
Total	**1,425**	**76**	**1,501**

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

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

For the year ended 31 December 2008

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	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

Except Ye Ru Tang who waived the director's emoluments of 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 during the two years ended 31 December 2009.

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

(b) Employees' emoluments

Of the five highest paid individuals in the Group, two (2008: three) were directors of the Company, whose emoluments are set out in 9(a) above. The emoluments of the remaining three (2008: two) highest paid individuals were as follows:

	2009 **RMB'000**	2008 RMB'000
Salaries, allowances and benefits in kind	**589**	240
Retirement benefits scheme contributions	**64**	40
	653	280

Their emoluments were within the following band:

	No. of employees **2009**	2008
Nil to RMB880,000 (equivalent to approximately HK$1,000,000)	**3**	2

During the two years ended 31 December 2009, 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.

10. PROFIT BEFORE TAX

	2009 RMB'000	2008 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Staff costs including directors' emoluments (note 9(a)):		
– Salaries, wages and other benefits	**72,438**	57,783
– Retirement benefits scheme contributions	**6,647**	6,539
Total staff costs	**79,085**	64,322
Allowance for bad and doubtful debts of other receivables (included in administrative expenses)	**8,934**	452
Allowance for bad and doubtful debts of trade receivables (included in administrative expenses)	**3,364**	569
Allowance for slow-moving inventories (included in cost of sales)	**–**	3,992
Amortisation of intangible assets (included in other operating expenses)	**52**	80
Amortisation of prepaid lease payments	**894**	711
Amortisation of concession intangible assets (included in cost of sales)	**13,980**	5,734
Auditor's remuneration	**600**	500
Decrease in fair value of investment properties	**–**	169
Cost of inventories recognised as an expense	**572,939**	446,686
Decrease in fair value of investment held for trading	**–**	6,911
Depreciation of property, plant and equipment	**36,609**	32,049
Loss on deregistration of a subsidiary (note 43)	**600**	–
Impairment loss on goodwill (included in other operating expenses)	**7,000**	–
Impairment loss on investment in an associate	**–**	392
Impairment loss on property, plant and equipment (included in other operating expenses)	**–**	6,164
Minimum lease payments under operating leases: office premises, plant and staff quarters	**5,264**	5,565
Realised loss of derivative financial instruments	**2,386**	–
Research and development costs	**10,961**	10,735
Unrealised loss of derivative financial instruments	**447**	–
Reversal of write down of inventories (included in cost of sales)	**(3,534)**	–

11. INCOME TAX EXPENSES

	2009 RMB'000	2008 RMB'000
Hong Kong Profits Tax		
– Current	–	6
PRC Enterprise Income Tax		
– Current	**29,169**	37,135
– (Over) under-provision in prior years	**(7,323)**	160
	21,846	37,295
Deferred taxation *(note 25)*		
– Current	**834**	397
– Attributable to changes in tax rate	**1,854**	(1,512)
	2,688	(1,115)
	24,534	36,186

The change in tax rates was arising from the concessionary tax rate granted by the tax authority in the PRC.

The Company was subject to the PRC enterprise income tax at a rate of 15% (2008: 18%) as the Company was classified as new technology enterprise.

The subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC enterprise income tax at a rate of 20% (2008: 18%).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT" Law) and Implementation Regulation of the EIT Law, the tax rate of the other PRC subsidiaries is ranging from 20% to 25% from 1 January 2008 onwards.

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 ("DJ Heritage") 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 Dongjiang Environmental Renewable Energy Limited 深圳市東江環保再生能源有限公司 ("Dongjiang Renewable Energy Ltd") and Hui Zhou Dongjiang Veolia Environmental services Limited 惠州東江威立雅環境服務有限公司 ("Huizhou Veolia") are exempted from PRC enterprise income tax for two years from the date of generation of taxable income and followed by a 50% tax reduction for the next three years. One subsidiary, Shao Guan Green Recycling Resource Development Co. Ltd. 韶關綠然再生資源發展有限公司 ("Green Recycling Resource") is exempted from PRC enterprise income tax for three years from the date of generation of taxable income and followed by a 50% tax reduction for the next three years.

11. INCOME TAX EXPENSES (CONTINUED)

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. No tax is payable on the profit for the year ended 31 December 2009 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

Hong Kong Profits Tax has been provided for the subsidiary in Hong Kong at 16.5% on the estimated assessable profits for the year ended 31 December 2008.

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

	2009	2008
	RMB'000	RMB'000
Profit before tax	**155,958**	146,331
Tax at the average income tax rate of 25% (2008: 17%)	**39,513**	24,712
Tax effect of expenses not deductible for tax purposes	**9,310**	5,542
Tax effect of income not taxable for tax purposes	**(5,724)**	–
Tax effect of tax losses not recognised	**1,165**	7,278
Tax effect of deductible temporary difference not recognised	**2,612**	11,359
Utilisation of deductible temporary difference previously not recognised	**(314)**	(2,946)
Effect on change in tax rate	**1,854**	(1,512)
(Over) under-provision in prior years	**(7,323)**	160
Income tax on concessionary rate	**(16,559)**	(8,407)
Income tax expense for the year	**24,534**	36,186

Note: The average income tax rate for the year ended 31 December 2009 represents the weighted average tax rate of the operations in different jurisdiction on the basis of the relative amounts of the net profit before taxation and the relevant statutory rates or other reasonable basis.

12. DIVIDENDS

The final dividend of RMB0.05 per share has been proposed by the directors of the Company and is subject to approval by the shareholders in annual general meeting (2008: nil).

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year attributable to owners of the Company of approximately RMB116,154,000 (2008: RMB106,477,000), and the weighted average of approximately 627,382,000 (2008: approximately 627,382,000) ordinary shares in issue during the year.

Diluted earnings per share was the same as basic earnings per share for the two years ended 31 December 2009 as there were no diluting events existed during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machineries RMB'000	Leasehold improve–ments RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Other equipments RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2008	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	115,507	167,460
Acquisition of subsidiaries	–	236	–	290	4,015	–	–	4,541
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 and 1 January 2009	93,328	114,301	1,869	12,000	53,658	20,227	104,424	399,807
Additions	802	11,161	–	1,552	8,146	614	179,746	202,021
Deregistration of a subsidiary	–	(629)	–	(53)	(115)	–	–	(797)
Transfers	92,077	320	–	–	–	154	(92,551)	–
Disposals	–	(180)	–	(349)	(6,106)	(91)	(629)	(7,355)
Exchange realignment	–	(8)	–	–	(29)	(1)	–	(38)
At 31 December 2009	186,207	124,965	1,869	13,150	55,554	20,903	190,990	593,638
DEPRECIATION AND IMPAIRMENT LOSS								
At 1 January 2008	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 and 1 January 2009	22,484	44,993	1,764	4,490	14,969	10,684	629	100,013
Provided for the year	6,590	15,853	31	2,324	9,578	2,233	–	36,609
Eliminated on deregistration of a subsidiary	–	(152)	–	(50)	(115)	–	–	(317)
Eliminated on disposals	–	(180)	–	(279)	(3,782)	(5)	(629)	(4,875)
Exchange realignment	–	(1)	–	–	(5)	–	–	(6)
At 31 December 2009	29,074	60,513	1,795	6,485	20,645	12,912	–	131,424
CARRYING VALUES								
At 31 December 2009	157,133	64,452	74	6,665	34,909	7,991	190,990	462,214
At 31 December 2008	70,844	69,308	105	7,510	38,689	9,543	103,795	299,794

14. 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.

Buildings	3.23% – 4.85%
Plant and machinery	9.70% – 19.40%
Leasehold improvements	3.23% – 4.85%
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 2009, the property usage permits of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately RMB91,463,000 (2008: RMB12,673,000). In the opinion of the directors of the Company, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group. The directors of the Company also believe that property usage permits to these buildings will be granted to the Group in due course.

As at 31 December 2009, the carrying value of property, plant and equipment held under finance leases amounted to approximately RMB12,078,000 (2008: RMB8,774,000).

During the year ended 31 December 2008, the directors of the Company conducted a review of the Group's property, plant and machinery and determined that certain of the Group's assets were impaired due to physical damage and obsolescence. Accordingly, an impairment loss of approximately RMB6,164,000 (2009: nil) had been recognised in the consolidated statement of comprehensive income. The recoverable amounts of the relevant assets had been determined by the Group's management on the basis of value in use.

The Group has pledged buildings with carrying amount of approximately RMB6,204,000 (2008: nil) to secure general banking facilities granted to the Group.

15. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUES	
At 1 January 2008	3,896
Net decrease in fair value	(169)
At 31 December 2008 and 1 January 2009	3,727
Addition	45,504
Net increase in fair value	2,237
At 31 December 2009	51,468

15. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties were located in Shenzhen, the PRC, 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 2009 have been arrived at based on a valuation carried out by Shenzhen Pengxin Assets Land and Real Estate Appraisal Co. Ltd, an independent third party not connected with the Group. The valuation was determined by reference to recent market price for similar properties in same locations and conditions as well as where appropriate on the basis of capitalisation of the net rental income.

As at 31 December 2009, the property usage permit of an investment property has not been granted by relevant government authorities with the aggregate carrying values of approximately RMB47,572,000 (2008: nil). In the opinion of the directors of the Company, the absence of property usage permit to the investment property does not impair the value of the relevant investment property to the Group. The directors of the Company also believe that property usage permit to the investment property will be granted to the Group in due course.

Certain investment properties with an amount of RMB3,896,000 (2008: RMB3,727,000) are leased to a company of which a director of the Company is a shareholder. Further details of which are included in note 48(a).

16. PREPAID LEASE PAYMENTS

	2009 **RMB'000**	2008 RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in PRC	**48,596**	39,409
Analysed for reporting purposes as:		
Current asset	**1,055**	848
Non-current asset	**47,541**	38,561
	48,596	39,409

The Group had paid the full consideration for its land use rights in the PRC. As at 31 December 2009, the Group had not yet obtained the title of land use rights with an aggregate carrying amount of RMB10,974,000 (2008: RMB6,295,000). The directors of the Company 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 use rights does not impair the value of the relevant properties to the Group.

As at 31 December 2008, the Group had pledged prepaid lease payments with carrying amount of approximately RMB2,492,000 (2009: nil) to secure bank borrowings granted to the Group.

17. GOODWILL

	Processing and sale of recycled products RMB'000	Provision of waste treatment services RMB'000	Construction and provision of environmental system and services RMB'000	Total RMB'000
COST				
At 1 January 2008	–	1,300	8,450	9,750
Arising on acquisition of subsidiaries	30,832	3,052	–	33,884
At 31 December 2008 and 31 December 2009	30,832	4,352	8,450	43,634
IMPAIRMENT				
At 1 January 2008, 31 December 2008 and 1 January 2009	–	1,300	8,450	9,750
Impairment loss recognised during the year	7,000	–	–	7,000
At 31 December 2009	7,000	1,300	8,450	16,750
CARRYING VALUES				
At 31 December 2009	23,832	3,052	–	26,884
At 31 December 2008	30,832	3,052	–	33,884

IMPAIRMENT TESTING ON GOODWILL

Goodwill was allocated to three individual cash generating units ("CGU"), including processing and sale of recycled products, provision of waste treatment services and construction and provision of environmental and system services. Goodwill from acquisition of Green Recycling Resource was allocated to the CGU of processing and sale of recycled products. Goodwill from acquisition of Hong Kong Lik Shun Services Limited ("Lik Shun HK") and 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") was allocated to the CGU of provision of waste treatment services. Goodwill from acquisition of Beijing Novel Environmental Protection Co., Ltd (北京永新環保有限公司) ("Beijing Novel") was allocated to the CGU of construction and provision of environmental services.

During the year ended 31 December 2009, the Group recognised an impairment loss of RMB7,000,000 (2008: nil) in relation to goodwill arising on acquisition of Green Recycling Resource.

17. GOODWILL (CONTINUED)

IMPAIRMENT TESTING ON GOODWILL (Continued)

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Processing and sale of recycled products

The recoverable amount of this CGU 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 15% (2008: 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.

Provision of waste treatment services

The recoverable amount of this CGU 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 12.8% (2008: 8%). 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 CGU to fall below its carrying amount.

18. CONCESSION INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2008	151,693
Additions	50,498
At 31 December 2008 and 1 January 2009	202,191
Additions	63,293
At 31 December 2009	265,484
AMORTISATION	
At 1 January 2008	4,052
Charge for the year	5,734
At 31 December 2008 and 1 January 2009	9,786
Charge for the year	13,980
At 31 December 2009	23,766
CARRYING VALUES	
At 31 December 2009	241,718
At 31 December 2008	192,405

18. CONCESSION INTANGIBLE ASSETS (CONTINUED)

(a) The subsidiary of the Company, Huizhou Veolia, entered into a service concession arrangement with the local government whereby Huizhou Veolia (the "Arrangement") is required to build the infrastructure of a waste treatment centre and was 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. Pursuant to the Arrangement, Huizhou Velia is required to maintain the facilities it operates to a specified level of serviceability. 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.

(b) In April 2008, the subsidiary of the Group, Dongjiang Renewable Energy Ltd, entered into a service concession arrangement with the local government whereby Dongjiang Renewable Energy Ltd was required to build the infrastructure of a waste-soil treatment station and was 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. After the construction works has been completed and has been audited by the government, Dongjiang Renewable Energy Ltd will be reimbursed with the construction cost based on the audited figures. Amortisation has been provided on a straight-line basis over three years. The receipt from this service concession arrangement is contingent on the extent that the disbursement from the government and the public uses the services.

(c) 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. 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 2009, the construction works has not been completed, 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.

(d) On 16 March 2007, the subsidiary of the Group, Green Recycling Resource which was acquired in 2008, entered into a service concession arrangement with the local government whereby Green Recycling Resource is required to build the infrastructure of a waste landfill and is granted with an exclusive operating right for provision of waste treatment service to the public users for a period of 30 years commencing in March 2007. The construction commenced during the year ended 31 December 2009. As at 31 December 2009, the construction work has not been completed, no amortisation has been provided for the year. The receipt from this service concession arrangement is contingent on the extent that the public uses the services.

(e) In February 2009, the subsidiary of the Group, 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 ("Longgang DJ"), entered into a service concession arrangement with the local government whereby Longgang DJ is required to build the infrastructure of a waste landfill and is granted with an exclusive operating right for provision of waste treatment service to the public users for a period of 22 years commencing from February 2009. As at 31 December 2009, the construction work has not been completed, no amortisation has been provided for the year. The receipt from this service concession arrangement is contingent on the extent that the public uses the services.

19. INTANGIBLE ASSETS

	Technical know-how RMB'000
COST	
At 1 January 2008	610
Additions	60
At 31 December 2008 and 1 January 2009	670
Additions	105
At 31 December 2009	775
AMORTISATION AND IMPAIRMENT	
At 1 January 2008	281
Charge for the year	80
At 31 December 2008 and 1 January 2009	361
Charge for the year	52
At 31 December 2009	413
CARRYING VALUES	
At 31 December 2009	362
At 31 December 2008	309

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

20. INTERESTS IN ASSOCIATES

	2009 RMB'000	2008 RMB'000
Unlisted associates in the PRC:		
Cost of investment	**1,723**	2,884
Share of post-acquisition losses	**(1,196)**	(919)
	527	1,965
Less: Impairment losses recognised	**(527)**	(1,688)
	–	277

20. INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2009 and 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
				2009	2008	
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%**	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%**	45%	Treatment of industrial waste water
Shenzhen Fugeri Environmental Protection Equipment Co., Ltd. 深圳福格瑞環保設備有限公司 ("Shenzhen Fugeri")	Incorporated	Contributed capital	PRC	**–** *(Note 1)*	40%	Suspended operation

Notes:

1. Shenzhen Fugeri has been de-registered during the year ended 31 December 2009.

2. Impairment losses of RMB527,000 (2008: RMB1,688,000) were made for interests in associates since the operations of the relevant associates had been suspended.

20. INTERESTS IN ASSOCIATES (CONTINUED)

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

	2009 **RMB'000**	2008 RMB'000
Total assets	**5,762**	5,848
Total liabilities	**(4,568)**	(978)
Net assets	**1,194**	4,870
Group's share of net assets of associates	**527**	1,965
Revenue	**1,500**	2,354
(Loss) profit for the year	**(578)**	277
Group's share of results of associates for the year	**(277)**	(10)

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:

	2009 **RMB'000**	2008 RMB'000
Balance at beginning of the year	**157**	197
Unrecognised share of loss for the year	**25**	157
Recognition of unrecognised share of losses of previous years *(Note)*	**(96)**	(197)
Balance at end of the year	**86**	157

Note: One of the associates, which was suffered from losses in previous years, turned to have profit during the year, the share of unrecognised losses decreased accordingly.

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2009 RMB'000	2008 RMB'000
Unlisted jointly controlled entity in the PRC:		
Cost of investment	**43,900**	–
Share of post-acquisition results	**(1,350)**	–
	42,550	–

During the year ended 31 December 2009, the Group injected RMB43,900,000 in惠州市惠陽雙新水泥有限公司 ("Shuangxin Cement") while other shareholders of Shuangxin Cement made an additional contribution amounted to approximately RMB24,896,000 (the "Capital Injections"). After the Capital Injections, the Group's investment represented 50% of enlarged Shuangxin Cement. Pursuant to the shareholders' agreement, the Group has a joint control over Shuangxin Cement with other shareholders.

As at 31 December 2009, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Class of shares held	Place of registration and operations	Attributable equity interest of the Group	Principal activities
Shuangxin Cement	Incorporated	Contributed capital	PRC	50%	Production and sales of cement

The summarised financial information in respect of the Group's interest in the jointly controlled entity which is accounted for using the equity method is set out below:

	2009 RMB'000	2008 RMB'000
Total assets	**125,644**	–
Total liabilities	**(53,401)**	–
Net assets	**72,243**	–
Group's share of net assets of a jointly controlled entity	**36,121**	–
Goodwill on acquisition of a jointly controlled entity	**6,429**	–
	42,550	–
Revenue	**1,604**	–
Loss for the year	**(2,699)**	–
Group's share of loss of jointly controlled entity for the year	**(1,350)**	–

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

Included in the cost of investment in a jointly controlled entity is goodwill of approximately RMB 6,429,000 arising on acquisition of a jointly controlled entity during the year. The movement of goodwill is set out as below:

	RMB'000
At 1 January 2009	–
Arising on acquisition of a jointly controlled entity	6,429
At 31 December 2009	6,429

22. AVAILABLE-FOR-SALE INVESTMENT

	2009	2008
	RMB'000	RMB'000
Unlisted equity investment	**1,800**	1,800

The above unlisted investment represents investment in unlisted equity interest in a private entity incorporated in the PRC. It is measured at cost less impairment at the end of each reporting period 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.

23. DEPOSIT PAID FOR ACQUISITION OF ADDITIONAL INTERESTS IN A SUBSIDIAIRY

On 11 December 2009, the Company entered into an agreement with a minority shareholder of the Group's subsidiary, Green Recycling Resource. Pursuant to the agreement, the Company will acquire 10% additional equity interests in Green Recycling Resource at a consideration of RMB17,800,000. As at 31 December 2009, the Company has paid RMB7,000,000 as a deposit for the acquisition. The remaining amount will be paid upon the completion of the transaction.

24. OTHER NON-CURRENT ASSETS

The amount represents the construction costs incurred for the preparation and leveling of land engaged in the development of a hazardous waste treatment centre located in Shaoguan city, Guangdong Province (the "Waste Centre") by a subsidiary of the Company, Green Recycling Resource. Green Recycling Resource has entered into a contract with the People's Government of Shaoguan city (the "Contract"). Pursuant to the Contract, Green Recycling Resource is responsible for the design, construction, operation and management of the Waste Centre. Green Recycling Resource will be awarded compensation in respect of the construction costs incurred for the preparation and leveling of land from the companies who set up their companies in the Waste Centre.

25. 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 RMB'000	Impairment losses and allowance for bad and doubtful debts RMB'000	Difference between depreciation and tax allowance RMB'000	Provision of staff salaries RMB'000	Deferred revenue RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	229	3,683	1,505	3,450	–	–	8,867
Acquisition of subsidiaries	–	–	–	–	–	(104)	(104)
(Charged) credited to the consolidated statement of comprehensive income	(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 and 1 January 2009	39	5,669	1,036	–	2,590	544	9,878
(Charged) credited to the consolidated statement of comprehensive income	(17)	(656)	212	–	1,019	(1,392)	(834)
Effect of changes in tax rate	–	(995)	–	–	(647)	(212)	(1,854)
At 31 December 2009	22	4,018	1,248	–	2,962	(1,060)	7,190

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

	2009 RMB'000	2008 RMB'000
Deferred tax assets	**10,866**	10,184
Deferred tax liabilities	**(3,676)**	(306)
	7,190	9,878

25. DEFERRED TAXATION (CONTINUED)

As at 31 December 2009, the Group had unused tax losses of approximately RMB35,614,000 (2008: RMB32,492,000) available for offsetting against future profits. No deferred tax assets have 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 2009, the Group had deductible temporary difference of approximately RMB27,679,000 (2008: RMB16,613,000). 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.

26. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**120,822**	7,854
Work in progress	**8,234**	102
Finished goods	**11,420**	22,925
	140,476	30,881

During the year, there was a significant increase in the net realisable value of raw materials due to market shortage in raw materials. As a result, a reversal of write-down of raw materials of approximately RMB3,534,000 (2008: nil) has been recognised and included in cost of sales in the current year.

The Group has pledged inventories with carrying amount of approximately RMB94,981,000 (2008: nil) to secure bank borrowings granted to the Group.

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

	2009 RMB'000	2008 RMB'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits less recognised losses to date	**68,366**	39,225
Less : Progress billings	**(40,274)**	(18,409)
	28,092	20,816
Analysed for reporting purposes as:		
Amounts due from contract customers	**28,811**	21,502
Amounts due to contract customers	**(719)**	(686)
	28,092	20,816

At 31 December 2009, there were no retentions held by customers for contract work (2008: nil).

28. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**121,065**	75,794
Bills receivable	**690**	1,788
Less: allowance for bad and doubtful debts	**(11,668)**	(10,685)
	110,087	66,897
Payment in advance to suppliers	**77,905**	54,805
Deposit and other receivables	**83,774**	74,230
Less: allowance for bad and doubtful debts	**(12,772)**	(4,838)
	258,994	191,094

As at 31 December 2009, included in trade receivables and other receivables amounting to RMB9,796,000 (2008: RMB11,000) and RMB1,248,000 (2008: RMB2,622,000) are due from minority shareholders and related parties, respectively (note 48(b)).

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. The Group does not hold any collateral over trade receivables.

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

	2009 RMB'000	2008 RMB'000
Within 90 days	**104,645**	55,603
91 to 180 days	**4,345**	6,716
181 to 365 days	**502**	3,027
Over 1 year	**595**	1,551
Total	**110,087**	66,897

The Group will assess the client's credit standing before accepting any new client and determining the customer's credit limit. Client's limit will be reviewed regularly. Most of the Group's trade receivables are debtors that are neither overdue nor impaired do not have adverse repayment records.

28. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB5,092,000 (2008: RMB11,165,000) which were past due at the end of the reporting period and for which the Group has not provided for impairment loss. Ageing of trade receivables which are past due but not impaired:

	2009 RMB'000	2008 RMB'000
91 to 180 days	**3,995**	6,587
181 to 365 days	**502**	3,027
Over 1 year	**595**	1,551
Total	**5,092**	11,165

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

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

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**10,685**	11,117
Allowance for bad and doubtful debts recognised on trade receivables	**3,364**	569
Amounts written off as uncollectible	**(2,381)**	(243)
Amounts recovered during the year	**–**	(758)
Balance at the end of the year	**11,668**	10,685

During the year ended 31 December 2009, included in the allowance for bad and doubtful debts are individually impaired trade receivable with an aggregate balance of RMB3,364,000 (2008: RMB569,000) which have either been placed under liquidation or in severe financial difficulties. The impairment recognised represented the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group did not hold any collateral over these balances.

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

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**4,838**	8,234
Allowance for bad and doubtful debts recognised on other receivables	**8,934**	452
Amounts written off as uncollectible	**(1,000)**	(3,498)
Amounts recovered during the year	**–**	(350)
Balance at the end of the year	**12,772**	4,838

28. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

The Group's trade and other receivables that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	USD'000	Equivalent to RMB'000
As at 31 December 2009	3,840	26,168
As at 31 December 2008	–	–

29. INVESTMENTS HELD FOR TRADING

	2009 RMB'000	2008 RMB'000
Equity securities listed in the PRC, at market value	**6,111**	3,022

30. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amounts due from a jointly controlled entity is unsecured, carries interest at 5.31% per annum and repayable on demand.

31. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. 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 of the Group are denominated in RMB which is not freely convertible into other currencies, however under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

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:

	2009 RMB'000	2008 RMB'000
USD	**1,864**	–
Euro ("EUR")	**1**	–
HKD	**3,664**	15,218
	5,529	15,218

32. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the end of reporting period, based on invoice date:

	2009 RMB'000	2008 RMB'000
Current to 90 days	**75,445**	39,171
91 to 180 days	**1,686**	756
181 to 365 days	**2,563**	15,151
Over 1 year	**9,622**	15,406
	89,316	70,484
Advances from customers	**42,416**	21,078
Other payables	**39,903**	35,352
Accruals	**26,494**	9,812
	108,813	66,242
	198,129	136,726

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 2009, Included in other payables with an amount of RMB4,126,000 was the deferred consideration payable arising from the disposal of a subsidiary during the year ended 31 December 2009 *(note 42)*.

As at 31 December 2009, included in trade payables amounting to approximately RMB50,000 and RMB1,435,000 (2008: RMB50,000 and RMB1,712,000) are balances due to an associate and minority shareholders respectively; included in other payables amounting to RMB7,790,000 (2008: RMB6,286,000) are balances due to related parties *(note 48 (b))*.

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 RMB'000	2008 RMB'000
Other derivative (not under hedge accounting)		
– Sale of copper futures contracts	**447**	–

The Group entered into sale of copper futures contracts traded on the Shanghai Futures Exchange. The Group recorded unrealised loss of RMB447,000 (2008: nil) for the year ended 31 December 2009.

	Volume (tones)	Maturity	Notional value RMB'000	Market value RMB'000	Fair value RMB'000
2009	**150**	**March and April 2010**	**8,490**	**8,937**	**447**
2008	–	–	–	–	–

The market value of futures contracts is based on quoted market prices at the end of the reporting period.

34. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 2-5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.82% to 8.27% (2008: 3% to 3.5%) as for the year ended 31 December 2009. These leases have no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**3,926**	3,901	**3,475**	3,318
In more than one year but less than two years	**3,527**	3,314	**3,290**	2,920
In more than two years but less than three years	**1,719**	5,117	**1,643**	4,837
In more than three years but less than five years	**535**	–	**526**	–
	9,707	12,332	**8,934**	11,075
Less: future finance charges	**(773)**	(1,257)	**N/A**	N/A
Present value of lease obligations	**8,934**	11,075	**8,934**	11,075
Less: Amounts due for settlement within one year (shown under current liabilities)			**(3,475)**	(3,318)
Amounts due for settlement after one year			**5,459**	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 HKD which is the functional currency of the relevant group entity.

35. INTEREST-BEARING BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Secured	**114,737**	28,000
Unsecured	**32,500**	42,500
Unsecured – guaranteed	**486,500**	240,000
	633,737	310,500
Carrying amount repayable:		
Within one year	**317,037**	233,000
More than one year, but less than two years	**127,200**	12,500
More than two years, but less than five years	**189,500**	65,000
	633,737	310,500
Less: Amounts due within one year shown under current liabilities	**(317,037)**	(233,000)
	316,700	77,500

Notes:

(i) The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	USD'000	Equivalent to RMB'000
As at 31 December 2009	3,630	24,737
As at 31 December 2008	–	–

(ii) At 31 December 2009 and 2008, the Group's guaranteed bank borrowings were guaranteed by a director and minority shareholders of the Company's subsidiaries (note 48).

(iii) During the year ended 31 December 2009, the Group obtained new borrowings in the amount of RMB608,527,000 (2008 : RMB260,000,000). These borrowings carry interests at market rates and will be repayable varying from 2010 to 2014.

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

	2009 RMB'000	2008 RMB'000
Fixed rate borrowings	**164,737**	45,000
Floating-rate borrowings	**469,000**	265,500
	633,737	310,500

35. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Notes: (continued)

(v) The floating-rate borrowings carry interest at 90% to 100% of The People's Bank of China Base Lending Rate.

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

	2009	2008
Effective interest rate:		
Fixed rate borrowings	**1.182% to 7.470%**	5.300% to 7.470%
Floating rate borrowings	**2.997% to 5.346%**	5.079% to 7.067%

(vii) At 31 December 2009, the secured bank borrowings of RMB30,000,000 (2008: RMB28,000,000) was also guaranteed by a director of the Company.

36. DEFERRED REVENUE

	Research and development of environmental projects *(note 1)* RMB'000	**Construction services under the service concession arrangements** *(note 2)* RMB'000	**Total** RMB'000
At 1 January 2008	11,250	–	11,250
Additions	2,639	33,140	35,779
At 31 December 2008 and 1 January 2009	13,889	33,140	47,029
Additions	7,418	1,342	8,760
Amortisation during the year	(528)	(1,398)	(1,926)
At 31 December 2009	20,779	33,084	53,863

Notes :

1. 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. The grants will be released to profits or loss over the useful lives of the related assets in respect of the environmental projects.

2. The Group received government grants in respect of the construction services under the service concession arrangements. The grants will be released to profit or loss over the operation period under the service concession arrangements on a straight-line basis.

37. PROVISION

	2009 **RMB'000**	2008 RMB'000
Analysed for reporting purposes as:		
Non-current liability	**541**	–

	Concession arrangement RMB'000
At 1 January 2009	–
Additional provision in the year	541
At 31 December 2009	541

Pursuant to the concession arrangement entered into by the Group as mentioned in note 18, the Group has contractual obligations, which it must fulfill as a condition of the concession arrangement. The obligations are (a) to maintain the facilities it operates to a specified level of serviceability and (b) to restore the facilities to a specified condition before they are handed over to the grantor at the end of the concession arrangement. These obligations to maintain and restore the facilities, except for any upgrade element, are recognised and measured in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets. i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period with reference to the market data on the maintenance or restoration costs of the facilities.

38. SHARE CAPITAL

	Number of shares		**Share capital**	
	2009 **'000**	2008 '000	**2009** **RMB'000**	2008 RMB'000
Ordinary shares of RMB0.10 each				
Authorised, issued and fully paid :				
Domestic shares	**449,482**	449,482	**44,948**	44,948
H shares	**177,900**	177,900	**17,790**	17,790
	627,382	627,382	**62,738**	62,738

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

39. 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 35), cash and cash equivalents and equity attributable to equity owners 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.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Fair value through profit and loss – held for trading	**6,111**	3,022
Loans and receivables (including cash and cash equivalents)	**424,788**	383,982
Available-for-sale financial assets	**1,800**	1,800
Financial liabilities		
Derivative financial instrument	**477**	–
Amortised cost	**798,384**	437,223

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, bank balances and cash, pledged bank deposits, trade and other receivables, amount due from a jointly controlled entity, trade and other payables, bank borrowings and obligations under finance leases. 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.

40. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk

Currency risk

Other than the subsidiaries established in Hong Kong, the Company and subsidiaries' functional currency is RMB in 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 2009			As at 31 December 2008		
	EUR'000	**USD'000**	**HKD'000**	EUR'000	USD'000	HKD'000
Assets	**109**	**4,113**	**4,161**	153	–	26,023
Liabilities	**108**	**3,630**	**–**	108	–	56,431

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 the end of each reporting period for a 5% (2008: 5%) change in foreign currency rates.

	EUR		**USD**		**HKD**	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Increase (decrease) in profit for the year, net of tax effect						
– if RMB weakens against foreign currencies	**–**	18	**164**	–	**153**	(1,121)
– if RMB strengthens against foreign currencies	**–**	(18)	**(164)**	–	**(153)**	1,121

A change of 5% (2008: 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.

40. 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 notes 34 and 35 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 35 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 The People's Bank of China Base Lending Rate 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 end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the financial liability outstanding at the end of the reporting period 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 post-tax profit for the year ended 31 December 2009 would decrease / increase by RMB2,214,000 (2008: RMB1,104,000). 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 the 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.

40. FINANCIAL INSTRUMENTS (CONTINUED)

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

Other price risk

(i) Investment held for trading

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 on the exposure to other price risks at the end of the reporting period.

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

	2009	2008
	RMB'000	RMB'000
Increase (decrease) in profit for the year, net of tax effect		
– as a result of increase in equity price	**260**	124
– as a result of decrease in equity price	**(260)**	(124)

(ii) Other commodity price risk

The Group's exposure to commodity price risk relates principally to the market price fluctuation in copper on copper futures contracts.

Exposure to commodity price risk

The Group's exposure to copper commodity price risk at the end of the reporting period was as follows.

	2009	2008
	RMB'000	RMB'000
Notional amounts of copper futures contracts to:		
– sell copper *(note 33)*	**8,490**	–

40. FINANCIAL INSTRUMENTS (CONTINUED)

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

Other price risk (Continued)

(ii) Other commodity price risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in copper price while all other variables are held constant.

	2009 **RMB'000**	2008 RMB'000
Increase (decrease) in profit for the year, net of tax effect		
– as a result of increase in copper price	**(380)**	–
– as a result of decrease in copper price	**380**	–

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in copper price had occurred at the end of the reporting period and had been applied to re-measure those copper futures contracts held by the Group which expose the Group to commodity price risk at the end of the reporting period.

Credit risk

As at 31 December 2009, 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 statement of financial position.

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 end of the each reporting period 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 has concentration of credit risk as 48% (2008: 8%) of the total trade receivables are due from the Group's five largest customers within the processing and sale of recycled products business as well as provision of waste treatment service business.

The Group's concentration of credit risk by geographical locations is mainly in the PRC (including Hong Kong), which accounted for over 90% (2008: 90%) of the total trade receivables as at 31 December 2009.

40. 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 based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of reporting period.

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
2009					
Non-derivative financial liabilities					
Trade and other payables	155,713	–	–	155,713	155,713
Obligation under finance leases	3,926	3,527	2,254	9,707	8,934
Bank borrowings	323,156	138,658	217,805	679,619	633,737
	482,795	142,185	220,059	845,039	798,384
Derivative financial liabilities					
Copper futures contracts	447	–	–	447	447
	483,242	142,185	220,059	845,486	798,831
2008					
Non-derivative financial liabilities					
Trade and other payables	115,648	–	–	115,648	115,648
Obligation under finance leases	3,901	3,314	5,117	12,332	11,075
Bank borrowings	255,390	14,616	84,957	354,963	310,500
	374,939	17,930	90,074	482,943	437,223

40. 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;

- 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; and

- the fair value of derivatives instruments is calculated using quoted prices.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements not materially different from their fair values.

(d) Fair value measurement recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Investment held for trading	6,111	–	–	6,111
Financial assets at FVTPL				
Derivative financial instruments	447	–	–	447

There were no transfers between Level 1 and 2 in current year.

Of the total gains or losses for the year included in profit or loss, realised gain of RMB93,000 relates to non-derivative financial assets held for trading and unrealised losses of RMB477,000 related to derivative financial instruments held at the end of the reporting period. Fair value gains or losses on non-derivative financial assets held for trading and derivative financial instruments are included in other income and other operating expenses, respectively.

41. ACQUISITION OF SUBSIDIARIES

Details of acquisition of subsidiaries during the year ended 31 December 2008 were set out in as below:

(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 expenses of RMB1,800,000). The acquisition had been accounted for using the purchase method. The fair value of net assets acquired approximated 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 were 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 leases	(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)

The goodwill arising on the acquisition was attributed to the anticipated profitability of Lik Shun HK.

41. 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 had been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value.

The net assets acquired were 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)

41. 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 had 50% equity interests in the enlarged Green Recycling Resource. The acquisition had been accounted for using the purchase method. The fair value of net assets acquired approximated to their carrying value. The amount of goodwill as a result of the acquisition was RMB30,832,000.

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

	RMB'000
Net assets acquired:	
Other non-current assets	30,486
Property, plant and equipment	150
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

The goodwill arising on the acquisition was attributed to the anticipated profitability of Green Recycling Resource.

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The contribution to the Group's revenue and profit (loss) by the above subsidiaries during the year end 31 December 2008 was as follows:

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

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

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

The pro forma information was for illustrative purpose only and was 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 was it intended to be a projection of future results.

42. DISPOSAL OF SUBSIDIARIES

(a) During the year ended 31 December 2009, the Group disposed of its 100% interests in Shenzhen Lishan Environmental Protection Materials Co. ("Lishan") to an independent third party at a consideration of approximately RMB12,767,000.

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

	RMB'000
Net assets disposed of :	
Bank balances and cash	36
Trade and other receivables	8,963
	8,999
Gain on disposal of subsidiary	3,768
Total consideration	12,767
Satisfied by:	
Cash	8,641
Deferred consideration	4,126
Total consideration	12,767
Net cash inflow arising on disposal :	
Cash consideration	8,641
Bank balances and cash disposed of	(36)
	8,605

The deferred consideration will be settled in cash by the purchaser on or before June 2010.

The subsidiary disposed of during the year ended 31 December 2009 had no significant impact on the revenue, results and cash flows of the Group.

42. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) During the year ended 31 December 2008, the subsidiary of the Group, 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 was 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 payables	(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, results and cash flows of the Group.

43. DEREGISTRATION OF A SUBSIDIARY

During the year ended 31 December 2009, the Group deregistered one of its subsidiaries, Shenzhen Dongdi Coating Technology Limited 深圳市東迪塗層技術有限公司.

Net assets at the date of deregistration is as follow:

	RMB'000
Property, plant and equipment	480
Trade and other receivables	154
Inventories	182
	816
Minority interests	(216)
Loss on deregistration of a subsidiary	600

The subsidiary deregistered during the year ended 31 December 2009 had no significant impact on the revenue, results and cash flows of the Group.

44. COMMITMENTS

(i) Capital commitments

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted, but not provided for in the consolidated financial statements in respect of :		
– Property, plant and equipment	**26,940**	34,555
– Construction in progress	**31,915**	45,418
– Concession intangible assets	**98,971**	–
– Establishment of an associate *(note 51)*	**16,734**	–
	174,560	79,973

(ii) Operating lease commitments

The Group as lessee

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 end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**2,813**	3,448
In the second to fifth years, inclusive	**7,576**	9,164
Over five years	**3,600**	6,462
	13,989	19,074

The Group as lessor

Property rental earned during the year was amounted to RMB132,000 (2008: RMB142,000). The properties are expected to generate rental yields of 0.3% (2008: 3.8%) on an ongoing basis. All of the properties held have committed tenants for the next thirteen years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2009 RMB'000	2008 RMB'000
Within one year	**5,324**	–
In the second to fifth years, inclusive	**23,236**	–
Over five years	**24,114**	–
	52,674	–

44. COMMITMENTS (CONTINUED)

(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 fee of RMB273,000 (2008 : 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.

45. 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 31 December 2009 and 2008.

46. 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 statement of comprehensive income of approximately RMB6,647,000 (2008: RMB6,539,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

47. SUBSIDIARIES

Details of the subsidiaries at 31 December 2009 and 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
Longgang DJ	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.# ("KunPeng") 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
Kunshan QianDeng There Wastes Treatement Co., Ltd.# ("QianDeng") 昆山市千燈三廢淨化有限公司	10,000,000	51%	–	Collection, processing and treatment of industrial waste

47. SUBSIDIARIES (CONTINUED)

Name	Nominal value of registered capital RMB	Percentage of equity interest attributable of the Group Direct	Indirect	Principal activities
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
Dongjiang Renewable Energy Ltd	10,000,000	100%	–	Generation of power through the utilisation 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 treatment of industrial waste
Beijing Novel	30,000,000	55%	–	Provision of environmental consultation, water disposal and operation
Hunan Dongjiang Environmental Protection Investment Development Limited # 湖南東江環保投資發展有限公司	2,200,000	95%	–	Provision of waste treatment service
清遠市東江環保技術有限公司	2,000,000	90%	–	Not yet commenced business

47. SUBSIDIARIES (CONTINUED)

Name	Nominal value of registered capital RMB	Percentage of equity interest attributable of the Group Direct	Indirect	Principal activities
Green Recycling Resource[1]	80,000,000	50%	–	Treatment of hazardous waste
深圳市東江利賽再生能源有限公司 ("Dongjiang Lisai")	5,000,000	51%	–	Development of landfill gas collection technology
Huabao Technology	500,000	100%	–	Provision of environmental protection technology consultantion serives and laboratory testing
Qingdao Dongjiang Environmental Recycled Power Limited# 青島東江環保再生能源有限公司	15,000,000	100%	–	Development of waste landfill gas utilisation technology, investment and management of energy saving projects
Huizhou Dongjiang Logistic Limited# 惠州東江運輸有限公司	2,000,000	–	100%	Transportation
Lik Shun HK	HK$10,000,000	–	100%	Collection and treatment of municipal waste
廊坊萊索思環境技術有限公司[1]	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

1 The Group has control over the operating and financial decision of the entity in accordance with its Article of Association. Accordingly, the entity is classified as a subsidiary of the Group.

Other than Dongjiang (HK) and Lik Shun (HK), which are unlisted limited companies incorporated and operated in Hong Kong, all subsidiaries are unlisted corporate entities established 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 these subsidiaries are in Chinese.

48. RELATED PARTY TRANSACTIONS

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

	2009 RMB'000	2008 RMB'000
Purchased goods from:		
Shenzhen Hazardous Waste Treatment Station 深圳市危險廢物處理站 ("Waste Treatment Station")[1]	**11,021**	15,912
Received service income from:		
Waste Treatment Station	**4,499**	–
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[2]	**425**	285
Paid commission to:		
Dongjiang Weiyingyang[3]	**850**	905
Received rental income from:		
Shenzhen Guoce Valuation Limited 深圳市國策房地產土地估價有限公司 ("Shenzhen Guoce")[4]	**126**	142
Dongjiang Weiyingyang	**6**	–
Sold goods to:		
Heritage Technologies LLC ("Heritage")[5]	**33,538**	56,213
Dongjiang Weiyingyang	**1,445**	15
Waste Treatment Station	**711**	311
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**	778

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties as at the end of the reporting period are as follows:

	2009 RMB'000	2008 RMB'000
Trade receivables:		
Heritage	**9,637**	11
Waste Treatment Station	**159**	–
	9,796	11
Trade payables:		
Waste Treatment Station	**1,435**	1,712
Dongjiang Weiyingyang	**50**	50
	1,485	1,762
Other receivables:		
Tang Xiao Guan[7]	**–**	50
Yuan Yu[8]	**880**	880
立升膜[9]	**274**	238
Li Yong Peng[10]	**77**	–
Dongjiang Weiyingyang	**17**	–
Zhang Wei Yang[11]	**–**	1,450
Waste Treatment Station	**–**	4
	1,248	2,622
Other payables:		
Yam Pui Yang[12]	**2,243**	1,137
Zhang Gong Yan[13]	**1,830**	3,000
C&L Enterprises L.L.C.[14]	**1,822**	–
Zhang Wei Yang	**1,035**	–
惠州雙新水泥[15]	**520**	–
Longgang Technology	**325**	–
Fang Yuan Chemical	**–**	65
Dongjiang Weiyingyang	**15**	2,071
Shenzhen Guoce	**–**	12
Shenzhen Fuguri[16]	**–**	1
	7,790	6,286

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties as at the end of the reporting period 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] Shareholder of Longgang DJ
[3] Associate of the Group
[4] Company controlled by the director of the Company
[5] Shareholder of DJ Heritage
[6] Shareholder of the Company
[7] Shareholder of Green Recycling Resource
[8] Shareholder of Hunan Dongjiang
[9] Associate of the Group
[10] Director of the Company
[11] Director and beneficial shareholder of the company
[12] Shareholder of KunPeng and QianDeng
[13] Shareholder of Green Recycling Resource
[14] Shareholder of Beijing Novel
[15] Jointly controlled entity of the Group
[16] 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:

	2009 **RMB'000**	2008 RMB'000
Short-term benefits	**2,650**	1,574
Post-employment benefits	**240**	136
	2,890	1,710

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

(d) At 31 December 2009, Mr. Zhang Wei Yang, provides personal guarantee to banks to secure banking facilities amounting to RMB324,000,000 (2008: RMB185,000,000) granted to the Group.

(e) At 31 December 2009, Veolia Environmental Services Asia Pte Ltd, a minority shareholder of the Group, provided financial guarantee to a bank to secure banking facilities granted to the Group to the extent of RMB42,500,000 (2008: RMB55,000,000).

(f) At 31 December 2009, other than the personal guarantee provided to the Group abovementioned in note 48(d), Mr. Zhang Wei Yang further provided personal guarantee to banks to secure banking facilities amounting RMB120,000,000 (2008: nil), of which amounting RMB90,000,000 (2008: nil) was also guaranteed by Mr. Zhang Gong Yan and Mr. Tang Xiao Guan, minority shareholders of the Group.

48. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(h) At 31 December 2009, included in the secured bank borrowings amounting RMB30,000,000 (2008: RMB28,000,000) was guaranteed by Mr. Zhang Wei Yang, and also secured by the Group's property, plant and equipment with amount of RMB6,204,000.

(i) 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 RMB 2,500,000. The details are set out in the consolidated statement of changes in equity.

49. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, as follows:

	2009	2008
	RMB'000	RMB'000
Property, plant and equipment	**6,204**	–
Prepaid lease payments on land use rights	**–**	2,492
Bank deposits	**31,240**	20,814
Inventories	**94,981**	–
	132,425	23,306

50. NON-CASH TRANSACTIONS

a) During the year ended 31 December 2009, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB820,000 (2008: RMB8,875,000).

b) During the year ended 31 December 2009, the Group disposed of a subsidiary, Lishan, of which RMB4,126,000 (2008: nil) have not yet been received. The disposal was set out in note 42 above.

c) 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 42 above.

51. EVENT AFTER THE REPORTING PERIOD

(a) On 17 November 2009, Dongjiang Renewable Energy Ltd., a wholly owned subsidiary of the Company, entered into a contract with Climate Solutions (Asia) Limited and Songzao Coal and Electricity Company Limited, independent third parties to the Group, to establish an associate in the PRC. The Group held 51% equity interest of the associate with an investment cost amounting RMB16,734,000 and pursuant to the shareholder's agreement, the Group has significant influence over the associate. The associate was subsequently established in January 2010.

Details of this transaction are stated in an announcement of the Company dated 17 November 2009.

(b) On 21 January 2010, the Company entered in to an agreement with Shenzhen Lisai Development Limited (深圳市利賽實業有限公司), a minority shareholder of the Company's 51% held subsidiary, Dongjiang Lisai, pursuant to which the Company will acquire an additional 29% equity interest in Dongjiang Lisai at a consideration of approximately RMB4,705,000. Details of this transaction are stated in an announcement of the Company dated 19 March 2010.

(c) On 4 March 2010, Huizhou Veolia, a non-wholly owned subsidiary of the Group, entered in to a waste treatment agreement with Waste Treatment Station, a minority shareholder of the Company's subsidiary, pursuant to which Waste Treatment Station has engaged Huizhou Veolia to provide waste treatment services commencing from 4 March 2010 to 31 December 2010. Details of this transaction are stated in an announcement of the Company dated 4 March 2010.

52. COMPARATIVE FIGURES

Reclassification of comparative figures have been made in respect of property, plant and equipment and other non-current assets to conform with current year's presentation, no consolidated statement of financial position as at 1 January 2008 has been represented as the reclassifications were related to the subsidiary acquired during the year ended 31 December 2008.